Zara's 'Fast Fashion' Business Model

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A few weeks back, the publication *Business Insider* ran a story that had two intriguing themes: money and mystery. The headline: “Inside the World of Amancio Ortega, a Spanish Billionaire You’ve Probably Never Heard of Who Is Actually Europe’s Richest Man.” Who is this magnate whose net worth of more than $65 billion tops even Berkshire Hathaway’s Warren Buffett? He is the founder of Zara, a worldwide seller of clothing that has been described as a company that is “changing retail forever.”

From a business perspective, that is truly saying something. Of course, teens like Leticia Sáez Viadero, a third-year student at the Colegio San Agustin secondary school in Santander, Spain, are fans of Zara less for its business strategy and more for its fashion appeal. Sáez Viadero, who is 15, likes to shop at Zara with her mom because the store gets new merchandise every two weeks. “When you go to Zara, you know you’re always going to find something. You don’t go home empty-handed,” says Sáez Viadero. These days, she goes to Zara whenever she needs to buy birthday presents for friends. Most of them like clothes – especially from Zara.

Still, Sáez Viadero is curious about why and how Zara is transforming the world of retail. To better understand the business behind the fashion, she needs to consider a key business concept that helps drive success at companies like Zara: the business model. A business model, offers Sáez Viadero, refers to “a business that is very well organized [to serve its customers], and establishes the standard [for quality] within the industry.” She is correct in thinking that companies with a business model, especially in retail, have a plan that takes their customers’ needs into consideration. What’s more, a business model is the strategy that a company uses to generate revenue and make a profit from operations. In other words, a strong business model will help a company use the resources it has to make money.

Zara’s business model – which retail analysts say has to do with two fundamental strategies: stocking less merchandise and updating its collections often – seems to be working. Since it was founded in 1975 in the city of Coruña in northeast Spain, Zara has managed to win over new customers of practically ever age on every continent around the world. Nowadays, the chain operates a network of more than 2,000 retail outlets in 88 markets located in the central shopping districts of large cities.

Zara has revolutionized the world of fashion by bringing out a large number of collections each season, instead of the same old two collections every year – one for spring-summer, and another for fall-winter – which has been the norm in the fashion industry. Zara has, in effect, set the standard for the fashion sector because it manages to “design, produce, distribute and sell its collections in [only] four weeks; a record-brief period if you take into account that its competitors take several months to complete this same process,” notes José Luis Nueno, professor of commercial management at the IESE Business School in Spain.

The key to the process lies in Zara’s skill at tuning into the personal tastes of its customers so that it can give them what they want even before they ask for it. To do that, more than 200 designers located at the company’s central headquarters in Spain constantly collect information about the decisions made by consumers in each of the chain’s stores. They also probe the latest trends, which their own scouts observe in the streets and malls around the world, for inspiration when they are designing their latest creations. Beyond the process of design, the production and logistics of Zara’s products also take place inside the company. The advantage of that approach is that it gives Zara a lot of flexibility to adapt to the changing tastes of fashion consumers.

In reality, Zara is all about timing. Its products wind up on the shelves and clothing racks of its shops because Zara produces them by itself and only continues to manufacture those products that sell the best within its stores. As a result, "customers of Zara know that if they like a garment, they have to buy it right away, because it can go out of stock and never come back," says Nueno. Sáez Viadero is well aware of that fact, so she likes to go shopping "quite frequently, in order to look at the newest items." She does that in an effort to differentiate herself from others in a world of fashion that is becoming more and more uniform and globalized. "I look for something different, so I don't have the same clothing as the rest of the girls my age; that's because all fashions are generally quite similar."

Another one of Zara's business-model strengths is that it has limited production seasons and a high turnover of products; they change every 15 days. So Zara manages to save on its warehousing and inventory costs in every shop worldwide. Those sorts of savings are very important for any business, not just because of the savings themselves but because if the business knows pretty much which items it is going to sell, it manages to reduce its business risks. These days, Zara's continued record of success is conveyed by its sales figures. In 2014 – the latest published figures – Zara's sales reached 11.594 billion euros, or 13.073 billion [U.S.] dollars, an increase of 7% over the previous year.

The extraordinary thing about all this is that Zara's success has been achieved without resorting to any advertising campaigns. To spread the word about the company, it depends on word of mouth and on its landmark retail outlets in high-end locations, such as Fifth Avenue in New York City, and Oxford Street in London. It depends a great deal on getting people to talk about its brand. When it comes to beating out the competition, Zara believes that it is vital to have your ears wide open to listen to the needs and perspectives of your consumers.

The greatest risk for Zara is that the products that it creates more quickly than other retailers do not find a market; that they do not fit in with shoppers' current tastes. Nevertheless, Nueno stresses that the advantage that the company has is "its capacity for adaptation." For example, he explains that "before getting into a market, [Zara] analyzes the tastes of people, along with current trends, and adapts the fundamentals of its style to each country." This approach has enabled Zara to become a winner in the Near East (Western Asian countries like Armenia, Iran and Iraq), where it has adapted its offerings to a different culture, in which long skirts and luxurious garments are appealing.

Nowadays, it seems that none of its main competitors – the manufacturers of so-called 'fast fashion' items that are quickly designed and sold mainstream from the latest high-fashion trends — including Sweden's H&M, Spain's Mango and America's The Gap – have a more flexible and efficient model than Zara when it comes to offering the latest in fashion, at the lowest possible price, and in the shortest possible time. How long will that last? The crowded world of retail can be fickle. Zara will no doubt continue to assess its business model and, if needed, adjust it to meet the changing needs of its customers.