



Zara's Secret for Fast Fashion

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Spanish retailer Zara has hit on a formula for supply chain success that works. By defying conventional wisdom, Zara can design and distribute a garment to market in just fifteen days. From Harvard Business Review.

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Editor's note: With some 650 stores in 50 countries, Spanish clothing retailer Zara has hit on a formula for supply chain success that works by defying conventional wisdom. This excerpt from a recent Harvard Business Review profile zeros in on how Zara's supply chain communicates, allowing it to design, produce, and deliver a garment in fifteen days.

In Zara stores, customers can always find new products—but they're in limited supply. There is a sense of tantalizing exclusivity, since only a few items are on display even though stores are spacious (the average size is around 1,000 square meters). A customer thinks, "This green shirt fits me, and there is one on the rack. If I don't buy it now, I'll lose my chance."

Such a retail concept depends on the regular creation and rapid replenishment of small batches of new goods. Zara's designers create approximately 40,000 new designs annually, from which 10,000 are selected for production. Some of them resemble the latest couture creations. But Zara often beats the high-fashion houses to the market and offers almost the same products, made with less expensive fabric, at much lower prices. Since most garments come in five to six colors and five to seven sizes, Zara's system has to deal with something in the realm of 300,000 new stock-keeping units (SKUs), on average, every year.

This "fast fashion" system depends on a constant exchange of information throughout every part of Zara's supply chain—from customers to store managers, from store managers to market specialists and designers, from designers to production staff, from buyers to subcontractors, from warehouse managers to distributors, and so on. Most companies insert layers of bureaucracy that can bog down communication between departments. But Zara's organization, operational procedures, performance measures, and even its office layouts are all designed to make information transfer easy.

Zara's single, centralized design and production center is attached to Inditex (Zara's parent company) headquarters in La Coruña. It consists of three spacious halls—one for women's clothing lines, one for men's, and one for children's. Unlike most companies, which try to excise redundant labor to cut costs, Zara makes a point of running three parallel, but operationally distinct, product families. Accordingly, separate design, sales, and procurement and production-planning staffs are dedicated to each clothing line. A store may receive three different calls from La Coruña in one week from a market specialist in each channel; a factory making shirts may deal simultaneously with two Zara managers, one for men's shirts and another for children's shirts. Though it's more expensive to operate three channels, the information flow for each channel is fast, direct, and unencumbered by problems in other channels—making the overall supply chain more responsive.

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In each hall, floor to ceiling windows overlooking the Spanish countryside reinforce a sense of cheery informality and openness. Unlike companies that sequester their design staffs, Zara's cadre of 200 designers sits right in the midst of the production process. Split among the three lines, these mostly twentysomething designers—hired because of their enthusiasm and talent, no prima donnas allowed—work next to the market specialists and procurement and production planners. Large circular tables play host to impromptu meetings. Racks of the latest fashion magazines and catalogs fill the walls. A small prototype shop has been set up in the corner of each hall, which encourages everyone to comment on new garments as they evolve.

The physical and organizational proximity of the three groups increases both the speed and

the quality of the design process. Designers can quickly and informally check initial sketches with colleagues. Market specialists, who are in constant touch with store managers (and many of whom have been store managers themselves), provide quick feedback about the look of the new designs (style, color, fabric, and so on) and suggest possible market price points. Procurement and production planners make preliminary, but crucial, estimates of manufacturing costs and available capacity. The cross-functional teams can examine prototypes in the hall, choose a design, and commit resources for its production and introduction in a few hours, if necessary.

Zara is careful about the way it deploys the latest information technology tools to facilitate these informal exchanges. Customized handheld computers support the connection between the retail stores and La Coruña. These PDAs augment regular (often weekly) phone conversations between the store managers and the market specialists assigned to them. Through the PDAs and telephone conversations, stores transmit all kinds of information to La Coruña—such hard data as orders and sales trends and such soft data as customer reactions and the "buzz" around a new style. While any company can use PDAs to communicate, Zara's flat organization ensures that important conversations don't fall through the bureaucratic cracks.

Once the team selects a prototype for production, the designers refine colors and textures on a computer-aided design system. If the item is to be made in one of Zara's factories, they transmit the specs directly to the relevant cutting machines and other systems in that factory. Bar codes track the cut pieces as they are converted into garments through the various steps involved in production (including sewing operations usually done by subcontractors), distribution, and delivery to the stores, where the communication cycle began.

The constant flow of updated data mitigates the so-called bullwhip effect—the tendency of supply chains (and all open-loop information systems) to amplify small disturbances. A small change in retail orders, for example, can result in wide fluctuations in factory orders after it's transmitted through wholesalers and distributors. In an industry that traditionally allows retailers to change a maximum of 20 percent of their orders once the season has started, Zara lets them adjust 40 percent to 50 percent. In this way, Zara avoids costly overproduction and the subsequent sales and discounting prevalent in the industry.

The relentless introduction of new products in small quantities, ironically, reduces the usual costs associated with running out of any particular item. Indeed, Zara makes a virtue of stock-outs. Empty racks don't drive customers to other stores because shoppers always have new things to choose from. Being out of stock in one item helps sell another, since people are often happy to snatch what they can. In fact, Zara has an informal policy of moving unsold items after two or three weeks. This can be an expensive practice for a typical store, but since Zara stores receive small shipments and carry little inventory, the risks are small; unsold items account for less than 10 percent of stock, compared with the industry average of 17 percent to 20 percent. Furthermore, new merchandise displayed in limited quantities and the short window of opportunity for purchasing items motivate people to visit Zara's shops more frequently than they might other stores. Consumers in central London, for example, visit the average store four times annually, but Zara's customers visit its shops an average of 17 times a year. The high traffic in the stores circumvents the need for advertising: Zara devotes just 0.3 percent of its sales on ads, far less than the 3 percent to 4 percent its rivals spend.



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