

Strategic Management (SBMA7103D)

STRATEGIC MANAGEMENT: THE CASE OF **INDITEX**

Assignment

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Executive summary

The retail Clothing Industry has seen tremendous changes in processes, activities, product and service offerings, and technological capabilities. Cumulatively, these elements have made this industry very competitive thus mandating enterprises to employ unique strategic competencies to increase their competitive advantage in the saturated market. Leading clothing manufacturers like Inditex have witnessed how dormant strategies, models, and processes can critically compromise their competitiveness in this industry. Although this company enjoys a relatively stable position in the global ranking, poor strategizing and stagnant innovation initiatives could be the reason for its downfall. Accordingly, the Clothing Industry is very profitable but also highly dynamic and volatile, hence requiring that participants frequently review established survival mechanisms and re-strategize to remain unpredictable as is the industry.

Company Overview

The Inditex Group, formally known as Industria de Diseño Textil, is a leading Spanish-based multinational enterprise (MNE). It was founded by Amancio Ortega in 1975 in La Coruña and formerly traded as Zorba. Over the years, this MNE developed into an icon in the Apparel and Fashion Industry and is responsible for setting distinguished standards of service and product provision. Inditex has several major fashion brands such as Zara, Zara Home, Massimo Dutti, Stradivarius, among others. The company targets middle-aged and young customer groups and has established about 2,000 and 4,400 stores in Spain and Europe respectively (Crofton & Dopico 2012). Moreover, Cavusgil et al. (2014: 519) argue that Inditex has a global reach extending to five continents and over 400 stores.



On the other hand, Schlossberg (2015) posits that the company has an agile business model that reinforces its competitive advantage against rival fashion brands like Gucci,

The Gap, Hennes & Mauritz (H&M), Macy's, among others. For the Inditex supply chain, this business model entails competitive pricing strategies and high outlet efficiency for its products (Cavusgil et al. 2014: 519). Besides, the company's R&D resources facilitate accurate forecasting and design-hunting aspects of its product portfolio. Its manufacturers speedily transform information on customers' design preferences, tastes, and ideas tailored products. With an extensive supply chain and efficiency in production and distribution, the company reduces operating costs and lead times. Again, Chopra & Sodhi (2014) argue that the company uses a PULL business strategy that minimizes inventory and delays thus increasing its flexibility in adapting to dynamic trends in the market and fashion industry.

Inditex has an exceptional financial performance which further reinforces its stability in the industry. According to Hansen (2012), the company achieved annual profit margins of 2 billion Euros and sales increments of an estimated 13.8 billion Euros between 2007 and 2012. Heller (2017) affirms that the Zara brand solely realized rising net sales of 12%, contributing to 66% of the company's revenues in 2017. Hansen further argues that the company's sheer growth and financial stability has enabled it to mitigate local real estate and insolvency issues, to sustain affordable product offerings, and to facilitate employment of over 100,000 workers worldwide.



Source: www.inditex.com

Industry Overview

The Apparel and Fashion Industry is highly competitive and dynamic. Companies in this industry specialize in the design and sale of clothing, footwear, and related accessories. Customization is a significant practice in the fast fashion industry for both high-end and essential commodities ranging from handbags and sweaters to underwear. Moreover, the availability and access to enabling technologies have empowered interactive behavior comprising a web-based exchange of products, services, and information between trading parties in the retail Clothing industry (Inditex 2016). Major players in this industry include The Gap, Gucci, Prada, Macy's, H&M, Wal-Mart, and so forth.

SWOT Framework

Strengths

The success of Inditex and its continued potency in the market is accredited to some factors such as branding, product, process and technological innovation, waste management and recycling services, E-commerce business, and active communication channels.

Product, process and technological innovation and effective communication

Process innovation has enabled retailers in the Clothing Industry to achieve value creation, innovative solutions, and business repositioning. Inditex uses the stage-gate approach to fast-track its production processes. This approach enables it to imitate quickly and adapt trending fashion styles of significant brands to expedite product development, flexibility, and communication with its stakeholders (Cooper & Sommer 2016). Inditex has a well-established product innovation structure. According to Inditex (2016), the company invested €1.4 billion in technology, increasing its online presence, and sustainability initiatives to support logistical functions. Therefore, this investment improved its cooperative mechanisms with its product design team, suppliers, outlet liaison officers, and merchandisers for control centers of specific retail formats.

Collaboration amongst its supply chain partners has enabled the company to collect information on customers' product design tastes and preferences from runway expositions in Paris and Milan. Customer feedback is used to develop new products and fashion styles.

More so, Sapna (2012) affirms that Inditex's business model endears an unmatched correlation of changing market demand and fashion trends with uninterrupted distribution networks. Again, the company has nurtured a strong employee empowerment program that inspires two-way communication between employees in the production and warehousing departments. Crofton & Dopico (2012) argue that storekeepers amass market intelligence from solicited customers' ideas on process, product, and service improvements. Individual stores send updates highlighting daily sales reports, specific product sales, and customer feedback on purchases on a bi-weekly basis. This information facilitates inventory replenishment at least twice a week for fast moving products (Crofton & Dopico 2012). The company frequently monitors sales and makes appropriate inventory adjustments thus enabling individual outlets to offer a range of products within a particular season to avert inventory risks like overstocking or under stocking.

On the other hand, Inditex maintains its traditional technological infrastructure since the management conducts informal decisions concerning external sources and suppliers. Besides, the temporariness of network connections between distribution points, head offices, production zones, and outlets minimizes the need for cutting-edge supply chain technologies. Nonetheless, Yip & Huang (2016) posit that Inditex maintains a competent technical response framework that cuts its budget by 50% relative to that of the competition. This technological structure comprises point-of-sale terminals, communication systems, delivery systems for each distribution center, and inventory management applications.

Branding

The company has several retail formats. However, the Zara brand takes credit for elevating the company's competitive status in the industry. Inditex enjoys a definite connection to products which the market perceives as cost-conscious, high priority, and attractive. These associations enhance the possibility of new and repeat purchases especially from domestic customers looking for fashionable individual wear and house décor. Again, Marion (2011) argues that Inditex has focused on positioning and increasing its real estate assets next to leading brands like Gucci and Prada. Consequently, this strategy has made possible for the Zara brand to be perceived as a high-end product irrespective of its low prices. Moreover, other factors like positive customer product reviews, signaling, and gratis, publicity, have positively impacted the sales and perception of this brand. Most specifically, the company's has established a culture of anticipation and loyalty among its customers. The latter has made them more attentive to outlet-specific inventory delivery schedules.

Effective waste management

Agreeably, the Apparel Industry significantly contributes to environmental degradation. Clothing industries like Inditex, Gucci, and Wal-Mart have instituted sustainable manufacturing practices and processes to control pollution and manage waste from their products. Inditex (2016) highlights the company's circular economy model that entails waste management and recycling activities to reduce emissions and increase productivity. Such conservation efforts have seen Inditex receive the Dow Jones Sustainability Index and partner with environmentalist organizations to realize UN's approved 2030 Sustainability Development Goals (Inditex 2016).

Opportunities

Inditex's global E-business

The E-commerce business entails Omni-channel retailing (Piotrowicz & Cuthbertson 2014) and managing stakeholder relationships and engaging lean supply chain management (Diddi & Niehm 2016). Omni-channel retailing facilitates unmediated exchange between sellers and buyers by capitalizing on technological capabilities. In 2017, statistics indicated a growth projection of about 4% (translating to \$443 billion in sales) courtesy of e-business (Gerbig 2017). Recent evidence shows that the success of Inditex's e-business platform, made the company favor expanding its online presence to spatial growth. Likewise, disruptive technologies have considerably increased product and process innovation in the retail Clothing business (González & Chacón 2014). Competing enterprises have combined expert knowledge and the stage-gate process in the mapping and launch of new products (Chao, Lichtendahl, & Grushka-Cockayne, 2014). Here, Inditex engages its customers in product design, manufacturing, validation, and service delivery.

Inditex has a substantial online following on social media due to its online business. The company boasts of a 15% following in America, 24% in Asia, 17% in Spain, and 44% in the European Union (excluding Spain). A greater majority of social media users have shown their support for the Zara, the Pull&Bear, and the Bershka retail formats.

Accordingly, these formats have a following of 43,536,825, 8,925,322, and 14,149,956 online users. What's more, Zara reported more than 10 million in customer interactions with the above brands. The other concepts, that is, Massimo Dutti, Stradivarius, Zara

Home, Oysho, and Uterqüe also enjoy a considerable following over social media and perform well in the interactive customer categories (Inditex 2016).

Expansion

Evidence shows that Inditex has a high possibility of expanding its retail space from 6% to 9%. This hypothesis is based on its ability to manage liabilities, sufficient cash reserves, and its financial stability ("Inditex Not Short of Growth" 2013). Moreover, more MNEs are focusing on expanding outward into minimally exploited global markets such as Brazil, China, and India. Also, with an improvement in consumers' disposable income, it is plausible to expect an increase in luxury spending, especially on clothing and accessories. Inditex's growth in Argentina resulted from the adoption of good business practices comprising its readiness and ability to adapt its auditing style to match the prevailing situation in the country. This achievement was made possible by the company's partnership with the National Institute of Industrial Technology (INTI) (Inditex 2016). On the other hand, the company introduced training programs which were tailored to meet supplier-specific needs in various regions. These programs aimed at building suppliers' knowledge and ensuring their compliance with the Code of Conduct for Manufacturers and Suppliers. On the brighter side, this initiative enhanced working relationships between the company and its suppliers, appealing to ethical suppliers, in addition to promoting constant optimization and trust in the company's operating regions (Inditex 2016).

Online sales and E-business

Given the anticipated growth of the retail Clothing Industry and increased online spending, Inditex stands to benefit from a more prominent global market share and subsequent sales revenues. The Inditex annual report (2016) highlights the company's addition of e-business platforms in Turkey besides the finalization of its online presence in European markets for the period. More specifically, the company increased its online markets to 43 following the introduction of the Zara online store in Singapore and Malaysia. Cumulatively, the company experienced positive growth of its retail concepts from 13 to 28 in both online and offline distribution channels over the past five years (Sides 2017).

Weaknesses

Despite its prowess in the retail Clothing Industry, Inditex has done little in developing non-Zara brands and is overly dependent on domestic and European markets. These issues have negatively affected its profitability in the Apparel Industry.

Underdevelopment of non-Zara retail formats

According to Inditex (2017), Zara is a major flagship brand for Inditex and accounted for a more prominent portion of the revenue share of the total group's sales. The company's sales revenue rose by 14% in the first quarter of 2017 translating to 5.6 billion Euros. Its net profit increased to 654 billion Euros (an 18% increase) for the same period. However, even though the number of Zara stores outdoes those of Bershka by more than half (Inditex 2016), the brand's sales fall below expectations. Again, the Zara brand enjoys superior international recognition to that of its counterparts, which

symbolizes the company's high optimism for this brand. This bias notwithstanding, the company should beware of the dynamism of the fashion and clothing industry to prevent disastrous outcomes in its revenue streams in the future.

Overdependence on European and Domestic Markets

In 2012, Inditex had sales revenues of 22% in the local markets and 66% in European markets (Inditex 2016). The revenue statistics for European markets pose a significant threat of insolvency for the company in the event of unfavorable economic changes in the region. Additionally, while Spain's sales amounted to 19.7%, symbolizing a 1% decrease in 2012, sales in Europe accounted for 45.9% of the company's revenues for the same period. Contrariwise, despite the company's adopted strategies to improve profit margins in these primary markets, it realized higher revenues in its secondary strongholds in America and Asia (Brooke 2014). Equally, Inditex's business model remains highly decentralized. The company heavily relies on domestic markets hence its unequivocal placement of manufacturing and logistical operations in the home market. As a result, its local retail outlets have extra resources to sufficiently respond to changing market demand patterns. In contrast, minimal investment in its external markets increased the burden of transportation costs for the company resulting in high price points for its products in these markets. To counter this, the company shifted its focus to financing outward expansion thus sidelining its domestic market. The latter has further compromised the company's competitiveness hence increasing consumer preference of rival and new brands. For instance, this gap availed opportunities for local incumbents like Mango to take over portions of Inditex's market share.

Threats

Fast-fashion exhaustion

Fundamentally, the retail Clothing Industry is profoundly influenced by pricing and quality. Therefore, it is imperative for the retailers to consistently review their pricing strategies and quality aspects of their products to ensure they meet market standards. The latter demands that clothing industries effectively manage their all components of their supply chain to minimize errors and costs associated with production and distribution of the final product. Also, given the high potential for pollution facing this industry, clothing manufacturers must incorporate sustainability measures across their operations. Sapna (2012) argues that clothing related purchases declined by 5.3% in the U.S. between 2010 and 2011. However, Sapna further asserts that sales value increased by 5% in this region over the same period indicating the willingness of the American consumers to spend more for clothing products that suited their varying preferences. Consequently, The Gap upgraded its product line resulting in an increase in its sales revenues by 6.4% in 2012 from 2011 (Sapna 2012).

In this regard, Uniqlo, a clothing manufacturer, inspired the concept of strategic alliances between clothing industries and fabric manufacturers to enhance product quality and promote environmental conservation. On this angle, Inditex's Massimo Dutti brand is expected to perform better in the market owing to the demand for high-end and superior quality clothing products. Nonetheless, an increase in sales of such affluent products may significantly affect the performance of other low-ranking brands of clothing retailers like Inditex (Sapna 2012).

Static business model

Inditex has rapidly and successfully explored foreign markets beyond Europe. It also enjoys reduced material costs from sourcing inputs locally, which has shortened product delivery schedules between various destinations. On the contrary, it has not entirely restructured its business model at the same pace. Again, it is overly inclined towards global expansion at the behest of remodeling its business structure to accommodate changing market trends. For instance, the company experiences high supply chain costs due to longer transportation distances between its global outlets and its central hub in Spain. These costs are transferred to the final consumer in the form of high product prices, ultimately reducing sales of its products in destination markets. Illustratively, Chinese and South American consumers prefer averagely-priced commodities as opposed to consumers in Europe. Therefore, relatively expensive products in China and South America will render Inditex's brands ineffective and unattractive to consumers. Thus, the company should promptly deliberate on more efficient distribution and production channels to offer reasonable pricing points for such consumer groups.

Stiff competition

The Inditex business model comprises just-in-time inventory delivery systems and fast time-to-market approach. As a result, this model has stiffened competition in the market forcing other retailers to adopt this model for survival (Crofton & Dopico 2012). Besides, Inditex boasts of a 10% market share in Spain and an approximated 5-18% share in European markets, for example, France, Germany, and the U.K. In contrast, H&M has assimilated cyclical commodities into their old serial lines on a three-week rotational plan (Manuel 2013). Manuel further asserts that Mango's unique events and party

clothing contributed to 30% of the company's revenues with casual wear contributing 70%. Furthermore, Mango's low-price strategy in Spain was a hard blow to the differential pricing mechanisms of Inditex. Subsequently, Mango toppled Inditex with an outstanding 6% sales growth in 2012 (Manuel 2013). Additionally, even though Inditex posted over \$20 billion in revenues in 2012, Mango and H&M reported sales revenues of \$1.96 billion and \$18.6 billion respectively for the same period, a significant increase for these two (Manuel 2013). This improvement for H&M and Mango underpin the potency of the threat posed to Inditex both locally and abroad, hence the need to evaluate its competitive strategies.



The exploring strategy model

[adopted from Johnson, G., Whittington, R., Scholes, K. (2011) Exploring Corporate Strategy]

Strategic recommendations

Change Management

The company should consider change management in diversifying its preferences across its entire product line. This approach demands to identify the need to change its operational tactics in international markets, remodeling of its business model, and adopting suitable pricing and positioning strategies. Effective management of the change process, agents, and structure will enable Inditex to sustain any modifications made to its current management style, structure, and business model (Hayes 2010: 3, 42, 86). Change management would be practical in the aspects discussed below.

Increased vertical integration

Inditex should consider diversifying its domestic business model to suit its global expansion initiatives. Diversification endows a business with sufficient flexibility to shift between markets contrary to overreliance on specific markets. Higher autonomy and flexibility across Inditex's global outlets means higher productivity in multiple vital localities. For instance, adjusting and executing its business model in Asian markets could remarkably improve its revenues and prominence in the region (The Economist 2012). Likewise, the company should increase its design and production team in China to compare to the Spanish workforce of 300 employees. Evidence shows that a small design team in China translates to cumbersome and costly logistics and distribution costs for Chinese manufacturers shipping outputs to the company's Spanish head offices. Reshipping of productions from Spain to China further increases supply chain inefficiencies and related expenses (The Economist 2012). The company also faced

several obstacles during its product launches in Japan and China in 2011 and 2012 respectively. Most of these setbacks were associated with unequal distribution and operating centers in both markets (The Economist 2012). To mitigate such inconveniences, Inditex could establish manufacturing, design, and logistics centers in China or possible Asian locations. Besides, the company could set up concrete real-time data and communication systems to facilitate effective communication and feedback with its Asian subsidiaries. However, it is crucial for the management to cautiously review this recommendation by analyzing total capital and technical resources required to achieve complete vertical integration.

SEM and SEO strategies

These refer to Search Engine Marketing and Search Engine Optimization strategies. Dou et al. (2010) argue that SEO describes editing and coding HTML and web content to elevate the ranking of a website on search engine results page (SERPs). They further posit that SEM promotes a particular website using paid advertising to improve its visibility in the SERPs. Thus, search engines should help Inditex to strengthen its brand image and awareness of its product quality among online visitors hence encouraging more online purchases or interactions that may culminate to a purchase (Dou et al. 2010). To initiate this strategy, Inditex should contact companies like Google, which is a leading operator in search engine operations and associated services. Additionally, these strategies will maintain the company's current low budget allocation for marketing and promotional activities. SEM and SEO strategies are highly effective and relatively inexpensive methods of virtual marketing and generating massive online sales and following. Besides, the company could also benefit from updating its online clients on

corporate objectives, business processes, innovation plans, new product designs, performance stats, and so forth. This transparency could foster valuable relationships resulting in more interaction, higher sales, and profitability in the company's global assets.

Standardized development of secondary brands in major markets

Inditex (2017) highlights a significant spatial growth of the company by 3.8% and its continued global expansion. The report also notes that Inditex has substantial cash reserves and negligible debt, hence its ability to finance more outward expansion initiatives and sustain related operations. Besides, studies point to the rise in spatial growth in the retail industry to 9%, which provides ample growth opportunities for Inditex in lucrative Latin American and Asian markets (Inditex 2017). However, the company has shown a strong inclination to the Zara brand much less its other retail concepts. The brand has over 2,000 outlets including the new openings in Saudi Arabia, Thailand, China, Japan, New Zealand, and Canada, among others. In contrast, Inditex has only increased floor space or refurbished old stores, with an insignificant number of new openings for its other retail concepts, for instance, Bershka, Pull&Bear, Stradivarius, Zara Home, and Uterqüe (Inditex 2017). In their report, McKinsey & Company (2007) observed that Chinese consumers seldom differentiated clothes during different occasions, events, or routines. The report also cited Chinese urban centers sold more traditional clothing formats and contributed to 70% of clothing sales adding to the country's \$84 billion retail markets.

In light of this, Inditex should capitalize on such opportunities through spirited expansion of its low-ranking brands such as Stradivarius and Bershka in Asia. Similarly, according

to McKinsey & Company (2007), Inditex has a unique chance to advance in the Indian market. Despite low buyer purchasing power, about 74% of Indian shoppers make shopping trips in the company of family and friends. Besides, festivities and special occasions like weddings result in shopping sprees among Indians. As well, men influence clothing decisions and the choice of a store at the family level. This information is adequate for Inditex to consider promoting its major brands in various Indian localities (McKinsey & Company 2007).

Competitive pricing

Research shows that Chinese shoppers use price points to evaluate brand quality, Inditex should consider competitive pricing strategies to appeal to Chinese consumers (McKinsey & Company 2007). Porter (2004) argues that competitive strategy must account for the changes in the industry and market. Thus, Inditex should adapt its pricing points and product offerings to suit the needs of the Asian market. In Indian markets as well, the company could use price differentiation to appeal to different customer groups taking note of their particular purchasing power. Product positioning also influences how different customer groups perceive the company's brands (Hooley, Piercy, & Nicoulaud 2012). Hence, Inditex should consider positioning high-end stores featuring classy designs at higher price points for affluent groups and affordable ordinary designs for lower-end customer segments. However, quality aspects should be standardized for product offerings in high-end and low-end outlets.

Conclusion

This discussion provides an analysis of Inditex regarding the company's background, industry overview, and strategic structure in use. Furthermore, this report provides an enlightening perspective on the company's strategic competencies and deficiencies using the SWOT framework. This analysis evaluates various micro- and macro-environmental aspects affecting the supply chain of Inditex. Notably, the report reveals multiple strategic inefficiencies and subsequent challenges facing Inditex. Mostly, the company's business model is primarily a factor preventing its smooth expansion and proliferation in global markets. Likewise, this analysis indicates the company's relatively ineffective competitive strategies comprising poor pricing strategies, market positioning and segmentation, uneven resource allocation in particular markets, and insufficient business remodeling. The research goes on to provide strategic recommendations to remedy identified challenges. These include focused change management, increased vertical integration, competitive pricing and market positioning, incorporation of search engine capabilities, and standardized development of corporate brands across its global markets. Nonetheless, it is advisable to engage various academic literature and studies to find comprehensive information for correlation and rationalization purposes.

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