

The impact of the pandemic in fashion industry

CASE OF INDITEX

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The pandemic of Covid 19 has infected life's joints. In the business world, a novel coronavirus has forced businesses all over the world to ask millions of employees to work from home due to social distance conditions (J. Rahman, 2020). As Cohen (2020) writes, COVID-19, “is simultaneously a public health emergency and a real-time experiment in downsizing the economy.”

The sustainable fashion landscape is a highly contested terrain with a myriad of terms and definitions in circulation, including slow, ethical, green, and eco-fashion. The fashion apparel industry, and fast fashion in particular, has been characterized by short life cycles, high demand volatility, low predictability, and high impulse purchasing. In the literature on the topic, fast fashion is frequently described as a business model that focuses on an efficient supply chain that allows for product diversity while maintaining cost effectiveness, in order to meet the shifting demands of clothing buyers. (T. Brydges, 2020).

The pandemic and its subsequent lockdowns have had a negative impact on the fast fashion industry, with many retailers canceling orders as they closed stores across the world, resulting in the closure of thousands of factories and the loss of tens of thousands of jobs.

Preferences towards clothing category changed. According to the Sales Intelligence 2020 report (Sales Intelligence, 2020), from March 2020, sportswear and clothing belonging to the category of homeware and home office have been the most popular. On the other hand, the pandemic caused the largest decrease in party clothes, such as dresses (by 65%) or suits (by 74%). In response to rapid market changes, retailers introduced immediate changes in contracts, and suspended or canceled orders from suppliers around the world, especially from the suppliers in China, Bangladesh, India, Pakistan, Cambodia and Honduras. The cancellation of orders during production, including those produced and shipped to fashion retailers, placed clothing suppliers in a difficult financial situation or even put them on the brink of bankruptcy, despite the fact that they had a contractual obligation to pay for them.

Inditex (Industria del Diseo Textil S.A.) is a fast fashion retailer specializing in the sale of fashion items such as apparel, footwear, accessories, and home textiles. Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home, and Uterqüe are among the company's eight labels, Zara being the largest and the most famous and one of the oldest brands. Following the brand's domestic success, the company began its international expansion in the late 1980s by introducing a business growth strategy, followed by a product development and diversification strategy. The business is already a market leader in the global fast fashion market, as shown by the number of countries where it sells its goods. As the data from Inditex show (Inditex 2021), the researched fashion retailer has 7199 physical stores in 96 countries, and through the online platform it reaches consumers in 202 countries (A. Dewalska-Opitek and K. Bilinska-Reformat, 2021).

Inditex's Brand	No of Stores
Zara	2208
Pull & Bear	920
Massimo Dutti	715
Bershka	1060
Stradivarius	978
Oysho	654
Zara Home	575
Uterqüe	89
Total:	7199

Foto 1: Number of store (Inditex)

Source: A. Dewalska-Opitek and K. Bilinska-Reformat, 2021

When Covid19 Lockdown started, Inditex announced that people are its top priority, and that they protect workers' human rights in all of their suppliers and manufacturers. The sustainable business model enables suppliers and producers to expand their businesses in lockstep with the group, resulting in positive economic effects in many countries. Inditex's response to the Covid-19 Tracker survey reveals that the company has not changed its relationships with its supply chain suppliers. Inditex pays for goods received in their warehouses within 90 days of receiving them. The company does not adjust orders after they have been placed, and it does not ask suppliers for any discounts or price reductions (M. McMaster, 2020).

Inditex has committed in full to all completed and in-production orders in the period since the Covid-19 outbreak. When needed, the company supports suppliers with access to local finance with a letter of credit or other means. The main aim of this activity is to ensure all wages are paid, especially during periods of lockdown. Inditex's sustainability teams cooperate with suppliers and manufacturers in the respective cluster payment of wages and other benefits required by law. Another subject of interest is to make sure factories are safe places to work, workers keep social distancing, sanitizing practices are implemented, and workers are provided with adequate protective equipment to be protected from infection (A. Dewalska-Opitek and K. Bilinska-Reformat, 2021).

The first quarter of 2020 was a difficult time for Inditex, especially compared with the similar period of 2019. In the third quarter of 2020, Inditex shows a strong recovery in operations: Store sales improved progressively, online sales grew 76%, sales reached €6.1 billion, EBITDA €1.8 billion, and net income reached €866 million (I. Isabel-María García-Sánchez and A. García-Sánchez, 2020)

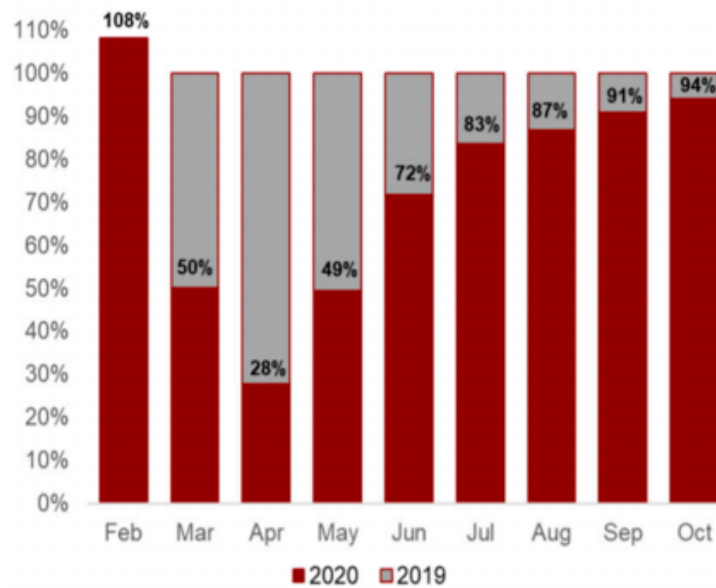


Foto 2: Store sales of Inditex from February to October 2020 compared to the same period in 2019

Source: • [Inditex Group: global sales 2020 | Statista](https://www.statista.com/statistics/1111111/inditex-group-global-sales-2020/)

Taking into account online sales, the company posted strong online growth: 75 percent increase in constant currency online sales and 44 percent increase in online visits.

Table 1: SWOT Analysis

SWOT Analysis for Inditex during Covid19 Pandemic			
STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
Has a history and determines trends	Many physical stores	Segmentation	Competition
Multinational company	Fast Fashion	Sustainable products	Physical stores being closed
Has more brands	High competition for physical stores	Resale market	Market competitors faking their products.
Suppliers worldwide	High competition for online stores	Partnerships with influencers	
Online stores	Lawsuit against Zara and negative publicity for rasism		

Fast-fashion focuses on creating, manufacturing, and selling clothing as soon as a pattern is identified. The procedure takes months in conventional fashion; Zara completes it in three weeks. It is clear that there is a global footprint in fashion industry lead by Inditex. The company has thousands of stores, Zara being the brand with the most store worldwide, it has even more than Nike, Adidas or Puma. Online shopping is a strength for Inditex because people already used to buy clothes from Zara, Bershka, Stradivarius online very often.

Although mentioned above that Inditex was already good in E-commerce before pandemic, they mostly relied on physical stores sales which during pandemic were closed. Inditex partners with 1520 different manufacturers in 7108 different factories. While Inditex deserves praise for developing a strict code of conduct, there is a significant gap in its enforcement. This discrepancy is highlighted by a story in Buzzfeed about the care of workers in Myanmar. Inditex has a very high competition, one being H&M when talking about Pull&Bear, Marks and Spencer or Musette if we think about Massimo Dutti. Another dangerous competitor is Primark because they serve products alike at lower prices. Shein, China's fast-fashion behemoth, is the world's largest online-only fashion retailer. The Shein app received 10.3 million downloads in September 2020. Zara, with just 2 million downloads in the same time span, must be aware of its digital competitors.

As opportunities, Inditex is well placed on the market because they have a large group target. They address to both young and aged people and to all, no matter of financial resources. More than a third of Millennials and Gen Z, according to the Sourcing General, search for “sustainable” and “environmentally friendly” labels on clothing, so Inditex adapts to this creating eco-friendly clothes.

As mentioned above, Inditex's sales rely very much on physical stores, so them being closed worldwide is a threat for Inditex number. However, the fact that Inditex is present on a global scale, was an opportunity for the organization because Covid19 manifested differently in every country and the stores were not closed everywhere at the same time. Inditex's primary niche is fast fashion, which delivers the latest trends from the runway to consumers easily and at a low cost. However, imitators fighting price wars to siphon off Inditex's business are a threat to the industry.

Table 2: PESTEL/PESTLE Analysis

PESTEL of Inditex Company					
Political	Economic	Social	Technological	Environment	Legal
European Trade Agreements	Operates in countries with low cost in labour	Good-quality product	Adopting new technologies	Creating sustainable products	Copyright issues
Brexit for UK market	Covid19 crisis	Afordable clothes	Developing E-commerce	Eco friendly laws	Being accused in a racial conflict
		Setting trends	Use of Big Data	Resell trend	
			Apps and online stores		



Foto 2: Porter's 5 Forces

Source: [Porter's Five Forces EXPLAINED with EXAMPLES | B2U \(business-to-you.com\)](https://www.b2u.com/Porter's-Five-Forces-EXPLAINED-with-EXAMPLES/)

Porter's 5 Forces for Inditex:

Threat of new Entrants: the entry barriers to the fashion industry are extremely low. Workshops can be set up with staff with relatively low qualifications and entry does not require a large amount of money. The entrant, on the other hand, is affected by the economies of scale in manufacturing. It requires newcomers to choose between accepting a cost disadvantage or producing on a large scale. During Covid19, there were many people who focused on their hobbies, such as designing clothes and promoting and selling them online.

Threat of substitute products: in this market, the risk of substitution is very high. Other fashion retailers, designer retailers, and tailor shops are posing a challenge. Generic substitution, on the other hand, is more likely to pose a hazard by providing goods at lower cost. In this industry, the biggest problem is “faking” the brand products which can cause many problems due to copyright laws.

Bargaining power of buyers: the buying power of pandemic's consumers is greater than it has ever been. Customers expect high quality, a wide range, and more frequent improvements in their options. They want the exact services they need at the exact time they need it, as well as accessories in their desired color and size, all in the same link / click. This is why retailers distinguish their products in order to meet the needs of their customers. This is accomplished by ensuring that consumers have access to alternative sources of supply and that switching costs are minimal. Inditex satisfies these consumer demands by providing the most trendy clothes to a wide range of target markets at a low cost.

Bargaining power of suppliers: suppliers' bargaining power in the apparel market is low because most fashion retailers outsourced production to developing countries, switching costs are low, and buyers' brands are powerful enough to obtain strong bargaining power. Existing fashion retail brands have enough bargaining power to achieve low prices. Because of its vertical integration business model, Inditex has more bargaining power.

As a conclusion, Covid19 affected fashion industry because they affected mainly people's perception about buying clothes and focusing more on what they thought they needed at that moment. Also, people did not search for fancy close anymore, but for house clothes and were not keen into paying too much money on clothes they did not plan to go outside. But, this pandemic is a major opportunity for Inditex and for any fashion store to develop their online shoppes, apps, to promote their brand through social media platforms and influencers and to practice E-commerce.

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