Chapter 16


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ABSTRACT

This case study illustrates the effectiveness of pursuing a customer centric marketing approach in order to achieve long term strategic success and global market leadership in the fashion industry. The case study provides the most significant elements of Zara’s history. Then it describes the competitive environment. Next it reveals how Zara has set up a unique, lean, and agile supply chain strategy in order to deliver new products on a very frequent basis and faster than any of its competitors, as fashion customers expect constant changes. Then the case study details the customer centric marketing strategy, with the use of customers as the source of the inspiration for fashion design, the central role of the stores to build a very high level of trust with its customers, which is used by Zara to make a distinctive brand strategy. Finally, the case study discusses the new challenges of Zara to adapt its customer centric marketing strategy to the digital market.

INTRODUCTION

On March 9, 2016, Pablo Isla, chairman and CEO of Inditex, looked up at his CFO Ignacio Fernández, after finishing the webcast conference call of the company results for the fiscal year 2015, which had ended on January 31st. The revenues were €20.900 million, up by 15% compared to the previous year, as expected by the analysts. Net margin at 13.8% was beating that of archrival H&M which had fallen to 11.6%. This was just the confirmation that Inditex, with its flagship brand, was now the unconditional worldwide leader in the apparel industry.

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Zara, the oldest brand – or concept as described by Inditex – was the most important for the group. With 2002 stores in 88 countries, Zara represented 65% of the revenues and 67% of the margin.

BACKGROUND

The amazing success of Zara -and Inditex- is closely linked with his founder, Amancio Ortega Gaona. He began his career in 1963 as a clothing manufacturer. The business grows steadily over the decade until Ortega owns several factories, which distribute their merchandise to other European countries.

In 1975, Amancio Ortega opened the first Zara store on a street in downtown La Coruña, Spain in 1975. The expansion strategy which made a small Spanish clothing firm into the undisputed worldwide leader in apparel can be described in three phases: First came the national development in Spain, then the international expansion in Europe and in the US and Latin America (1988-2003), and finally the global surge in Asia and the rest of the world.

As illustrated in Figure 1 the rise of Zara and Inditex has been extraordinary. From 1991 to 2015, the compound average growth rate was about 18.5%, from €257 million to €20.900 million meaning that Zara has managed to double its size almost every four years! This commercial success reflects the importance of growth in the Zara culture. The founder Ortega likes to repeat that “a company that does not grow will die.” Ortega stepped down as CEO in 2011 leaving the place to Pablo Isla, but he is still very involved in the strategic decision making of the company and owns nearly 60 percent of Inditex shares.

Figure 1. Inditex sales and net profit from 1975 to 2015 (million EUR)
Source: Inditex annual reports and documents compiled by authors.
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