

HR7134

Fashion in the Fast Lane

A Global Industry

Fashion retailing has gone global. By the turn of the century, textiles and apparel accounted for approximately \$580 billion sales, with the US accounting for \$180 billion and the European Union prior to its enlargement generating 225 billion dollars in sales. Developing markets in eastern Europe, the Middle east, Russia, China, Brazil and India as well as nations in Asia and other countries in Latin America are seen as areas that present significant opportunities for growth and expansion.

Companies engaged in fashion retailing have taken advantages of opportunities which have arisen due to market intervention and decisions made by the World Trade Organisation in 2005 which led to the removal of trade barriers and quotas in respect of sourcing raw materials. This has been accompanied by relaxation of rules and regulations governing the movement of capital and labour, and by advances in information and communication technologies. An example of how organisations have responded to changed environmental conditions is that in seeking to drive down costs of production, garment producers and retailers are almost universally sourcing raw materials on global markets and for many manufacturers and retailers, the entire manufacturing process – treatment and dyeing of raw materials, design, pattern cutting, assembly, packing and distribution is outsourced and undertaken internationally in countries where manufacturing and labour costs are low. In addition, there has also been an increase in merger and acquisition activity between firms as well as retailers seeking to diversify and to develop strategic alliances and networks which allow them to establish closer relationships within and between their supply chains. This can be seen as an attempt to generate higher levels of influence, control and closer integration throughout the total manufacturing process prior to garments being displayed for sale in retail outlets.

There is evidence that some fashion retailers are looking beyond their domestic markets when developing their business strategies and plans for growth. A number of retailers now operate internationally and have a presence or a brand in the UK and other 'non-home' high streets. These include companies like Uniqlo (Japan), Gap, Abercrombie and Fitch (USA), H&M (Sweden), Mango (Spain), Esprit (Netherlands). A number of British companies for example Topshop (part of the Arcadia group) are also establishing a greater international presence.

Fashion Retailing in the UK

The fashion retailing industry in the UK is a dynamic industry and subject to rapid change. It is highly competitive and consumer spending on fashion items is second only to grocery spend. Despite commentators suggesting that the market is saturated, this has not stopped overseas fashion retailers seeking to penetrate the UK market and establish a high street presence within the UK. A stroll down Oxford Street, Regent Street, or indeed many high street locations it is easy to see how the retailing landscape has changed. For example, we find Banana Republic, H&M, Esprit, Mango, Uniglo as well as stores that are part of the Inditex group of companies – Zara, Massimo Dutti, Pull and Bear, Bershka sitting side by side with more established companies like Gap.

Market penetration accompanied by structural changes within the industry has meant that competition between retailers is fierce and this has benefited consumers giving them more choice and lower prices, particularly in the ‘mass market’ segment of the fashion industry. At the same time there has been retail casualties, long established companies such as Littlewoods, C&A and a large number of small independent outlets have found themselves unable to compete and have either folded or withdrawn from the UK market. Other well known established retailers such as BHS, have been acquired by other retailers or retail groups. Mexx, a Dutch fashion retailer has had two forays into the UK high street without much success and have withdrawn. They now limit their offerings to small franchises within large department stores.

Closer examination of the industry structure indicates that there are different segments with firms positioning themselves according to the characteristics of their products (perceived or actual), and in terms of the demographic profiles of customers that they wish to target. Companies can also be classified according to their fashion retail formats. Table 1 below outlines the main classifications and companies that are associated with each format.

Table 1.

Classification	Example Companies
General Stores	Marks and Spencers, BHS
Department Stores	Debenhams, House of Frasier, John Lewis
Clothing Multiples	Next, Gap, River Island, H&M, New Look, Topshop, Burton, Zara
Discounters	Matalan, Primark, TK Maxx
Supermarkets	Asda, Tesco, Sainsbury's
Sports	JD Sports
Clothing Independents	Small and localised firms
Mail Order & On-line	Littlewoods, Asos, Very

The industry is also dominated by a number of large players. Marks and Spencer's is the industry leader with the largest market share, turnover of 9.93 billion and pre-tax profits of 658 million in year ending 31/03/2012 (Keynote, 2013). The company has in recent years however been struggling with clothing and footwear market share falling from 8.8% in 2010 to 7.63% in 2012 (Mintel, 2013). Marks and Spencer are closely followed by Next who are now a multi-channel retailer (retail outlets, catalogue and online) and a number of industry commentators and analysts are predicting that Next will overtake Marks and Spencer as the biggest player in the UK. Of the discounters, Primark has seen market share grow and the company has made significant inroads now having a presence on high streets in most towns and cities. It also appears that Primark have been able to weather the storm of the recent economic downturn better than many other fashion retailers.

The configuration of the industry and firm performance has been significantly affected by a number of key trends and developments. Arguably, the most significant and influential of these has been the emergence of the fashion discounters who have, through a focus on low price and 'disposable fashion', completely revolutionised the nature of competition in the industry and perhaps, have played a key role in influencing consumer perceptions of what constitutes value in regard to fashion items. A further significant development has been the growing influence and power of the grocery retailers who have expanded their fashion clothing offerings and captured increased market share. Market trends indicate that the fastest growing channel for fashion sales in the last decade has been via these discounters and supermarkets. Taken together in 2005, discounters and food retailers have accounted for 43% of clothing volumes sold.

It does appear that price has become an increasingly important for a large number of the fashion buying public and that this sits alongside 'on-trend' items to which discounters and supermarkets have responded by offering more fashionable items of clothing. Industry data also highlights that whilst sales and market share for these companies is increasing, their presence and growth has had a negative impact on the competitive position and performance of independent retailers, the fashion multiples and of the department and general stores.

A final key development has been the emergence of companies that are adopting the so called 'fast fashion' model. This is seen to be distinctly different from the traditional model of retailing in that success is seen to be dependent on flexibility, responsiveness, and reducing clothing manufacturing and process times throughout the entire supply chain. This is in order to respond to real-time demand in retail store outlets. The aim is therefore to increase the frequency of store visits by consumers and drive footfall, by frequently replacing existing stock with new fashion items so that consumers return more frequently and purchase more often. Quantities of clothing are produced in relatively small numbers, when a product has gone 'it is gone' meaning it is replaced but not replenished. This is

done to avoid and minimise the risk of product obsolescence and having to discount items in order to sell them.

Logistics, supply and value chain management are crucial to the success of companies that are adopting the fast fashion model. Key within this is the requirement to vertically and horizontally integrate all operational activities at every stage of the supply and value chains. In addition, technology must support information and communication flows within the organisation and with those providers who are incorporated within the supply chain. This of course depends on the available resources available to individual firms and of the amount of market power and control firms are able to exert over their suppliers, manufacturers and distributors. A further point worth noting is that decision-making within fast fashion companies would need to be both centralised and decentralised. Centralised to ensure standardisation and consistency and decentralised in order to respond to changes in local market conditions and changes to consumer buying behaviour patterns and preferences.

Zara: Strategic Adoption of Fast Fashion

Established by Amancio Ortega in 1975 in the town of La Coruna in Galicia north western Spain, Zara is the flagship brand of the Inditex group of companies which has been registered on the Spanish stock market since 1981 (registered offices in Arteixo, Galicia).

From humble beginnings, Zara and the Inditex group have grown to be the world's largest manufacturer and retailer of clothing. In January 2010, there were 3983 company managed Zara stores worldwide with an additional 624 stores operating on a franchised basis. There has been further expansion since then 1 with Zara store openings in Australia, South Africa and Taiwan and other countries. Suffice to say there is hardly a country in the world in which Zara does not have a presence.

Ortega's influence on the company has been significant. With a background in tailoring for rich customers and knowledge of problems that were often encountered in meeting the needs and expectations of clients – items that had been commissioned were no longer liked by the time that cloth had been sourced, cut, fitted, stitched and delivered, leaving the tailor with expensive items and stocks of materials that had been paid for but had no buyers. For his store, he was determined that people would have what they wanted right then. The products sold in his shop would be fashionable and of good quality, affordable rather than expensive.

Often cited as the founding father of fast fashion, Ortega is held in high esteem by theorists who are involved in the clothing retail industry as well as those

engaged in production and market disciplines. His strategic and operational practices and principles are often held up as creating the fast fashion blueprint.

Clothing designed, produced and sold by Zara is often seen in the media and fashion publications with high profile film, pop and media 'stars' often seen combining high end designer garments with purchases made in Zara. Miriam Gonzales the wife of the deputy Prime minister is often seen wearing Zara and Samantha Cameron the Prime Minister's wife was recently photographed wearing a pair of the 'must have' boots for Autumn/Winter 2013 which had been purchased at Zara. Endorsements of Zara products has also been provided by leading fashion commentators. For example when Susie Forbes was the editor of British Vogue magazine she stated

"my everyday Vogue life is spent in Zara; seventy percent of my wardrobe is from the store" (Guardian 2002).

Others have tried to copy or emulate what Ortega has done with variable success and there is no doubt he has had a significant on global fashion retailing at a number of levels. Closer examination of Zara reveals that Ortega had a clear vision for the company from the outset, and subsequently for the Inditex group of companies, fast fashion was to be like fast food. Based on an understanding that clothing was not to be a department store staple, but the fashion store disposable. Inditex chief executive Jose Maria Castellano has also been quoted as saying "This business is all about response time. In fashion, stock is like food, it goes bad quick".

Short lead times then are significant and it is widely quoted that from identifying a trend, through design and inception to having an item in store takes Zara as little as 30 days (most retailers of similar size operate on a much longer timescale typically between 4 and 12 months). Further, rather than producing items in large numbers, Zara focuses on producing more styles typically around 12,000 per year, ensuring stock is always 'fresh' and 'on trend' with new store deliveries twice a week.

How is this achieved and what has enabled Zara's rapid growth? On becoming chairman of Inditex, Artego adopted an innovative business strategy. Design was to be consumer led - what customers wanted would be delivered and to this end Zara employs its own stable of designers.

Tight control is established over every stage of the manufacturing process - in the sourcing of materials, design, manufacturing, distribution and retailing of items of clothing. This is achieved operationally through how the organisation is structured, use of technology and relationship management.

Sourcing and processing of raw materials would involve standard hand-arranged cutting patterns. Then, using computer generated pattern pieces machines are

set up for bulk computerised cutting. Raw materials were to be sourced and bought in bulk on the open market through owned subsidiaries of Inditex. Materials are generic as far as possible – 'greige' goods, un-dyed and un-patterned fabrics. Natural materials are preferred as these can be coloured and patterned by other exclusive suppliers within five days of being informed of changes in demand.

Zara's operations and business activities where possible are located around Inditex headquarters in Spain. Rather than outsource production to factories around the world like many other retailers do (typically to Asia where labour costs are low – see H&M) much of Zara's production is undertaken within a relatively small radius of headquarters, in the Iberian peninsula and other parts of Europe. In addition, much of the production facilities are either owned by the Inditex group or if not, provider's facilities are closely monitored and controlled by Inditex.

The exception to this is in the area of garment stitching/assembly. This is seen as being labour intensive and this part of the production process is subcontracted to a network of workshops, many of which are in Spain and Portugal who employ local labour, some of whom are casual or self-employed. Whilst this has the implication of increasing labour costs it is seen as essential in achieving speed and flexibility, both factors being crucial elements in the business strategy. Where direct ownership of facilities is not possible or feasible, every effort is made to ensure suppliers operate ethically and comply with the Inditex codes of practice. The aim is always to develop sustainable and lasting relationships and partnerships.

The Inditex group is thus a vertically and horizontally integrated group of affiliated or wholly owned Inditex companies and one in which much decision-making is centralised. An exception to this is in the stores where there is some flexibility and decentralised decision-making authority given to store managers as a result of their localised knowledge of consumer buying behaviour and popular trends. This along with significant investment (and reliance) on information and communication technologies which are seen as vital to manage the interface between different functional areas. Also allowing for greater integration and standardisation, facilitating tighter control of all operational processes, and enhances information and communication flows within, and between, different operational constituent parts.

November 2013