

BRANDCIRCUIT

ZARA

A CLASS APART



In May 2010, fashion giant Zara launched its first Indian store at the Select City Walk mall in New Delhi. Almost a decade later, **Sanjay Bakshi** takes stock of Zara's Indian journey.

Spanish retail group Inditex SA owns Zara—a towering name in global fashion retail. Besides Zara, the group has seven more retail formats—Zara Home, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho and Uterqüe—together selling their collections through an integrated offline-online store network. As of 2018, Inditex has a network of 7,490 stores in 96 markets and sells fashion online in 156 markets. The group has a highly diverse employee force of over 174,000 people from 154 nationalities who speak 73 different languages. Inditex reported net sale of €26.15 billion (₹2,063.10 billion) during FY2018 with Zara contributing close to 70 per cent of the total sales.

1963-75



1963: The business began in A Coruña, north-west Spain; company Confecciones GOA, began with a modest workshop making dresses & quilt dressing gowns for distribution
1975: First Zara store launched in Cornua, Spain
1976: Goasam founded by owner of Zara store

1977-84



1977: Headquarters established in Arteixo, Spain; Zara's first garment factories - GOA and Samlor setup on the outskirts of A Coruña
1983: Spain's biggest cities had nine Zara stores operational
1984: 10,000 square metres state-of-the-art logistics centre, opened in Arteixo

Of the group's €26.15 billion net sale, Zara contributed €18 billion (₹1,422.04 billion) in FY2018 growing at 3.3 per cent over the previous year though it grew at a CAGR (compound annual growth rate) of 8.2 per cent for the past five years (from 2014 to 2018), contributing an average of 68.5 per cent to the group's sale. As of 2018, Zara globally operates network of 2,862 stores spread across the Americas, Asia, Europe and other parts of the world. Its global store expansion has grown at a CAGR of 6.5 per cent. Zara, being the flagship brand of Inditex, has an immense impact on the group's performance. New stores opened by Inditex in 2018 became 39 per cent larger than those in 2012 because the average size of Zara stores increased by 50 per cent during the same period. Zara reported an EBITDA (earnings before interest, tax, depreciation and amortisation) of €3.120 billion (₹246.20 billion) in 2017 (17.8 per cent of sales) which grew marginally in value terms to €3.122 billion (₹246.36 billion) in 2018 (17.3 per cent of sales).

The India Journey

India had opened gates to foreign direct investment (FDI) in single brand retail while Zara continued growing at world stage during first decade of new millennium. Though economic slowdown of 2008 troubled many economies of the world, India emerged a confident market with a consistent economic growth trajectory; strong growth-sustaining socio-economic fundamentals empowering her to sail through tough times; large young and earning population; growing disposable income; and, a boom in retail consumption. The environment was entry-friendly—an opportune time for international players to enter India. Zara too could wait no longer. Zara's wish for India entry was fulfilled in 2010 when Inditex joined hands with Indian partner, the Tata Group, for its India debut.



Zara India store expansion									
FY	2011	2012	2013	2014	2015	2016	2017	2018	2019
Delhi	3								
Mumbai	1	1	1		1		1	1	
Bengaluru		2							
Pune		1							1
Surat				1					
Jaipur				1					
Chandigarh				1					
Chennai				1					
Mohali					1				
Gurugram				1					
Hyderabad						1			
Noida							1		
Kolkata									1
Total stores	4	4	1	5	2	1	2	1	2

1985-89



1985: Inditex incorporated to bring all the companies together under one banner
1988: Zara's first international store opened in Porto, Portugal
1989: Zara entered American market with opening of store in Lexington Avenue, New York, US

1990-93

1990: Zara store opened on Rue Halévy in Paris, France
1991: Inditex bought Pull&Bear and 65 per cent stake of Massumi Dutti
1992: Zara entered Mexico with store on Calle Madero, Mexico city
1993: Entered Greece market with store opening in Athens



Zara entered India through a JV (joint venture) entity—Inditex Trent Retail India Pvt Ltd (ITRIPL). The JV, formed in accordance with FDI norms, is 51–49 per cent arrangement between the Inditex Group and Tata Group's retail arm Trent Ltd. The first store was launched on May 28, 2010 in the renowned Select City Walk mall located in the Saket area of national capital New Delhi.

The Asian market at that time used to account for 12 per cent of the Inditex business. The same year Spain's economy grew by 0.1 per cent whereas India's was growing at around 8 per cent. FY2011 for Zara in India ended with four operational stores—three in Delhi and one in Mumbai. Since then, Zara has opened 18 more stores in the country's metro and tier I cities with an average of little more than two stores per year. The average achieved by the company is the targeted one.

With four stores operational in Delhi and Mumbai, Zara closed its first financial year in India with a sale of ₹147 crore. When the India operations gathered pace in FY2013, Zara ran nine stores in four metro cities and reported an aggregate sale of ₹404.80 crore. Since then, Zara sale has grown at a CAGR of 23.5 per cent ending FY2019 with a turnover of ₹1,437.87 crore. Zara surpassed ₹500 crore and ₹1,000 crore sale marks during FY2014 and FY2017 respectively.

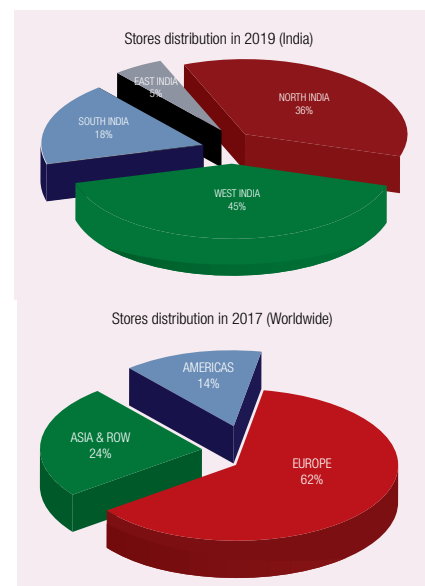
Zara's profits in India show interesting trends. In FY2017, Zara saw a 40 per cent drop in profit in its India business due to price cuts on its inventory. The profits rebounded well in FY2018 and Zara registered a 73 per cent growth over the previous fiscal, driven by strong sales and lower price points that helped the company acquire new customers. However, FY2019 reported another drop of 13.4 per cent in profits at ₹71.49 crore as against ₹82.59 crore in FY2018. Overall, Zara India is operating at an average profit of 5.5 per cent (FY2017–18) of its sale.



INDITEX

INTERNATIONAL BENCHMARK					
India v/s Global Zara	FY2014	FY2015	FY2016	FY2017	FY2018
Zara India sale (INR bn)	5.81	7.21	8.43	10.23	12.22
Zara global sale (INR bn)^	958.13	1,127.94	1,275.82	1,376.90	1,422.04
India store count	14	16	17	19	20
Global store count	2,085	2,664	2,765	2,841	2,862

^ Converted figures @ 1 Euro = INR 78.91



*Includes Zara Home & Zara Kids. Source: Inditex SA

1994-97



1994: Stores opened on Streetstraat in Bruges, Belgium and Sweden
1995: Complete acquisition of Massumi Dutti; Store opened in Valletta, Malta
1996: First store opened in Nicosia, Cyprus
1997: Market entry in Norway & Israel took total store count to 600 in 14 markets

1998-2000



1998: Bershka brand added to Inditex portfolio. New markets: Argentina, Japan, UK, Venezuela, Lebanon, UAE, Kuwait, Turkey
1999: Stradivarius acquired; New markets: Netherlands, Germany, Poland, Saudi Arabia, Bahrain, Canada, Brazil, Chile and Uruguay
2000: Inditex headquarters established at a new building at Arteixo; Market entry in Austria, Denmark, Qatar & Andorra

Comparing figures of Zara India with those of Zara worldwide invokes a sense of 'negligibility'. Zara India sales are not even one per cent of what the brand does globally. The India sale contribution was 0.6 per cent to its worldwide sale in FY2014 though it improved to 0.86 per cent in FY2018. Even the India store count contribution to worldwide store count of Zara is meager 0.65 per cent. However, data reveals that the average monthly sales per India store is around 8 per cent higher than brand's global average. Between FY2014 and FY2018, Zara India stores monthly averaged at ₹4.18 crore against the global average of ₹3.88 crore despite contribution from exclusive Zara Home and Kids stores.

So far Zara India has been secretive about its retail area information disabling comparison, by all means, of Indian per square foot sale with its global benchmark. Going by the Group's latest report analysis Zara's global average store size has increased by 4.5 per cent from FY2017 to FY2018 but its average monthly sale per square foot has declined by 1.9 per cent for the same period.

The India Expansion

The Zara store expansion in India was aggressive in the initial years. In the first two years, it opened four stores every fiscal. With the same average, Zara was estimated to have 36 stores in 2019 but the actual count is 22, way behind rival H&M's 35 stores within four years of its entry. Zara's India store expansion has grown at a CAGR of ~24 per cent between 2011 and 2019.

Traditionally, Zara is known to understand new market dynamics by opening few stores in its early days of entry. The acquired understanding is then utilised for expansion. Zara adhered to its strategy in India too. In FY2013, two fiscals after its India entry, Zara opened just one store in Mumbai, a city already running two stores. This was the year of taking stock of its India learning. The market learning encouraged Zara to debut four tier I cities and a second metro city – Chennai in

The Zara Model

Very broadly, the Zara model in nutshell: focus on rapid product development & design and outsource the manufacturing in small batch sizes to a network of dedicated suppliers. This is how Zara is able to deliver fashion fresh as and when new trend emerges. Retailers struggle to achieve this simple mantra, but Zara has continued improving upon the same.

Eighty-five per cent of Zara's production is in-house and same measure of its products is sold on full price. Large share of in-house production control enables Zara to have flexibility over quantity, frequency and variety of its new merchandise. It designs and manufactures 50 per cent of its apparel during the mid-season. Only 10 per cent of Zara's stock remains unsold while other fashion retailers end up with almost double the share.

It has the expertise to convert the latest catwalk designs into affordable high-street fashion in a matter of three weeks. This is delivered in tandem with changing trends. Zara boasts of over 10,000 designs in a season appealing to all fashion segments. The catch, however, is the artificial scarcity created due to small quantities in each style exuding exclusivity. Low stock levels lower risk of ending up with non-saleable stock in high quantity.

Zara has developed an impeccable mechanism of customer feedback too. Each store is linked to designers and all purchases serve as real time information about design preference. Required changes in products can be addressed immediately. Store employees are also trained to be sensitive to customer needs and choices making customer feedback comprehensive and credible.

2001-03



2001: Inditex got listed on Madrid Stock Exchange
2002: New distribution centre in Zaragoza, Spain; Stores in Finland, Switzerland, El Salvador, the Dominican Republic and Singapore
2003: Zara Home created; Entered the Slovenian, Slovakian, Russian and Malaysian markets

2004-06

2004: 2,000th store opened in Hong Kong; 56 markets got operational across Europe, Americas, Asia and Africa; Morocco, Estonia, Latvia, Rumania, Hungary, Lithuania and Panama debut
2005: Entered Costa Rica, Monaco, Indonesia, Thailand and Philippines
2006: Entered Serbia, continental China and Tunisia



FY2014. This was the year with highest number of store openings for Zara. Since then, Zara has been cautiously focusing on tier I cities. Zara's target of average two store openings per year has not been revised so far, but the growing presence of rival brands in Indian market might push Zara to rethink its expansion strategy.

Zara's retail presence is dominated by the western region led by Mumbai which houses the highest number of Zara stores, followed by the northern region. Zara's largest store in India is at Ismail building, Mumbai. The five-storey store with retail area of more than 51,000 sq ft was opened in May 2017.

The brand has opened 10 of its 22 stores in the first quarter of a financial year to gain maximum business months in that year. The chosen month of the quarter has been May which launched five out of 10 stores. The other interesting fact about Zara's retail presence is that none of its stores is located on high streets. Local partner Trent Ltd, responsible for real estate and store locations for Zara, has commendably fetched the best of quality retail space from Indian malls for its foreign partner. Whichever mall Zara is present in, it plays an anchor role attracting footfall of fashion consumers. The Delhi and Mumbai malls have been reported to have witnessed 40–50 per cent increase in footfalls due to Zara's presence. Today, Zara stores are present in Bengaluru, Chandigarh, Chennai, Delhi, Gurugram, Hyderabad, Jaipur, Kolkata, Mohali, Mumbai, Noida, Pune and Surat.

Unlike in other markets, Zara has restricted its fashion offering in India to apparel, footwear and accessories for men, women and kids. Internationally, it has exclusive stores offering Zara Home and Zara Kids ranges too. There are 603 Zara Home stores (524 company operated and 79 franchise stores) operational in 68 countries with Zara Home also being available online in 38 markets. Zara Kids, on the other hand, has 128 stores worldwide. The India debut for exclusive stores of Zara Home may never get materialised as the group recently decided on integration of Zara Home with the Zara brand.

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2007-08



2007: 1,000th store in Florence, Italy; Zarahome.com launched; 2 new distribution centres opened near Madrid & León in Spain
2008: First eco-efficient store in commercial heart of Athens, Greece; 8th brand Uterqüe; 4,000th store in Tokyo; New markets: South Korea, Ukraine, Montenegro, Honduras, Egypt

2009-10



2009: Second eco-store opened in Barcelona, Spain
2010: Zara online platform becomes live in 16 European markets; Zara's eco-store in Rome is 5,000th store of the company; Zara enters India as 51:49 JV between Inditex and Trent Ltd; first store launched at Select City Walk in New Delhi

The group will continue operating Zara Home online shop and standalone stores in whichever market they are operational, but a selection of home products will also roll out across selected Zara stores as part of a new section. The strategy has already been implemented in stores of London, St Petersburg and Madrid. The group sees 'increasing synergies' between the Zara brand and Zara Home leading to this decision. Zara stores in India have significant presence of kids' collections; so, opening up exclusive Zara Kids stores does not seem to be the compulsion.

The Indian stores have a significant retail area allocated to women's fashion merchandise indicative of the sizeable business that the category drives. Pricing has been a strong point for Zara. The brand's well-defined price points across product categories in a price sensitive market like India attracts fashion customers. Zara, patronised by urban consumers, is considered an upmarket brand in India.

Adding to its international expansion of the integrated store model, Zara India went online in October 2017 yielding a growth of 19.4 per cent over FY2017. The online business offered a shorter delivery timeline of 2-4 days for metros while the rest of India had a stretched schedule of 5-8 working days. As Zara caters to an urban customer base, the online business efficiency is of utmost importance in metros where it operates 16 of 22 stores today. An all-India distribution network is yet to scale up enough to service a larger part of the world's seventh largest country.

Of the group's €26.15 billion net sale, Zara contributed €18 billion in FY2018 growing at 3.3 per cent over the previous year though it grew at a CAGR (compound annual growth rate) of 8.2 per cent for the past five years (from 2014 to 2018), contributing an average of 68.5 per cent to the group's sale.



INDITEX

2011-15



2011: Zara began selling online in US and Japan achieving presence in 82 markets

2014: New logistics centre in Cabanillas (Spain) began operation

2015: 330 new stores opened; Zara store in Hawaii became 7,000th store of the company

2016-18

2016: Inditex entered five new markets with store openings alongside eight new online markets

2017: Zara.com launched in India, Malaysia, Thailand and Vietnam

2018: Zara launched its global online store (zara.com/ww) in 106 markets in which it did not had stores; A total of 202 operational markets



Zara compromised on the prevalent delivery practice of online players when it attached the condition to its free delivery—only for an order exceeding ₹4,000. Anything below the amount would invoke additional delivery charges of ₹299. However, customer-friendly free returns or exchange services stayed. The company tied up with renowned order delivery partners Gati Ltd, Blue Dart Express Ltd and Delhivery Pvt Ltd. To facilitate its online sales, a warehouse was set up near Delhi with 50 employees. The company has been silent on the warehouse size, the amount invested in it and its actual location. With a growing e-commerce market and online consumer base, the Zara website is attracting new online shoppers everyday contributing to its business.

As for competition, H&M is going strong, expanding aggressively in the Indian market. Uniqlo opened its first India store in October and is looking over its shoulder. Add other international fashion brands backed by corporate groups such as Reliance, Aditya Birla, Future, Major Brands, etc to the list of competitors, and it would seem that the Indian fashion market is getting intensely competitive. Recently, the Tata Group also announced plans to come up with its own “extreme fast fashion” brand along the lines of Zara which can get runway styles to customers in just 12 days at half the price.**FF**

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