

# Chapter 7

## Always Trust the Customer:

### How Zara has Revolutionized the Fashion Industry and Become a Worldwide Leader

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#### **EXECUTIVE SUMMARY**

*This case study illustrates the effectiveness of pursuing a customer centric marketing approach in order to achieve long term strategic success and market leadership in the fashion industry. The case study provides the most significant elements of Zara's history. Then it describes the competitive environment. Next it reveals how Zara has set up a unique, lean, and agile supply chain strategy in order to deliver new products on a very frequent basis and faster than any of its competitors, as fashion customers expect constant changes. Then the case study details the customer centric marketing strategy, with the use of customers as the source of the inspiration for fashion design, the central role of the stores to build a very high level of trust with its customers, which is used by Zara to make a distinctive brand strategy. Finally, the case study discusses the new challenges that Zara customer centric marketing strategy is meeting when confronted with the expansion on the Chinese market and the online market.*

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### ***Always Trust the Customer***

On this nice day of June 13, 2012, Pablo Isla, CEO of Inditex was enjoying the presentation of the last result of the company about the first quarter of 2012. The revenues were up by 27% compared to the same quarter in 2011, beating the forecast of the analysts by more than 13%; Net margin was also up and even better, for the first time ever, was equal to that of archrival H&M at 14.1%. This was just the confirmation that Inditex, with its flagship brand, was now the unconditional worldwide leader in the apparel industry.

Furthermore, in the latest edition of the Global RepTrak™ 100, a study measuring corporate reputations worldwide Zara was the only Spanish brand in the ranking, confirming the extremely good image of the company. Zara, the oldest brand – or concept as described by Inditex was the most important for the group. With 1830 stores in 84 countries, Zara represented 65% of the revenues but almost 80% of the margin.

## **BACKGROUND**

The amazing success of Zara-and Inditex-is closely linked with his founder, Amancio Ortega Gaona. He began his career in 1963 as a clothing manufacturer. The business grows steadily over the decade until Ortega owns several factories, which distribute their merchandise to other European countries.

In 1975, Amancio Ortega opened the first Zara store on a street in downtown La Coruña, Spain in 1975. The expansion strategy which made a small Spanish clothing firm into the undisputed worldwide leader in apparel can be described in three phases: First came the national development in Spain, then the international expansion in Europe and in the US and Latin America (1988-2003), and finally the global surge in Asia and the rest of the world. There were about 1750 Zara stores in 80 countries. Zara was also extremely successful in China and online Zara shop was planned to be launched in summer 2012 for the winter season opening in China.

As illustrated in Figure 1 the rise of Zara and Inditex has been extraordinary. From 1991 to 2003, Zara sales grew more than 12-fold from €257 million to €3.220. From 2003 to 2008, the company managed to double its size. By August 2008, sales edged ahead of Gap, making Inditex the world's largest fashion retailer and Zara the worldwide leading brand in the apparel industry. From 1991 to 2011, the compound average growth rate is about 18.5%, meaning that Zara has managed to double its size almost every 4 years! This commercial success reflects the importance of growth in the Zara culture. The founder Ortega likes to repeat that “a company that does not grow will die.” Ortega stepped down as CEO in 2011 leaving the place to Pablo Isla, but he is still very involved in the strategic decision of the company.

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