

# Brief

## For those too busy:

The latest research, thinking  
& news on growth pace and delivery  
from around the world

## 'Freshly baked clothes': Zara as a case history of fast response, pace and delivery

### Multinational fashion retailer with a business model designed entirely around speed of response

Companies that maintain long-term sustainable growth, pace and delivery are not common. We looked at Zara, the clothing retail multinational - as an unusual example of a business that has built its entire business model on speed of response - to see what wider lessons can be learnt beyond the context of that industry.

As he started building his business, Amancio Ortega Gaona, the founder of Zara and its parent Inditex, said he believed that in the future, consumers would be treating clothes as they would yoghurt, bread or fish - to be consumed quickly rather than stored in cupboards. His highly successful retail business provides 'freshly baked clothes', with the whole organisation designed around reducing response time. Zara has seen continued high growth, net margin and return of capital rates for the sector, frequently ahead of H&M, Benetton and Primark.

### Four essential features of Zara's approach

What can we learn from Zara's approach? There appear to be four essential features:

1. The leaders of the organisation have very fast, very current, data including indicators of current trends
2. The right people, across all key disciplines, brought together in one room to make immediate decisions
3. Everyone knows their role, and roles are clearly differentiated so people can execute fast
4. There is a single, clear success criterion for making new decisions - understood by everyone.

These four elements of how the organisation works are designed to reinforce and work together to produce particular patterns of working. We look at each of these four features in turn.

### 1. Very fast, very current, data and 'lead' indicators

Leaders at Zara HQ in northern Spain centre look at weekly sales data from around the world. They also ring store managers directly every week to ask what their shoppers are wearing and buying, and to listen to their on-the-ground views about what is going on at

the moment. They do no forecasting of demand or fashion trends and focus entirely on observing what is happening now, responding to it extremely fast. (They do some hedging in response to forecasts of the costs of major raw materials.)

Zara see this as all about ensuring real, high-quality insight is created - well beyond what numbers alone can tell you. In particular, the direct calls with the store managers create real-time leading indicators of where demand is about to rise, or just starting to move. This whole process is designed to focus on trends - where the data is about to go, rather than seeing one week as a stand-alone snapshot.

Because the HQ teams talk directly to the stores there is no dilution, or remote 'ivory-tower' misinterpretations of the data. The right conclusions are reached more often, and faster.

## **2. The right people, across all key disciplines, in the same room make immediate decisions**

Members of design, sales, procurement, production-planning and logistics teams work together and agree how to respond to that week's data and feedback. There is no bureaucracy, management layers, or delegating up and down.

This is so central to the process that the HQ buildings, clustered in Galicia in the north-west tip of Spain, are constructed to support it. There are three big halls, with large windows overlooking the countryside, one each for women's, men's and children's clothes. In each hall, the core teams of design, sales, procurement, production-planning and logistics all work in the same open space - complete with a small prototype store for testing ideas, and lots of large tables for impromptu meetings. This allows the different functional teams to work fast and seamlessly with each other. The output of these teams is 1000 new lines a month created and produced at this speed, managed by a design and development team of 200.

Because the goals, business model and success criteria (see no. 4 below) are all shared and understood, these week-to-week operating decisions do not need approval, checking or control 'gates'.

## **3. Everyone knows their role, and can execute fast**

Once a decision is made, all the teams know what to do and trust others to play their part in a very clear, disciplined and highly synchronised process designed as a whole system. Jobs are clearly differentiated. As a result people waste no time having to negotiate or fit with others.

This produces an 'idea to in-store delivery' timing that can be as fast as an industry-beating 15 days. The Zara 'standard' time from making a decision on a new clothing design to having it in the shops is 30 days, against an industry norm of 3 to 12 months.

#### 4. A single, clear success criterion for making new decisions - understood by everyone

The business model says that speed of response and execution is the number one criterion (even at the expense of higher cost and other factors), because it drives their sales and profits. Everyone knows this, and so it speeds up, simplifies and aligns all the day-to-day decisions that everyone makes.

The focus on speed of response and execution across the whole process means that some aspects of Zara's way of working appear counter-intuitive. Sometimes a half-empty truck is sent across Europe. Airfreight is paid twice a week to ship clothes on hangers to Japan, when it would be far cheaper to do it once a week and fold the clothes into packing cases. Zara has strong control over locally-sited factories that depend on them for work, running the factories on single shifts a lot of the time (rather than the standard two), so they can increase to two shifts at no notice in response to any instant decisions to increase production. Their warehouses are built for maximum, rather than minimum capacity so that when they are on a full load everything works without bottlenecks. It is not the cheapest, but it is the fastest way to work.

#### **Business results: faster sales, lower discounts, higher customer loyalty, higher margins**

By working this way Zara sells out its products fast, and only discounts 18% of its products (eg at sale time) compared to an industry average of 30-40%. Because it has so many new products and they change so frequently, loyal consumers visit its stores an average of 17 times a year, (compared to a sector average of 4 times a year). The result is that net margins are normally double digit (at or near the top of the league of international retailers). And they have been sustaining a high growth rate for two decades.

Not all organisations can set themselves up in such a single-minded way, with everything from the design of the headquarters building, to the design of the supply-chain, all entirely based around the business model of speed-of-response.

As a business, if you can do it, and speed to execution is a key performance driver in your business, there are some great lessons here.

#### **Sources**

Sources used for this article include: Duta: *Retail at the speed of fashion*; Ferdows, Lewis, Machuca: *Rapid-fire fulfillment* (Harvard Business Review); Sull: *The Upside of Turbulence* (FT writer and London Business School professor).