



BUCKING THE TREND

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In an era when clothing retailers outsource much of their manufacturing to developing countries, a Spanish company is having enormous success doing things differently. This phenomenon dates back to 1975 when Amancio Ortega changed his business plan in a frantic bid to save his fledgling clothing factory. A German wholesaler cancelled a large order and all Ortega's capital was tied up in the deal. There were no other buyers. In desperation, he opened a shop called Zara near his factory in La Coruña in northwest Spain and sold the goods himself.

Today Zara is the flagship brand of the multi-billion dollar Spanish retail group, Inditex SA, consisting of well over 3 000 luxury stores in almost 70 countries. In March 2006, the group overtook Sweden's Hennes & Mauritz to become Europe's largest fashion retailer.

The lesson senior Ortega learned from his early scare was to be successful, "you need to have five fingers touching the factory and five touching the customer". In other words, control what happens to your product until the customer buys it. Consequently, Zara has developed a super-responsive supply chain. The company can design, produce and deliver a new garment and display it in its stores worldwide in a mere 15 days. Such a pace is virtually unheard of in the fashion business, where designers typically spend months planning for the next season.

Zara defies current conventional wisdom about running supply chains. In fact, some of its individual practices may seem downright senseless. Unlike many of its peers in retail clothing that rush to outsource, Zara keeps almost half of its production in-house without pushing its factories to maximise output. Rather than chase economies of scale, it manufactures and distributes products in small batches.

Operating as a vertically integrated group, Zara not only covers all fashion process phases, but also owns its retail stores. Many of its daily operational procedures differ from the norm. It holds its stores to a rigid order and stock receipt timetable. And it leaves large areas empty in its expensive shops, encouraging occasional stock-outs. Shorter response times ensure that the stores carry clothes that the consumers want at that time. Thus it can quickly identify and seize a winning fashion trend while competitors struggle to catch up. Grabbing fashion hot off the catwalk is a clear recipe for better margins.

The company's business plan is built mainly on three principles.

Close the communication loop

Zara's centralised design and production centre is attached to Inditex headquarters and consists of three spacious halls - one each for women's, men's and children's clothing. Unlike most companies that try to excise redundant labour to cut costs, Zara makes a point of running three parallel, but operationally distinct, product families. Although more expensive to operate, the information flow for each channel is fast, direct and unfettered by problems in other channels.

A cadre of 200 designers sits in the midst of the production process. Split among the three product lines, they work alongside market specialists, as well as procurement and production planners. Large circular tables facilitate impromptu meetings and small prototype shops in each hall encourage everyone to comment on new garments as they evolve.

The company is careful about the way it deploys the latest information technology tools to facilitate these informal exchanges. Customised PDAs augment regular phone conversations between store managers and market specialists. Through the PDAs and telephone conversations, stores transmit hard data such as orders and sales trends and soft data such as customer reactions and the hype around a new style to La Coruña.

This 'fast fashion' system depends on a steady information exchange between every single cog in the supply chain. Most companies insert layers of bureaucracy that can bog down inter-departmental communication. But Zara's organisation, operational procedures, performance measures and even its office layouts are all designed for seamless information transfer.

Maintain a strict rhythm across the chain

Zara relinquishes control over little in its supply chain. Even Benetton, long recognised as a tight supply chain management pioneer, doesn't extend its reach as far. This level of control allows Zara to set the pace for product and information flow. Moving to a fast but predictable rhythm, the chain resembles Toyota's 'takt time' for assembly or the 'inventory velocity' of Dell's procurement, production, and distribution system. By carefully timing the whole chain, the company avoids the usual problem of rushing through one step and waiting to take the next.

The constant flow of updated data mitigates the so-called bullwhip effect - the tendency of supply chains and open-loop information systems to amplify small disturbances. In an industry that traditionally allows retailers to change a maximum of 20% of their orders at season start, Zara lets them adjust 40-50%. In this way, it avoids costly overproduction and the subsequent prevalent discounting.

This relentless and transparent rhythm aligns all Zara's supply chain players and by maintaining it, the company can carry less inventory, maintain a higher profit margin and grow its revenues.

Leverage capital assets to increase flexibility

Contrary to the maxim that it's better to own fewer assets in a volatile market with short product life cycles, Zara produces roughly half of its products in its own factories and buys 40% of its fabric from within the group, including dyestuff. The managers reason that capital asset investment can actually increase the organisation's overall flexibility. Owning production assets gives the company a level of control over schedules and capacities that, they argue, would be impossible to achieve if entirely dependent on outside suppliers.

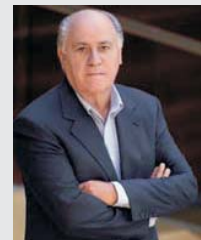
Specific garments can be ramped up or down production quickly because Zara normally operates many of its factories for only a single shift. If required, the highly automated factories can operate extra hours to meet unforeseen demands. Sophisticated just-in-time systems, developed in cooperation with Toyota, allow the company to customise its processes and exploit innovations.

It took Zara many years to develop its highly responsive system, but companies needn't spend decades bringing its supply chain up to speed. Some of these practices may be directly applicable only in high-tech or other industries where product life cycles are short. None of the principles outlined is particularly radical. Each one alone could improve any company's supply chain responsiveness. But together, they create a powerful force because they reinforce one another. Perhaps the deepest secret of Zara's success is its ability to sustain an environment that optimises the entire supply chain rather than each step.

Grasping the full implication of this approach is a challenge. Few managers can imagine sending a half-empty truck across Europe or running factories for only one shift. This is exactly why Zara's senior managers deserve credit. They have stayed the course and resisted setting performance measures that would make their operating managers focus on local efficiency at the expense of global responsiveness.

Zara shows managers not only how to adjust to quixotic customer demands but also how to resist management fads and ever-shifting industry practices.

This is a condensed version of an article in the Harvard Business Review, November 2004.



Amancio Ortega

