

retail @ the speed of fashion part-II



By Devangshu Dutta,

Zara's success is as much a result of its history and location, as of its counter-intuitive business strategies. While it may not be possible for another company to exactly duplicate the conditions under which Zara flourished, one can certainly learn from its experiences, and its business structures.

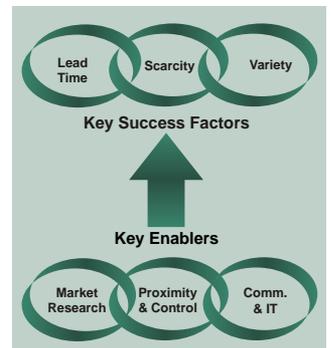
In the second instalment of this article, we probe the core strategies underpinning Zara's success - and the key factors enabling these strategies - as well as the learnings possible for Indian companies.

Let's begin by reiterating the key success factors in Zara's business that we identified in the first part of the article. These were:

- Shorter lead times for concepts to reach the market
- Smaller quantities per style and
- Many more styles during a year.

In combination, these keep the store looking fresh and desirable for the consumer. Obviously, all of these factors are closely interlinked.

The elements supporting Zara's business structure and strategy are also greatly interlinked and interdependent. The following three factors stand out:



1. Extensive market research providing a constant stream of inputs into the product development process, rather than in batches or discrete seasons.
2. Locating various business functions in close proximity of the headquarters, and tight control, allows the various functions to coordinate and take joint-decisions very quickly. Control also refers to early investment in raw material, and direct or indirect "ownership" of processing and production capacities. These provide the capability to respond very quickly to the market research-influenced decisions.
3. Communication and Information Technology are absolutely vital to managing the constant interface of various functions and management of the huge variety of product information.

With this in mind, let's see how Indian companies could aim to "do a Zara".

Setting a Trend or Responding Early to One?

That's an easy question to start with. Others invest in "setting a trend"; Zara doesn't. It just responds to them very quickly. Remember, we are talking about following the innovators, not about being one. This needs a capability to understand design, but an even stronger capability to be a "stylist" - that is, re-creating, rather than creating first.

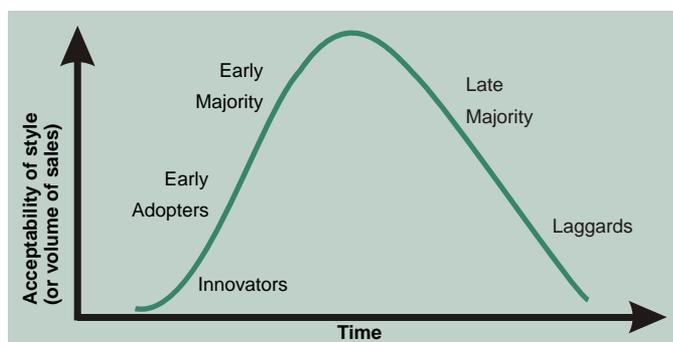
Yes, there are successful design-oriented retail businesses that set fashion trends - they are very creative, but typically small. The capability to create new design trends, and the capability to distribute that design in large volumes quickly and profitably, typically don't exist in the same company.

For those who want to be large and profitable rather than niche and profitable, the mantra is to "follow early". And, yes, unpleasant as it may sound, "knock-offs" (re-interpreting someone else's design) are a fact of life.

But can Indian fashion brands successfully re-interpret trends? The answer would be a loud "yes" - that is what most of them do, anyway. The key is: do you know how to do it early enough, have the capability of growing it quickly to a certain scale, and then dropping it to catch another trend?

Certainly you need to invest in market research. Not having an MR agency doing consumer surveys and giving you research reports, but actually "feet on the street" - your own people who can spot trends, and communicate them to people who can interpret the trends into styles that fit into your look for your consumers.

Trends are visible on individuals who adopt "looks" early. The extra flare, the strap going thinner - if you are trained to observe, you can. In a fashion cycle, there are always innovators who pick the trends up first, and early adopters who quickly follow.



Have designers who can identify fashion-forward people - the innovators - and identify what kind of styles they are wearing which can spread in the larger population. If you can identify who are the innovators in your segment, you can follow the trend up to part of the early majority level. At some point remember also to drop it. Because after that there will be other companies, many others, who will quickly follow. Then margins become low, and profitability becomes even lower, because there is much more competition.

Growing the scale is a tough part, because most Indian brands don't have a market reach that is wide and deep enough to achieve quick volumes. The distribution channels are also built in multiple layers, each of which influences order-placement, and therefore quantities and lead-time.



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Contrastingly, Zara not only creates the merchandise, but sells in its own stores. The people who decide the product styling and those who decide the distribution sit in the same office. Anything that is not seen to reach a requisite level of volume is not ordered. So that is a strategy which Indian brands with captive distribution can follow (those with own-managed stores, franchise-managed but company-stocked stores, or shops-in-shop), not those which sell by booking orders from retailers.

Doing it Fast Needs Close Control

The other thing about Zara - while it follows, it does so very quickly. It's merchandise hits the stores 15 days after being designed. How can an Indian brand do things equally quickly, when fabric lead times can vary from 30 days to 60 days (mill made)? And when apparel production lead times can be 10-30 days?

Well, for one discussions and decision-making takes up a lot of that time - what to sell, where to buy the fabric form, whether the specifications are being met etc. Zara gets around this by having various business functions sitting together at the headquarters, and also having a culture (or structure and process) of having people talk to each other. (It's shocking how many companies just don't have the culture where different functions are constantly in touch, despite sitting a few feet from each other.)

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In Zara's case, the sales & marketing people who are receiving trend feedback are regularly talking to the designers and the merchandisers, and the production scheduling is closely coordinated as well. There is not much time wasted on approvals.

Secondly, even if everything else is fine, production capacity may or may not be available at that specific time. There may be another customer's order that may be handled on priority. The work-around for this is to have your own production capacity, or captive production capacity owned by someone else (i.e. contracted production capacity). It is expensive, but the cost of lost sales can be higher. This can work both for garment capacities as well as for fabric capacities - one could take a position by "leasing" a fixed number of loom-hours and this is feasible in not just the Indian powerloom sector which is very flexible, but also in the mill-made sector. This is not new to India - several companies have worked on this principle, including Zodiac.

The needs must flow from the finished product backwards, rather than being dictated by the raw material. Zara was not a spinner first and it did not integrate forward; it built a garment business and then integrated backwards. Therefore, everyone is clear which end of the business pays the bills.

Keeping It Together is As Important

Just sitting close together in one place is fine with a small team of a few people, doing a handful of styles. As the business grows, keeping in touch needs more than a shout across the room.

This is where information technology comes in. The only problem is that for most companies, IT seems like an investment without returns, and they just don't invest. Many others who do spend on IT may leave the actual definition to the vendor, and the buying to an "EDP manager" who has very little understanding of the business as it is, or a vision of where it could go! So they end up buying something that is not enough, too much or just incorrect reinforcing the perception of investment without return.

Those who do understand what pieces of IT platforms they need, what can afford, and how to prioritise and guide the effort, will find success. Here is the formula:

- Invest in the right software, hardware and people
- Update them frequently (including training the people)
- Spend enough, but just enough not too much nor too little

Identify your critical areas, and draw up a conscious roadmap or blueprint for how you will invest in upgrading your IT infrastructure. Keeping track of sales information, product information, controlling capacities and production scheduling, managing distribution - all of these are areas that IT can help tremendously in. My guideline for IT implementation would be:

- First pick an area that is hugely important in terms of improving sales or saving costs - this may be putting a sales update and analysis package, or an inventory management system. Whatever it is, it should be something that impacts your current business model hugely.
- Put something in place that gets you some return quickly - you and your organisation will feel more confident about further investments; then go step-by-step down the prioritisation list.
- Try not to fall into the trap of re-inventing the wheel - if someone has already developed something and it fits 70% of your needs then customise, don't re-develop.



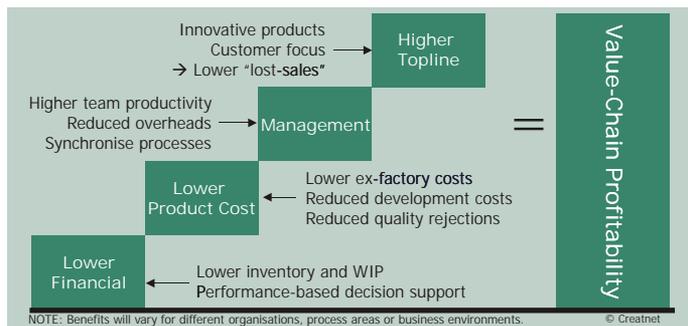
Thirdly, what do you do to cut fabric lead time which is the biggest chunk? Buying a capacity reduces only part of the lead time. Zara buys fabric in advance, in accordance with the forecast trends. Much of it is in greige form this gives the flexibility to colour or print the fabric to the desired effect, as and when it is needed. By buying relatively standard qualities from specified vendors, the lead-time of deciding the vendor and approving quality can be reduced drastically. The famed 15-day lead-time is possible only when the fabric is in stock.

Also, for printing and processing the greige, again Zara operates its own capacities - this allows it to schedule and prioritise according to its business needs rather than being hostage to someone else.

However, remember that only being vertically integrated will not solve the problems. There are enough vertically integrated Indian companies where the spinning department does not know or care what the scheduling needs of the weaving department are, let alone any knowledge of garments! This culture needs to change.

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Zara has not built its IT infrastructure in a year or two what we are seeing is a product of several years of consistent and constant investment, one functional area after another. And they must have had their share of failures. Indian brands will need to do the same, without expecting that IT will help them create a large and profitable business instantly.



Indian Market Realities Differ

While emulating the internal elements and back-end strengths exist among Indian companies to re-create a Zara, we have to acknowledge that its current market context is different from India. Zara exists in a market where “fashion” - the rise and decline of the desire for a specific look in a season or less - is a fact of life. Secondly, there is a large population of consumers who can afford to change their wardrobe with changing styles every season - this can help to build scale. Thirdly, the cost of custom tailoring is very high in that market.

By contrast, the Indian ready-to-wear market is dominated by menswear that has a longer fashion-change cycle than womenswear. In the menswear cycle carry-overs are not as much of an issue. Fashionability is not as much a fact of life, for most consumers. In fact, most consumers are willing to wait several months for the sales, to pick up off-season merchandise that they may end up wearing only the next year.

Of course, there is a segment that is very fashion conscious, but their numbers are too small as yet to provide a good enough base for an organised quick-in-fashion retailer. That is the second market reality, which differs from Europe. The “global income standard” middle-class is still a tiny fraction in India, even by Purchasing Power Parity. For many companies or concepts that target the “middle-class” the Indian consumer segment may only be 1-5 million consumers.



Devangshu Dutta is a retail and fashion industry professional, and CEO of Third Eyesight (website - www.thirdeyesight.in). He has worked with several manufacturers and retailers in India, Europe, North America and the Far East, assisting them in the development and implementation of new business strategies, market entry, new product development, sourcing and supplier management and other areas. He has been a speaker at several industry forums in India, Europe and Asia.

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Zara's not the only successful retail model in the world there are many other business models from which to learn. By all means, pick elements from different retailers. After all, it is a time honoured practice for successful retailers to wander into other stores, and find out what they could or should be doing from Sam Walton in Arkansas to many Indian retail CEOs.

Thirdly, while styling of women's clothing does change as frequently in India as elsewhere, the low cost of custom tailoring allows the consumer to update her wardrobe on budget. And let's face facts, Indian consumers pay double of what they would be if their garment price/income ratio were the same in Europe and the US. Can Indian ready-to-wear brands make clothing affordable to more Indians? After all, that is one of the cornerstones of Zara's business philosophy.

In Conclusion

As with people, when companies follow role models, they must create the conditions that will enable them to fit into the same mould as the role model. The market conditions, the supply side, the internal elements must fit just-right.

However well you might follow the internal elements, business and market conditions are not easily reproduced, and they are typically not within one company's control or influence. If you believe you have the elements all worked out, by all means go ahead and “do a Zara”.

And if you don't, there is still a bright side: Zara's not the only successful retail model in the world - there are many other business models from which to learn. By all means, pick elements from different retailers. After all, it is a time honoured practice for successful retailers to wander into other stores, and find out what they could or should be doing - from Sam Walton in Arkansas to many Indian retail CEOs.

Maybe you could even create your own unique blend of success elements that create a model that perfectly fits you and your team and what's more, is not easily copied by anyone else! Maybe in a few years time we could be reading articles globally about your phenomenally successful model.

