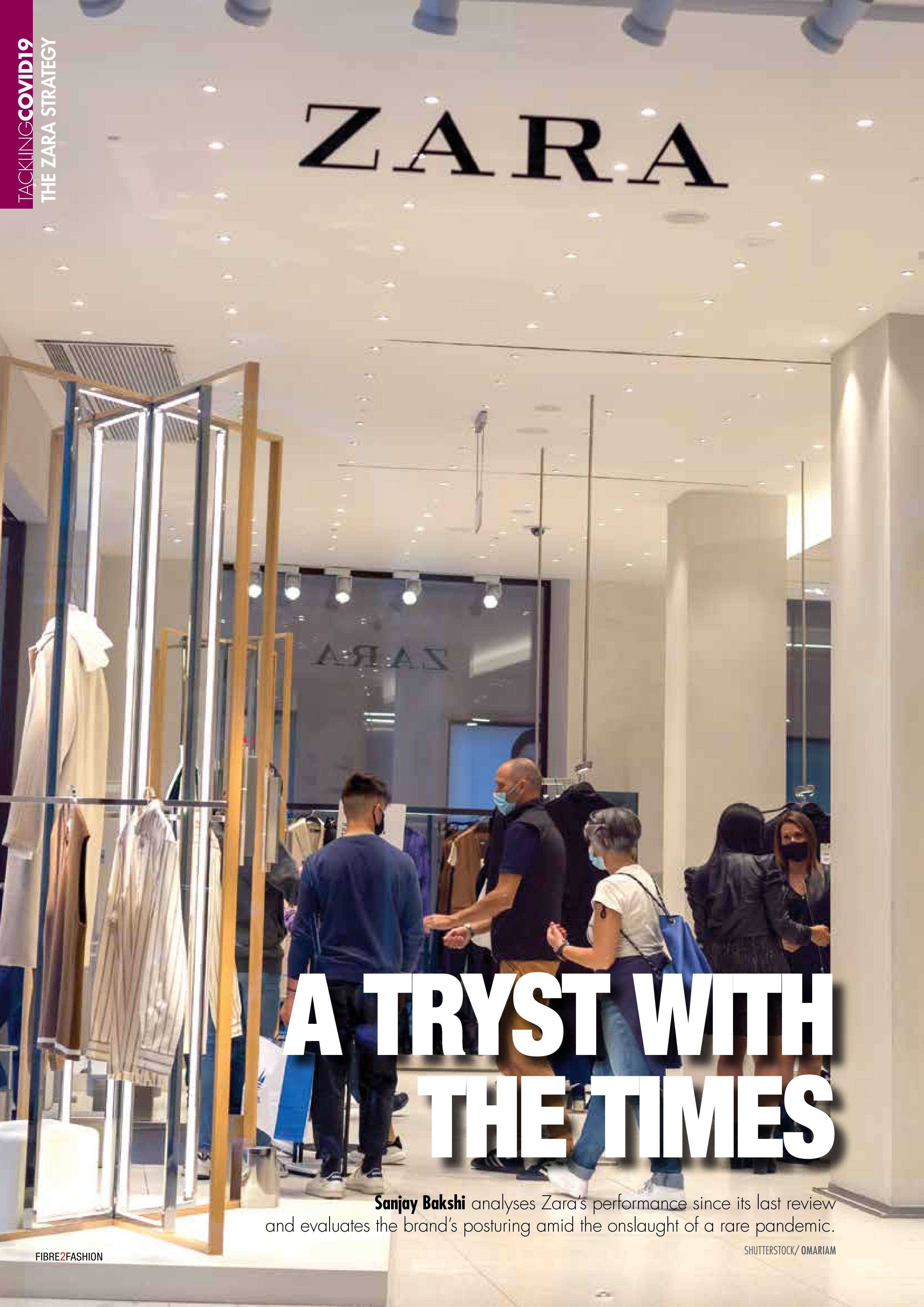


A TRYST WITH THE TIMES

Sanjay Bakshi analyses Zara's performance since its last review and evaluates the brand's posturing amid the onslaught of a rare pandemic.

SHUTTERSTOCK/ **OMARIAM**

95%

Online sales for Q1 2020 was up by **50 per cent** on an y-o-y basis including a **95 per cent** growth in April alone.

5700

In all, **965 stores** across 27 markets were open by end of Q1 and by June 8 over **5,700 stores** were open in 79 markets.

89%

By end of Q2 2020, it opened **98 per cent** of its stores and by August 2020, it had recovered **89 per cent** of its previous year's monthly sales.

A heavily-detailed and extensively-researched feature on Zara was published in the November 2019 edition of ***Fibre2Fashion***. It introduced Zara's inspiring historical evolution as an iconic fashion brand, its business model, unrivalled global status and secrets behind brand's enviable success. Zara's global as well as local performance up to 2018 was reviewed while talking about its journey in India.

The brand Zara is now being reviewed again, but this time under the shadow of the COVID-19 pandemic that has disrupted economies the world over, halted fashion consumption and wreaked havoc on the retail industry. This feature attempts to analyse how the fashion group performed in 2019—the successive fiscal, as also what it did during the lockdown and the subsequent unlocking times. Since the pandemic situation has been unprecedented, all decisions and their impact need to be understood at the company's level rather than at Zara alone. Inditex SA, Zara's parent company, made some bold and innovative decisions to sail through the prevailing circumstances.

SHUTTERSTOCK/ YNETTE T

Businesses began struggling to continue with their sales amid imposed lockdowns across the geographies they were operating in. The retail sector was among the most impacted sectors with fashion consumption taking a deep dive into the ocean of uncertainty. This was the time when the Inditex group, as a global fashion leader, made some bold and innovative decisions yielding its quarterly and half-yearly results.

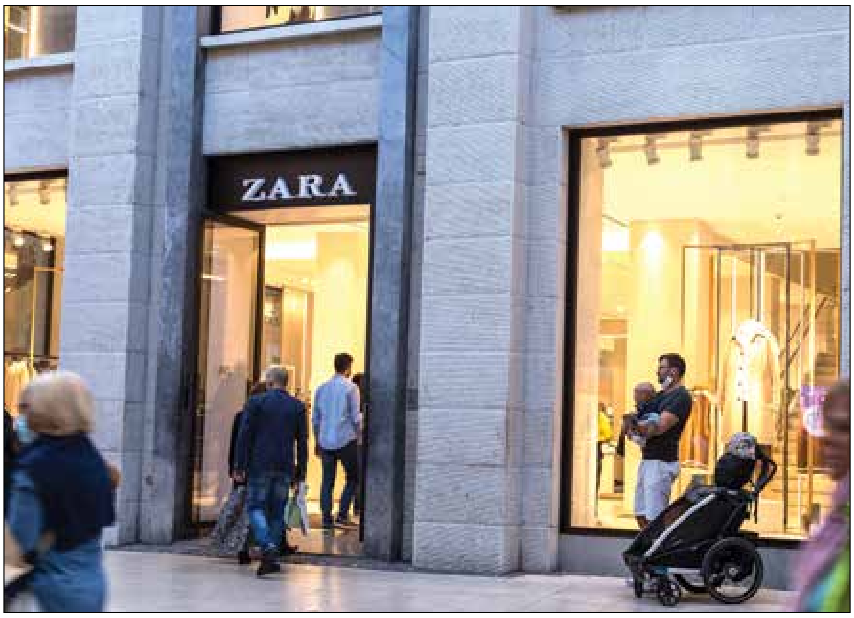
The eve of pandemic

The FY2019 proved to be good for the Inditex group, fetching €28,286 million in revenue against €26,145 million in 2018. The year registered an 8.2 per cent annual growth against 3.2 per cent growth in 2018. The revenue share in key markets also saw a visible shift where the native Spain market lost significant share to other markets. The share of the Spanish market in the group's total revenue dropped from 16.2 per cent in 2018 to 15.7 per cent in 2019; the rest of Europe market's share rose from 45.1 per cent to 46 per cent; American markets also had a marginal rise of 0.3 per cent when it moved to 15.8 per cent from 15.5 per cent share; and, rest of the markets' share including Asia dropped from 23.2 per cent to 22.5 per cent. The company's EBITDA also boomed in 2019, with a jump of 39.2 per cent showing a growth from €5,457 million in 2018 to €7,598 million in 2019 in value terms.

While the group's business figures made a happy statement, the market penetration KPIs behaved otherwise. Store expansion saw a loss of 21 stores from 7,490 in 2018 to 7,469 in 2019 whereas there was an addition of 15 stores in 2018 to the previous count of 2017. The group's market presence count had reached 202 markets worldwide in 2018 from 96 in 2017—a stupendous growth of 110 per cent but the count of 202 markets remained unchanged in 2019. Similarly, the group's total retail space and average store size growth rates proved to be better in 2018 than in 2019. Retail area figures for 2017, 2018 and 2019 were 4.74 million sq m, 4.96 million sq m and 5.09 million sq m respectively, delivering annual growth rates of 4.7 per cent (2017—18) and 2.5 per cent (2018–19). The average store size in 2017 was 634 sq m and in 2019 it was 681 sq m. The respective annual growth rates were 4.5 per cent (2017–18) and 2.8 per cent (2018–19).

In the group's € 28,286 million sales, Zara contributed its average share of 69 per cent by generating €19,564 million in sales with 87 per cent of sales coming from company-managed stores and the rest from the franchise stores. In contrast to the group's market penetration, global Zara remained relatively more active throughout 2019. Zara opened stores in the Hudson Yards shopping mall, New York; launched flagship stores in Pamplona, Cevahir mall (Istanbul), Dubai mall, Preciados (Madrid); and, renovated and expanded Paseo de Gracia store in Barcelona. Online sales too went live in Brazil, Saudi Arabia, the UAE, Lebanon, Morocco, Egypt, Indonesia, Serbia, Israel, Kuwait, Qatar, Jordan, Oman, Bahrain, Ukraine, the Philippines, South Africa and Colombia. Zara Home was incorporated into the global online sale in June and by December it was selling online in Saudi Arabia, Lebanon and Morocco too. In the opening month of the New Year 2020, it launched a new flagship store concept in the Middle East at the Dubai mall. Zara's net score of four new stores in 2019, added to a tally of 2,862 in 2018, was the result of opening 11 new stores and closing seven Zara Homes.

The Zara business in India posted a sales growth of 9 per cent in FY20 against 18 per cent between FY18 and FY19. However, its profit for FY20 saw astonishing growth of 45.4 per cent against a (-)13.4 per cent in the previous fiscal. Inditex Trent Retail India Pvt Ltd (ITRIPL), however, chose not to expand its retail presence beyond 22 stores across 12 cities till it finds suitable retail space to serve India's affluent and fashion forward shoppers. Inditex and Trent are also in another JV to operate the Massimo Dutti brand, currently operating with three stores in India, which reported a sales turnover of ₹670 million in FY20 registering a 5.37 per cent growth. It must be noted that Inditex follows a January-to-December financial year and Trent follows the April-March financial year. [This makes January-March the Q1 of the new fiscal for Inditex but Q4 of ending fiscal for Trent; so, all mentioned figures should be evaluated accordingly].



SHUTTERSTOCK / OMARIAM

Customers on September 26 entering a Zara store in Verona, Span that has reopened.

TABLE 1: THE PRE-PANDEMIC OVERVIEW: INDITEX

Inditex	2018	2019	Growth
Sales (in € million)	26,145	28,286	(+) 8.2%
No of stores	7,490	7,469	(-) 0.3%
No of markets	202	202	None
Retail area (in m^2)	4,962,081	5,086,732	(+) 2.5%
Average store size (in m^2)	662	681	(+) 2.8%
EBITDA (in € million)	5,457	7,598	(+) 39.2%
EBITDA share	20.9%	26.9%	6 percentage points

SOURCE: Company reports

TABLE 2: THE PRE-PANDEMIC OVERVIEW: ZARA

Zara *global*	2018	2019	Growth
Sales (in € million)	18,021	19,564	(+) 8.6%
No of stores	2,862	2,866	(+) 0.1%
No of markets	202	202	None
Retail area (in m^2)	3,256,281	3,345,519	(+) 2.7%
Average store size (in m^2)	1,138	1,167	(+) 2.6%

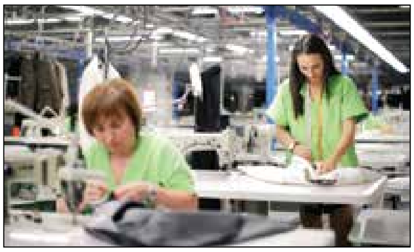
SOURCE: Company reports

TABLE 3: THE PRE-PANDEMIC OVERVIEW: ZARA INDIA

Zara India	2019*	2020	Growth
Sales (in ₹ cr)	1,441.25	1,570.54	(+) 9%
No of stores	22	22	None
Profit (in ₹ cr)	71.49	104.05	(+) 45.4%
No of cities	12	12	None

SOURCE: company reports | *Earlier reported sale figure was ₹1437.87 cr

INDITEX SA



Inditex SA, Zara's parent company, made some bold and innovative decisions to sail through the prevailing circumstances. The pandemic brought with it new learnings, innovations and policy changes for the Zara group. Many decisions were taken, new policies implemented, future outlook was planned and strategic turnaround envisioned.

Corona phase

During Q1 of the Inditex group's financial year, the COVID-19 pandemic arrived at the world stage. All governments went into brainstorming sessions to strategise their move in dealing with an unknown virus. The World Health Organization (WHO) got busy in conducting numerous press conferences every now and then creating awareness about the virus, sharing its research findings and recommending safety measures.

Businesses began struggling to continue with their sales amid imposed lockdowns across the geographies they were operating in. The retail sector was among the most impacted sectors with fashion consumption taking a deep dive into the ocean of uncertainty. This was the time when the Inditex group, as a global fashion leader, made some bold and innovative decisions yielding its quarterly and half-yearly results.

In its Q1 2020 report, the group admitted to facing a "material impact" of COVID-19 on its operations. In spite of that, online sales went up strongly across all markets due to increased online shopping during the lockdowns. As a result, online sales for Q1 2020 was up by 50 per cent on an y-o-y basis including a 95 per cent growth in April alone. The lockdowns began in mid-March with store closures and May witnessed store reopenings with some restrictions though, resulting in a 51 per cent sales loss. In all, 965 stores across 27 markets were open by the end of Q1 and by June 8, 2020 over 5,700 stores were open in 79 markets. During this entire period, the group's flexible business model helped its supply chain operate normally.

TABLE 4: INDITEX: Q1 2020 RESULTS

In € million	Q1, 2020	Q1, 2019
Net sales	3,303	5,927
Gross profit	1,930	3,524
PBT	(-) 539	952
Net income	(-) 409	734

SOURCE: Company reports

H1 2020: By the end of Q2 2020, the company reported to have 98 per cent of its stores open and by August 2020, it had recovered 89 per cent of its previous year's monthly sales. Online sales growth of 74 per cent during H1 2020 was a revelation. Overall, the half-yearly sales had American markets contributing 12 per cent, Spain 15 per cent, rest of Europe 49 per cent, and Asia and rest of the world 24 per cent. In the group's aggregate sales of €8,033 million, Zara contributed €5,532 million during H1 2020.

TABLE 5: INDITEX: H1 2020 RESULTS

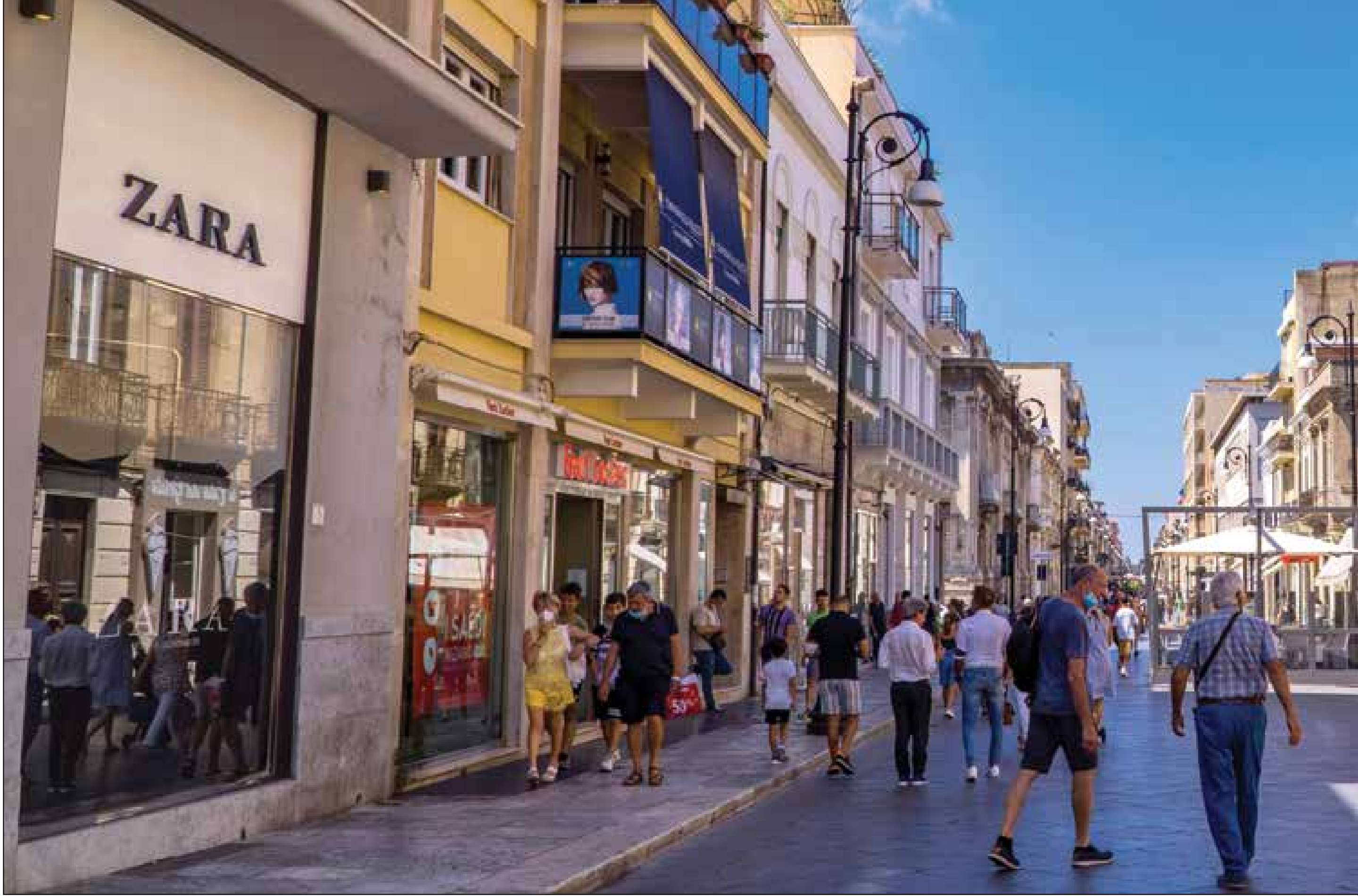
In € million	H1, 2020	H1, 2019
Net sales	8,033	12,820
Gross profit	4,512	7,284
EBITDA	1,486	3,447
PBT	(-) 263	1,987
Net income	(-) 195	1,549

SOURCE: Company reports

Lockdown in India: India was also made to run a series of lockdowns to contain the spread of COVID-19 in the country. Lockdown 1.0 began on March 24, followed by Lockdown 2.0, 3.0, 4.0 and 5.0 stretching up to June 30. Trade & business activities came to a standstill. The five lockdowns had a severe effect on economic activities, pulling the already-stressed GDP growth numbers even lower, thus inviting a parallel but conditional unlocking 1.0 phase to come into effect from June 8. More conditional openings of the lockdown ensued with unlocking 2.0, 3.0 and 4.0 ending on September 30. India is undergoing unlocking 4.0 even as this feature goes into print.

Zara India during unlocking phase: As malls began opening up for shoppers in many parts of the country during the unlocking phase, all Zara stores located in the malls also began routine business. As the government guidelines in regard to the pandemic has to be honoured by both malls and their tenants, only visitors having the permissible body temperature and Aarogya Setu app installed in their mobile phones are allowed inside. They have to maintain prescribed social distance, wear a facemask, and keep hands gloved or sanitised to avoid viral transmission through surface touch.

Zara implemented the required SOPs. The Indian stores operated with an earlier staff strength and no employees' layoff was reported. This was in accordance with the group's policy. Stores were committed to safeguarding the health of their shoppers and staff. Besides the regular precautions taken at the time of customer entry into the store, a strict compliance to other SOPs inside the store was also ensured. This included staff maintaining social distance, wearing facemasks and hand gloves; regular sanitisation of store, trial rooms and merchandise; and, encouraging contactless activities like digital payment, home delivery, etc. To keep customers well informed in advance, Zara India's website mentions prevailing store timings as applicable for the "next few days" because store timings may have to undergo a revision as per the next government order. Stores continued getting scheduled supplies twice a week. Zara did not turn to desperate modes either, to make up for sale losses by putting up special promotions to attract footfalls.



Pandemic effect

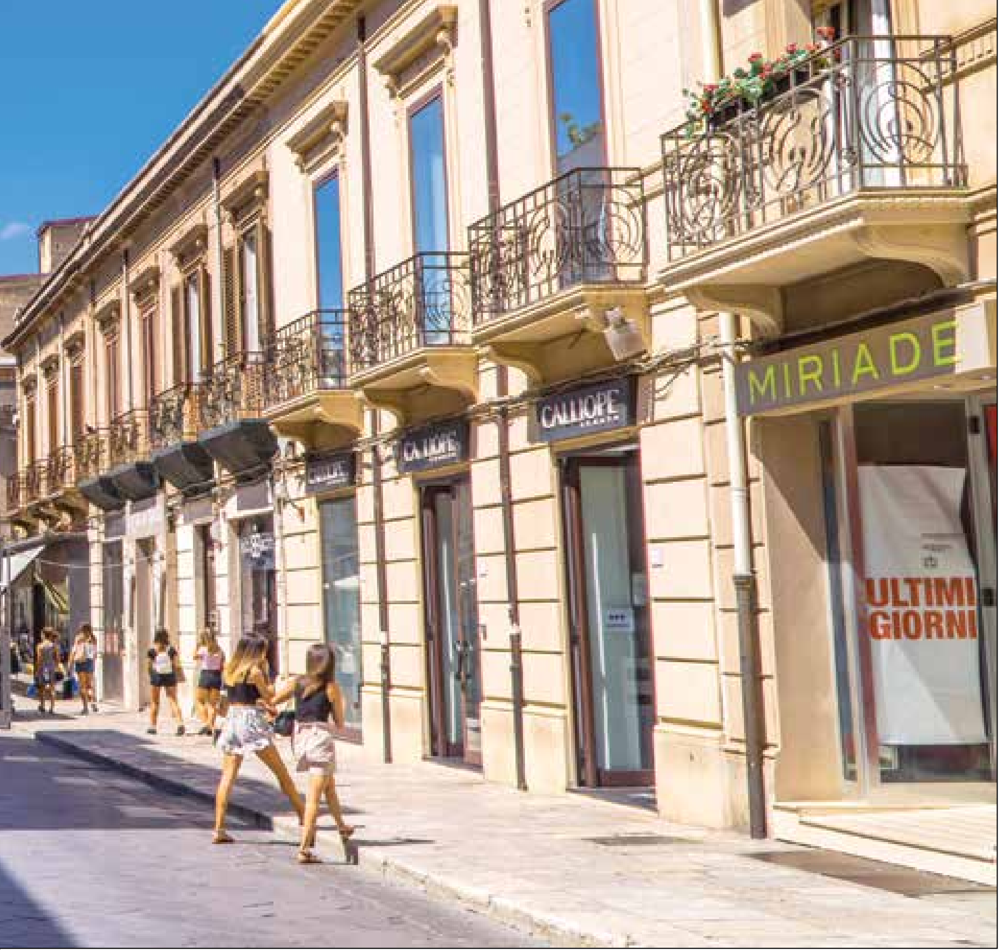
The pandemic brought with it new learnings, innovations and policy changes for the Zara group. Many decisions were taken, new policies implemented, future outlook was planned and strategic turnaround envisioned. Some are listed below.

Digital transformation: The most visible impact of the covid-19 pandemic has been a spontaneous shift towards ecommerce. Most of fashion and lifestyle players timely strengthened their digital presence to expand consumer reach and avoid sale losses during the lockdowns. Zara also responded and sped up its digital plans. In June, Inditex executive chairman Pablo Isla shared his plan of extracting 25 per cent of the group's sales from online channels by 2022 against the current share of 14 per cent. The plan has only gained momentum in recent times, though Inditex has been working on its digital strategy since 2012. Rivals like H&M are reported to have lagged behind Zara in digital transformation. Its long lease arrangements in many locations are also holding it back. No wonder, Zara looks confident of its strong position in the competitive world. Zara's online sales got a huge flip during the lockdowns in most European countries, including Spain. The closure of brick-and-mortar business in mid-March caused disruption to store retailing, resulting in a 14 per cent drop in the month's sales.

Store retailing: While working on its digital transformation, the Inditex group is simultaneously chalking out a blueprint for restrategising its stores as well. Some tough decisions are part of this blueprint, including shutting down of around 1,200 stores mostly in European and Asian markets by 2022. The planned shutdown number accounts for 16 per cent of its current global store network, and those allowed to continue will only be the larger ones situated at better shopping locations. The larger stores are expected to acquire lost sales of closed stores along with a part of the sales getting diverted to its online channel instead, thereby increasing overall sales densities and profitability. The implementation of the blueprint will involve an investment of €900 million per year up to 2022.

However, the company has different plans for India where Inditex is planning to increase Zara presence with at least four upcoming stores. The properties in top shopping malls have been signed up to take the store count beyond 22 within the span of a year or so. At the same time, there are some reports sensing a closure of low-performing stores in non-metros. A parallel plan of taking up more retail space for store consolidation in India is also on the cards. The enlargement of a few existing stores can also not be overruled. Shopping mall developers' faith in Zara to draw footfalls continued during the corona times as well because the Zara presence helps them charge a premium from other tenants. Mumbai and Delhi stores, as star tenants, still top the ranks for them.

Innovative thinking: Zara showed its 'innovative thinking' once again by thinking out-of-the-box during the challenging times. When the pandemic forced social distancing and disrupted photo shoots for new fashion collections everywhere, the company smartly supplied product samples of its new collection to the models for self-shoots at their homes. The models were asked to shoot suitably with the most easily available camera and light resources. The entire effort produced an authentic outcome, a new creative high too, in the absence of professional hair-do, makeup and tailoring teams. The brand has plans to continue with such exercises in the future also. This out-of-the-box thinking served two purposes—first, allowing the photoshoots which would otherwise have to be shelved or postponed, and second, serving the cause of sustainability by eliminating model travels and powering of studios, otherwise required during every shoot. The idea was in perfect sync with the



Though things are not normal as yet, Zara appears to have managed the pandemic crisis intelligently so far. Experts say that deep cash pockets and a healthy balance sheet of the company can help it to weather out tough times over a long period.

brand's commitment to providing sustainable fashion.

Employee relations: Low sales and store closures during the pandemic also witnessed millions of job losses in the market. Since consumption has been severely affected due to the lockdowns and social distancing norms, the impact of employee layoffs was more visible in the retail sector across the world. Zara stayed calm and made the brave declaration in June that headcounts in the company would remain stable. The declaration was not guided by emotions, but a well-thought action plan to absorb idle employees in other function areas. The action saw them being offered other jobs such as dispatching online purchases to contribute to the channel's booming sales during the lockdown. The employees were motivated and involved in volunteered contribution to company's operation. Growing online demand needed quick stock supplies, and to address this requirement Inditex roped in volunteer workers to go and pick held up stocks in their stores. It worked well, especially in Spain which is its main supply centre. The move paid off and supported its strategy to increase online discounts—another departure from Zara's usual practice.

Smart inventory management: The belief that inventory can be managed more efficiently in large stores has inspired Inditex to switch to larger formats for the future. A better inventory management leaves fewer items on the shelf to go on discount. This is the very core of the Zara model as well. Even during the corona times when stores were closed, the inventory levels remained in good health. Inditex closed its first quarter in April 2020 with 10 per cent less inventory than last year. The reason was that its local manufacturing base is largely allocated within Europe (Spain and Portugal), allowing the company to quickly turn off the supply to avoid stockpiles amid store closures. In contrast, the rival brands' major buying happens from Asian factories which delayed speedy action on their part. But the task was not that easy. In the initial lockdown days, Inditex was running low on stock as a result of supplies turned off on the one hand and the ramping online sales on the other. As the model does not encourage much of warehouse stocking and instead operates on the just-in-time model, the entire supply chain was about to collapse. To avoid this, the stocks lying in stores (also doubling as fulfillment centres) were directed to deliver online orders. The combined effort of efficient utilisation of available inventory and controlled drying up of supplies in the pipeline yielded a low leftover inventory.

RFID to the rescue: RFID (radio frequency identification) is no more new to the new age tech-savvy retail. However, the fashion group closely observed its benefits and has decided to take it forward for more productive output. RFID usage in garment-tagging allowed the company to track product-specific exact and real time inventory at all transit points during the distressed inventory times. The technology impressed the management so much that Isla attributed immense growth in the company's online sales to RFID. In his own words, "We adapted so well to the online world because it was all natural. Without RFID, it wouldn't have been possible."

Beyond the pandemic

Though things are not normal as yet, Zara appears to have managed the pandemic crisis intelligently so far. Experts say that deep cash pockets and a healthy balance sheet of the company can help it to weather out tough times over a long period. However, what is being missed is the group's local manufacturing advantage and agile supply chain management that together pushed its online sales during the challenging corona phase. Inditex leveraged its online channel late, but is now firm to use technology fully to strengthen its logistics and distribution system.FF