

# Fast Fashion and its Global Competitiveness

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Zásady pro vypracování:

1. Zhodnoťte literaturu a teoretická východiska módního průmyslu.
2. Popište model podnikání v oblasti rychlé módy a její vliv na spotřební chování zákazníků.
3. Analyzujte a určete konkurenční výhodu firmy Zara na mezinárodním trhu.
4. Identifikujte limity implementace modelu rychlé módy.

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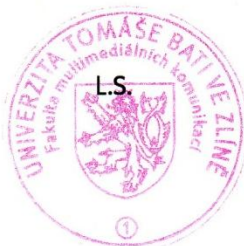
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## ABSTRAKT

Czech abstract

Diplomová práce popisuje téma konkurenceschopnosti globálních firem na trhu s oblečením, známé pod termínem rychlá móda. Jde o globální firmy, které využívají levných dodavatelů z rozvojových zemí a staví svůj obchodní model na rychlosti a dokonalosti svého logistického systému. Práce popisuje tento model podnikání a kriticky jej konfrontuje s filosofií udržitelného rozvoje a etiky podnikání. V teoretické části jsou obsažena východiska nutná pro pochopení dané problematiky, které jsou v analytické části aplikované na konkrétním případě skupiny Inditex se zaměřením na značku Zara. Cílem práce je upozornit na nadbytečnou výrobu textilu a podpořit myšlenku efektivní recyklace oděvů.

**Klíčová slova:** oděvní průmysl, marketing oděvního průmyslu, mezinárodní marketing, globalizace, společenská zodpovědnost firem, etické podnikání, udržitelný rozvoj, logistika, odpadové hospodářství, spotřební chování, Inditex, Zara, etická móda.

## ABSTRACT

English abstract

Diploma thesis describes the business model of fast fashion companies and its competitiveness on international market. These global companies utilize the low-cost sourcing from developing countries and build their business model on velocity and excellence of their supply chain management. This work describes this kind of business model and critically it confronts with the philosophy of sustainable development and business and environmental ethics. Theoretical part contains the facts, essential for problem understanding, and its application in analytical part on concrete example of Inditex Group with focus on brand Zara. Main goal is to draw the attention to redundant textile production and to support the idea of effective clothes recycling.

**Keywords:** fashion business, fashion marketing, international marketing, globalization, corporate social responsibility, environmental and business ethics, supply chain management, waste management, consumer behavior, Inditex, Zara, ethical fashion.

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### **Statutory Declaration**

This is to certify that I, Miroslava Fojtů, have written the present thesis independently and only under utilization of the referenced literature and resources. I also declare that submitted version is identical with electronic one uploaded on IS/STAG.

Zlín, August 1st, 2011

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## INTRODUCTION

It took me a while to decide which topic I would like to elaborate on my master thesis. I wanted my topic to be unique and about something I am personally interested. At first I would like to mention that five years of studies in Faculty of Multimedia Communications at Thomas Bata University gave me more than just knowledge from lectures. It gave me the opportunity to travel. I studied for six months in Portugal, one year in South Korea, made internships in Spain and Italy and every summer worked abroad. As a student I could afford it and I had a time to look around myself. As a regular woman I always liked fashion. I was chasing the best sales and was buying a lot of cheap clothes just because they were more affordable than in Czech Republic. I wore them just few times and I had no wonders where they end. I felt so great by buying all this stuff and looking good. When I saw this sales craziness everywhere, I started to be more critical about whole thing. I adored fast fashion stores and wanted to work in this field. But later, when I understood what is hidden under the cheap price, I started to not support this status quo and stopped to glorify fast fashion industry. Very influential for me was the class I took at Hanyang University in Korea called Environmental & Business Ethics, where we were talking a lot about corporate world connected with politics, media and its impacts on society and environment. I became more critical about advertising and globalized world because I personally felt the power they have upon us, our thinking and behavior. I started to feel a lack of balance in our society. Economies are before bankrupts, there are no funds for important things and on the other hand for example companies like Apple have more cash than whole United States. I learned to prefer locally made products, and by doing so, support local businesses and reduce the excessive transportation. I would like to mention that I am not against globalizations. I am writing this paper on my Sony computer, at home drive a Korean car, I love Italian food and my favorite coat is designed in Spain, certainly made somewhere in Asia. But everything has limit and also this kind of growth. I wanted to understand more of this issue and therefore I connected my interests for international business, fashion industry and sustainable development. I decided to write about competitiveness of fast fashion industry. There were no materials in Czech language so I chose to write my thesis in English in order to not confuse the terms. I mainly studied and gathered materials from international books and Journals, especially from Journal of Fashion Marketing and Management published by Emerald group. My thesis is structured, as prescribed, from three parts. The theory, analysis and project. In some parts they blend togeth-

er in order to keep the understanding and express my opinions. The main goal of this work is to call attention to unethical and redundant textile production and fashion consumption. In theoretical part I describe the basic theories about fashion, its history and fast fashion business model. I explain the differences between fast and slow fashion and portray the importance of supply chain management in international business context. In the last part I pay attention to business ethics, corporate social responsibility and introduce the philosophy of sustainable development. In analytical part I describe the Inditex Group, Spanish magnate of fast fashion industry with its flagship Zara. I explain its structure, international growth and competitiveness. In the end I describe their CSR program and talk in general about disposals, fashion consumption and its impact on environment. This work is more descriptive so the project part is shorter and serves as solution proposal of described problem – the textile waste. I suggest the way of effective clothes recycling where profit meets with CSR.

## **I. THEORETICAL PART**

# 1 FASHION INDUSTRY

## 1.1 The business of Fashion

Fashion is a huge business where millions of people are employed. The broader terms fashion business includes all industries and services connected with fashion. Materials, design, manufacturing, distribution, marketing, retailing, advertising, communications, publishing, and consulting, in other words any business concerned with fashion goods or services. Concerning the topic of fast fashion I will start with some broader definitions of business and fashion that I have learned in my Fashion Marketing class which I took at Hanyang University in South Korea.

### **Business**

Business refers to an organization that provides people goods or services in order to earn profit. Goods referred to the tangible nature of the product while services are the non-tangible part. This can also be applied to non-profit organizations. In contrast to those organization the profit is a key word in the world of commercial business and also an explanation of particular problems in our society.

### **Fashion**

In case of fashion everybody could make up some definition, because its common thing that everybody understands. Even though this understanding is different, especially concerning a generation gaps, sex, cultures and subcultures or religions.

*“Fashion is the prevailing style during a particular time”*. (Prof. Paul Nystrom)

This definition considers the fact that if we talk about fashion, the topic does not have to be exactly about clothing. Especially in Czech language the word for fashion – “móda” is frequently used in larger sense. What is in fashion today? Bio-products, Facebook, Smart phones, ecology, environment, zumba, sushi, big glasses or pinky shoes? For somebody all of that and for others none of it. So in my point of view there is no definition that would fit to everybody because each of us can see the fashion from different perspective.

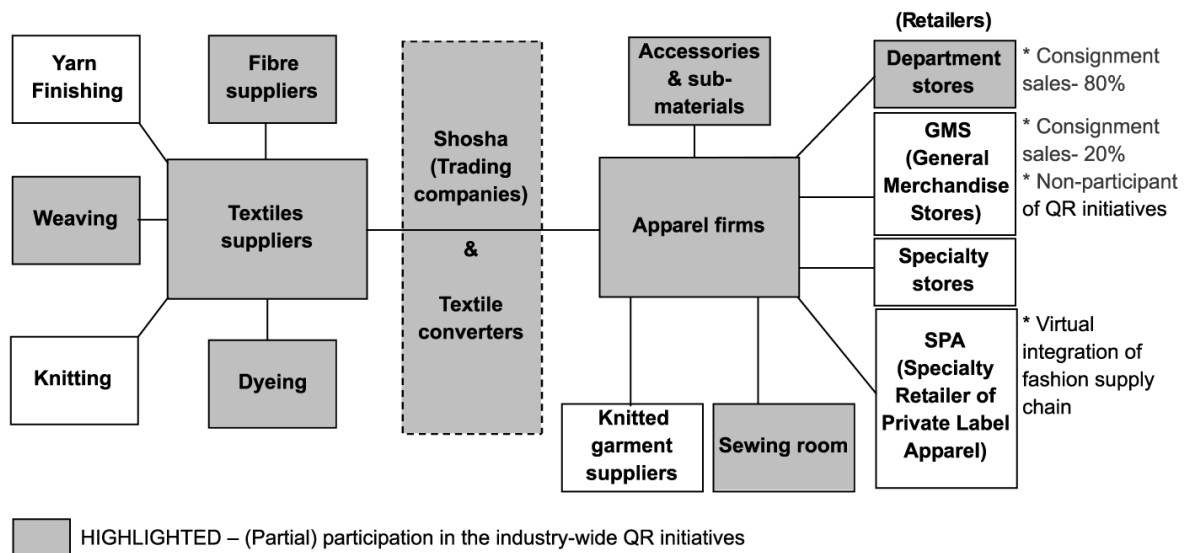
Going back to apparel industry there is one definition I have learned: *“Fashion is the prevailing style or styles in dress and accessories at a particular time, which is worn by a specific group of people who regarded as up-to-date and sophisticated.”*

And finally how it see Bohdanowicz and Clamp: “Fashion is a way of behaving that is temporarily adopted by discernable proportion of members of a social group because that chosen behavior is perceived to be socially appropriate for the time and the situation.” (Bohdanowicz, 1994 p. 5)

**Business of fashion**

Simply put fashion business refers to all business activities involved in the sales of fashion apparel and accessories to a market. In fact it is very complex and complicated structure. One of examples you can find in Figure 1. There are many supporting industries as a machinery, chemical laboratories, trimming, etc. Services agents working with quotas, financing, testing. Auxiliary enterprises as publishers, consultants, advertising agencies, fashion/market intelligence. Government organizations and other interested parties like trade or labor unions. There are many levels of distribution and every company it has set according to its size, needs and purchasers.

Fashion and textile products interfere into many human activities. It is not only about clothing, textile is everywhere. Defense, horticulture, agriculture, architecture, furniture, food, medical, automobile industry, shipping, sports, civil engineering, paper making or aerospace.



Source: FISPA (2003)

Figure 1. Example of fashion industry structure in (Fernie, 2004)

## 1.2 Short historical overview

For thousands of years, the spinning and weaving of fabrics were labor-intensive hand processes. All clothes were not only handmade but also custom made, that means each garment was made to fit customer's exact measurement. The mass merchandising began with industrial revolution in England in second half of 18<sup>th</sup> century. Before France was the main dominant center of fashion due to the patronage of the royal court and the development of the silk industry there. That time fashion was only for rich and noble classes.

The democratization of fashion began with the invention of the sewing machine, which made mass production of clothing possible. As a result, fashion became available to everyone instead of just wealthy few. In response to growing demand for textiles both in England and abroad, a series of advancements in spinning and weaving machines were invented. Mass production of apparel was also facilitated by the invention of paper patterns. Thus, by the end of the nineteenth century, mechanization of the textile and apparel production processes had led to a growing number of companies. In the end on nineteenth century and during first half on twentieth century was significant the growth of ready-to-wear industry. Ready-to-wear or prêt-à-porter (often abbreviated RTW) is the term for factory-made clothing which are sold in finite condition, in standardized sizes, as distinct from tailor made clothes made in particular person's frame. The separation of pieces of clothing (blouses and skirt) in the 1880s made it possible.

As more goods were produced, there were more products to sell. Middle class was growing so as well the demand for fashion. "Two types of stores finally emerged to bring fashion to the public. Shopping in department stores became a popular activity, like going to exhibition. For the first time, people of all incomes could enjoy browsing and looking at beautiful things." (Frings, 1999 p. 10) The Industrial Revolution triggered manufacturing and retailing cycle. The growth of middle class stimulated both apparel manufacturing and retailing.

In the end of twentieth century fashion has become much more diverse because of lifestyle changes and growth of leisure activities. New categories as a casual, sportswear or teenage fashion were developed and fashion became affordable to the majority of the population. There were many influences which had affected fashion such as world wars, woman in workforce, Hollywood and because of European emigrants New York had become the center of U.S. fashion industry. One of the most apparent changes in the apparel industry in the middle of twentieth century was the increase in large, publicly owned corporations.

### 1.3 Business structure

From historical point of view fashion has developed from market and small workplaces to manufacturing and plants all over the world. Nowadays fashion companies have many forms. I will define the basic ones and expand the theme of corporations, because it is the most common form for fast fashion industry. Same terminology stands for any kind of business.

*Depending in the objectives, needs, and size of textile and apparel companies, they are owned as a sole proprietorship, partnerships, or corporations. The advantage and disadvantage of each form of business ownership are based on the ease of formations and dissolutions the degrees of liability owners have for business debts, and operational strategies. (Burns, 2007 pp. 32-40)*

#### 1.3.1 Sole proprietorships

Sole proprietorships are a very common form of business ownership, in which an individual owns the business and its property. The sole proprietor typically runs the day-to-day operations of the company but may have employees to help in running the business. Any profit from the business is considered personal income and taxed accordingly. The owner is personally liable for any debts the business may incur. The example is when designer runs its own shop where he sells his own products.

#### 1.3.2 Partnerships

There are times when two or more people want to join forces in owning a business. In these cases a partnership is formed. A partnership is an association of two or more persons to carry on as co-owners of a business for profit. A partnership may be formed between two individuals or among three or more individuals through a written contract. For example, two or more individuals may start a company, each bringing unique skills to the business. A number of large apparel manufactures, such as Calvin Klein Inc., or Esprit de Corp. started as a partnerships and later became corporations.

#### 1.3.3 Corporations

The corporations is the most complex form of business ownerships, because corporations are considered legal entities that exist regardless of whom owns them. Ownership of corporations is held by shareholders, who own shares of stock in the corporations. If the compa-

ny fails, shareholders are not liable for the corporation's debts beyond their initial investment. Corporations can be public, where at least some of the shares of stock are owned by the general public, or private in which the shares are owned by a small number of individuals. Shareholders elect the board of directors which is the chief governing body of the corporations. The board also hires the officers (e.g., the president, chief executive officer CEO, chief financial officer, etc.) who run the business.

*Multinational companies build a strong local presence through sensitivity and responsiveness to national difference. International companies exploit parent company knowledge and capabilities through worldwide diffusion and adaptation, whereas global companies build cost advantage through centralized global-scale operations.* (Hines, 2007 p. 15)

Corporations have a big influence on today's society. Bigger than we would like to admit. The basic tool they use is money. They often fund a political campaigns of the states representatives and by media co-create our thinking and lifestyle. But how could media survive without money from corporate world? And if they are funded by them how could they keep their independency? It is a vicious cycle. We, as an individualities living in "democracy", hardly like to accept the fact that somebody would have control upon us. But in fact everybody is affected by advertising and media and there is still lack of media education and critical thinking in our society to distinguished the sources of information.

Over the last 150 years the corporation has risen from relative obscurity to become the world's dominant economic institution. Canadian law professor Joel Bakan contends that today's corporation is a pathological institution, a dangerous possessor of a great power it wields over people and societies. Bakan backs his premise with the following observations:

- The corporation's legally defined mandate is to pursue relentlessly and without exception its own economic self-interest, regardless of the harmful consequences it might cause to others.
- Governments have freed the corporation, despite its flawed character, from legal constraints through deregulation and granted it ever greater authority over society through privatization. (Bakan, 2004)

Joel Bakan in his book *The Corporation* compares the corporation to a person with psychopath diagnosis. "The corporation is irresponsible because in an attempt to satisfy the corporate goal, everybody else is put at risk. Corporations try to manipulate everything, including public opinion and they are grandiose, always insisting that we are number one,



we are the best. A lack of empathy and asocial tendencies are also a key characteristic of the corporations. Their behavior indicates that do not really concern themselves with their victims. Corporation often refuse to accept responsibilities for their own action and are unable to feel remorse. If they get caught by breaking the law, they pay big fines and after that they continue doing what they did before anyway. And in fact in many cases the fines and the penalties paid by the organizations are trivial compared to the profit that they rake in.“ (Bakan, 2004 p. 57)

To be critical we have to admit that there are positive aspects of globalized world led by corporations – for example they brought work and infrastructure to undeveloped countries and without the investments of big multinational players a lot of economies would hardly survive.

But on the other hand there are many cases where people got hurt, died or a piece of landscape was wasted just because of the profit of corporations. The world can never be black or white, there are a lot of grey shades in every issue we think about.

## **1.4 Fashion Merchandising**

Merchandise is the term used to signify articles for sale, it derives from the word merchant, the actual seller or retailer. Merchandising is planning to have the right merchandise at the right time in the right quantity and right price to meet the needs of the company’s target customers. It is also the manner in which a group or line of garment is presented to the public. Merchandising activities vary from company to company, usually include setting the financial goals, budgets, and price points, making the merchandising plans, planning line size, planning fabric purchases, sourcing, and scheduling production, controlling product flow, and presenting the line. (Frings, 1999 p. 177).

The world of fashion merchandising is very complex a there is many forms how fashion companies are structured. According to Frings I would like to mention the most important ones. Contracting, Licensing, Joint venture and franchising. (Frings, 1999 p. 270) Same models can be set while planning international market entry strategies.

### **1.4.1 Contracting**

Most manufacturers do not handle garments production in their own factory. They are responsible for all phases of manufacturing, from design, and fabric purchase to selling and

shipping, but they may contract out some or all production. Contractors can be located anywhere in the world. Manufacturers continually seek the cheapest source of labor.

#### **1.4.2 Licensing**

Licenses provide a means of diversification for the designer or brand without risks of capital investments or responsibility of production. Under licensing agreements, popular designers and brand-name manufactures give other manufacturers permission to use their names or design. For the designer or brand name is paid a royalty, a percentage of wholesale sales.

#### **1.4.3 Joint venture**

Joint ventures are a form of partnership between designer or brand manufactures and specialty producers. For example, a coat manufacturer and a designer could arrange a joint venture to produce that designer's coat. It is a give-and-take relationship in terms of merchandising and marketing the line. The designers have more control and the licensee has less risk since payment is usually on the basis of profit.

#### **1.4.4 Franchising**

In a franchising agreement, a manufacturer sells the right to retail a product line within an area. Manufacturers benefit from this agreement because the product must be sold under brand name and merchandised according to specifications that protect the manufacturer's image. Retailers benefit because they are guaranteed availability of stock and the right to use the brand name in advertising, supported by manufacturer's national or global advertising campaigns.

### **1.5 Fashion Retailing**

Retailing is the link between the manufacturer and the consumer. Retailers buy fashion merchandise from vendors, their suppliers, all over the world and bring it to their stores to sell to consumers. Modern retailing had its roots in the nineteenth century when fashion became affordable for general public. Some central streets of main fashion cities have become famous for shopping. For example Fifth Avenue and Madison Avenue in New York City, Rodeo Drive in Beverly Hills, Champs Elysées in Paris or Via Condotti Rome.

There are various forms of retail organizations. They differ according to their size, type, location and structure. It is a last place of whole system where our end user can get his product. I made up some examples for better understanding from international and Czech environment:

Department store – Lotte, Hyunday Department Store

Supermarkets/hypermarkets – Tesco, Hypernova

Variety chain store - Marks and Spencer

Multiple chain stores - Next

Cooperative - Coop

Franchises – Hard Rock Café, Mc' Donalds, Starbucks

Independents – local small shops, family businesses

Mail order – Quelle, Otto

Markets –city markets, farmářské trhy

## 1.6 Competitiveness

*Competition is one of the environmental variables that affect a firm's strategies. Especially in a highly competitive industry, firms need to evaluate advances in technologies and adopt them to maintain or gain competitive advantage (Cooper, 1996 in (Venu Varukolu, 2009)*

The goal of every sole proprietorship, partnership, and corporation in the textile and apparel industries is to provide products or services that are desired by ultimate customer, so they have to compete with each other. Each company competes on the basis of::

- the price of the merchandise to the retailer or consumer
- the quality of the design, fabrics, and construction
- innovation – how unique or fashionable the merchandise is
- services offered to the retailer or consumer, and
- a combination of these factors.

Within the textile and apparel industries as in any other business the competitive strategies include monopoly, oligopoly, monopolistic competition and pure competition.

In a monopoly, there is typically one company that dominates the market and can thus price its goods at whatever scale. Because it drastically reduces competition so this competitive situation is /should be heavily regulated by government.

In oligopoly, a few companies dominate the market, thereby making it very difficult for other companies to enter. For example the athletic shoe industry can be considered as an oligopoly because it is dominated by few companies.

In pure competition, there are many producers and consumers of similar products, so price is determined by market demand. The closest to pure competition that can be found in fashion industry are agricultural commodities such as cotton or wool.

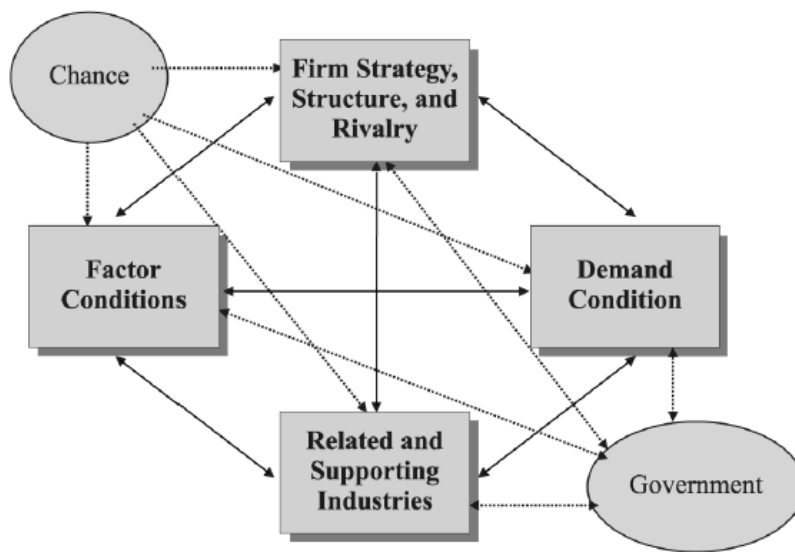
In monopolistic competition is the most common form of competition in textile and apparel industry. In this case many companies compete in terms product differentiation, advertising, image, pricing or services they offer. (Burns, 2007 pp. 41-52)

### **1.6.1 Development of the firm's international competitiveness**

Development of a firm's international competitiveness takes place interactively with the environment. The firm must be able to adjust to customers, competitors and public authorities. To be able to participate in the international competitive arena the firm must have established a competitive basis consisting of resources, competences and relations to others in the international area. (Hollenson, 2008 p. 71)

### **1.6.2 Porter's four determinants and new competitive advantages**

To investigate why nations gain the competitive advantage in particular industries, Porter (1998) conducted a four-year study of ten important trading nations and suggested "the diamond model." Porter concluded that a nation succeeds in a particular industry if it possesses a competitive advantage relative to the best worldwide competitors. His model consists of four determinants: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. (Figure 2.) As this study looks into an apparel industry it is essential to interpret competitive factors within this industry and to examine what constitutes new competitive factors as the industry evolves. Porter (1998) competitive advantage factors are summarized, and new sources of competitive advantages are suggested in Figure 3. (Jin, 2006)



Source: Porter (1998, p.127)

Figure 2. Porter's diamond model in (Jin, 2006)

Porter (1998) determinants	Traditional competitive advantage factors	New competitive advantage factors
Factor conditions	Basic factors: such as unskilled labor and raw materials	Advanced factors: skilled human resources such as creative designers. Specialized factors such as production and process technologies that are specific to handling global sourcing and management (e.g. EDI)
Demand conditions	Demanding functionality and availability of apparel items	Demanding higher levels of needs such as brand name and service
Related and supporting industries	Presence of internationally competitive back-end supplier industries (e.g. raw materials producers)	Presence of internationally competitive front-end industries that efficiently coordinate global supply chain management (e.g. buying office, advertising, information technology)
Firm strategy, structure, and rivalry	Organization and strategy of most apparel firms are suited to industries' source of competitive advantage: high quality design	Organization and strategy of most apparel firms are suited to industries' source of competitive advantage: high quality design plus agility

Figure 3. Traditional versus new competitive advantage factors using Porter's diamond model. Source: (Jin, 2006)

## 2 FAST FASHION

Hines (Hines, 2007 p. 44) defines fast fashion as a marketing tool to drive retail footfall. It allows retailers to make up-to date product offers to their customers' base frequently. Thus, customers are driven to stores more frequently to view and buy "fast fashion," which also tends to be young fashion.

*Fast fashion is a business strategy which aims to reduce the processes involved in the buying cycle and lead times for getting new fashion product into stores, in order to satisfy consumer demand at its peak. Fast fashion has been explored within the context of supply chain management. (Barnes, 2006 p. 259)*

Fast fashion has been acknowledged in fashion industry as being a key strategy for success for modern fashion retailers. International retailers such as Zara and Mango from Spain, Kookai from France, H&M from Sweden, Benetton from Italy, and American Gap have become well known for adopting a strategy of constantly renewing their product ranges with fashion-led styles that attract media attention and entice their (mostly) young female customers into the stores frequently. The target markets for fast fashion is primarily younger age groups, typically female customers which tend to purchase clothing more frequently and spend more money on clothes. Volumes for each line produced are smaller compared to traditional supply quantities.

*When it's gone, it's gone and that drives customers into the stores more frequently because they do not want to miss the latest trend. Smaller volumes also minimize risks of obsolescence for retailers, which is fashion risk. (Hines, 2007 p. 44)*

Another main characteristic of fast fashion is that it uses fabrics with lower quality. To develop clothes from specialist fabric require grater time to source, specify, and produce which is not what is fast fashion about. Fast fashion is disposable, for immediate consumption. It is to capture the look of the moment. It is not to linger in the wardrobe. It is definitely not durable, it is not built to last. It is not commodity clothing. It is for immediate wear. It is for an affordable price. It does have in built obsolescence and therefore happily for retailers customers need to repurchase within a short-time frame. In Figure 4. we can find the differences between traditional and fast fashion business model (Hines, 2007 p. 43)

<b>Characteristics</b>	<b>Traditional retailing business model</b>	<b>Fast fashion retailing business model</b>
<b>Supply strategy</b>	Efficiency-driven large volumes planned at lowest total cost	Responsive to customer demand. Small and medium sized volumes in response to customer demand identified by store data.
<b>Manufacturing operations</b>	Outsourced to a number of different supplying contractors based on best prices. (often globally) Do not own their supply chain but need to try and control it through standardized systems, policies and procedures. Larger organizations are able to exert pressure.	Backward vertical integration enables organizations like Zara to manage closely the different supply chain operations from design through store. Owning much of their supply chain. What they do not own is closely controlled and relatively local in Spain, Portugal and Morocco with short lead time.
<b>Lead times</b>	Long lead times 12-16 weeks fabrics, 6-10 weeks apparel production, 2-3 weeks shipping times	Shot lead times 8-10 days on some lines, most within 15 days including store shipment.
<b>Demand based on</b>	Forecasts well in advance of the selling season.	Forecast much closer to season and heavily influenced by real time demand transmitted from stores.
<b>Replenishment</b>	Inventory levels trigger automatic replenishment orders from suppliers at pre-agreed contract prices.	No replenishment. When it is gone it is gone and move onto the next hot fashion
<b>Designs</b>	Based on trend forecast 18-24 months in advance of	Based on current catwalk shows. Digital photography

	selling seasons.	and information and communication technology used to transmit visual data back to in-house design team to sample and cost. “Knock-offs” as they are called in the trade for obvious reasons.
Fabrics (textile chain)	Various fabrics produced to specification by Textile Mills 12-16 weeks lead times, production has to be booked well in advance.	Mainly standard “greige” fabrics piece dyed to seasonal colors in demand.

Figure 4. Differences between traditional and fast fashion business model.

Source: (Hines, 2007 p. 43)

## 2.1 Influence of technology in Fast Fashion Business model

The term “fast fashion” is not new. It has roots in development QR (quick response) techniques in the late 1970’s and developed hand by hand with technological advancement.

Changes in technology, such as in communication, information gatherings, and production, have a great effect on the fashion business. Apart from internet, emails, conferences which facilitate business communication and communication with customers, manufactures and retailers work with computer experts to develop software programs and systems based on their needs. These systems bring order out of chaos by keeping track of and controlling planning, production, inventory, sales, and distribution.

They include the use of computer integrated manufacturing (CAM, CID), quick response (QR), bar codes and scanners, electronic data interchange (EDI), mass customization (MC), and body scanning.

### 2.1.1 Computer Integrated manufacturing

Common practice in plants is known as a computer-aid manufacturing (CAM) or computer-integrated manufacturing (CIM). It includes such things as programmable sewing machines, patternmaking machines, and cutting machines. In CIM, data from many computers



within a manufacturing company is linked from design through production stages. The potential for cost saving is tremendous, since repeated data entry is eliminated, along with errors.

In apparel industry, CAD and CAM are linked to CIM system, so that a design, pattern-making, and grading are linked to cutting equipment as well as to computers that prepare costing reports and specification sheets. (Stone, 1999 p. 168)

### **2.1.2 Quick Response**

In early eighties there was a significant decrease in industry between fiber production and sale to the ultimate customer. As defined by Quick Response Leadership Committee of the American Leadership Committee (1995) in (Burns, 2007 p. 19), Quick Response is:

*“A comprehensive business strategy to continually meet changing requirements of a competitive marketplace which promotes responsiveness to consumer demand, encourages business partnerships, makes effective use of resources and shortens the business cycle throughout the chain from raw materials to the consumer.”*

In general it means the strategies increasing the speed of design and production through computers, communications among distributions channels, reducing an amount of time goods are in warehouses or in transit, and decreasing the amount of time needed to replenish stock on the retail floor.

To sum up quick response sorters product development cycle time, maximized sales volume and margin, reduces product development expenses and improve customer services. (Rosenau, et al., 2001 p. 42)

### **2.1.3 Bar codes and scanners**

Bar coding, scanning, and computer-to-computer communications have become integral parts of QR. Bar coding makes tracking merchandise – from fabric rolls to designer dresses easier, faster, and more accurate. In production, goods are given universal product code (UPC) which identifies style, color, size, price, and fabrication. Modern technology makes fashion more efficient.

#### **2.1.4 Electronic data interchange (EDI)**

EDI is the electronic exchange of machine-readable data in standard formants between one company's computer and another's. Data Mining is a tool to extract sales trend and consumer information.

### 3 SUPPLY CHAIN MANAGEMENT

*“The supply chain encompasses all activities associated with the flow and transportation of goods (products and services) from initial design stage through the early raw materials stage, and on to the end users. Additionally, associated information and cash flow form part of supply chain activities.”* (Hines, 2007 p. 29)

Globalization has made major impacts on all commodity supply chains, particularly since 1990. Distinction has been made by Gereffi (1999) between producer-driven commodity chains (automobiles, aircraft, computers, heavy machinery, etc.) and buyer-driven commodity chains (clothing, shoes, office supplies, toys, etc.). These supply chains have different characteristics, different dynamics and different trajectories.

Its main goal is to improve productivity, operations management referring to lowering inventories and operational improvements.

*Textile forecasters plan the colors, styles, and fabrics at least 18 months before they reach the shops as garments. The fashion world lives around a fixed calendar of yarn and fabric exhibitions, fashion shows and trade fairs and the retailer’s own time table of selecting ranges and individual garments. Traditionally, the design and buying cycle works a year in advance of a new season and leads to orders being placed about six months in advance of launch* (Hunter, 1990). (David Tyler, 2006 p. 321)

Garments are typically sourced in low labor-cost countries, with time delays associated with logistical movements. Supply chain managers must not only consider finished garment transportation times associated with different countries, but also transportation time constraints in the movement of garment components between countries (Leung, 1999). In this way, geography constrains responsiveness. There are numerous problems associated with phasing – slow sales in a phase mean that the retail area has no space available for the next phase of goods. This often triggers an in-season sale (with consequent loss of margin). Since the next phase cannot be brought in, it has to be stored in a distribution centre (with its associated costs). (David Tyler, 2006 p. 323)

In contrast, Zara only commits up to 20 per cent six months in advance of the season, a commitment, which increases to 50 per cent by the start of the season. This permits the other 50 per cent to be decided once the season has been launched. Design and production

flexibility underpins the success of the company and allows it to react to the latest fashion trends and customer demands. (David Tyler, 2006 p. 327)

There are number of significant changes that have impacted supply chain operations; these include short product life cycles, high levels of impulse buying and high volatility of demand coupled with low predictability of demand. Short product life cycles in particular, it is suggested are a result of consumers' desires for newness and variety and this, in part, can be attributed to the increased media availability of fashion, trends and lifestyle-based magazines. Such access to trends has resulted in a demand-driven supply chain within the fashion sector. Considering the issue of quick response, it is a great benefit for clothing products with a high fashion content for which time is a key dimension of desirability and that also have associated with them a high level of demand unpredictability.

The trend towards global sourcing and time contraction of supply chains brings with it particular stresses for the buying function in respect of supplier selection, evaluation and management. Furthermore, company's success is largely determined by the abilities of its suppliers, identifying relationships or alliances between buyers and suppliers as critical in a global market characterized by complexity and variability. (Stephen A. Doyle, 2006 str. 273)

In the eighties, the average lead-time in the apparel industry from raw materials to consumers was about 66 weeks. Of these, only 11 weeks were related to manufacturing, and 40 to warehousing and transit. The final 15 weeks the garments were just waiting in the store. Nowadays, 12-month lead-times still appear to be quite common. It is estimated that this leads to sales forecast errors of about 40 per cent. Shortening lead-time to nine months already reduces this error margin to 23 per cent. Each additional shortening of the lead-time with three months leads to an additional reduction of this error margin with (only) about 4 per cent. So, even at the beginning of the season it still is about 10 per cent. (Jacobs, 2006 str. 85)

### **3.1 Consumer demand**

Changes in consumer lifestyle and consequent demands for newness have exerted pressure on the established supply chain format. As we have moved into the twenty-first century, retailers like Zara and H&M have shifted the focus of competitive advantage from price towards fast response to changing fashion trends and consumer demand. The contemporary

fashion industry is highly competitive, with additional pressure for fashion companies to compete not only on price, but also their ability to deliver newness and “refresh” product. Fashion industry relies on the constant changing of product, correlating with consumer change – their change of lifestyle and need for difference and progress. Mass communication allows the consumer access to increased information surrounding the latest trends or styles. Popular culture has a major influence on shaping fashion trends. Consumers are influenced by music, film, television and other media. There has been a significant shift in the way consumers are influenced when purchasing fashion product. Fashion trends are shaped by culture, for example what is happening on the street, in clubs, shopping malls, and lifestyle hotspots. The point to be considered therefore, is that these shifts in culture and the influence of popular culture, can occur anytime and from anywhere, creating significant consumer demand for a fashion style or trend. There can be nothing planned in forecasting these emerging trends. Since it is difficult, if not impossible, for predictions or forecasts to be made about these emerging fashion trends, the focus for responding consumer demand must be through lead-time reduction. These changes in consumers demand and the emergence of trends means that those retailers considered to have been successful recently, are those who have the ability to respond to the fast changes in consumer demand through lead time reduction.

## 4 FASHION MARKETING

Today, marketing has become a major influence in the fashion business. As we know from basic marketing theories also fashion marketing is not only about promotion and selling. It is a process of diverse activities.

*Fashion marketing is the entire process of research, planning, promoting, and distributing the raw materials, apparel, and accessories that consumers want to buy. It involves everyone in the fashion industry and occurs throughout the entire channel distribution. Marketing is the power behind the product development, production, distribution, retailing, and promotion of fibers, fabrics, leathers, furs, trimmings, apparel, and accessories. (Frings, 1999 p. 34)*

### 4.1 The fashion cycle

All fashion move in cycle. The term fashion cycle refers to the rise, wide popularity, and then decline in acceptance of a style. Every fashion cycle passes through five stages: Introduction, rise, culmination, decline, and obsolescence. The fashion merchant uses the fashion cycle concept to introduce new fashion goods, to chart their rise, culmination, and to recognize their decline and obsolescence. (Stone, 1999 p. 13)

- **Introduction:** Fashion innovators purchase from the retailers who “lead” fashion. Promotional activities such as designer appearances, institutional advertising, and charity fashion shows, which will appeal to the fashion leaders of the community and also enhance the store’s fashion image, take place at this point.
- **Rise:** Fashion leaders purchase from traditional retailers in their “better” departments. Goods are accepted by an increasing number of customers. It is time for knock-offs, versions of the original designer style duplicated by manufacturers with use of cheaper materials so they could be sold lower price in bigger quantities.
- **Culmination:** In this period fashion is at the height of its popularity and use. Fashion followers purchase from mass merchants.
- **Decline:** Boredom with fashion set in, the result is a decrease in consumer demand for it. At this stage, the style may be found in bargain stores at prices far below what the style commanded in earlier stages.
- **Obsolescence:** Strong disaster for a style has set in and it can no longer be sold at any price. A style at this stage is often donated to charity or sent to third world countries or

can be found only in thrift shops, garage sales, or flea markets. The problem of today's fast fashion production is that this obsolescence is planned. The main goal of this type of production is to ensure that consumers will buy the product multiple times, rather than only once. This naturally stimulates demand because consumers have to keep coming back again and again. However it is more typical for electronics, also fast fashion products are designed and made with low quality so they become out-of-date in short time.

## **4.2 Fashion Advertising**

Image advertising focuses on fashion image, fashion leadership, community goodwill, a new or remodeled store, or special event. The product is secondary important. The goal is to build consumer confidence, community goodwill, create a mood, or create an excitement about a new store or event. Overall to create a strong brand and sell more products. Brand names have become very important in the fashion business.

There can be used many advertising strategies but mostly are focused on image. Because of the seasonality of fashion products there is often used promotional advertising. Promotional advertising is price directed. It might proclaim that a store has low prices, or it might announce storewide sales or clearances.

## **4.3 Product Development**

Product development is the process of market and trend research, merchandising, design, and development of the final product. It is a continual cycle from which trends can be observed. Currently there are many variations in the product development process. In (Stone, 1999 p. 154) Elaine Stone describe the six stages of product development: 1. Planning the line, Creating the design concept, developing the designs, planning productions, productions, and distribution.

## **4.4 Fast Marketing**

As well as demanding a change in culture, fast fashion also requires that the business structure personnel in ways that support product ranges in a coherent and consistent way. Fast fashion retailing requires a fast response – not only in terms of product, but also in terms of promotions and ranging supports. Ranging, merchandising, pricing, new product introduc-

tion and promotion needs to reflect what consumers want, to make decision making efficient and effective. Furthermore, the underlying principle is retailer and supplier work together to “add value.” (Sheridan, 2006 p. 311)



## 5 INTERNATIONAL CONTEXT

Globalization is seen as the increasing internationalization of production, distribution and marketing of goods and services. Economic definition by Levy, 1995 in (Hines, 2007 p. 15). It is also cultural and social change, by rapid communication and transportation infrastructures. The textile and clothing industries are both international and global in nature. Clothing industry creates a significant part of world economy. The biggest exporters are developing countries, especially in Asia headed by China, which makes about quarter of world production. Some of countries for example Bangladesh or Cambodia are depended on textile export industry and it makes about eighty percent of their export.

International expansion new and potentially more profitably markets, helps increase the firm's competitiveness, and facilitate access to new products ideas, manufacturing innovations and the latest technology. (Hollenson, 2008 p. 5)

Key indicators defining globalization of an industry are: Govindarajan and Gupta in (Hines, 2007 p. 15)

- The extend of cross-border trade within the industry as a ratio of total worldwide production.
- The extend of cross-border investment as a ratio of total capital invested in the industry
- The proportion of industry revenue accounted for companies that compete in all major regions.

Globalization as a phenomenon is itself a consequence of competitive pressures that have led textile and clothing producers towards an endless search for ways to lower production costs, first through efficiency measures often internal to a single organization or network of organization locked in a their supply chain. Global shifts, devastating impacts on domestic market, loss of jobs, investment decline, worse trade balance.

During the 1980s, fashion evolved into global phenomenon. American and European and also Asian, especially Japanese manufacturers and retailers greatly increased imports of textiles, apparel, and accessories.

*The term “globalization” has been coined to represent the ways in which markets have converged throughout the world and the ways in which production poles have shifted geographically to satisfy global consumers. (Hines, 2007 p. 13)*

Fashion is a global business. World textile and clothing markets are truly international network of supply and demand. Fierce competition from imports and more and more saturated domestic markets have led to a new global understanding of fashion marketing at all levels of industry. *World trade in apparel and accessories is growing despite high tariffs, an elaborate system of quotas, and drastic currency fluctuations. (Frings, 1999 p. 41)* Today many countries may be involved in a production of one single garment. It can be designed in New York of Italian fabrics, made in Hong Kong and be sold all over the world.

Three cities have emerged as a major fashion capitals: Paris, Milan, and New York however it is difficult to describe the characteristics of fashion by country or fashion capital. Fashion became worldwide exchange of ideas, talent, materials and products.

Overseas production started in Hong Kong, which become the capital of Asian apparel manufacturing. When local workers became skilled and well paid, only high quality clothing is made there. Manufacturers moved to Taiwan, China, India, Bangladesh and South-East Asia as a Indonesia, Malaysia, Cambodia or Philippines.

According to Hines (Hines, 2007 p. 6) China has estimated 40,000 textile and garment manufacturing firms and 24,000 textile mills with 19 million people employed in the industry with forecast growth rate of 17<sup>th</sup> per cent per annum to increase its capacity further.

When we would like to compete on international markets we have to often ask the question: “Can someone overseas make it cheaper?” Factories moved from Europe, North America and also are moving from countries that have developed fast as a Taiwan, South Korea or Hong Kong because they became expensive compared to another places. In my opinion this will continue. Factories will soon move from China to less saturated markets. There is a huge potentials waiting in African continent. And all these shifts have extremely high impact on our environment.

I like the opinion of Milan Zelený, professor of Fordham University, New York, cooperating also with Thomas Bata University. He quotes:

“There will be a strong restriction of globalization. Relocation will appear and global processes will be transformed back to the locals. Local system’s advantage is that they are

more connected with local communities while global systems are not supported by any. Global systems suffer from its irresponsibility. Any natural, economical or political crisis can disable them from function. Global systems are on absolute peak and there is no way forward. Therefore the comeback to the local condition will occur.” (Zelený, 2011)

## 6 ETHICS, CSR AND ENVIRONMENTAL ISSUES

In business, conflicts often arise between the goal to succeed in the marketplace and the desire to maximize the well-being of consumers by providing them with safe and effective products and services.

*Business ethics essentially are rules of conduct that guide actions in the marketplace – the standards against which most people in culture judge what is right and what is wrong, good or bad, socially acceptable or unacceptable.* (Solomon, 2009 p. 499)

There are often reports about exploitation in the industry. For example, clothing manufactured in the undeveloped countries of the world is sold at very high price in the developed world.

There is increased pressure on suppliers to deliver on time, which in turn places ethical practices at greater risk or ignorance. “The pressure to deliver on time is immense, so what is a factory going to do if it’s running late, they’re going to work all night.

### 6.1 Corporate social responsibility (CSR)

Definitions of CSR vary among countries, regions, societies and communities. One very broad definition of CSR may be what a business puts back in to local or state economy in return for what it takes out. (Hollenson, 2008 p. 87)

*“Corporate social responsibility is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources.”* (Philip Kotler, 2005 p. 3)

The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, CSR-focused businesses would proactively promote the public interest(PI) by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality.

Why companies do these kinds of activities? Because it looks good? For example to potential customers, investors or it feels good to owners, stakeholders or employees working in the company? Because it just help to other people? Well might be some of those reasons

but mainly because firms realized that it can bring profit because strong reputation built on CSR actually lasts longer.

According to Kotler (Philip Kotler, 2005 p. 11) CSR brings following benefits:

- Increase sales and market share
- Strengthen brand position
- Enhance corporate image
- Increase ability to attract, motivate and retain employees
- Decrease operating cost
- Increase appeal to investor and financial analysts

So great, if it is beneficial to all. But we have to be aware of misusing this term. Some companies use it just as a tool of their PR. They do some trivial activity for society and then wash it in all media they have access, because it can help to improve their image with no deeper interest or longer strategy. But the philanthropy and CSR are different terms. CSR is a long term strategic process in order to gain better image and customer interest. There are already many books concerning CSR practices, associations, departments etc. I think this term came into a “fashion” and I hope it will be done automatically in the future. Patronages were here from time out of mind. The key factor is just to make it strategically, honestly, ethically and according to ideas of sustainable development in contrary to short-sighted sales volumes in shortest time possible.

## **6.2 Sustainable development**

*Far from being a burden, sustainable development is an exceptional opportunity - economically, to build markets and create jobs; socially, to bring people in from the margins; and politically, to give every man and woman a voice, and a choice, in deciding their own future.*

UN Secretary-General Kofi Annan

In 1987, the United Nations released the Brundtland Report, which included what is now one of the most widely recognized definitions:

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts:

- the concept of needs, in particular the essential needs of the world's poor, to which overriding priority should be given; and
- the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs. (iisd.org, 2011)

All definitions of sustainable development require that we see the world as a system—a system that connects space; and a system that connects time.

In 1992, Munasinghe presented (Rogers, 2008, p. 23) the three approaches to sustainable development.

- Economic – maximizing income, while maintaining a constant or increasing stock of capital,
- Ecological – maintaining resilience and robustness of biological and physical systems
- Social – cultural – maintaining stability of social and cultural systems.

For a better understanding he created the sustainable development triangle (Figure 5.). Sustainable development requires a balanced and integrated analysis from three main points of view: economic, social and environmental. Each viewpoint represents a domain and a system that has its own driving forces and objectives. “The economic view is geared towards improving human welfare, primarily through increases in the consumption of goods and services. The environmental domain focuses on protection of the integrity and resilience of ecological systems. The social domain emphasizes the enrichment of human relationships and achievement of individual and group aspirations. The interactions among domains (represented by the sides) are also important to ensure balanced assessment of trade-offs and synergies that might exist among the three dimensions. Issues like poverty may be placed in the center of the triangle to re-emphasize that they are linked to all three dimensions.” (Munasinghe, 2002, p.18)



Figure 5 Sustainable development triangle – key elements and interconnections.

Source: eearth.org

Rogers has given a more practical solution to achieve sustainability (Rogers, 2008, p. 23):

- Leave everything in the pristine state, or return it to its pristine state.
- Develop so as to not overwhelm the carrying capacity of the system.
- Sustainability will take care of itself as economic growth proceeds.
- Polluter and victim can arrive at an efficient solution by themselves.
- Let the market take care of it.
- Internalize the externalities.
- Let the national economic accounting system reflect defensive expenditures.
- Reinvest rents for nonrenewable resources (weak and strong sustainability).
- Leave future generations the option or the capacity to be as well off as we are.

Sustainable Development stands for meeting the needs of present generations without jeopardizing the ability of future generations to meet their own needs – in other words, a better quality of life for everyone, nowadays and for generations in the future. Sustainable development offers a vision of progress that integrates immediate and longer-term objectives, local and global action, and regards social, economic and environmental issues as inseparable and interdependent components of human progress.

## **7 WORKING HYPOTHESIS**

After understanding theoretical principles in first part of my thesis where I already connected the theory with some of my opinions and analyses of fast fashion business model I'll propose working hypothesis. It follows from theoretical findings and will be explored in the end of the practical part of my thesis.

### **Hypothesis**

Inditex competitiveness and growth exists at the expense of undesirable externalities for society. Its development is unsustainable and therefore not ethical because of causing redundant waste and consumption and lavishing natural and human resources.

### **Methodology**

- secondary data analysis
- fashion market observation



## **II. ANALYTICAL PART**

## 8 INDITEX - INDUSTRIA DE DISEÑO TEXTIL SA

Inditex is one of the world's largest fashion retailers. Its' retailing channels operations are clothing and footwear, home and garden and furniture and furnishings stores. It covers eight different brands with the flagship Zara.

The company was founded in 1975 with the opening of its first Zara store in Coruña, Galicia – Spain and this city in which the Group first began doing business is still home to its headquarters. Even though the company started growing organically through Zara, the acquisition of other fashion companies and the creation of new businesses aided the enlargement of the company. In May 2001 company became publicly-traded company and was listed on the stock market.

Inditex with this brand portfolio is now boasting 5.154 stores in 78 countries in the world. Its stores can now be found in prime locations in more than 400 cities in Europe, the Americas, Asia and Africa. The Inditex Group is made up of more than 100 companies operating in textile design, manufacturing and distribution. The group's success and its unique business model of fast fashion is based on innovation and flexibility. Inditex is one of the biggest fashion retailers in the world followed by Gap, H&M and C&A.

Inditex has grown dramatically in recent years, achieving turnover of 12 527 million euro in 2010 ( 305,4 billions CZK) with net profit 1 732 million euro ( 42,2 billion CZK) and in the end of January 2011 had 100 138 employees worldwide. In the table 3 we can see the annual profits and growth of number of stores, countries where the stores are located and number of people working for this company in last two years. All those numbers has increased compared to 2009 and are still growing. See in table number 3.

<b>Fiscal Year</b>	<b>2010</b>	<b>2009</b>	<b>10/09</b>
<b>Net sales<sup>(1)</sup></b>	12,527	11,084	13%
<b>Net profit<sup>(1)</sup></b>	1,732	1,314	32%
<b>N° of stores</b>	5,044	4,607	437
<b>N° of countries</b>	77	74	3
<b>Employees</b>	100,138	92,301	7,837

Figure 6 Inditex growth in 2009 and 2010<sup>1</sup>, source: Inditex

<sup>1</sup> The Inditex financial year is from 1st February to 31st January of the following year in millions of euro.

## 8.1 The business model

The Inditex business model is characterized by a high degree of vertical integration. It involves all stages of fashion processes. From design, manufacturing, logistics, distribution to its own managed and designed stores. It has a highly flexible structure and a strong customer centric focus. Vertical integration enables to shorten turnaround times and achieve greater flexibility and keeps merchandise stock and fashion risk at a minimum.

In general Inditex tries to be independent and have control under its suppliers in order to be more flexible. I will describe the main characteristics of its fast fashion business model according to commonly known marketing mix.

### 8.1.1 Manufacturing - PRODUCT

Unlike other large fashion retailers, such as Gap or H&M, Inditex controls the majority of its own factories. The resulting higher costs are countered by economies of scale. In addition, Inditex is more independent in terms of producing its own products in a short period of time. Inditex has its own factories, but the company also subcontracts to other local factories, mostly located in Galicia and the north of Portugal. The numbers of factories located in Europe and in developing countries differs. I did not find accurate numbers, Inditex claims that the majority (80%) is located in Europe, where are higher labor costs but because they achieve the flexibility, which is its biggest competitive advantage, those costs are paid off because that enables the company to capitalize on quick inventory turnover.

In fact Inditex does just a little better compared to its competitors, who produce their garments only in developing countries. They import raw materials and half-finished clothes, which are only finished in Europe and usually all its basic lines are made in China, India, Mexico, Morocco or other emerging nations.

The merchandise for each season is over 30 000 items a year on which work more than 300 designers. (200 work for brand Zara) Zara's product merchandising policies emphasized broad, rapidly changing product lines, relatively fashionable, and reasonable but not excessive physical quality: "*clothes to be worn 10 times,*" some said.

Product lines are segmented into women's, men's, and children's, with further segmentation of the women's line, considered the strongest, into three sets of offerings that varied in terms of their prices, fashion content, and age targets.

*Product diversification*

Zara sells a largely homogeneous product for a global market but there are some adjustments. For example because of the customer's size differences in Asian countries, laws issued that require the availability of garments for youths in all sizes in Buenos Aires, cultural differences in Arab countries where some garments cannot be sold, and a different season in the Southern hemisphere.

Zara's drawing power reflected the freshness of its offerings, the creation of a sense of scarcity and an attractive ambience around them.

### **Intellectual property protection**

In fashion there is no law protecting designers work, because apparel designs are too utilitarian to qualify for copyright protection. Only trademarks underlie to protection. But trademarks only protect brand names and logos, not the clothing itself. So anybody can copy the design, put a different logo and sell it like new product. These copies, made from cheaper material are called knockoffs. Fast fashion companies take advantage of this situation and commonly sell the cheap version of luxury designs. There are two views on this situation. Firstly, it is not fair that somebody take advantage of the work of another person, but on the other hand it brought us the democratization of fashion, faster establishment of global trends and acceleration in creative innovation. Also designers are inspired by many influences and simply put, even they "copy from each other" as a part of creative process. In case of law restriction, from such protection might benefit certain designers, it could create monopolies in the fashion industry that would stifle the creativity of future designers, hinder competition and drive up prices for consumer goods.

### **8.1.2 Logistics - PLACE**

Logistics and a just-in-time inventory system are at the core of Inditex vertically integrated operations. The process goes from a trend-hunter's report to the design headquarters of Inditex to the launch of the garments in stores, all in just two weeks. Moreover, the company offers different items for a limited time, and hence customers feel they have to buy items immediately. Clothes arrive in stores twice weekly and always contain new styles. The exchange is kept constantly so customers can almost every day find new products. One of the main characteristics of fast fashion. But getting designs quickly onto store shelves is where Zara excels. In one telling example I heard, when Madonna played a set of concerts in Spain, teenage girls arrived to the final show wearing a Zara knock-off of the outfit she wore during her first performance.

The sophisticated logistic system enables that the time between when orders are received at distribution centers and when merchandise is delivered to stores is on average only 24 hours for European stores and no more than 48 hours for American and Asian stores. The key element this fast business model are the stores, a carefully designed spaces where company obtain useful information about sales and customers demands. This information are carefully processed and evaluated and its outputs serve to designers for adapting their collections to customers' tastes in shortest time possible, to manufacturers and to all distribution channels.

### **8.1.3 Advertising - PROMOTION**

Neither Zara, nor any other Inditex brand use advertising as a common practice of selling its products. Zara's promotion strategy is the same in domestic and foreign markets. Advertisement campaigns are carried out only at the start of sales or the opening of a new store.

Zara spent only 0.3% of its revenue on media advertising, compared with 3%–4% for most specialty retailers. Nor did Zara exhibit its merchandise at the ready-to-wear fashion shows: its new items were first displayed in its stores. The Zara name had nevertheless developed considerable drawing power in its major markets. (Pankaj Ghemawat, 2006 p. 13)

Zara relies on the store as its main promotional tool. Thus, the choice of location is essential. Shops themselves serve as a best marketing and advertising tool. The stores are more than just the last place where garments are sold but it is the beginning, representing the platform for gathering market information, sending feedback to design teams and reposting on trends requested by customers. Although Inditex stores are often located in city centers, many of them are also located in shopping centers. They are precisely designed – interior, music, lights, all together is combined to create a pleasant place for its customers, where they feel good and can be carried away only with shopping.

#### *Branding*

International retailing is regarded as the transfer of a retail brand with its associated image across national borders. Branding played very important role in Zara's success. It has

transformed itself from a local brand to a global brand in less than 30 years. You can rarely see selling the Zara product in unofficial stores, personally it happened to me only in markets in south east Asia and few second hands. Zara holds its image and its products are tight together with the stores and company business model.

#### 8.1.4 Pricing - PRICE

The prices of Zara's garments differ between countries, with the Spanish market being offered the lowest prices. Prices are set centrally following a market-oriented strategy. Prices in international markets are generally higher due to longer distribution channels. And also brand perception differs. According to my own experiences in Spain is perceived as a cheapest brand in contrast for example to Korea, where is perceived as a more special, because of positive perception of western culture, especially in clothing. In Czech Republic the brand is perceived with higher value that it has in Spain or in Italy. Prices are supposed to be lower than competitors' for comparable products in Zara's major markets, but percentage margins expect to hold up not only because of the direct efficiencies associated with a shortened, vertically integrated supply chain but also because of significant reductions in advertising and markdown requirements.

Prices were, on average, 40% higher in Northern European countries than in Spain, 10% higher in other European countries, 70% higher in the Americas, and 100% higher in Japan. (Pankaj Ghemawat, 2006 p. 17)

The higher prices outside Spain did imply a different positioning for Zara overseas. Castellano in (Pankaj Ghemawat, 2006 p. 18) explained the situation with an example:

*“In Spain, with the prices we have and the information available to the public, about 80% of Spanish citizens can afford Zara. When we go to Mexico, for cultural reasons, for informational reasons, for economic reasons—because the average income in Mexico is \$3,000 compared to \$14,000—our targeted customer base is narrower. Who buys from us in Mexico? The upper class and the middle class. That is the class that knows fashion that is accustomed to buying in Europe, or in the United States, in New York or Miami. In Mexico we are targeting 14 million inhabitants, compared to 35–36 million in Spain [out of populations of 100 million and 40 million, respectively]. But 14 million is more than enough to put in a network of stores there.”*

## 8.2 Competitive positioning

Inditex is a leader in the fast fashion industry. Its main brand, Zara, maintains a large value share in women's clothing, as well as in men's clothing. Zara's secret? It moves fast. With an in-house design team based in Spain, and a tightly controlled factory and distribution network, the company says it can take a design from drawing board to store shelf in just two weeks. That lets Zara introduce new items every week, which keeps customers coming back again and again to check out the latest styles. Zara's success is more surprising because at least half its factories are in Europe, where wages are many times higher than in Asia and Africa.

But to maintain its quick inventory turnover, the company must reduce shipping time to a minimum. The fast-fashion approach also helps Zara reduce its exposure to fashion faux pas. The company produces batches of clothing in such small quantities that even if it brings out a design that no one will buy – which happened during an unseasonably warm autumn in 2003 – it can cut its losses quickly and move on to another trend (Tiplady, 2006).

The rest of its brands were acquired or established in order to diversify the company's activities and in order to help in the battle against competitors. In clothing and footwear specialist retailers it held a share of 18%. The second largest player in clothing and footwear specialist retailers, Cortefiel SA, held a share almost a quarter that of Inditex, standing at 5%. (Euromonitor International, 2011 p. 2)

However, the competitive landscape is likely to change, as price is now the main factor driving the purchasing decision. Other players, such as H&M, C&A and Primark, are expected to gain share on Inditex. The online store is expected to provide more dynamism and to open a new market for the company. Uterqüe and Zara Home still have potential for growth, as they are the newest brands and can be still considered as a question marks. In Appendix 1 you can find an table where the main differences between Inditex Zara and its main competitors are expressed.

**INDITEX****8.3 Inditex Brand portfolio**

Inditex Group covers eight store formats. Eight brands namely Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe. All these brands were built within the domestic market and then launched for international markets. This multi-brand portfolio has allowed Inditex to target different segments more effectively. However, the cost of maintaining several brands and the risk of cannibalisation are the major drawbacks of this strategy. Inditex has tackled cannibalisation by differentiating the brands mainly through the product, target market, presentation and retail image. Following information are adapted from Inditex Press Dossier 2010.

**Zara****Z A R A**

Zara opened up fashion retailing for Inditex, not only in Spain but in almost every country in which the company now operates. In Spain it is leader in terms of women's clothing, and is present in every significant Spanish shopping area. Zara had well over 1,000 stores in around 73 countries worldwide in 2009, which has analysts referring to the 'Zara phenomenon' Zara offers a wide range of products at competitive prices for women, men and children. After the introduction of Zara Kids, Zara Men and the Trafaluc line of products, the target group was extended to a range of consumers from children to 45-year olds. In the end of 2010 it has 1723 stores in 78 countries.

**Pull & Bear****PULL&BEAR**

Pull & Bear was the second brand Inditex introduced; the first opened in 1991. It is the second most important brand in terms of for the company in Spain, with more than 680 stores in 46 countries. Pull & Bear stores are usually much smaller than those of Zara, and are focused on urban, casual and laidback clothing for young people.

**Massimo Dutti***Massimo Dutti*

Originally, Massimo Dutti was a Catalan fashion company targeting men. However, when it was acquired by Inditex in 1995, the company changed its philosophy; manufacturing



clothing and footwear for both men and women, targeting middle to upper-income consumers. Massimo Dutti targets sophisticated urban customers in their thirties, although some of its stores include a department for teenagers. The range of products is more limited than Zara, and prices are higher because of the higher quality of its products and its exclusivity. Massimo Dutti runs its own tailor's shop within its stores, so it can be considered the most premium of the group's chains. It operates in 50 countries with 530 stores.

### **Bershka**

## Bershka

Bershka first opened in 1998 as a response to demand from the youngest customers of Zara, who were looking for more daring and fashionable garments than those offered by Zara. The profile of a Bershka customer is a female teenager with a special interest in the latest fashions. The average customer buys one article of clothing every few weeks, with low unit prices typical due to the limited buying power of its customers. In Bershka stores, customers can also enjoy music. For this reason, Bershka stores are considered a sociocultural concept with avant-garde décor. Moreover, in some stores customers can read magazines, watch videos or listen to CDs on the premises. There are 720 stores in 50 countries worldwide.

### **Stradivarius**



In 1999 Inditex acquired Stradivarius, a fashion chain specialised in young women's fashion. The brand is focused on the production of international fashion, with avant-garde designs and prices notably lower than Zara. Its main target groups are teenagers and women in their early to mid-twenties. Recently it operates in 590 stores in 43 countries.

### **Oysho**

## oysho

Oysho is the newest brand of Inditex specialized in woman lingerie and intimate wear market. It was established in 2001. Its main competitor is Women'secret (Cortefiel SA). It is focused on a young target group with medium quality designs and low prices. It has more than 430 in 25 countries.

**Zara Home**

In 2004, as a new strategy Inditex opened its first non-fashion chain of stores, Zara Home. Zara Home has been a great success for the group, offering furniture and furnishings, textiles such as bed, table and bath linens, tableware, cutlery, glassware and decorative items of all kinds at reasonable prices. Due to its domestic success, the Zara Home concept has been exported to 27 countries and together has more than 280 stores.

**Uterqüe**



Uterqüe is the latest Inditex Group concept. Uterqüe sells accessories – handbags, footwear and leather goods, jewellery and other accessories as well as shawls, eyewear, umbrellas, hats, together with some garments and clothing. Uterqüe has more than 80 stores in 16 countries.

**8.4 Positioning**

For better understanding of description above there is a product market positioning map, where you can see each of Inditex brand compared to its main competitors. On the two lines we consider the price and fashionableness. In my general point of view I would put Benetton closer to the center and Bershka more to the left. But we also have to consider the fact that this map would differ according to each market.

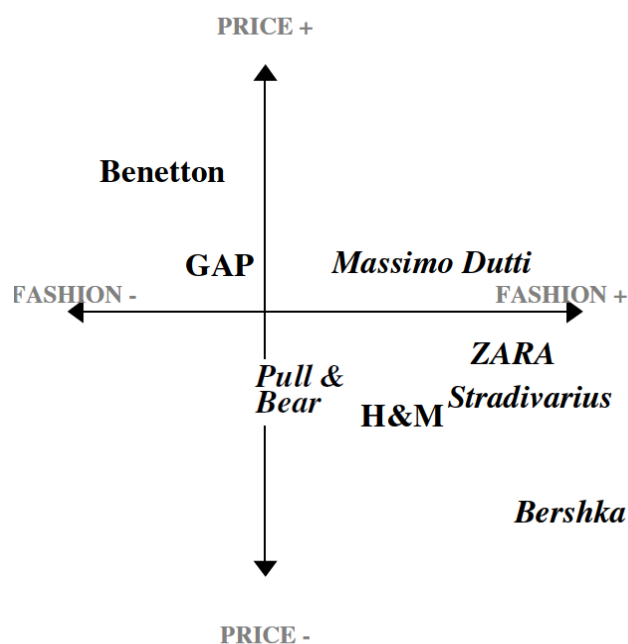


Figure 7. Product Market Positioning Map, source: (Pankaj Ghemawat, 2006)

### 8.4.1 Internet expansion

In June last year Zara opened its online sales portal. Its products are already online distributed in countries such as Spain, France, Germany, the UK, Italy and Portugal, and will reach other markets. Zara's virtual establishment offers identical selling prices to its physical stores, and the possibility to make payment through credit and debit cards, PayPal and Affinity Card. Being accessible from computers and mobile devices, the site is working towards ease of operation, so that the search for garments can be made by using various filtering options (such as colors, sizes and prices). The company has said it is developing specific applications for purchase through iPhone and iPad.

*According to estimates by economists, the opening of this sales channel could give the group a further increase in sales of 4%. There is a consensus amongst specialists that the incorporation of the 'star' chain of Inditex to the network could provide a tremendous boost to the development of the online trade of clothes in Spain. (Euromonitor International, 2011 p. 1)*

## 8.5 International expansion of Zara

The removal of all import quotas in the textile and clothing industry from January 2005, involving the unrestricted access of all members of the World Trade Organisation (WTO) to the European, American and Canadian markets, is considered a key driving force in the development of the clothing sector. This new scenario has created opportunities for large exporters like China and India that are considerably increasing their market share whilst at the same time creating challenges for European Union member states in order to remain competitive internationally. (Carmen Lopez, 2009 p. 279)

As mentioned above Zara opened its first store in 1975 in La Coruña, Northwest Spain. During the 1980s, Zara expanded within the domestic market, opening stores in all big and middle-sized Spanish cities with a population greater than 100,000 inhabitants. The international expansion of Zara started with the opening of a store in Oporto (Portugal) in 1988.

### 8.5.1 Motives for internationalization

Zara was seeking for international opportunities. The limited market growth opportunities at home was the main influence on Zara's decision to expand internationally. The key pull

factors that explain the internationalization of Zara include Spain's entry into the European Union in 1986, the globalization of the economy and thus potential economies of scale, the homogenization of consumption patterns across countries – Zara's belief is that “national frontiers are no impediment to sharing a single fashion culture” – and the abolition of barriers to export as well as the development of information technology (Carmen Lopez, 2009 p. 284).

Zara used the classic model, firstly entering geographically or culturally close market before taking opportunities in more distant markets. Between 1975 and 1988 Zara had focused on the domestic market. The maturity of the Spanish market led Zara to search for international opportunities in 1988. Portugal was an attractive and familiar market due to its geographical and cultural proximity to Spain. By opening a store in Oporto, Zara acquired experience and realized that it had to adjust its business model to suit the new markets. Another expansion was to France, a geographically contiguous country, a fashion capital and a starting point for the later expansion in Northern Europe. In 1992 was added Mexico. Mexican market is geographically distant but culturally close to Spain, mainly because of language and provided a good touch point and references of the South American market. Greece was next in 1993, followed by Malta and Cyprus in 1995. The exception at this stage is the opening of a store in 1989 in New York, a distant and very competitive market. It was a strategic decision by Zara to build brand awareness and international prestige and to get close to fashion trends.

Between 1997 and 2005 there was a aggressive expansion. Zara gained experiences and went through global expansion, regardless of cultural or geographical proximity. Zara started this stage by opening store in Israel in 1997. One year later, 1998, Zara entered eight countries, some of them in the Middle East with Kuwait, Lebanon and the United Arab Emirates and the rest in different parts of the world - Argentina along with Venezuela, Great Britain, Japan and Turkey. This was followed by nine countries in 1999 (Germany, The Netherlands, Poland, Canada, Chile, Brazil, Uruguay, Saudi Arabia and Bahrain). The enlargement of the European Union in 2004 justifies the number of European countries that were incorporated and countries as a Costa Rica, Monaco, Philippines and Indonesia were added to the market portfolio in 2005.

Last years the company was focused on Asia, where is very successful and will be strengthening its position as in European market. In upcoming year the strategy goes to Australia and South Africa. Both markets are located in the southern hemisphere, thus increasing the

area for which Inditex, due to seasonal differences, develops specific collections. More detailed timeline of internalization you can find in appendix 2.

### 8.5.2 Market entry

According to (Carmen Lopez, 2009 pp. 286-287) has adopted three different entry modes.

#### *Own subsidiaries.*

This is direct investment strategy and the most expensive mode of entry and involves high levels of control and risk in case the firm exits the market. Zara has adopted this strategy for most European and South American countries that were perceived to have high growth potential and low business risk.

*Joint ventures.* This is a co-operative strategy in which the manufacturing facilities and know-how of the local company are combined with the expertise of the foreign firm in the market, especially in large, competitive markets where it is difficult to acquire property to set up retail outlets or where there are other kinds of obstacles that require co-operation with a local company. In 1999 Zara entered into a joint venture with the German firm Otto Versand. The administrative barriers in Italy, led Zara to link with Gruppo Percassi and with company Biti Zara sign an agreement in 1998 to be able to enter Japanese market. In Germany and Japan the deal was on a 50-50 joint venture. In Italy Inditex held a 51 per cent investment in Zara. However, with time and more experiences Zara gains the total ownership. Recently only in Mexico has 95 and Korea 80 per cent of shares.

*Franchising.* This strategy is chosen for high-risk countries which are culturally distant or have small markets with low sales forecast like Saudi Arabia, Kuwait, Andorra or Malaysia. In the end of last year it was around 14% of franchised stores out of a total. The main characteristic of the Inditex franchise model is the total integration of franchised stores with own-managed stores in terms of product, human resources, training, window dressing, interior design logistics optimization, etc. This ensures standardized store management practices and a globally equal image. However it always reserves the right to open its own stores in the same location and gain the control in the future.

## 9 CORPORATE SOCIAL RESPONSIBILITY

The global nature of Inditex fashion business require the sustainability and sustainable development and because of its hugeness it is under microscope of publics. In 2010 company accepted a commitment to the fulfillment of Human, Employment and Social Rights. Inditex started such activities in 2001, when it became a public corporation and was more exposed to public opinions.

The sustainability in fashion is commonly discussed topic, but unfortunately there is more discussion, acts, treaties and protocols than real actions. Also in Inditex case. But there is a recent effort to change something about it. Inditex established the CSR departments and incorporated it to its structure. Nowadays it consists of internal team of 39 people and 1089 externals, which is not bad but we cannot be sure how this teams works and cooperates.

According to its Group annual report the year 2010 was also marked by the creation of close alliances which support the growth and strengthening of the model of Corporate Social Responsibility with manufacturers, employees, auditors, universities, trade unions, employers' associations, consumers, non-governmental organizations, supranational organizations, governments and other parties involved which interact in the development of our business model.

But we have to be very critical about CSR reports of companies. I know it is a long process, step by step, in order to see some change. But lately it is trend that corporations devise social responsible strategies, to respond to outside pressure and also meet their own interests. Unfortunately in many cases it is just a big bubble and well done PR. I learned about Inditex CSR programs only from their own material. I did not see anything on my own or from another sources so it is very hard to be objective.

### 9.1 Inditex sustainability strategy

In Inditex annual report from last year there is more than one hundred pages devoted to its CSR program and environmental concerns. Perhaps this is not only by chance and Inditex has a lot to tell about its activities. They apparently made a progress in human rights, child labor, safety and overall they try to decrease its environmental footprints.

Inditex sustainability strategy is compiled in the Code of Conduct which is a framework for action and influences of all activities in manufacturing, distribution and sales worldwide. It is based on three key aspects:

- Transparency in its activities.
- Collaboration and confidence in the parties involved.
- Ongoing improvement in its processes.

The strategy is targeted on four different segments which are customers, suppliers, employees and society. Digestedly can be seen in graph n. 2

Inditex declare its commitment to customers by applying its own standards of health and safety (Clear to Wear and Safe to Wear) to all the products that are marketed.

Towards suppliers the objective is to strengthen the relationship in the long term thanks to the implantation of Compliance Program of the Inditex Code of Conduct, (Tested to Wear) and to the International Framework Agreement signed with the International Textile Garment and Leather Workers Federation (ITGLWF). The environmental strategy also involves suppliers, who must include this variable in their working processes.

To employees the Group is attempting to reinforce the channels of communication between the employees and the sustainability policy through the Internal Directive of Responsible Practices and the Framework Agreement signed with UNI Global Union.

And last the society - Inditex declares its responsibilities to society through the Environmental Strategic Plan 2011-2015, and in the development of programs of social investment in which Inditex collaborates with local, national or international communities in those countries where it uses its business model.

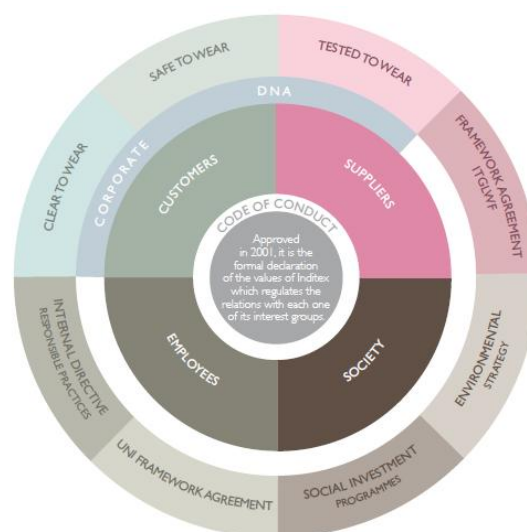


Figure 8 Inditex sustainability model, source: Inditex

## 9.2 Eco-efficient stores

I would like to emphasize the part of Inditex CSR which I trust and like the most. As we discovered the stores are the most important and also first and last elements in Inditex business model. That is why there is a significant focus on more sustainable way of growth. Inditex started with designing and implementing The Eco-efficient Store Manual, which helps to minimize the environmental impact on all sustainability variables through a decrease in energy consumption. And new stores built from 2010 are required to meet the EcoStore criteria and there is a plan for redesigning the existing stores. They should be sustainable and environmentally friendly, equipped with cutting edge technology for energy saving and management, aimed at reducing CO2 emissions. First was designed in Athens – Zara Korai. It combines the environmental commitment and also a architectural challenge. Inditex renovates the old historical buildings which helps to higher the quality of urban spaces. They are equipped with ecological and renewable materials – furniture, bags, packaging etc. There is new energy saving system of lighting, air-condition, heating, insulation and other technological advancements. The store is expected to consume 30 per cent less energy than the annual average at a conventional store, use 70 per cent less water and avoid producing more than 200 tons of carbon emissions per year.

It's a great concept and also realistic because it is driven by economical motive therefore it is an investment. The stores should decrease the energy consumption of fifty percent which will be projected in costs. You can find more about Zara Eco-store in Appendix 3.



## 10 FASHION CONSUMPTION VS. ENVIRONMENT

*“Only a crisis - actual or perceived - produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable.”*

Milton Friedman

There are negative impacts on environment by producing fashion garments. They have increased with globalizations and mass production of fashion – fast fashion. If we see these huge numbers of sales and garments which were produced we can clap our hands how competitive those companies are.

Zara’s aim, according to Amancio Ortega, founder of Inditex, is to democratize fashion by offering the latest fashion in medium quality at affordable prices. That is true, even I bought a T-shirt from Zara in sales just for two or three euro but there is a big tax for those affordable prices. Good job in this global problematic made Naomi Klein, Canadian journalist and writer who expressed her opinions and findings in her world known books, and Annie Leonard with her project The Story of Stuff, which was one of the trigger for focusing me on this topic.

Annie’s book Story of stuff is headlined:... “It is story about how our obsession with stuff is trashing the planet, our communities, and our health – and a vision for change.” This book is based on twenty minutes long video made by Annie and her colleagues in 2009. She alarms that we have too much stuff, too much of it is toxic and its production is harmful to many people. Five percent of population consumes thirty percent of the world’s resources and creating thirty percent of the world waste.

According to the Eco Asia environmental group, cotton crops account for 25 percent of the world's pesticide use. Cotton crops also require a large amount of water to survive in hot conditions, causing adverse effects on the world's environment. According to Annie Leonard, growing a cotton just for one T-shirt requires 256 gallons and later on this water is badly contaminated by chemicals used in the production process, like bleach, lead, arsenic, and cyanide. There is a danger that these toxins will leach into the ground water, rivers and seas.

There is so many designs, shapes, colors of textiles we can choose from, but problem is that we can choose between tons of different products but those which does not contain chemicals is few or we do not know about them.

We can see some improvements in policies towards sweatshops, child labor and environmental acts. But in fact I am very skeptical about all these actions. To change something in policy which is against big corporation is unlikely to happen because they have common interests.

Architect Bill McDonough and chemist Michael Braungart appeal on design problems and suggest in their book *Cradle to Cradle* an effective solutions to how to design our product better without chemicals which are durable and made of ecologically compatible materials and can be easily upgraded, repaired, recycled or composted.

Fashion companies realized that in the other part of the world they can make their products for lower price so they outsource main parts of their production. The result is globalized economy where company's supply chain can cover multiple continents and scores of businesses like many suppliers, component producers, workers, middlemen, financiers, warehouses, loading docks, distribution channels, each of which is trying to maximize its profit. Moving the stuff all around the world consume enormous quantities of fossil fuels and spews a lot of waste. From the use of agricultural machines to harvest crops to the laundering process used to finish textiles, fossil fuels are burned, producing harmful emissions. Apart of sweatshops those are just other examples of externalized costs in consumer goods we are not aware of.

Companies wants to buy their product for lowest price as possible and it leads to the fact that factory owners overseas are forced to rules violation, paying workers unfair salaries, refusing to provide health care benefits, building stores in the cheap suburbs, rather than in the city centers, where the real estate is more expensive but they are easily accessible with public transport. They try to save money on unsafe equipment, hiring child labor, cheating employees on overtime pay or operating unsafe facilities.

## 11 FAST FASHION CONSUMPTION

Fashion consumption is inevitably part of our life since the time we are born. We need clothes to protect our body from cold, also to cover the “private” parts, to attract others and also to feel good to ourselves. And in many cases we seek to meet our emotional and social needs through shopping. We define and demonstrate ourselves and judge others worth through the stuff we wear. The clothing is one of the clearest example of overconsumption. The majority of people I know have more clothes that they are able to wear or store, and still buy a new ones.

In general there is an overconsumption in all developed countries. We are working more than ever before to afford and maintain all our stuff and spending more time alone and less with our families, friends and neighbors. Later on it makes us unhappy because relations have proven to be the biggest determining factor in our happiness, once our basic needs are met. So we heal us with another shopping therapy and it becomes a vicious cycle. A lot of young girls are working hard just to be able to buy new and new clothes, bags or shoes. Later on they are obsessed with dressing their children. I know it is an extreme generalization but just if u look into a shops when the sales are on, especially in Spain you can see a lot of crazy girls running from one Zara shop to another. It’s a topic number one. I am one of the this target group and I wish I would be exaggerating. And for what? All same stuff everywhere. There is lack of originality and also lack of quality. When you buy a new thing after you wash five times and you can throw it away. Furthermore, if you want to buy something original with higher quality you have to pay a lot of money for it. Independent designers are not competitive, there is just few of them who can survive so they have to sell for more. Fashion products are purposely designed to be thrown away as quickly as possible and then replaced. Nowadays you can hardly see the sewing machines at home and woman making or redesigning clothes. Why? It is just cheaper to buy a new one and corporations make more profit. And with more profit more stuff and more waste.

## 12 FASHION DISPOSAL

When we buy some new piece of clothes we think about its quality, design, price, use, material, with which other clothes we have it could fit, etc. But do we think about what happened with it when we do not like it anymore? Not often, however, there is a whole industry known as “waste management.” It divides waste to several categories based on the source of the waste, what it is made of, and how it needs to be handled. The main categories are industrial waste and municipal waste. Industrial waste includes all the leftovers from the extraction and production of fashion products. As I was observing the Inditex performance I think they do their best in order to lower their industrial waste. The ideal would be, as W. McDonough and M. Braungart described in their book *Cradle to Cradle*, the concept that industrial waste would all come back to production process as materials for future products. It should be handled as a capital, so by dumping it into the landfills companies would lose money. But the system is not working like that, but hopefully there is some hope for change in the future. Although many companies are getting serious about reducing and managing their waste. The problem is that in current situation even if we do our best to recycle, in fact we just down cycle the materials which are losing the quality by recycling process, so it is impossible to reuse them for making new product.

In Inditex annual report I found out the plan trying to minimize its industrial waste so even the production increased, the waste was more or less similar to previous years. But there is a less care about textiles which do not serve us anymore.

In my opinion companies should take care about their products even if they have been already sold. Or at least to propose the possibility. If the textiles companies are selling such a huge amount of clothes they should also take a responsibility in their disposal. They should not rely on governments and other institutions to recycle it. You make it, you deal with it.

Because what happens with our old clothes? There is such a small percentage being actually recycled. The majority is simply dumped with other waste. Specifically buried or burned, most frequently in developing countries where rules and quotas does not exist or are less strict.

In case of burying the waste there is a problem that all landfills leak and the garbage containing a lot of toxics contaminates the soil and underground water.

In case of burning the waste by fire through incinerators, toxics contained in products are liberated into the air. Incinerators do not eliminate the need for landfills. The waste is just converted to air pollution and ash which still needs to be land filled. So we just save about one third of volume and pollute the air. And this is just an example, there are more problems connected with those two ways of handling our waste.

So what is the solution then? **reduce – reuse - recycle**. But the recycling is the last thing we should do with our stuff, not the first and the only one. Recycling is necessary and should be done automatically. It should not be a question to recycle or not to. And it must be done well and controlled by governments. It reduces waste and demand for new resources. It reduces air and water pollution. It creates more jobs but on the other hand also exposes another people to health threats. It requires power-consuming and trash-producing transportation and in fact as I mentioned before materials are just down cycled.

But what about elimination of waste instead of managing it. Unrealistic? Maybe so, but it is a right goal to have or at least the waste reduction. In the final part of my thesis I propose some tools how fashion company could treat their already sold product.

### **13 VERIFICATION OF WORKING HYPOTESIS**

After I analyzed the structure, system and business model of Inditex Group I was not able to verify working hypothesis. I discovered a weak part of its CSR program and based on this fact I created my project part.

#### **Hypothesis**

Inditex competitiveness and growth exists at the expense of undesirable externalities for society. Its development is unsustainable and therefore not ethical because of causing redundant waste and consumption and lavishing natural and human resources.

#### **Argumentation**

There are many records of undesirable externalities connected with fashion production. But in case of Zara I did not find many cases with sufficient credibility. In fact, their CSR department is growing, the workers conditions are improving but there is lack of interest about the waste. Therefore this hypothesis cannot be verified neither disproved.

### **III.**

### **PROJECT PART**

## 14 ZARA RESPONSE

### 14.1 Project introduction

In chapter 12 I have already expressed my opinion that companies should take care about their products even after they sell it. You might ask why, or they can argue why if they pay taxes to governments who should care about the waste. Maybe there is an alternative way how it could be beneficial for all. It could also bring new possibilities and create a new segment of customers. I designed a simple project Zara Response which is about collecting used clothes back from customers and its handling. And by doing so, reduce the textile waste on the planet. There are two pillars of this project. First is the collection of already unworn clothes and later its handling. Inditex built business mainly on its vertical integration by controlling all stages of product cycle for the majority of its products. From the design, manufacturing, distribution and retail. But it should not end by garment selling. Clothes instead of being thrown away or moved from our wardrobe to garage, from garage to the cellar or attic and after some years trashed anyway, could have a new life. And those materials who somebody had produced, most likely in not pleasant condition somewhere in Asia, for which a lot of natural and human resources were brought into play, and which later on went round the world in order to get into our hands, should be more appreciated. If we say second hand or used textiles there are not positive connotations. There might be: old, worn, trash, dirty, unsanitary, ugly, for the lowest social class. But why it cannot be: cool, original, ethical, ecological, sustainable, unique, simply good. It is just about image we are able to create.

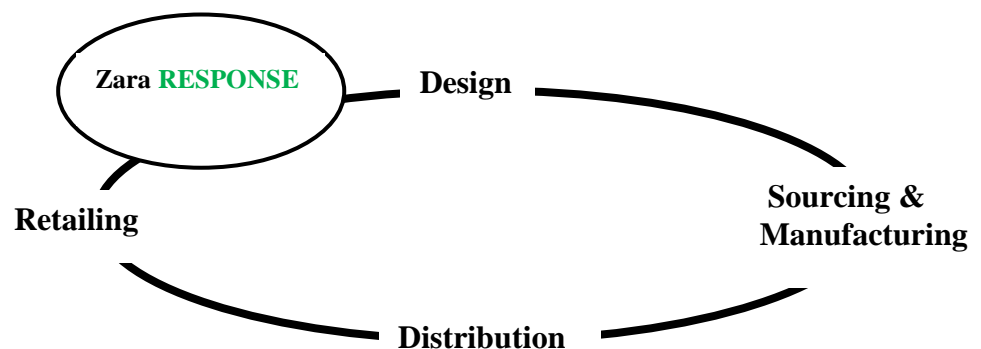


Figure 9 Implementing Zara Response Project to Inditex activities.



## 14.2 Project objectives

1. To reduce textile waste by putting the materials back into the production process - reuse of unworn clothes.
2. Customer engagement.
3. New image of second hand clothing.
4. To promote the independent fashion designers.
5. Increase the originality and meet the demand of customers, who want affordable and unique clothes - create a new marketing segment.
6. To appreciate the loyal customers and bring them more frequently to the stores.
7. To create new customers database.
8. To link with local communities.

## 14.3 Used clothes collection

Imagine the network of especially designed boxes, located in Inditex stores. It would be a precisely made piece of furniture, designed according to the store corporate image. An element that would fit perfectly to the store and would bring the eyes of customers. It is a part of a CSR project and it also serve as a loyalty bonus program for Inditex clients. Customers would bring their own clothes back to the store and obtain an point for discounts.

There is a special micro-site for the project where customers will find all useful information and where they can make a registration. By registration the company will obtain new data about the clients and create the database.

On the basis of registration they will receive by post the electronic chip. They can choose the form of this chip. It can be a regular card, like a credit card, batch, key chain, ring or any fashion accessory they like. The stuff will revise the clothes and through the chip will add the points on customers account. The responsible stuff can put it into the box on condition:

1. The piece of clothing is clean. It must be washed in order to accept it.
2. It must be the same store brand. For example Zara will receive only Zara clothes, Bershka only Bershka clothes etc. The clothes must have the visible brand logo or etiquette.

However, the points will be counted together from all Inditex stores.

This chip would be delegable. So for example friends or families can participate together. More they bring back, more discounts they receive. There is no difference between each clothes. One piece one point, no matter if it is T-shirt, pants or coat. For acquired point they can get special discounts for new clothes, vouchers, or another gifts. For example tickets for cultural events, theaters etc.– to promote a local community and make a connection with smaller local businesses through cross – promotion activities.

The bonus program will be designed according the target group and store location. There will not be any specific marketing campaign or any ATL communication. It will spread by word-of mouth and directed PR. The concentration will be to create functional network and engage the customers to the process so they can spread the message by themselves. Also it will bring them back to the stores.

The project success is not measured by amount of collected clothes. The purpose is to give an opportunity to the customers to get rid of the clothes with some benefit. It is a long - term project and there are different ways how to dispose of the collected textile. At least Inditex should ensure of its recycling.

#### **14.4 New market opportunity**

Personally If you go shopping I see thousands of garments and I don't like many of them. Or I like something just barely and I buy it only because it is cheap or on sale. I only see same and same clothes everywhere, with low creativity and no style. I think there is such a trend of fashion unification and lack of benchmark. All fast fashion clothes offer almost the same products. And if you travel around the world there is no difference. Chance to buy something unique or typical for affordable price is low. I am talking about general public, not about famous fashion malls we can see only from TV and life-style magazines. In the past the fashion was only for the rich people. This times are gone, clothes became affordable for almost everyone but on tax of conformity. Clothing is a part of our image, it is the way we express ourselves and how we want other people see us. And there are people who want to have fun with clothes. Who want to look different. This segment, mostly young people, likes to buy a design clothes, but they often cannot afford it. Young designers buy fabrics on small amount so later it becomes very expensive. If they would

have the fabrics for free, their clothes could be sold on competitive price. So there is a market potential for reusing fabrics and redesigned “second-hand” clothes.

### **Target group: Practical intellectuals**

Someone who seek for originality, appreciate the past and care about the future.

Someone like Alex, 27. He is concerned about environmental problems, world issues and future generations. He thinks we should leave some legacy after we die. But not the damaged planet. He is extrovert and enjoys the life. He likes design and uniqueness. He refuses conformity. He likes to have choices. He likes nice things. Reusing things. He has a girlfriend Mary and they have together a small apartment where you can find new design things combined with old furniture from their grand-grand-parents. They enjoy the flea-markets. Because they are modest they have enough money to live a quality life. They are optimistic, active and hard working and very open-minded. They love to travel but the place they love the most is their country and local community.

## **14.5 Clothes processing**

The second part of Zara **RESPONSE** project is to process the collected clothes. They will be cleaned again and selected according to its state and type. The good ones will be kept and sold again in special stores for very low price, about one or two euro. The returns will go for beneficial purposes. This store will serve as a fashion store and also as a café - meeting point. It will have young alternative design, and people can relax there or gather for some occasional cultural events.

The rest of collected clothes will be handled by young designers, dressmakers, fashion design students and people interested in fashion. They can work independently at home or in a studio where the collected clothes are stored. They will get the material for free and clothes made from those materials will have the special label, tag, which notifies consumer that this piece of clothing is unique and was made from recycled materials by local designers.

The part of the clothes will be cut to the small pieces and those pieces sewed again creating new fabrics of specific style. This fabric will be accessible for free also as for the special members – theaters - for costume production, non-profit organizations etc.

Price of clothes will be comparable with fast fashion products, only to cover the costs and work of young designers. The design will be always original, colorful, untypical shapes, overlays. Characteristic attribute is the fabric sewed from different pieces.

The shops will offer the equal amount of products for man and woman, because the men are often discriminated in fashion.

The store brand singularity: renewal

Headlines used for communication: For people who care. Futurity fashion.

After the second life of fabrics the process will be repeated on the same basis of loyalty program till the time the fabrics are really torn. Afterwards they will be recycled and used for industrial purposes.

#### **14.6 Eco label - re.in**

Re.in will be established label notifying consumers that this was made from textile waste and there is a guarantee for its recycling. Under this official brand the individuals designers will work with their names. The name comes from “re” – again, repetition and “in” as good, in fashion, Inditex. The prefix “re” also has a hidden meaning for reduce-reuse-recycle.

#### **14.7 Project implementation and financial estimation**

The pilot project would be held in Prague and Brno, Czech republic. Financial demands are estimated for two stores in Prague and Brno, Czech Republic.

1. Creation of web portal Zara Response and technological platform – chips, boxes.  
10 000 EUR
2. Zara Response stores- 2x – would serve also as a storage and workshop place, earnings must cover the rent and employees.  
20 000 EUR
3. Additional fees – staff training, communication, campaign for young designers, eco lable Re-in.  
10 000 EUR

**Total: 40 000 EUR**

## 14.8 Competitor activity

Italian seller of underwear Intimissimi launched the project of lingerie recycling. They offered a discount of 75 CZK/ c.3 EUR for each old bra. It could be a product of any brand and discounts can be count together. The project time was limited from 1.3 to 30.6. 2011. Collected bras were used for insulation and anti-noise materials. Intimissimi was the only recent example I could find which is based on old garments collection. More often we can see that fast fashion retailer have the “green” product lines made from organic cotton, organic linen, recycled polyester, recycled polyamide or other recycled materials like cotton, wool or Tencel. Cost are usually higher and this eco-marketing strategy serves only for selling more products. But important is that there are some environmental concerns and companies respond to the consumer demand for this added value

**RECYKLACE  
A SUPER ZHODNOCENÍ**



**75 Kč  
ZA KAŽDOU PODPRSENKU**

intimissimi

## **14.9 Barriers of project implementation**

Before I describe the Inditex biggest competitive advantage as that it can move fast and its flexibility. But this flexibility means only with their own supply. The Group is big and highly structured and there is a small change to influence something from the bottom. Managers of each stores have limited power and must fully obey the orders from headquarter. So the main barrier of implementation would acceptance and investment from headquarter. But it could be also realized by independent subject. Another important barrier would be the quality of clothes which is purposely low. There is the risk that clothes will be already torn to be redesigned. In this case should be recycled directly.

## CONCLUSION

Thank to the fast fashion businesses fashion became affordable for almost everybody. Garments have become less expensive, mainly through the outsourcing to developing countries and economy of scale. Companies realized where their products can be made cheaper and professionalized their logistic channels and supply chains. Fast fashion has enabled consumers to purchase garments more frequently due to the affordable price and also enabled a feeling of disposability. On contrary to economic crisis, companies like Inditex did not stop to grow. People prefer to buy cheaper garments even though the quality is purposely low. Fast fashion clothes are made to be worn only around ten times in average. Fewer consumers repair or restyle garments from their wardrobes. They just throw it away as a normal waste. Induced obsolescence bring consumers back to stores and they repeat the purchases more often. This encourages higher consumption which is unsustainable. Fashion sustainability is a difficult topic and there are many things we can improve. Fast fashion is driven by consumer demand therefore the changes must come mainly from consumers. Recently there is a trend of consumption of fair trade and organic food products. They are more accessible and the trend of local markets is growing. Healthy lifestyle can be considered as a fashionable trend. For apparel it is still not a current issue. We do not care so much about how clothes are made, because it is not directly related to us, unlike what we eat. The best solution also in fashion would be to buy only the locally made products. But fashion consumers criteria prior to consumption include style, price and quality which fair trade or local products are still not able to offer. So price and accessibility of modern design often conflict with ethical consumption. But this can be changed. In my opinion the consumer awareness of the environmental impact of consumption, sustainability and workers conditions of consumption is increasing. Therefore, I believe that the price and design will not be the only factor driving our purchases in the future. There is still lack of information and credible sources evaluating the company behavior and production process and if so, there is more knowledge about workers conditions but not of the environmental impact, especially waste. In my opinion in this case the NGOs and media should take a bigger effort and more inform the public. Consumers should be more informed and should have the chance to choose between responsible or unethical behavior of companies. The recycling options should be also more accessible. Governments are not able to control the entire textile recycling so the companies should be responsible for their products even after they sell them. Therefore in the project part I designed a simple model how they

could do so and this approach would be beneficial also for them. Currently, as I know, there is no universal mark or label communicating ethical production of apparel products so it should be established and controlled by governments and public. Second hands and reuse of clothes have a bad image in our minds. We have a false conception that more we shop and more we have, better we are. The clothes consumption should be decreased and quality and fabric reuse increased. But this can happen only when consumers wake up and get angry by impacts of current situation and refuse to support those, who are making money and not giving anything back. But there is no need to wait until this moment and companies should find the way how responsible behavior could be also advantageous. So there is the space for responsible marketing communication and CSR which should adjust the public interests with company goals. In case of Inditex Group, company is aware about their environmental footprints and step by step innovates their stores and whole CSR program, logical and expected from market leader.



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**LIST OF ABBREVIATIONS**

RTW	Ready to wear.
COO	Country of origin.
COD	Country of design.
COA	Country of assembly.
MC	Mass customization.
ECR	Efficient consumer response.
QR	Quick (consumer) response.
CPFR	Collaborative planning, forecasting and replenishment.
DCM	Demand chain management.
SCM	Supply chain management.
DSCM	Demand-supply chain management
CSR	Corporate Social Responsibility
SD	Sustainable development

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APPENDICES

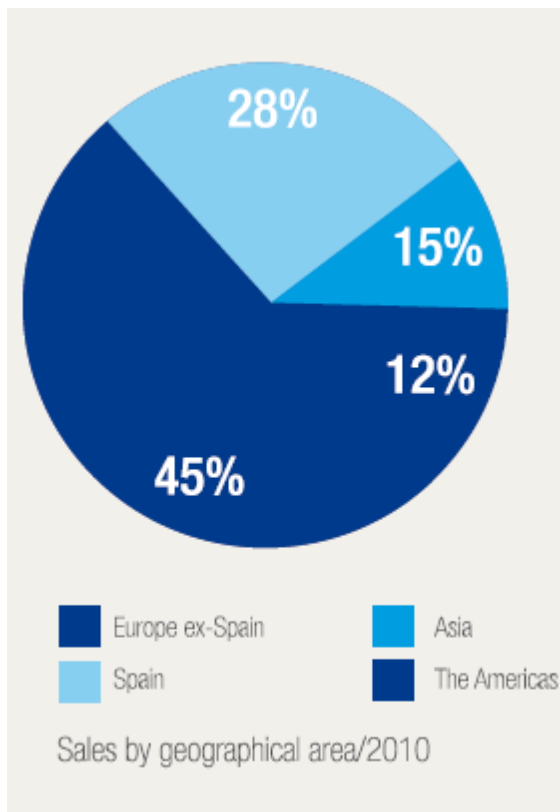
Appendix I Inditex compared to its main competitors. Source: (Carmen Lopez, 2009 p. 293)

	Inditex-Zara	Gap, Inc.	H&M
Net sales <sup>a</sup>	66,741m (Inditex)	€12,700m	€6,562m
International sales <sup>a</sup>	Inditex: 57 per cent Zara: 69 per cent	15 per cent	91 per cent
Global reach <sup>a</sup>	Inditex: 2,692 stores in 62 countries Zara: 852 stores in 59 countries	3,053 stores in five countries	1,193 stores in 22 countries
Internationalisation	Extensive and quick international expansion strategy	Slow and focused internationalisation	Consolidated expansion and at a moderate pace
Business model	High degree of vertical integration	Partial vertical integration. Control over design, distribution and sales. Production is outsourced	Partial vertical integration. Control over design, distribution and sales. Production is outsourced
Production	Own production facilities. Control over production chain	Outsourced from 1,100 suppliers	Outsourced from 700 suppliers
Electronic commerce	No online shopping facility	Online shopping facility for US customers	Online shopping facility and through mail order in the Nordic countries
Promotion	Lack of advertising, only 0.3 per cent of turnover. The store is its main promotional tool	3-3.5 per cent of turnover spent on advertising	4 Per cent of turnover spent on advertising. The store is its main information tool
Business areas	Clothing, accessories and cosmetics	Clothing, accessories and personal care	Clothing, accessories and cosmetics
Brand portfolio of the new company	Zara, Kiddy's Class, Pull & Bear, Massimo Dutti, Stradivarius, Bershka, Oysbo, Zara Home	Gap, Banana Republic, Old Navy, Forth & Towne	Single format
Branding strategy of the parent company	Brand development and brand equilibrium	Brand development and brand acquisition	N/A

**Notes:** <sup>a</sup>Data refer to 2005. The Inditex fiscal year is from February 1 to January 31 of the following year. The Gap, Inc. financial year is a 52- or 53-week period ending on the Saturday closest to January 31. The H&M financial year is from December 1 to November 30 of the following year.

**Sources:** Compiled from annual reports, Alonso (2000) and Ghemawat and Nueno (2003)

Appendix II – Zara international expansion. Source: Inditex Press Dossier 2010



- 1975 Spain
- 1980 ■ 1970
- 1988 Portugal
- 1989 United States
- 1990 France
- 1992 Mexico
- 1993 Greece
- 1994 Belgium and Sweden
- 1995 Malta
- 1996 Cyprus
- 1997 Norway and Israel
- 1998 Argentina, United Kingdom, Venezuela, Turkey, Lebanon, U.A.E, Kuwait and Japan
- 1999 The Netherlands, Germany, Poland, Saudi Arabia, Bahrain, Canada, Brazil, Chile and Uruguay
- 1990
- 2000 Andorra, Qatar, Austria and Denmark
- 2001 Puerto Rico, Jordan, Ireland, Iceland, Luxembourg, Czech Republic and Italy
- 2002 El Salvador, Finland, Dominican Republic, Singapore and Switzerland
- 2003 Russia, Malaysia, Slovenia and Slovakia
- 2004 China, Morocco, Estonia, Latvia, Lithuania, Hungary, Romania and Panama
- 2005 Philippines, Thailand, Monaco, Costa Rica and Indonesia
- 2006 Serbia and Tunisia
- 2007 Guatemala, Croatia, Colombia and Oman
- 2008 South Korea, Ukraine, Egypt, Honduras and Montenegro
- 2009 Syria
- 2000
- 2010 Bulgaria, Kazakhstan, India
- 2011 Australia



Appendix III Zara Eco-store, Source: Inditex

The store is located in a neo-classical building dated from the early 19th Century, in the heart of Athens.

MORE THAN A CENTURY OF LIFE

<p><b>Early 19th Century</b></p> <p>In its origin, it was the private residence of the city's benefactor, Ioannis Hatzidakis.</p>	<p><b>End of the 19th</b></p> <p>The Hatzidakis residence was transformed into the Athens Grand Hotel coinciding with the 1896 Olympic Games, the first of the modern era.</p>	<p><b>1966</b></p> <p>The hotel closed and the building was divided for different uses as offices, shops, banks and restaurants.</p>	<p><b>1984</b></p> <p>It has been one of the buildings protected by the Ministry of Public Works. The restoration work that Zara carried out had been supervised and coordinated by the Greek Ministry of Public Works and Culture.</p>
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The store is in 2 Korai Street, in the corner with Stadiou Street, a key area in the Athenian life.

**Technical specifications**

Number of floors	8 (4 floors, two basements, one mezzanine floor and an attic)
Surface area	645 m <sup>2</sup>
Shop floor area	2,903 m <sup>2</sup>
Refurbishment work started	March 2004
Refurbishment work completed	December 2008
Executed by	Zara's architectural studio and building department



This is how the corner where the store is located looked at the end of the 19th Century.



**Restoration project**

The restoration work on the two facades has been centred on cleaning and reconstructing the moldings, coffered ceilings and iron balustrade which make up the balconies and doors in neo-classical style of this building.

**Main access**

At the end of the 19th Century, in order to transform the building into one of the most important hotels of the city, further storeys were added on and the main access was transferred from Stadiou Street to Korai, where it is now.

In order to temporarily preserve the facade, the building has been built with a metallic structure of internal beams which bear the weight of the building, which is totally independent of the external walls.

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All the materials available in the store are environmentally concerned

BAGS

**Paper bags**

They have the FSC Forest Stewardship Council or PEFC Programme for the Endorsement of Forest Certification certification, which guarantees the sustainability of the forest exploitation from which the raw material comes and the low environmental impact of the manufacturing process.

**Degradable plastic bags**

They are manufactured with "cibic", an additive that accelerates the total decomposition of the plastic in a natural way over an average period of one to two years as opposed to more than 400 for conventional plastic.

**Stone and paving**

The material used is recyclable in a high percentage and does not contain toxic or contaminating substances that are liable to be released into the environment during the service life of the material or when dealt with as a residue.

**Escalators**

The strategy of energy saving that will be used is that of the "e-stop mode" in which, when the escalator has nobody on it, the speed slows down, and is only raised again when the system detects a user.

**Woods and boards**

All the wood used has the FSC (Forest Stewardship Council) or PEFC (Programme for the Endorsement of Forest Certification) stamp. Both certificates guarantee that the wood comes from woodlands that are exploited in a sustainable and responsible manner.

**Surface coverings for internal and external walls**

The paints, lacquers and varnishes used must be careful with the environment.

**Posters and photographs**

The posters and photos have been produced using a new material: re-positionable adhesive fabric. This woven adhesive material is a polyester fabric, with a coating for dye-pigment printing. The base of the fabric is basically TP although the back has a 50 micron-thick semi-removable adhesive and coating, which allows it to be applied and removed easily to any type of clean, smooth surface. The ink used is water-based.

**Signs**

The bases for safety pictograms will not contain PVC.

**Lifts**

The installation of electric lifts is favoured over hydraulic lifts due to the fact that the consumption of the former is much less than that of lifts that work with oil.

**Archaeological remains**

**Led**

Its use is added for specific elements such as the signage and the lighting of the archaeological remains. An LED (an electro-luminescent diode) emits light as a current passes through it. It has a lifetime of more than 50,000 hours, with the result that it begins and even quadruples the lifetime of a fluorescent lamp. They do not contain mercury, with the result that they are highly interesting from the point of view of environmental protection.

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A proper organisation of tasks in the shop from an energy point of view is one of the aspects that has been studied at Koral.

**Timetable 1 | Main light timetable**

A period of time is determined which begins five minutes before the time of opening to the public and ends between 15 and 30 minutes after the conclusion of the opening hours.



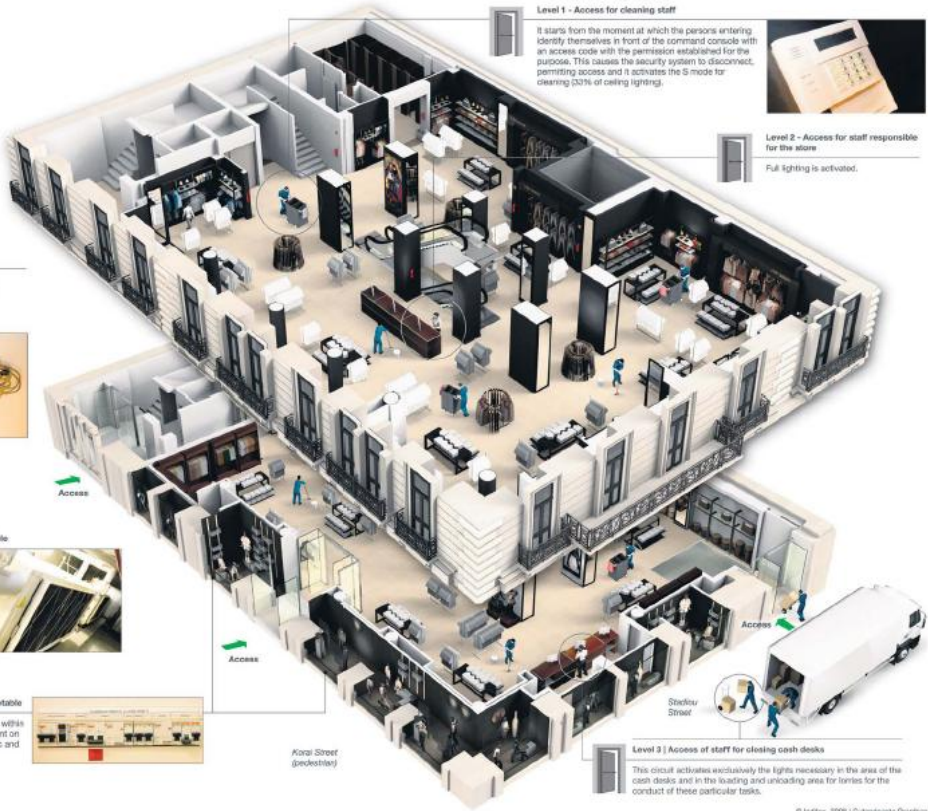
**Timetable 2 | Air conditioning timetable**

This time window acts to limit the functioning of the air conditioning to a period beginning five minutes before the time of opening to the public and 15 minutes after the conclusion of the opening hours.



**Timetable 3 - Shop-window light timetable**

It limits the lighting of the shop-window with variable parameters which are dependent on the location of the store and the climatic and light circumstances of the area.



The design of the electrical installation, apart from satisfying the current regulations on installations, must fulfil some rules which will allow more eco-efficient use.

**Variable refrigerant volume (VRV)**  
This is a reversible system which supplies heat or cold with a performance that is much greater than that of a boiler of fuel. The use of the most efficient technology on the market is guaranteed.

**CONTROL AND REGULATION**

**Coordinating in each moment's demand**  
An efficient system of control and regulation of the installation has been implanted which makes it possible to control the mode of operation as a function of the demand at each moment.

**The thermostats**  
The thermostats are adjusted to a comfortable temperature inside the premises: the ideal temperature for Zlín Koral is 21 degrees in winter and 24 degrees in summer. This system allows the user a margin of selection of ±2°C. Each extra degree that is required from the installation increases the energy consumption by 6-8%, with the result that good regulation of the basic temperature means a significant energy saving.



**Plumbing**  
More taps have been installed with a maximum flow of 6 litres/minute allowing to reduce water consumed by 50% in comparison with taps with separate controls.

**Heat recovery unit from ventilation air**  
In the heat recovery units, there is an exchange of heat between the air extracted from the building and the external air which is introduced for the renewal of the air. This makes it possible to reduce the consumption of heating in winter and cooling in summer.

