Journal of Strategic Management Education 9(2): 81-98.
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ZARA: Chic and Fast Fashion

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Abstract. The world's largest clothing retailer has been able to cope with the financial crisis better than most of its rivals, helped in part by the expansion of shops in fast, growing commercial centers and also by offering affordable fashion at a fraction of the cost of designer fashions. This case provides information on Zara and its major rivals in the industry to highlight the challenges and opportunities facing companies who are competing on a global basis. A comparison of key financial ratios for Inditex (the parent company of Zara), Benneton, the Gap and H&M shows that Inditex's strategy has resulted in outstanding financial results as compared with its competitors. In 2011, sales increased by 10% while profitability rose by 12%. Over the same period, revenues of Benetton, The Gap and H&M changed by -1%, -1% and 1% respectively, while profits fell by 25%, 31% and 15% respectively. Zara has evolved into an international success by effective supply chain management, responsive marketing, and excellent human resource management.

Keywords: international business, supply chain management, globalization, competitive strategy and human resource management.

1. Introduction

The Inditex group, headquartered in Spain, is the parent company of the Zara chain as well as other fashion brands such as Massimo Dutti, Pull and Bear, Oysho, Uterque, Stradivarious and Bershka. 2011 was a banner year for Inditex. Net income totaled 1.9 billion euros, an increase of 12% from 2010. The workforce grew to 109,512 employees, and the company opened 483 stores, bringing the total stores to 5,527. By opening stores in Australia, Taiwan, Azerbaijan, South Africa and Peru, Inditex expanded its presence to over 80 countries and all five continents by the end of 2011. Inditex has established a global presence with a flexible business model based on having the right fashions at the right time at affordable prices.

From its humble beginnings in La Coruna, Spain, Amancio Ortega Gaona's company has captured the attention of the fashion retail industry by mushrooming into the world's leading clothing retailer. Zara is the star of Inditex. The Zara business model is spot-on 21st-century retailing that shows how to move swiftly in response to emerging fashion trends. The industry has changed from "ready to wear" to "fast, affordable fashion." Zara has pioneered accessible fashion where clothes go from conception to the store in just three weeks. Over 1,000 professionals design, create and develop from the headquarters in Spain while almost 1,400 suppliers are located closer to the retail markets. New merchandise is updated twice a week and there is a short turnaround on new orders which allows the stores to take advantage of new trends. Based on their logistics infrastructure, orders can reach European markets in 24-36 hours and the rest of the world in 48 hours.

Zara clothing is affordable, but not cheap, and trendy, but functional. Sales are enhanced by celebrity customers. For example, Kate Middleton wore a Zara dress on her honeymoon, her sister, Pippa, was spotted in a Zara blazer the day after the wedding, and actress Gwyneth Paltrow displayed Zara fashions on her blog. Regarding the notion that different cultures have different tastes, a Zara representative said, "Actually, the customer is more or less the same in New York and Istanbul. There are differences, like Brazilian girls like more brilliant colors, whereas in Paris they use more black. But in general when you find a fashion trend, it's global." (New York Times, Nov 2012)

2. External Analysis

The retail clothing industry is highly competitive, subject to changing consumer tastes and spending trends as well as economic, technological, political, regulatory and trade requirements. Monitoring consumer preferences and successfully forecasting apparel trends is important to success. Companies must gauge the tastes of customers, anticipate changes and respond effectively to dynamic fashion trends. If the market is misjudged, sales are negatively affected and markdowns are required to move the excess inventory. Companies must also respond rapidly. Failure to execute quickly to emerging trends and deliver in a timely manner results in lost sales.

Probably the most important driving force in the industry (if not disruptive force to some) is online commerce. The fastest growing market is a channel that is distinctly different from the traditional retail outlet. The idea of using online as a marketing channel for the fashion industry is rapidly growing in popularity. There are several facets to this issue.

First, there has been significant growth in online access via mobile devices such as smart phones. According to Peter Fitzgerald, Retail Industry Director, Google, about 15% of all internet searches are conducted on mobile devices and this is growing at a much faster rate than desktop growth in its peak period. Moreover, 80% of smart phone owners use the devices to shop. However, the of majority of businesses do not have a mobile enabled site or homepage.

Second, social media is changing how businesses communicate with their customer. Led by Facebook, Twitter and Youtube, the sheer scale of being able to generate hundreds of millions of views is daunting to many businesses. In addition, the introduction of personalized searches has important implications. Consider that Google launched a product called PlusOne where customers can enter a search for a product and base their purchase decision on the recommendations of others. The results are immediate and many companies are not monitoring or taking action on issues that spin out of these media. Companies must be present "real time" to interact with the customer.

While these trends present enormous opportunities and access for growth, they also bring significant challenges such as how to respond to the diverse nature of different cultures. Fred Gehring, CEO of the Tommy Hilfiger Group, claims that the key to his company's global expansion has been the ability to tailor the product for very different countries and consumers while empowering local management through a decentralized organizational structure.

In summary, the emergence of e-commerce requires corresponding expertise in search engine optimization, advertising and web site design such as search and filtering options. Consumers expect a detailed product page with product information and high quality imaging as well as an efficient check out process. Fulfillment has changed from large orders to a few customers and companies must be able to handle a large number of small orders to a multitude of locations including transaction specific complexities.

Another key competitive factor in the global apparel industry is research and development where efforts focus on style, new materials and technology. In addition to classic, high quality natural fibers, innovative fabrics result in better quality and performance at lower costs. Sophisticated graphics programs turn sketches into clothing models. The fabric is ordered and samples are produced jointly by engineering, manufacturing and design. Raw materials can be dyed to reflect the latest color trends in response to the market. The process is highly flexible and allows for the participation of many specialists.

In addition, the global nature of the apparel industry introduces operations and supply chain opportunities and challenges. Globalization and connectivity have brought profound changes in lifestyles worldwide. Changes in a country or region's regulatory or government status can adversely affect revenues and profits. Effective public policies that encourage investment offer opportunities for developing countries to leap frog into emerging high growth sectors of the world economy. Concurrently, this raises issues such as what are the most appropriate sourcing strategies and how should distributor relationships be developed.

General economic conditions can alter consumer spending patterns, and prospects for global economic growth in 2013 are guarded. On the plus side, the debt crisis in Europe has eased, Greece has rescheduled its debt and a recovery appears promising in the US. Nevertheless, the recovery in Europe and the US is not guaranteed and the tough fiscal austerity adopted by some governments may slow an upturn in investments. Retailers have been battered by sluggish economies in Europe and the US, high cotton prices and rising labor costs in developing countries. Less spending results in lower sales which, combined with rising costs, put pressure on prices and profit margins. These developments have caused future projections of economic growth to be cautious. Nevertheless, the retail fashion industry, estimated to be 700 billion Euros in 2011 is expected to grow to 1.1 trillion in 2020 (Global Opportunities in Fashion Retail, 2011).

3. Zara

The year 2011 was a year of significant expansion for Inditex, Zara's parent company. With Pablo Isla as the new Chairman, Inditex opened 483 new stores bringing their operations to 49 markets and 5,527 stores worldwide. Store openings by group were:

Concept Group	**Store Openings**	**Total Stores**
Zara	107	1,830
Pull & Bear	65	747
Massimo Dutti	43	573
Bershka	91	811
Stradivarius	91	684
Oysho	51	483
Zara Home	26	310
Uterque	9	89
Total New Openings	483	5,527

The historical trend in store openings as well as growth in employees is captured in the table that follows.

	2011	2010	2009	2008	2007
Number of stores	5,527	5,044	4,607	4,264	3,691
Net openings	483	437	343	573	560
Number of employees	109,512	100,138	92,301	89,112	79,517

In addition to store and employee growth, online sales were introduced to 17 markets, and further expansion in 2012 is predicted. Online sales for Zara in Japan were launched by the end of the 2011. The following table shows the implementation of online sales from 2007 to the present.

Year	Concept Group	Country
2007	Zara Home	Europe: Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Monaco, the Netherlands, Portugal, Spain, Sweden and the UK
2010	Zara	Spain, Portugal, France, Germany, Italy, the UK, the Netherlands, Belgium, Luxembourg, Austria and Ireland
2011	Zara	Switzerland, Monaco, Sweden, Denmark, Norway, the US and Japan
2011	Massimo Dutti, Bershka, Pull & Bear, Stradivarius, Oysho, and Uterque	Europe
2012	Zara	China, Poland
	Zara Home	Poland
	All Concepts	Globally

There are numerous global growth opportunities. In 2011, for example, 275 stores were launched in 42 Chinese cities, introducing multi-fashion brands and online sales. In 2012, Inditex plans to open 425 stores in more than 50 cities. Significant growth opportunities exist in Western and Eastern Europe for all the fashion brands. For example, Zara Home is positioned to compete against IKEA and Habitat. In 2011, Inditex expanded in Australia, South Africa, Peru, and Taiwan, and ongoing expansion in these markets is planned for 2012.

In the Americas, online sales were launched in the US for Zara in 2011 and in 2012, a global flagship store was opened at 666 Fifth Avenue, New York. Attractive growth opportunities are targeted in 2012 for Massimo Dutti in the US and Canada, Stradivarius in Mexico and Zara Home in Brazil.

Profitable expansion of the business is a key priority and at a capital expenditure of 950 million Euros, Inditex plans to launch the following stores in 2012:

Concept Group	Range
Zara	125-130
Pull & Bear	50-55
Massimo Dutti	55-60
Bershka	70-75
Stradivarius	90-95
Oysho	45-50
Zara Home	40-45
Uterque	5-10
Total	480-520

Further, the new stores are being built to the highest standards of external certification agencies to be energy efficient, use environmentally-friendly materials, recycling and smart water to lower consumption and reduce waste.

Human Resource Management

In an era of economic uncertainty and instability, Inditex added almost 10,000 new jobs in 2011 which brought their total number of employees to 109,000. The average employee age is 26.5 and Zara is committed to recruiting the best employees as well as creating professional opportunities for existing employees. With a strategic focus on online sales, one of the biggest human resource challenges has been to recruit professionals in this area with 21 percent of the new hires being online specialists. Other new hire areas included photographers, retouchers, stylists, sales, and customer service representatives.

To enhance its recruitment process, Inditex operates selection and training centers in Madrid, Barcelona, London and most recently, Moscow. To reach young, innovative talent, personnel selection events at Zara stores and universities in major cities have been successful. Inditex believes that training and internal promotion are key to maintaining talented and committed employees. In addition, equality and diversity are key values. The Human Resources department logged 930,000 total training hours for 32,000 employees, 75% of the vacancies were filled internally, and 82% of their employment contracts were permanent. Over 80% of the training targeted store personnel and covered topics such as leadership, time management, problem solving, stress management and computer science. Last, 11.6% of personnel expenses were variable and linked to quantifiable objectives while Inditex contributions to social security equaled 9.3% of total personnel expenses. In 2011, Inditex was chosen as the best company to work for in Spain.

Inditex considers customer service to be a fundamental pillar of their operations. With the increase in online sales, training in different languages is required. In 2011, via phone, e-mail or post, a total of 4,577 complaints were made to the Spanish consumer authorities which represents approximately 1 complaint for every 65,000 garments sold. The main stress for employees is the killer deadlines that must be met every day.

Operations and the Supply Chain

Zara's approach is to provide frequent in-season assortment changes with new items offered in appealing store environments at attractive prices. Slow movers in one store are whisked away to other shops where the garment is selling. Most models are only available for a few weeks. New designs appear in shops every two weeks and for a given garment, there is a limited number of sizes available. Zara shoppers know that if they don't grab the item right away, it probably won't be there the next day.

Zara has developed an innovative, efficient and flexible supply chain. Higher labor costs are offset by greater flexibility and turnaround speed and lower inventory costs. With hand-held computers, store managers review the sales history for each item on the floor and send reports on new trends to Zara's headquarters. New designs based on market information from store managers and the most recent runway looks are sent to suppliers, and the finished clothes are shipped to a company warehouse. Higher skilled labor costs are offset by the flexibility and speed of having production near warehouses and distribution centers. Sales managers monitor store sales by computer and can quickly tell designers sitting nearby to whip up novel designs. Store managers request articles, assortments and sizes and the warehouses sort and allocate twice-weekly inventory shipments. To illustrate, planes from Spain with goods for Inditex stores in the Middle East are flown via Emirates Airline where they continue to Asia, returning with raw materials and finished clothes. This requires dynamic coordination of many large databases: store inventory, sales, warehouse inventory and shipment requests, with significant time deadlines. Without effective IT systems, fashion on demand would not work.

Inditex has 1,398 suppliers to whom they outsource garment manufacturing (up from 1,337 the previous year). More and more, countries like Morocco, India and Turkey are able to produce intricate, high quality garments with flexibility and speed which enables Inditex to reduce costs by locating production in geographic regions closer to the retailers. Garments are sent to a logistics center where an automated computer system sorts, packs, labels and allocates clothes to shops. Ironers press each garment specializing in a lapel, shoulder or sleeve.

Since 2001, Inditex has been committed to a set of values based on three key aspects:

1. Transparency in its activities.

2. Collaboration and confidence in the parties involved.

3. Ongoing improvement in its processes.

To guarantee quality and ethical standards in working conditions, Inditex has published these values in a Code of Conduct for suppliers. In 2010, based on 1,087 audits, 9 out of 10 suppliers who had produced garments for more than three years for Inditex achieved optimum or reasonable compliance with the Code of Conduct for external suppliers. It takes time to train vendors in methods, quality and environmental, labor, health and safety standards. Therefore, if there is a significant increase in demand, or a vendor is terminated, there may not be sufficient capacity for manufacturing. Delays in production can increase costs in manufacturing and result in lower sales.

Often products must be transported over large geographic distances. Delays in delivery due to availability of transportation, work stoppages, trade restrictions and infrastructure congestion can adversely affect retailers, especially in new markets where they have limited experience. International operations may be subject to differing employment conditions, transportation availability, and regulatory/operating requirements. In addition, if local consumer tastes and fashion trends differ, operations are adversely affected. Natural disasters such as earthquakes and floods; public health crises such as epidemics; political crises such as civil unrest and terrorist attacks and other catastrophic events can disrupt operations.

Where operations are outsourced, there is risk associated with the quality of suppliers. In 2011, for example, Brazil launched an investigation of Zara for international labor violations. On August 19, according to the Guardian (London), a subcontractor in the Zara's supply chain had 52 charges for sweatshop conditions involving 15 workers, one of whom was 14 years old. Moreover, one of the factory workers claimed on a local TV channel that the labor in a pair of typical Zara jeans that sold for 450 dirham was only 4 dirham and that was divided among 7 people.

Due to the possibility of such highly publicized problems and the corresponding negative press that results, Inditex has announced a zero-tolerance policy for breaches in their supplier Code of Conduct (such as forced labor, under age workers and salary policies) and a commitment to the "gradual enhancement of social conditions" across the globe. Audit teams made up of more than 270 internal and external professionals verify that suppliers are complying with the Code of Conduct. The Department of Corporate Social Responsibility ensures that suppliers comply with the Code. Inditex maintains audit teams in Spain, Portugal, India, Bangladesh, Turkey, China, Morocco, and Brazil.

The supplier management program has 6 phases:

1. Raising awareness

2. Supplier self-evaluation and pre-assessment

3. Facilities audit

4. Supplier rating and classification

5. Implementation of corrective actions to improve

6. Program monitoring

Suppliers are rated according to the following classification scheme as to whether they comply or breach the Code of Conduct:

A. Complies

B. Breaches a non-relevant aspect

C. Breaches a sensitive aspect

D. Breaches a critical aspect

Through continued auditing of supplier performance, including unannounced visits, Inditex continues to improve supplier ratings. In 2011, 89% of the suppliers were classified as A or B. In addition, the company participates in international platforms such as the Ethical Trading Initiative to stay abreast of best practices and anticipate and resolve any incidents.

The following report summarizes the management of the supply chain 2011.

Inditex Suppliers

Region	Suppliers who purchased in 2010	Suppliers not used in 2011	New Suppliers in 2011	Suppliers who purchased in 2011	Suppliers ruled out in 2011*	Suppliers year end
Africa	129	41	39	127	5	122
America	67	14	13	66	2	64
Asia	671	219	234	686	61	625
European Union (EU)	485	139	131	477	20	457
Non-EU Europe	112	27	49	134	4	130
Total	1,464	440	466	1,490	92	1,398

*Suppliers discarded for breaches of the Code of Conduct or commerical reasons.

Financial Results

The breakdown by global sales for Inditex is as follows:

Store Sales	FY2011	FY2010
Europe (except Spain)	45%	45%
Spain	25%	28%
Asia and the rest of the world	18%	15%
Americas	12%	12%

In the next table, Zara's recent financial results are listed which indicate strong revenues and profit growth. From 2010 to 2011, overall sales grew 10%, net income grew 12%, and there was a 12.5% increase in dividends to stockholders.

	INDITEX		
	31-Jan-12	31-Jan-11	31-Jan-10
Income Statement	*Euro (in thousands)*		
Net Operating Revenues	13,792,612	12,526,595	11,083,514
Cost of Goods Sold	5,612,216	5,104,573	4,755,505
Gross Margin	8,180,396	7,422,022	6,328,009
Operating Expenses	5,658,390	5,131,553	4,599,621
Operating Profits	2,522,006	2,290,469	1,728,388
Non-operating Items	37,006	31,116	3,782
Pre-tax Income	2,559,012	2,321,585	1,732,170
Income Tax	613,480	580,305	410,033
Net Income	1,945,532	1,741,280	1,322,137
Balance Sheet			
Accounts Receivable	531,048	481,844	421,781
Inventories	1,277,009	1,214,623	992,570
Total Current Assets	5,437,289	5,202,512	3,943,795
Total Assets	10,959,178	9,826,079	8,355,437
Accounts Payable	2,475,140	2,458,857	2,103,029
Total Current Liabilities	2,702,774	2,674,907	2,304,960
Total Liabilities	3,503,601	3,402,912	2,964,891
Equity	7,455,577	6,423,167	5,370,546
Total Liabilities & Equity	10,959,178	9,826,079	8,335,437

4. Zara's Rivals

There is ongoing competitive pressure from local, national and global apparel companies initiating fresh moves in the markets where Inditex manufactures and distributes products. However, as the big four—Zara, Benetton, The Gap and H&M, continue to expand globally, the toll on regional fashion producers can be significant. In economies where industry sales are mature, gains in market share come at the expense of local manufacturers. For example, when Zara and The Gap entered Australia last year, the domestic Australian fashion brands lost sales.

4.1. The Benetton Group S.p.A.

Benetton Group was founded in 1965 in Ponzano Veneto as a knitting workshop producing sweaters for retailers. The following year, Benetton opened its first retail shop and rapidly expanded across Italy with franchise shops selling various classical cut sweaters. In 1968, they expanded internationally into Paris and in 1969, created a product line for children. In the 1970s, the company further expanded their product line to include jeans, shirts and T-shirts so that customers could coordinate a complete set of clothes promoting the Italian casual style. By the end of the 1970s, Benetton reorganized and expanded into Europe and began to promote the Benetton brand. Between 1973 and 1979, the company grew from 31 to 287 million Euros. In 1980, markets were developed in the US and Japan through a strategy of first licensing with local manufacturers to use their trademark, then entering into joint ventures and finally establishing a retail store when the market showed potential.

An early advertising campaign featured white and black young models promoting the ideal of a peaceful, multi-ethnic world. Continued success in the European market was evident and by the end of 1985, Benetton operated in 60 countries with over 3,200 stores. Their advertising theme changed to sponsoring high profile sports events in rugby, volleyball, water polo and basketball. In the 1990s, Benetton's market standing was challenged by other large international retailers including Zara and The Gap. In response, product development continued to include accessories and cosmetics to complement the total look while the average store was expanded from 50 to 200 square meters mega stores. In addition to the wholesale business, Benetton began to directly operate retail stores.

More recently, Benetton's strategy focused on opening large stores in major cities and the company's revenues have mirrored the trends in the international economic sector. The majority of their sales are in Italy, followed by Europe, Asia and the Americas. The brands include United Colors of Benetton, Undercolors of Benetton, Sisley and PlayLife and they have licensed their brand name to a variety of products including sunglasses, cosmetics, linens, watches, toys, sports equipment, and luggage.

Benetton is vertically integrated to include dyeing and focuses on speed (time to market in two weeks) and quality. In 2005 and in response to Zara's success, Benetton changed from producing two seasonal collections per year to designing over 100 collections in a year. The previous business model based 80% of production on orders collected before the start of the season and only 20% from reorders. Under the new business model, two seasonal collections (Spring/Summer and Fall/Winter) were expanded to 4 launches: Spring, Summer, Fall and Winter. Moreover, during the selling season, three new collections are introduced to respond to changing fashion tastes.

Benetton's most recent 3-year financial results are listed in the next table. From 2010 to 2011, revenues went from 2,053 to 2,032 (millions of Euros). This decline was due primarily to a decrease in store sales from poor economic conditions and a collection mix with a higher percentage of low unit value product categories. Cost of sales were 57.9% of revenues in 2011 compared to 55.4% in 2010 reflecting the significant increase in raw materials, especially cotton. Inventories increased from 293 million in 2010 to 362 million in 2011.

BENETTON			
	31-Dec-11	31-Dec-10	31-Dec-09
Income Statement	*Euro (thousands)*		
Net Operating Revenues	2,032,341	2,053,059	2,049,259
Cost of Goods Sold	1,149,788	1,104,829	1,106,639
Gross Margin	882,553	948,230	942,620
Operating Expenses	733,423	771,928	736,818
Operating Profits	149,130	176,302	205,802
Non-operating Expenses	29,880	8,735	20,235
Pre-tax Income	119,250	167,567	185,567
Income Tax	42,272	64,757	67,715
Net Income	76,978	102,810	117,852
Financial Position			
Accounts Receivable	889,330	798,320	786,476
Inventories	362,410	293,153	300,629
Total Current Assets	1,590,406	1,402,935	1,334,809
Total Assets	3,107,612	2,925,404	2,827,486
Accounts Payable	506,145	441,659	441,659
Total Current Liabilities	1,176,081	652,157	869,864
Total Liabilities	1,600,893	1,426,758	1,371,967
Equity	1,506,719	1,498,646	1,455,519
Total Liabilities & Equity	3,107,612	2,925,404	2,827,486

4.2. The Gap

Also founded in the 1960s, The Gap had its beginnings in a single store in San Francisco, United States, where the average cost of a pair of jeans at the time was only about $7. From this beginning, Gap has expanded to over 3,300 stores worldwide. Around 3,000 of the stores are company owned and operated, while only approximately 300 stores—typically located outside of the United States—are franchise operations. The company's strategy is to offer multiple brands through multiple channels across multiple geographies. Brands include Gap, (GapKids, babyGap, GapMaternity and GapBody), Banana Republic, Old Navy, Piperline and Athlelta.

In 2011, The Gap expanded into online sales and international markets. Whereas in 2007, The Gap operated in 6 countries, by the end of 2011 it had businesses in 39 countries. The company introduced a regional structure and now operates headquarter offices in North America, Tokyo and Shangai. Franchise store sales grew 45%, and the first franchise in South America was opened in Chili. In 2011, the company opened 50 new franchise stores for a total of 227 Gap and Banana Republic outlets. Management's goal is to reach 400 by 2014.

Online revenues exceeded $1.5 billion in 2011. Gap entered the China market in 2010, and in 2011 received online orders from more than 330 cities in China. There are a total of 14 stores in China and plans including having 45 stores by the end of 2012. In addition to online sales, the company took advantage of new technologies enabling customers to shop more easily from their smart phones; started a new distribution center in the US to meet the needs of North America; and significantly increased their online marketing.

Brand building is considered essential to Gap's success and therefore, they invest significantly in marketing, the enhancement of existing stores and online shopping sites and customer service. Gap maintains a large inventory in their distribution centers. Whenever merchandise sells slowly or there is no longer stock in a full range of consumer options, Gap uses markdowns to expedite sales of the merchandise. Typically orders must be placed well in advance of the selling season which makes the company vulnerable to changes in demand.

THE GAP			
	28-Jan-12	29-Jan-11	30-Jan-10
Income Statement	*US Dollar (in millions)*		
Net Operating Revenues	14,549	14,664	14,197
Cost of Goods Sold	9,275	8,775	8,473
Gross Margin	5,274	5,889	5,724
Operating Expenses	3,836	3,921	3,909
Operating Profits	1,438	1,968	1,815
Non-operating Expenses	69	(14)	(1)
Pre-tax Income	1,369	1,982	1,816
Income Tax	536	778	714
Net Income	833	1,204	1,102
Balance Sheet			
Accounts Receivable	297	205	150
Inventories	1,615	1,620	1,477
Total Current Assets	4,309	3,926	4,664
Total Assets	7,422	7,065	7,985
Accounts Payable	1,066	1,049	1,027
Total Current Liabilities	2,128	2,095	2,131
Total Liabilities	4,667	2,985	3,094
Equity	2,755	4,080	4,891
Total Liabilities & Equity	7,422	7,065	7,985

In 2010, the Gap experienced the power of social media in a rebranding disaster. In an attempt to change their image from classic American to modern, sexy and cool, the Gap unveiled a new logo on their website. Within a few hours, an enormous flood of angry customers posted their negative response to the internet via Facebook and Twitter and in the chaos than ensued, the Gap made the following post to their Facebook page:

> Thanks for everyone's input on the new logo! We've had the same logo for 20+ years, and this is just one of the things we're changing. We know this logo created a lot of buzz and we're thrilled to see passionate debates unfolding! So much so we're asking you to share your designs. We love our version, but we'd like to see other ideas. Stay tuned for details in the next few days on the crowd sourcing project (October 6, 2010).

The backlash from consumers was swift and negative as the following sample post shows:

> "Asking designers to re-design your logo through this spec work stunt is completely appalling and beyond unethical! You are blatantly devaluing an already devalued profession. I am boycotting Gap and all its affiliates from here on out. You should be truly ashamed of yourself…"

Consumers responded that The Gap destroyed what took 20+ years to build. Other responses were more offensive and several mock logo creation sites were created which included "Make Your Own Gap Logo," "Your Logo Makes Me Barf," and "Crap Logo Yourself." Then Marka Hensen, The Gap's North American President reversed the decision and blogged on The Huffington Post:

> All roads were leading us back to the blue box, so we've made the decision not to use the new logo on gap.com any further… We've learned a lot in this process. And we are clear that we did not go about this in the right way. We recognize that we missed the opportunity to engage with the online community. This wasn't the right project at the right time for crowd sourcing…There may be a time to evolve our logo, but if and when that time comes, we'll handle it in a different way."

4.3. H&M

Older than its global fashion rivals, Hennes and Mauritz (operating as H&M) had its beginnings in 1947 when a women's clothing store called Hennes first opened in Vasteras, Sweden. Expansion soon followed with early store openings in Stockholm (1952) and Norway (1964). In 1968, founder Erling Persson bought Maruitz Widforss, a hunting and fishing store, changed the store offering to men's clothing, and changed the name of his company to Hennes and Mauritz. The 1970s saw the company listed on the Stockholm Stock Exchange, the addition of cosmetics sales, and the first expansion outside of Scandinavia, with a store in London.

In the decades that followed (1980s and 1990s), the company continued expanding in Europe (Germany, France and the Netherlands). In 2000, store openings took place in both the United States (on 5th Avenue in New York City) and Spain. In 2004, H&M initiated a strategy of collaboration with high profile designers. Among the well-known names that have been associated with H&M since that time are Stella McCartney, Madonna, Jimmy Choo, Versace and David Beckham.

In 2006, the company opened its first Middle Eastern store in Dubai, United Arab Emirates, and it followed that opening with a store in Kuwait City, Kuwait. Currently the company operates in Asia, Europe, North America, and Australia. Today, the company is still headquartered in Stockholm, Sweden, and it has grown to be the world's second largest global clothing company—after Inditex, Zara's parent company. Its clothing and accessories are marketed in 43 countries. H&M's strategy is to "offer fashion and quality at the best price." (Annual Report 2011, p. 5) The company strives for optimal operating flexibility by owning neither factories nor store facilities. Instead, H&M develops strong supplier partnerships and prefers store leases.

In 2011, H&M opened 266 stores and plans to add 275 stores in 2012 bringing the total to 2,500 in the global retail chain. To combat declining profits and to position their company as the more classy alternative to other retailers, H&M partners with numerous high fashion names to launch designer collections at a fraction of the cost. Trendy high profile names such as Versace, Jimmy Choo and Chanel, are designed to draw shoppers into the stores and bolster H&Ms reputation as the most fashionable among the value chic retailers.

Also in 2011, H&M began offering a line of clothing made from 100% sustainable materials, marketing under the Conscious Collection label. The clothing utilizes such materials as organic cotton, hemp, recycled wool and recycled polyester. Other brands include COS, Monki, Weekday, Cheap Monday and H&M Home.

H&M's most recent financial results are listed below.

	H & M		
	30-Nov-11	30-Nov-10	30-Nov-09
Income Statement	*Swedish Kroner (in millions)*		
Net Operating Revenues	109,999	108,483	101,393
Cost of Goods Sold	43,852	40,214	38,919
Gross Margin	66,147	68,269	62,474
Total Operating Expenses	45,768	43,610	40,830
Operating Profits	20,379	24,659	21,644
Non-operating Items	563	349	459
Pre-tax Income	20,942	25,008	22,103
Income Tax	5,121	6,327	5,719
Net Income	15,821	18,681	16,384
Balance Sheet			
Accounts Receivable	2,337	2,258	1,990
Inventories	13,819	11,487	10,240
Total Current Assets	39,918	40,932	36,081
Total Assets	60,188	59,182	54,363
Accounts Payable	4,307	3,965	3,667
Total Current Liaibilities	14,757	13,847	11,090
Total Liabilities	16,084	15,010	13,750
Equity	44,104	44,172	40,613
Total Liabilities & Equity	60,188	59,182	54,363

5. The Future

In 2012, Inditex plans to continue an aggressive multichannel, global growth strategy led by a launch of Zara online sales into China. Of the 483 stores opened in 2011, 132 were in China, bringing the total brick and mortar stores in China to almost 400. At the same time, overall profits rose 30% in Asia. The other Inditex brands will continue to build an online presence in their existing markets. Flagship stores for Zara in important commercial markets and the continued expansion of other groups are planned with Europe and Asia as the primary focus. According to Pablo Isla, “We have one million visitors to Zara online every day. We have achieved sales growth in all the different markets. 2012 will be a year of strong expansion for Inditex.”

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