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Zara: Managing Stores for Fast Fashion

In July 2009, Pablo Isla Álvarez de Tejera had been First Deputy Chairman and CEO of the fashion retailer group Industria de Diseño Textil S.A. (Inditex) for four years. He had inherited a successful company whose largest and most popular brand, the chain of Zara fashion stores, was famous for the way its responsive supply chain could quickly deliver collections of highly fashionable products to meet ever-changing customer demand. With such continuous success, it wasn't easy to heed the advice Isla had received from Inditex's founder, Amancio Ortega Gaona, "Once a month, come here thinking that we are near bankruptcy. You will find a lot of things to change."

Finding little to change in the company's unusual but successful business model, Isla had focused on refining investment priorities and objectives and on improving operational efficiencies wherever he could, from the distribution network and merchandise-planning systems to factory operations and store deliveries. Now he was wondering how to improve efficiencies in managing the store network. The possibilities included outsourcing certain store operations to third parties, changing the way store managers were compensated, and creating formal operating procedures for store operations. But Isla felt he had to be careful. The stores were at the heart of Zara's business model. They were where Zara constantly took the pulse of customer demand. Eighty-nine percent of Zara's employees were right there in the stores with the customers. Most of Zara's inventory was in the stores. If Isla made even small changes to store operations, what else might change?

Inditex: History and Structure

In 1975, Amancio Ortega Gaona, a Spanish entrepreneur, opened the first Zara store in A Coruña, Spain, selling fashion clothes at low prices.[1] New store openings followed and, only 10 years later, Ortega Gaona created a corporate group, Inditex. In the 1990s, Inditex started to expand outside Spain and to acquire and develop new brands (see **Exhibit 1** for the history and descriptions of Inditex's brands). In 2001, Inditex went public and in 2005, Isla became CEO. By 2008, Inditex had grown into an eight-brand group worth €10 billion, with 4,264 stores and 89,112 employees (see **Exhibit 2** for details). Approximately 80% of Inditex's employees and 80% of its management were women.

The headquarters in A Coruña set Inditex's strategy, coordinated the brands, and managed shared functions such as HR, IT, transportation, and real estate. Inditex country offices represented headquarters at the country level, supervising and coordinating the operations of the various Inditex brands (see

Professor Zeynep Ton and ERC Research Associate Elena Corsi and ERC Executive Director Vincent Dessain prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Exhibit 3a for country office structure). Country managers were given considerable autonomy, provided that they complied with the Inditex code of conduct, which was "expressed in three principles: all of the activities of Inditex are undertaken in an ethical and responsible manner, all of the persons who maintain directly or indirectly, any employment, economic, social or industrial relation with Inditex will receive fair and honorable treatment and all Inditex's activities will be carried out in a manner that is highly respectful to the environment."[2] Country managers were also expected to be proactive in social issues. Inditex was involved in many educational and human rights activities, which the company believed would strengthen the human capital of the communities in which it operated. Inditex also stressed that, in addition to getting the right product to the right place at the right time and with the right price, the product should be made under the right social conditions. To this end, the company had conducted more than 3,000 social audits to measure compliance with the Inditex code of conduct for manufacturers and reserved the right to visit a supplier's factory at any time and talk to the workers.

Aside from the central management described above, each Inditex brand was managed independently, with its own network of stores, logistics centers, and production facilities. At the headquarters, a brand's collections were designed by in-house designers. Product flow was managed by *commercials*, as they were called, who were organized into teams to analyze and interpret the sales figures for around 40 stores in a geographical area. Commercials received an annual bonus, based on sales at the stores for which they were responsible.

Each Inditex brand had regional networks of *Dirección de Tiendas*, equivalent to regional managers and known internally as DTs, who oversaw all aspects of operations and performance for about 15 stores and were evaluated on how well those stores performed. A DT's annual bonus was based on sales, labor productivity, shrink, and team motivation. The DTs were headed by a DT country head.

Inditex brands also had HR directors who supported the stores on all HR issues that were not linked to operations and who were organized by geographical area. The DTs and HR directors frequently collaborated to match the right store manager with the right store. Jean-Jacques Salaün, Inditex country manager for France, explained:

> In France, we have four levels of stores and type of managers. The stores are classified with the letters from A, the highest, to D, the lowest, according to their importance in terms of sales, location, strategic relevance, and employees. For each store level, we define the qualities that a manager must have, such as a certain level of managerial capacity and knowledge of the product. Every season, the manager will be evaluated on these qualities. The qualities required, as well as their responsibilities and what we expect from them, are in their contract. When managers do not perform well, the DT or HR directors will first try to help them. When we ask managers to change store because their performance is not good, they are not surprised. Other countries in the group have a similar approach.

Zara

Inditex's oldest brand, Zara, was the pioneer of a new fashion category, called "fast-fashion"—trendy catwalk-inspired items manufactured quickly and sold at affordable prices. Other fashion retailers, such as the Swedish Hennes & Mauritz (H&M) and the American Forever 21, had followed Zara's fast-fashion example. The Japanese Uniqlo, which had recently started an aggressive expansion strategy outside Japan, was also known for offering fashionable clothes at cheap prices.

Zara was able to produce new items and deliver them to its stores in less than three weeks rather than the average six months needed for luxury brands. This allowed the firm to react to customer demand within the season. In a typical season, Zara produced about 11,000 different items while key competitors would typically produce 2,000-4,000.[3] Jesús Echevarría Hernández, Chief Communications Officer of Inditex, explained:

> We have a triangle of information: the store managers, the DTs, and the commercials. The commercials receive sales figures daily and communicate with the store managers and the DTs daily to capture trends and interpret those figures. Store managers often ask to change a model (e.g., colors and sizes), introduce variations (e.g., short pants from long pants), or even design new clothes from scratch. If a lot of stores ask for similar changes, the commercials communicate these to the design team who will try to design the item and send it to all the stores.

By 2008, Zara was by far Inditex's largest brand. At the end of January 2009, it operated 1,520 stores and generated €6.8 billion in revenues. Zara ran three independent product lines: women's, men's, and children's. Each was managed by a separate team of DTs, commercials, and designers (see **Exhibit 3b** for brand structure). At each store, the three product lines were managed by three independent section managers, each with a team of sales people and cashiers; the women's section manager was also the overall store manager. The women's line was Zara's core business and was further organized into three collections: Women, Basic, and TRF. Echevarría explained, "The Women collection is more fashion and is moving at a very high speed. These items are placed in the front of the store, in the most important places. Basic also has a touch of fashion, but with more attractive prices. TRF is the young concept with denim and tee shirts."

Autonomy

The culture at Zara encouraged fast decision-making, continuous improvement, and an emphasis on retaining the best people both at the stores and at headquarters. Isla explained:

> We take small decisions and improvements every day. Everything in our company is bottom-up. This has a lot to do with our entrepreneurial spirit. The first person with a big entrepreneurial spirit is the store manager. One of the characteristics that the managers mention is the autonomy they have. Store managers feel like the owners of their stores. In particular, they value the freedom they have with the orders. We value this autonomy because it is crucial for us to retain talented people who like the business.

Giving autonomy to store managers was particularly important because Zara operated in many locations with different local needs. For example, although Zara stores primarily offered a self-service shopping environment, customers in one of Paris' most chic areas expected the security guard to keep their shopping bags while they browsed and expected personalized help from the staff—as if they were in a luxury shop. In Japan, customers expected to be greeted as they entered and exited the stores.

The store managers' autonomy also allowed Zara to generate ideas for improvement. For example, from the Japanese stores, Zara took the practice of having a five-minute staff meeting before opening time to discuss the day's objectives. This practice became known elsewhere as "the Japanese meeting." Echevarría commented, "You'll get great ideas from the stores if you have the ability to hear them."

Corporate Control

Despite Zara's dedication to store managers' autonomy, the firm made sure its brand was presented in a similar way to customers anywhere in the world and that all stores shared the Zara culture. Many store managers and DTs had experience in multiple locations. Cyril Boudarel, the head DT for Zara in France, had also worked at Zara locations in Turkey, Hong Kong, the United States, and Malaysia. Twice a year, Inditex country managers met to discuss the company's culture and their own performance, expansion plans, and best practices. Zara DTs within a country met regularly to exchange information.

In each country, Zara section DT heads (women's, men's, and children's) and Zara HR directors held weekly "brand meetings" with Inditex's country manager and country HR director to discuss store performance and best practices. Salaün explained, "We cover the sales, the budget, the appointments, the sanctions, and all the operational points and make sure that Inditex's culture and the law is respected at the local level. We also decide if we need to move a store manager and who needs to be promoted. If someone does not agree, it is like a veto."

DTs, HR directors, and country managers constantly visited stores to explain the culture directly to the staff and to monitor store performance. The DTs, in particular, were the transmitters of unwritten rules and policies. Stores received manuals that included information about the chain and its management, human resource practices, information systems, and the environment. But for most store processes, there were no process manuals. Instead, there was a common way of doing things within each country. For example, all Zara stores in France managed replenishment from backrooms similarly. Cashiers were not supposed talk to each other while ringing up customers and section managers were not supposed to take breaks at the same time. If DTs, who spent 80% of their time visiting stores, observed deviation, they were not shy about letting the store manager know and asking him or her to work on it.

Isla also visited the stores frequently. He explained:

> My main objective is to make sure that there is no disconnection between the store and headquarters and that what the store is feeling is transmitted. When I visit a store I usually ask, "What are you missing? What should you have that you don't have? How is your relation with the commercials? What support are you getting from the country structure? What HR problems do you have?" We are a very store-driven organization but, as we grow, to avoid becoming a bureaucratic company, we need to make efforts. I also want to know if store managers are knowledgeable about the products. I usually ask them to show me the newest products they received and tell me what they think about them.

Zara's Supply Chain

Zara's two main selling seasons were autumn/winter and spring/summer. Six months before the beginning of each selling season, Zara's design teams presented the first designs and Zara committed about 30% of its production to its suppliers. For the less fashion-oriented collections, the commitments were larger. During the season itself, Zara's proximity factories with short lead times allowed it to introduce new designs based on fashion trends and customer needs. For more basic products, which were easier to forecast, Zara used cheaper suppliers with longer lead times (see **Exhibit 4** for details on locations and lead times).

All products, regardless of their origin or destination, came to logistics centers in Spain before being sent to the stores. Even for stores in Asia, a product produced in an Asian factory would first come to Spain and then be distributed by air. Airfreight cost was about 1% of the selling price. The Arteixo logistics center in A Coruña managed 50% of the women's and men's merchandise and served Spain, Portugal, the Americas, and the Middle East. The Zaragoza center managed the remaining 50% and also served non-Iberian Europe, Russia, and Asia (see **Exhibit 5** for Zara store locations). The Meco center in Madrid managed children's wear for all Zara stores. Most countries also had small warehouses for extra or returned merchandise and for inter-store transfers.

The Ordering Cycle

At the beginning of each season, the new collections were sent to the stores in quantities decided by the commercials. Each store received about 25,000 units within a two-week period. But once new products arrived at the stores, it was up to section managers to order replenishments. Twice a week, each section manager received a morning "offer" through his or her PDA. The offer listed the products that the logistics centers had in stock, with descriptions, photos, and a history of how many of that product the store had already received and sold. Section managers used these data along with their own forecasts of customer demand and their knowledge of store inventory to decide how many units of each item to order. The IT systems did not provide store-inventory data; section managers knew their inventory by spending most of their time on the selling floor. Section managers sent their orders by the end of the day.

European stores received their deliveries within 24 hours; those in Asia and the Americas received deliveries within 40 hours. Each week, stores received about 12,000 units (8,000 for women's, 2,000 for men's, 2,000 for children's). But they almost never received exactly what they had ordered. Because inventory at the logistics centers was limited, it was allocated to stores according to their orders and their previous sales. For this reason, section managers tended to over order. Julien Lancelin, the store manager of Zara Opera, a store based in a fashionable area of Paris, said:

> In theory, you can order twice a week so you only need to order for three or four days' of sales. But if the item is successful, by the time you order it again, it might already be out of stock. For example, one month ago I received 20 items of a new jacket. I sold them in one day. In my first order, I asked for 150, which I sold in less than four days. Then I ordered 200, but I received only 100. When I ordered it again, it was out of stock. As it was a bestseller and several shops asked for the same item, the commercials decided to produce it again. Yet, I had to wait for almost three weeks, which is the time it takes to re-produce an item. I have ordered it again but I am not sure I will receive it.

Ordering was especially challenging for new products. Lancelin explained:

> I just received these new items in the morning and, by 10 p.m., I need to pass my order. I do not have much time to decide if I want to order the new items or not and in which volumes. So I'll immediately put these new clothes in an area where people will see them. If the deliveries are late or the product is not well placed, I will need to pass the order without observing customers' reactions.

Recent Improvements

Isla had introduced several improvements to Zara's logistics and merchandise planning. For example, he reduced transportation costs by consolidating transportation across Zara's different brands and invested €100 million to open a state-of-the-art logistics center for children's merchandise in Madrid in 2007.

Several improvements involved shifting time-consuming work away from store employees. For example, when new merchandise was delivered to Zara stores, store employees had been unloading the trucks themselves. Isla had the third-party logistics providers who were making the deliveries bring the packed merchandise off the truck and onto the selling floor. Employees had also been attaching alarm tags to newly delivered products, which ate up considerable time and kept the products in the backrooms for an extra day. Isla had this task shifted to the factories.

In 2006, Zara introduced automatic replenishment for basic products (10-15% of all products) that were easier to forecast. Although some store managers were initially hesitant to give up control of their inventory, they realized that the change allowed them to dedicate more time to fashion products. Besides, they could always communicate any problems they saw to the commercials. Working with academics in operations management, Zara developed an algorithm for allocating inventory at logistics centers to stores and was now trying to optimize clearance pricing. Isla explained:

> We tend to internally design our systems to fit our needs. Everything in our company is a combination of good systems and maintaining the human touch. It's impossible to think that we are just going to follow what the program or the formula suggests. We are managing so many thousands of references that we need these tools, but they will never replace the essence of our decision-making process. Some people think that this model is risky, but it is not. That is because Inditex is based on thousands of people taking thousands of small decisions. Orders happen twice per week. The store manager doesn't take a decision with a 10% impact on total sales. Commercials can easily spot if a manager is making mistakes and the software would help them detect this.

Zara Stores

Zara stores were in prime locations. An average store was 1,200 m^2 in size and carried about 40,000 units of inventory. But stores varied greatly in size and layout. Zara put a lot of emphasis on creating attractive interior designs that conveyed freedom and quiet comfort to the customer,[4] but also on ensuring that merchandise and shop windows were presented similarly in all Zara stores. Teams of merchandisers created displays at the test store in A Coruña, decided on the look, took photos of how they wanted the items to be displayed, and sent the photos to stores (see **Exhibit 6** for a sample photo). The shop windows were changed every three to four weeks by regional window dressers responsible for about four stores.

Store displays were managed by section managers and store merchandisers who tried to keep as close as possible to the photos sent by headquarters. Cyril Boudarel, DT head of Zara France and Zara Women France, explained:

> The merchandise moves fast and the shop changes every day. The section manager receives a layout picture but they might not have all the items; they could have sold out an item or may never have ordered it. We have regional merchandisers who tell the section managers and store merchandiser, "You cannot present this item like that," and together they try to come up with an alternative.

If the section managers disagreed with headquarters' guidelines, they could take a picture of the changed layout and send it to the regional and central merchandisers for approval. The changes sent by the section managers were tested in the A Coruña store. Boudarel said, "We want people with ideas. If a store has a good one, I let them do it. I'll come and check first. They cannot do it alone because if it works I want to share it with other stores. This is also good for brand consistency. We want Zara stores to be recognized as such everywhere in the world."

Store Management

An average Zara store had 70 employees, 60% of whom were part-time sales associates. The key positions were the three section managers, who managed all aspects of store operations; the women's section manager was also the overall store manager. Section managers recruited and managed staff, worked with merchandisers on store layout, and managed in-store logistics and customer service. They were constantly on the selling floor working with merchandise, observing customer needs, and helping staff. In fact, a section manager did not have an office or even a chair on the selling floor. A few section managers were specialists in HR, replenishment, or management; they were part of the DT team and were sent to other stores to advise colleagues who were having problems. Newly appointed section managers did not necessarily receive any formal training; many had already learned the job as assistant managers (*segundas*) receiving constant feedback from DTs.

Section managers were evaluated by HR directors and DTs. This evaluation was based on sales, employee productivity (measured as sales divided by employee hours), shrink, store atmosphere, merchandising, knowledge of the merchandise, staff image, recruitment, training, employee turnover and absenteeism, and how well the section manager evaluated his or her own staff's performance. (DTs visited the stores so often that they were familiar enough with the employees to gauge how well the sections manager was evaluating them.) Section managers received a competitive salary, determined by HR at headquarters, and a bonus based solely on how well they achieved sales targets. Boudarel commented:

> To achieve sales, managers need an efficient and trained team and have to manage the store well. Yet, when we open a new store in a new country, customers will come for the product and the brand. The manager can just cover the bases. But in mature markets and in a moment of crisis, the managers have to adapt to the situation and do everything well—the merchandising, the orders, and so on.

Sales associates were organized by section (women's, men's, and children's). Those working in the women's section were also organized by collection. Section managers tried to match the sales associates with the right collections. Within the women's section, for example, they often had more fashion-oriented employees working in Women, faster employees working in Basic (the largest department with the most folding to do), and younger employees working in TRF.

Retaining Store Staff

Zara's business model relied on experienced and committed store employees. It was important to keep turnover low and, in fact, Zara enjoyed lower turnover (on average, around 15% for sales associates and much lower for store managers) than most other large retailers. Employee turnover varied greatly across countries and locations, however, going over 15% in large cities and reaching around 30% in Russia.

Sales associates' compensation was set by HR at headquarters. Overall, the starting wages were higher than those in other retail stores. All store employees, including the part-timers, also received a commission. A percent of each store's monthly sales was divided among the store's employees according to the number of hours each had worked and his or her position.

Ninety percent of the store managers had been promoted from within. It was not uncommon for a part-time employee to rise through the ranks and become a section manager in only two years, then go on to become a DT or a commercial. But stores in mature areas such as Paris had started losing their part-time employees because there were not enough opportunities for them to become full-timers. Although part-timers had the same benefits as full-timers, they could not accumulate responsibilities and be promoted. In France, stores came up with a way to reduce part-time employee turnover by allowing some part-timers to work full-time hours but in two stores. By summer 2009, 370 employees had that contract. One corporate initiative to reduce employee turnover was to provide employees their work schedules one month in advance. But as of summer 2009, stores tended to follow local legislation or common practices on the matter. In France, for example work schedules had to be provided two weeks in advance by law. In the United States, there was no such law so Zara adopted the common practice of providing schedules one week in advance.

Motivation was important. There was a lot of physical work to do and there was constant monitoring by section managers, DTs, and HR directors to put up with. Echevarría explained:

> It's a really tough but rewarding job. When you have a very busy store, it's really hard to keep the tables with the folded clothes in neat piles while customers are taking and looking at the items every second. We say that the store must never fall apart, which happens when the tables are a mess, or we have sweaters where the pants are. If you are not motivated in this group, this is too much work. Yet if you love the job you will be amazingly loved: It is absolutely rewarding to see

so directly the consequences of your work when, for example, a customer leaves the store satisfied with purchases that you have helped him or her to find.

To meet these demands, section managers tried to hire sales associates with a strong interest in fashion and a strong capacity to learn. These were the employees who would be motivated by the frequent arrival of new merchandise and the opportunity to perform different functions. Many Zara employees also felt proud to be part of an organization that took action on social issues. Sales associates were usually hired under a part-time contract and then promoted to full-time and other roles. When they first started, they often received a one week on the job training.

Managing Customer Service

Zara's target customers were young, fashion-conscious people who were interested in buying inexpensive clothes. These customers came frequently to see the new products. When they liked something, they often bought it immediately because they knew it might not be there next time. Most customers did not expect personalized attention from sales associates. In fact, sales associates were taught as a first rule not to bother customers and to offer assistance only if directly approached or if they noticed that someone needed help. Boudarel explained, "Customers come to Zara for the product and usually they do not have time. We can help them to choose a fitting, but it is very quick."

Good customer service at Zara meant presenting the merchandise well for customers, being available when customers needed help, and making sure customers didn't have to wait long for a cashier.[i] As Boudarel put it, "Our staff is more involved in managing products than managing customers. Therefore, we need sales associates who can fold and talk at the same time."

Ensuring this kind of customer service depended heavily on having enough staff. Staffing levels at the stores were determined by DTs and HR directors in collaboration with section managers. HR directors budgeted hours for each store and section every month based on historical data, sales forecasts prepared by DTs and section managers, and any adjustments that were necessary. Boudarel explained, "When we prepare the sales budget, I ask the managers how much they think they will make. Then we adjust the budget together. The managers always tend to underestimate how much they will sell." Section managers used these monthly payroll budgets to decide on daily staffing levels and employee schedules, taking into account daily workload, employee availability, and labor contracts (**Exhibit 7** shows how sales and labor hours vary over time. **Exhibit 8** shows how labor hours vary within a given day). But knowing how important sufficient staffing was for customer service, Zara did not put too much emphasis on meeting monthly payroll budgets.

Customers with complaints, questions, and comments could call, email, or send a letter to headquarters. In 2008, Zara received about 21,800 electronic queries. Other than this count, Zara did not track measures of customer service. Instead, it focused on one metric: sales.

Managing In-store Logistics

Much of a sales associate's work was managing in-store logistics, which consisted of (1) processing deliveries, (2) managing product flow between the backroom and the selling floor, (3) managing display areas and fitting rooms, and (4) conducting physical audits.

Processing Deliveries

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[i] Every section had several sales associates trained as cashiers. In the women's section of Zara Opera, for example, 22 of the 38 associates could operate a cash register.

At least twice a week, stores received early-morning deliveries from third-party logistics companies. Store employees arriving at work around 7 a.m. would typically find the new merchandise on the selling floor, either in sealed boxes or else on hangers and each item wrapped in plastic.

These deliveries were then processed by section managers (or assistant section managers), the merchandising coordinator, and the sales associates. They had to move the boxes and hangers to where there was room to open them, remove the plastic covers from items on hangers or in boxes, and move some items from the lightweight hangers on which they were shipped to sturdier hangers for display. The boxes and hangers held mixed products; the same tee shirt, for example, might turn up in four different boxes along with pants, shorts, and other tee shirts. Products were sorted for shelving. The merchandising coordinator and section managers decided where to place the new designs; everything else was shelved by sales associates.

The night before a delivery, headquarters sent each store a list of items it would receive. Section managers were responsible for checking the accuracy of the shipment. For products that arrived in boxes, they checked the number of boxes received against the number they were supposed to have received. For products that arrived on hangers, they checked the quantity of each reference (regardless of the color or size).

Each section manager had his or her own way of managing the delivery processing. But the rule for everyone was that, by the time the store was ready to open, the selling floor had to be ready for customers. Section managers also had productivity targets. In France, for example, they were encouraged to process at least 85 units of new merchandise per hour per person; if they consistently fell below that, the DTs intervened.

Managing Backroom Replenishment

There was not enough selling space to keep all units on the floor. In an average store, 30% of inventory was kept in the backroom. Boudarel explained:

> Inditex's policy is "big store, small backroom." If we had everything on the shop floor, we would need around 1,600 square meters. But we probably don't want to display all units anyway. We don't want our stores to look crowded. And in many countries, it is hard to find big spaces in good locations and with nice backrooms. In France, 60% of the merchandise is in the backroom and occasionally we have backrooms outside the store. External backrooms are also used in other countries, like Japan, where the floor is very expensive.

The backrooms had another function. The company policy was not to keep a product on the selling floor unless all sizes were available. But with Zara's frequent product changes, stores usually had products for which they didn't have all sizes. In such cases, sales associates put the item in the backroom until the store received the missing sizes. If production had stopped for that item, it might remain in the backroom until the clearance period. But if production had stopped and the item was a bestseller, most countries would centralize the remaining units in a warehouse and send them to the stores with the highest sales for that item.

Ensuring accurate in-store logistics was labor-intensive. In France, for example, sales associates checked the selling floor each morning to see if they had all the sizes for each item on display. If not, they replenished the missing sizes from the back room if the sizes were there. Different sections used different rules for how many units of each size should be displayed. A Zara Opera sales associate explained, "For jeans, we should have two units per size for the more common sizes and one unit for the others. In another Zara store in Paris, which has a lot of traffic and an external backroom, we keep more units on the shop floor." Because sales associates were so familiar with the store, they generally knew how many units of each size were appropriate and where to find them in the backroom. If they consistently made mistakes, section managers intervened.

The first replenishment from the backroom each morning was important because it was the reference for the following ones. For the rest of the day, Zara sales associates performed the so-called "24." Every hour, one sales associate from the women's department and one from the men's department would collect from all the cashiers in the store a list of all sales in the last hour and replenish sold items from the backroom. This was also done in the children's department, but less frequently.

Managing Display Areas and Fitting Rooms

Associates constantly folded the products to keep the display tables looking orderly, spotted misplaced products on the selling floor and put them back where they belonged, and checked the fitting room areas to collect products that belonged to their own areas. They also kept an eye on what was selling and what the customers were looking for, communicating any trends they observed to their section managers. During busy periods, section managers in some stores assigned sales associates to stay near the fitting rooms to help customers and manage products in those areas.

Physical Audits

Every three weeks, the sales associates conducted a partial inventory which would take around 40 minutes. The main objective was to monitor shrink rather than to ensure the accuracy of inventory data. Boudarel explained, "We scan what goes out but not what comes in, as we do not have time during the deliveries. Thus, every three weeks we scan a part of the store by model, color, and size." Staff would also conduct an audit of the store's physical inventory one to three times per season. Boudarel explained:

> We start the physical audit in the backroom before the store closes and do the selling floor once we close. In total, it takes around two and a half hours and the whole store works on this. If, the first time that we do the physical audit, all is fine, we only do one audit per season. With the inventory and the physical audit we discover, on average, 1% shrink, which is calculated over the total volumes, not by model.

The Next Step

Although Inditex had never come near to bankruptcy, Isla had—as founder Ortega Gaona had predicted—found a lot of things to change. This year, the need to improve efficiency had never been more urgent. Although Inditex had suffered less than other retailers in the 2008 world economic crisis, its growth had slowed down. It had opened 145 stores in the first quarter of 2008, but only 95 in the first quarter of 2009.

Labor was the largest operating expense at the stores and any change to improve labor productivity would have significant profit implications. Isla thought several changes might help improve labor productivity. For example, store managers could be encouraged to find ways to improve labor productivity if part of their bonus depended on it. Standardizing store processes, especially for in-store logistics processes, could also help. Alternatively, processing of deliveries, which took approximately 5% of all the time employees spent at the stores, could be outsourced to third parties. Isla had already outsourced the unloading of new merchandise from the trucks into the stores because third-party logistics companies could do this work more quickly and with cheaper labor. He had no doubt that outsourcing process delivery would save even more time and money. But he knew he had to be careful. Could an emphasis on improving labor productivity hurt other aspects of store operations?

Exhibit 1 Inditex's Brands

Year of creation/ acquisition	Brand name	Description	Sales in 2008 (€ million)	Number of stores in 2008	Total store m^2 as of Jan 2009	Net store openings 2008	Operating countries
1975	Zara	Mid-quality, very fashionable, low prices.	6,824	1,520*	1,447,313	159	72
1991	Pull and Bear	Internally developed brand. 14 to 28 age range, more sporty and for daily wear, competitive price, very young fashion language.	720	583	158,927	64	39
1991	Massimo Dutti	Acquired. For age 25 and up, more expensive than Zara.	722	470	130,618	44	38
1998	Bershka	Internally developed. More trendy and radical, casual nightwear.	1.026	591	211,436	81	40
1999	Stradivarius	Acquired. Only women's wear, for age 25 and up, fashionable but more traditional.	633	456	116,835	75	31
2001	Oysho	Internally developed. Underwear for women.	242	374	51,925	84	23
2003	Zara Home	Internally developed. Textiles and home decoration items.	222	239	59,655	35	24
2008	Uterqüe	Internally developed. Fashion accessories.	17	31	4,180	31	3

Source: Case writers, from company data and Inditex S.A., Annual Reports 2004, 2005, 2006, 2007, 2008, available at http://www.inditex.com/en/shareholders_and_investors/investor_relations/annual_reports, accessed in June 2009.

* At year end, the number of Zara stores included 228 Zara Kid Stores

Exhibit 2 Inditex Information

a) Key Figures

	2004	2005	2006	2007	2008
Results (€ millions)					
Net sales	5,670	6,741	8,196	9,435	10,407
Cost of merchandise	2,636	2,953	3,589	4,086	4,493
Gross profit	3,034	3,788	4,607	5,349	5,914
EBITDA	1,240	1,459	1,790	2,149	2,187
EBIT	925	1,094	1,356	1,652	1,608
Net income	628	811	1,010	1,250	1,253
Inventory (€ millions)					
Raw materials	37.9	35.7	38.7	46.4	45.6
Work In process	16.9	17.1	18.1	23.8	17.1
Finished goods	463.0	631.6	767.2	937.0	991.5
Stores and Employees					
Selling surface (m^2)*	1,175,070	1,434,752	1,657,299	1,914, 493	2,180,889
Number of stores at year end	2,244	2,692	3,131	3,691	4,264
Total staffing costs (including social security contributions by Inditex)	840	1,037	1,251	1,473	1,703
Number of employees	47,046	58,190	69,240	79,517	89,112

Source: Inditex S.A., Annual Reports 2004, 2005, 2006, 2007, 2008, available at http://www.inditex.com/en/shareholders_and_investors/investor_relations/annual_reports, accessed in June 2009.

* Selling surface as of January 2005, 2006, 2007, 2008, and 2009.

b) Information by Geographic Region in 2008

	European Union	Non-EU Europe	America	Asia	Africa
Stores	3,322	234	338	358	12
Units manufactured*	326	>81	>13	>255	>35
Number of employees	71,000	7,000	>8,000	>2,500	N/A

Source: Inditex S.A., Annual Report 2008, available at http://www.inditex.com/en/shareholders_and_investors/investor_relations/annual_reports, accessed in June 2009.

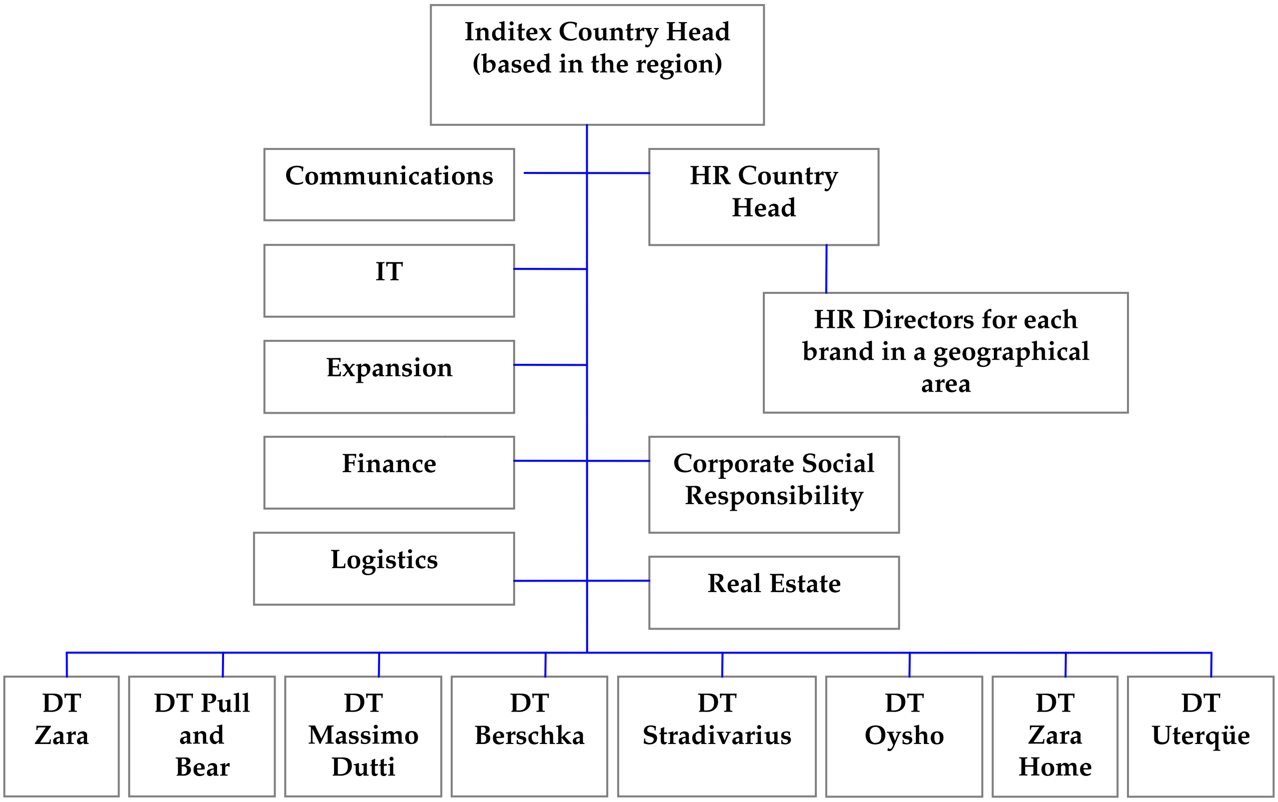
c) Percentage of Employees by Function in 2008

	Stores	Logistics	Headquarters	Manufacturing
% of employees	89.3	5.8	3.5	1.3

Source: Inditex S.A., Annual Report 2008, available at http://www.inditex.com/en/shareholders_and_investors/investor_relations/annual_reports, accessed in June 2009.

Exhibit 3 Zara Country and Brand Organizational Structure

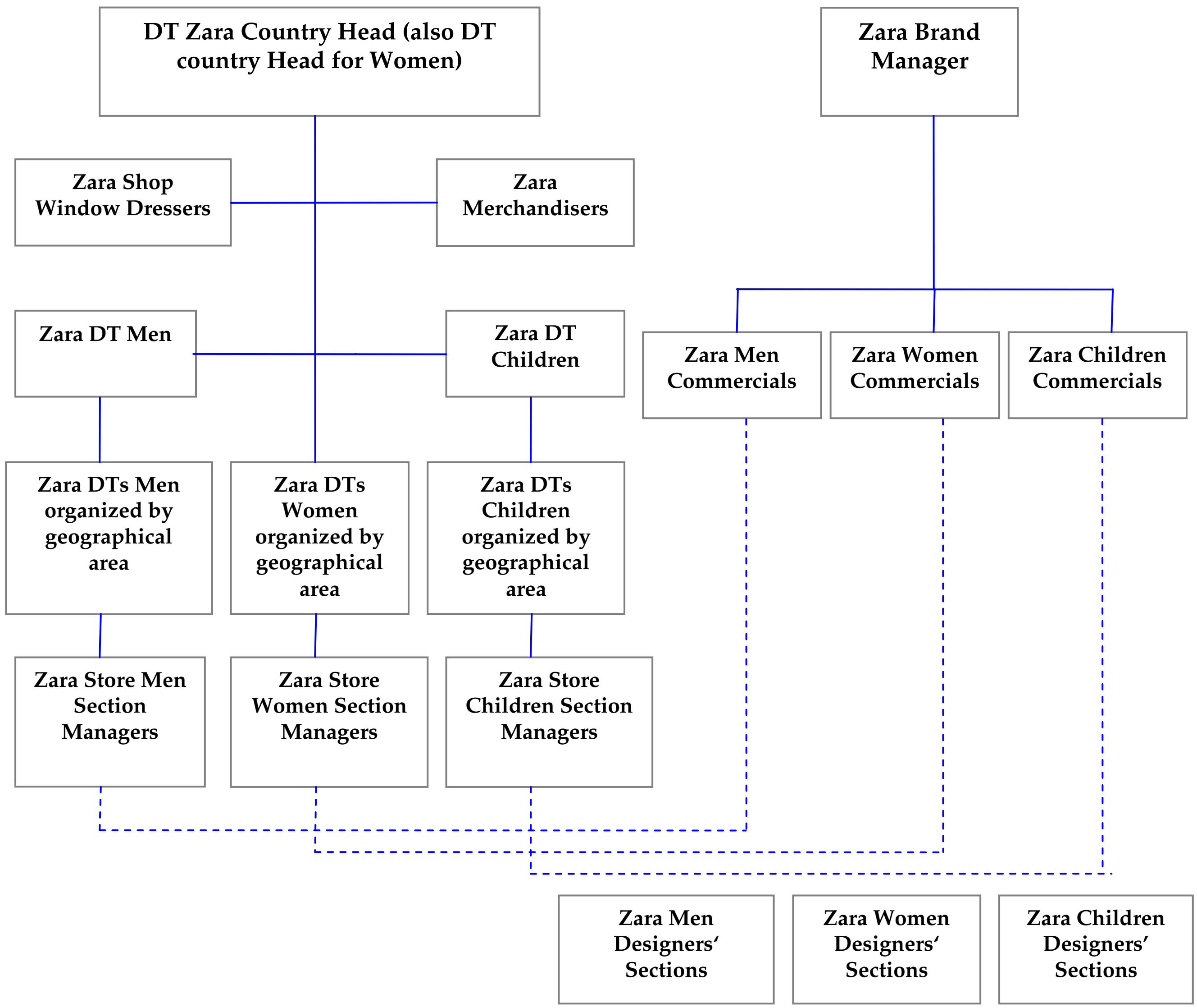
a) Country Office Structure



Source: Case writers, based on field interviews.

Exhibit 3 (Cont.)

b) Brand Structure (excluding HR directors)



Source: Case writers, based on field interviews.

Exhibit 4 Inditex's Suppliers by Geographical Area, 2008

Areas	Number of suppliers	% production	Lead time
Proximity (Spain, Portugal, Morocco)	516	49%	17 days on average; minimum 48 hours
Other Europe (mainly Turkey, also Bulgaria and Romania)	91	14%	5-6 weeks
Americas (Mexico, Peru)	61	2%	3-8 months
Asia (China, India, Cambodia, Bangladesh)	417	35%	3-8 months

Source: Case writers, based on field interviews.

Exhibit 5 Zara Store Locations

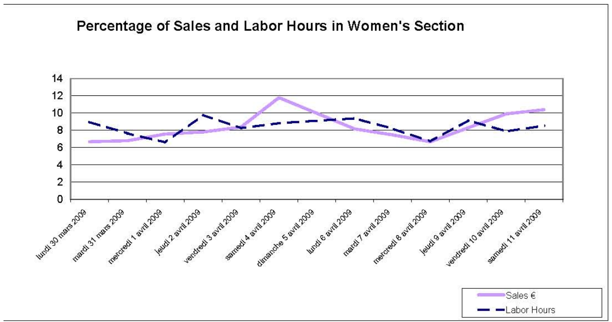
	2004	2005	2006	2007	2008
Europe	N/A	N/A	761	1,092	1,188
Asia-Pacific	N/A	N/A	50	65	96
Americas	N/A	N/A	130	149	173
Middle East & Africa	N/A	N/A	49	55	63
Total	723	852	990	1,361	1,520

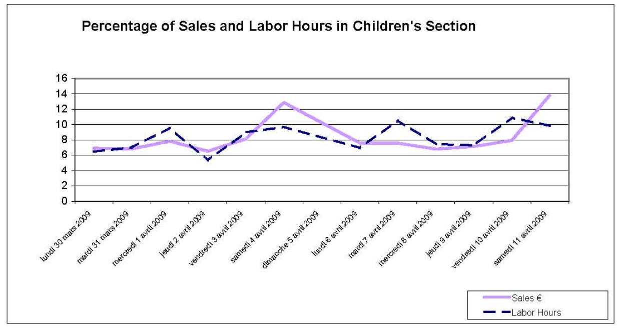
Source: Inditex S.A., Annual Reports from 2004 to 2008, available at http://www.inditex.com/en/shareholders_and_investors/investor_relations/annual_reports, accessed in June 2009.

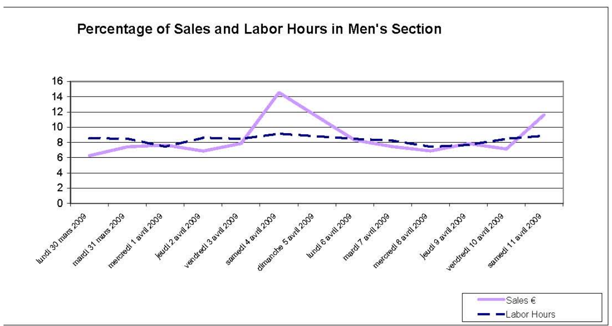
Exhibit 6 Example of a Merchandising Photo, Women's Section, Zara Opera Store, Paris, France.

Source: Company data.

Exhibit 7 Percentage of Sales and Labor Hours Used during a 12-Day Period in Women's, Children's and Men's Sections at a Zara Store.







Source: Company data.

Exhibit 8 Total Scheduled Time (in Minutes) for Sales Associates in the Women's Section at one Store in a Representative Week.

Day	Time	Total # of Minutes	Day	Time	Total # of Minutes	Day	Time	Total # of Minutes	Day	Time	Total # of Minutes	Day	Time	Total # of Minutes	Day	Time	Total # of Minutes
MONDAY	6-7am	60	TUESDAY	6-7am	0	WEDNESDAY	6-7am	0	THURSDAY	6-7am	60	FRIDAY	6-7am	0	SATURDAY	6-7am	0
	7-8am	370		7-8am	0		7-8am	0		7-8am	360		7-8am	0		7-8am	0
	8-9am	420		8-9am	50		8-9am	20		8-9am	360		8-9am	40		8-9am	30
	9-10am	480		9-10am	355		9-10am	195		9-10am	455		9-10am	335		9-10am	255
	10-11am	790		10-11am	500		10-11am	440		10-11am	800		10-11am	680		10-11am	500
	11-12pm	840		11-12pm	600		11-12pm	540		11-12pm	900		11-12pm	780		11-12pm	620
	12-1pm	945		12-1pm	610		12-1pm	540		12-1pm	900		12-1pm	850		12-1pm	740
	1-2pm	780		1-2pm	765		1-2pm	680		1-2pm	745		1-2pm	970		1-2pm	880
	2-3pm	745		2-3pm	795		2-3pm	725		2-3pm	740		2-3pm	975		2-3pm	980
	3-4pm	855		3-4pm	835		3-4pm	695		3-4pm	740		3-4pm	1015		3-4pm	1005
	4-5pm	660		4-5pm	915		4-5pm	705		4-5pm	760		4-5pm	895		4-5pm	1010
	5-6pm	695		5-6pm	715		5-6pm	660		5-6pm	830		5-6pm	730		5-6pm	955
	6-7pm	610		6-7pm	720		6-7pm	660		6-7pm	785		6-7pm	665		6-7pm	845
	7-8pm	600		7-8pm	720		7-8pm	660		7-8pm	670		7-8pm	660		7-8pm	840
	8-9pm	545		8-9pm	665		8-9pm	660		8-9pm	605		8-9pm	605		8-9pm	730
	9-10pm	360		9-10pm	440		9-10pm	440		9-10pm	400		9-10pm	400		9-10pm	720
																10-11pm	60

Source: Case writers' analysis of the schedules created by the store manager at one Zara store.

Note: These hours do not include any salaried employee hours. This Zara store is closed on Sundays.

Endnotes

[1] Angela Saini, "Business: New kids on the high street cut a dash with fast fashions: As M&S and Next lose ground, the winners are the style-savvy stores pushing cheap, cutting-edge clothes to a new level: Zara: on top of style," *The Observer*, June 5, 2005, accessed via Factiva in June 2009.

[2] 2007 Inditex Annual Report.

[3] Andrew McAfee, Vincent Dessain, and Anders Sjöman, "Zara: IT for Fast Fashion", HBS Case No. 604-081 (Boston: Harvard Business School Publishing, 2004), p. 7.

[4] 2008 Inditex Annual Report, p. 39.