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Fast fashion lessons

You think your industry is tough? Imagine customer preferences that can shift literally overnight, product lifecycles measured in weeks, and the value of your product plummeting if you miss the latest trend. Welcome to the world of fast fashion.

Donald Sull and **Stefano Turconi** examine how Zara, a leader in the industry, has pioneered an approach to navigate the volatility of fast fashion, offering lessons for any company facing rapidly changing markets.

H*aute couture* has always been a fairly staid affair. Big-name designers crafted clothing that sold for tens of thousands of euros. Astronomical prices served as the doormen to keep the masses out of the exclusive club of high fashion. Fashion houses introduced their collections twice a year, and a designer's choices on the height of a hemline or colour of a skirt largely dictated what was "in" and what was "out" for the following six months.

How things have changed. In recent decades, retailers including Benetton, H&M, Topshop and Zara have revolutionized the fashion industry by following a strategy known as *fast fashion,* democratizing couture and bringing trendy, affordable items to the masses. Fast fashion describes the retail strategy of adapting merchandise assortments to current and emerging trends as quickly and effectively as possible. Fast fashion retailers have replaced the traditional designer-push model – in which a designer dictates what is "in" – with an opportunity-pull approach, in which retailers respond to shifts in the market within just a few weeks, versus an industry average of six months.

While fast fashion is heaven for its target consumers, it can be hell for traditional retailers. Quickly shifting trends have slashed the shelf life of many garments from months to weeks, or even days. In the autumn of 2006, demand for a one-shouldered cocktail dress exploded, and retailers rushed to stock up on the hot item. A few weeks later, the same dress was *passé* and unsold stock filled the remainders racks. The message for traditional mass merchandisers and specialty clothing retailers is clear: they must refresh their inventory more frequently if they hope to capture the fast fashion crowd. A study by Bain & Co. estimated the industry average markdown ratio at approximately 50 per cent, and also found that fast fashion retailers sold only 15 per cent on sale.

For retailers that get fast fashion right, however, the benefits can be enormous. Fast fashion chains have grown faster than the industry as a whole and seized market share from traditional rivals. In a challenging European retail climate, these companies are expanding their sales and profits over 20 per cent per year. Their share of the domestic apparel market (measured by sales value at retail) has grown from virtually nothing in the 1980s to over 20 per cent in Spain and 5–10 per cent in the United Kingdom, Germany and France. Fast fashion leaders typically earn higher profit margins than their old-guard competitors, averaging 16 per cent, versus 7 per cent for the typical specialty-apparel retailer.

Growth of an idea

In 1965, Giuliana Benetton, who designed and produced woollen sweaters, partnered with her brother, Luciano, a textile wholesaler, to sell the →

→ colourful sweaters she designed. The Benettons initially sold their products through Italian department stores, but in 1968 opened their first store. Over the next decade, Benetton opened or franchised dozens more stores throughout Italy each year and expanded its product offering to include a wide range of fashion items and fabrics besides wool. To succeed on the international market, they learned to adapt the colours of their collections to local tastes. Benetton also priced its products below competitors of similar quality in order to target the mass market.

Like Benetton, Zara grew out of clothing production. The company, founded in 1963, featured low-priced look-alike products of popular, higher-end clothing fashions in addition to producing its own unique designs. In 1975, Zara's founder, Amancio Ortega, opened the first Zara retail outlet to sell clothing stock in the short term and to more closely integrate production and distribution in the long term.

Benetton and Zara both integrated clothing production with retailing in order to respond more quickly to shifting consumer preferences. Benetton combined its own production facilities with a complex network of contractors and subcontractors, many of which were owned by former Benetton employees. Managers could switch parts of the network on or off to respond nimbly to shifting demand for different garment styles. Benetton also moved the dyeing process to a much later stage in the operation so that clothing could be dyed in response to consumer demand for particular colours, and was therefore the first fashion apparel manufacturer of any scale that was able to change its product range during the fashion season to satisfy consumer trends.

Zara built a supply chain and production network that resembled Benetton's, while adding some fresh enhancements of its own. Zara maintained in-house only the capital-intensive, yet complicated, operations (like computer-guided fabric cutting); meanwhile, it outsourced the labour-intensive operations (such as garment sewing) to a network of local subcontractors, many of which were organised as seamstress cooperatives in Galicia. By shifting more production to subcontractors, the company was able to respond quickly when items sold better than expected and also to cut off production when demand for particular items fell.

Despite their similar origins, Benetton pulled well ahead of Zara in their first few decades. By the end of 1995, Benetton owned or franchised about 8,000 stores in 110 countries, with only one-quarter located in Italy. Zara, in contrast, had only about 500 stores, and more than three-quarters of them were located in Spain. Benetton appeared to have all the pieces in place for sustained growth, while Zara looked like a solid, but regional, player.

Over the following decade, however, the situation reversed. By the end of 2006, Zara was present in 64 countries, while parent group Inditex saw total stores grow six-fold to 3,000; sales grew sevenfold and profitability was among the highest in the industry. Benetton, in contrast, saw its sales stagnate and profitability plummet, forcing management to retrench, significantly reduce the number of stores and re-engineer its supply chain.

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What accounts for this dramatic rise in fortune? Not, it turns out, the usual suspects. Take outsourcing. Clothing production is a quintessential example of an industry that should benefit from cheap, low-skilled labour in emerging markets; and, indeed, many retailers have lowered costs by outsourcing virtually all their production to Asia or South America. But Zara produces more than half of its merchandise in proximity to its core market, especially fashion items, in order to shorten lead times and maintain flexibility.

It's not flashy advertising either. Zara does not invest in major television or press promotional campaigns, but instead focuses on less glamorous in-store and point-of-sale promotions. Zara relies on shop windows to convey its brand image, depends upon word-of-mouth to broaden its base of customers, and locates stores on some of the most up-market and high-traffic avenues of each city it enters.

Many fashion houses sign high-profile deals with celebrities and big-name designers to generate sales. Topshop, for example, tapped Kate Moss in 2006, while H&M brought out the big guns in 2007 by recruiting Madonna, Kylie Minogue and Roberto Cavalli. But Zara has never appointed famous designers or celebrities to design its collections.

Software vendors would have you believe that success in fast-changing markets requires enormous investments in sophisticated IT systems, including a baffling array of acronyms such as CRM, EPR, BI or SCM. Managing information is, of course, critical to

Window shopping

Otto Press Photo

Zara's success, but whether measured by IT workers as a percentage of total employees, or total spending as a percentage of sales, Zara's IT expenditure is less than one-fourth the fashion industry average. Until 2004 the company collected sales data from cash registers using floppy disks and sent the consolidated data to headquarters using a dial-up connection.

The case of the puffy ball gowns

In October 2006, the film "Marie Antoinette" hit theatres across Europe and the US. It showed the French queen obsessed with pretty dresses and shoes and instantly caught the attention of the public. While rococo creations were still on couturiers' desks – and the movie still on thousands of screens – a collection of puffy ball gowns and velvet jackets with cropped collars and gold buttons was already available at Zara stores.

Ball gowns inspired by a French queen demonstrate an often-overlooked but important trait – Zara's ability to spot opportunities in the churning kaleidoscope of variables that affect fashion trends.

The element that has proven most critical to Zara's success is its ability to create and maintain shared situation awareness in the rapidly changing fashion industry.

Design teams must gather information from a wide range of sources, identify patterns in fluid situations, and anticipate which products might sell. They must also notice fresh connections among apparently unconnected events and sift the few key variables from the deluge of trivial ones. They must anticipate likely trends based on information that is often incomplete, ambiguous or conflicting. And all of this must be done in real time often under competitive pressure.

So how does Zara do it? Most analyses of Zara's success have focused on the ability of its supply chain to quickly produce new products in response to shifting trends. A nimble supply chain matters →

→ in fast fashion, but it does not necessarily differentiate Zara from competitors like Benetton. The element that has proven most critical to Zara's success is its ability to create and maintain shared situation awareness in the rapidly changing fashion industry.

Shared situation awareness

At first glance, making sense of a rapidly changing environment under pressure seems impossibly complex. And yet people do it every day. They do so by developing and maintaining *shared situation awareness,* a team's ability to recognize a pattern in a fluid situation and use it to anticipate what might happen next.

How do people develop situation awareness? Studies by experts across multiple domains show teams follow the same three steps in anticipating how a situation might unfold: observe the raw data, spot patterns to form hypotheses about how the situation might unfold, and test these hypotheses.

In fast fashion, situation awareness is particularly critical in the design function, which must anticipate fashion trends and changing consumer preferences to avoid lost sales, overstocks and markdowns of undesired items. In traditional fashion companies, a handful of prima donnas work in isolation to design new lines. By contrast, at Zara's headquarters, 300 designers, market specialists and buyers work in tightly synchronized teams. To constantly refresh the collection, these teams of in-house designers use a combination of customer data and fashion discernment; they spot emerging trends everywhere, from the streets to movies to couture fashion shows. How they do it is the secret to their success.

#1 Observing the raw data

The first step in building situation awareness consists of absorbing real-time data from multiple sources. Picture an air traffic controller studying an overwhelming dashboard of dials and readouts, observing external conditions, and receiving information from several pilots on the ground and in the air. You might think that this first step – observing the relevant data – is the easy one. However, studies of air traffic controllers have found that up to 70 per cent of mistakes result from a failure to observe key variables that signalled a change in the situation, even though this information was available.

The quality of observation improves to the extent to which it is granular and real-time. Zara's designers gather data on sales and inventory from each of its stores on a daily basis and use this to inform their view of the situation. In addition to hard data, more qualitative information may provide the critical piece of the puzzle required to spot an opportunity or threat. Zara management has taken a series of conscious steps, many counter to industry norms, to ensure that design teams can observe the raw data with minimal distortion, including removing layers of bureaucracy that might alter the passing of data along the chain from customer to design team.

Store managers are the first link in the chain. But Zara deliberately leaves them without computerized data on in-store stock. Rather, store managers receive on a hand-held device a detailed sales and replenishment report every hour. As a result, they cannot sit in an office and read spreadsheets but must speak with sales clerks and check the racks and the stockroom frequently to keep abreast of the current situation. Store managers also have higher incentives to collect the right data; they are responsible for deciding what to offer in their store, rather than simply hanging up the items sent from headquarters, and their compensation is based in part on the accuracy of their sales forecasts and sales growth.

Country managers located at company headquarters work in teams organized by region and focus on one of Zara's five broad categories – women, women basic, TRF (a trendy product line geared toward younger women), men and children. A country manager gathers information at multiple levels of aggregation, starting with the regional manager responsible for a product line. Regional managers oversee several stores and live locally, providing an aggregated view of regional trends. But country managers also speak with each store manager, typically a few times a week, often after the biweekly store deliveries. Also, they visit each location in their domain at least twice per year. This provides indispensable and granular information on what their customers like, dislike, and request, as well as feedback on how new items are selling.

Most country managers have worked in stores, often as a manager, so they know the right questions and understand the answers when speaking to current store and regional managers. Zara has also deliberately retained ownership of 90 per cent its stores, which helps avoid many of the tensions between corporate management and franchisees.

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To ensure that information is collected in a capillary yet systematic way, store managers and shop assistants turn into a recovery team each night when the store closes its doors. They scan through and collect the mountains of unsold items customers tried on without buying. Is any item, colour or style prevalent? How can this be explained? Is there any pattern to be shared with the designers?

Other rituals contribute to an atmosphere of camaraderie essential for frank disclosure. During the first day of a discount sale, one of the most hectic days of the year, all members of the commercial organization – from the regional managers down to the office assistants – join and help the sales staff in the stores. Not only are they actively supporting their colleagues in a moment of need, but they also receive valuable exposure to customers and get a true sense of what happens on the shop floor.

Companies in rapidly changing industries must be able to seize opportunities, of course; but they must be able to see them in the first place.

#2 Making sense of the raw data

The second step in situation awareness consists of making sense of the collected information to discover potential opportunities or threats in the welter of raw data. Discussions to make sense are not aimed at accurate long-term predictions but rather to spot patterns in the data that point to possible opportunities or threats emerging in the present.

Again, Zara has made a variety of decisions to improve the frequency and quality of sense-making discussions among the design teams. First, it has physically co-located the people involved in new product design in its headquarters, unlike many fashion retailers that spread these functions around the world. Employees involved in the design process sit in one of three large halls, one each for women's, men's and children's clothing. Each hall has an aisle of desks down the centre, where the country managers sit, with desks interspersed at regular intervals with large meeting tables. On either side, there are areas with worktables surrounded by racks and shelves packed with sample products; this is where designers spend most of their time.

Zara's open layout facilitates frequent face-to-face discussions rather than communication through email or spreadsheet. Designers and commercials refer to it as a culture of immediacy: when they have a question, they find someone who can help them and initiate the discussion right then and there. They can play with alternative explanations, bounce ideas off one another, and tackle issues from different angles simultaneously.

Because hierarchy can stifle open discussion, Zara takes active steps to ensure that everyone feels free to speak frankly. No one has an enclosed office and everyone has the same size desk. Although roles and responsibilities are clear, the company does not use formal titles, thereby avoiding the usual corporate aristocracy of Vice Presidents, Senior Vice Presidents and Executive Vice Presidents. Everyone within the company flies coach on local flights. Commercials routinely weigh in on design decisions, based on their understanding of the market and customers, while designers draw on their deep expertise of fashion to make their viewpoint heard on commercial decisions.

When considering a potential new product, designers knock up a paper blueprint and hand it over to the pattern department, which sews a prototype. The team then asks a colleague to model the product and discusses how it looks and whether the customer will likely buy it. Skilled workers located on-site complete these prototypes manually in just a few hours versus the week or two required by most fashion companies that outsource prototype production. In-house prototyping is expensive, but Zara managers consider it critical to maintaining the quick tempo of design decisions. It further allows Zara to introduce approximately 50 per cent of its new products on an ongoing basis rather than at the beginning of a season.

In an industry rife with egotistical executives and prima donna designers, Zara consciously hires candidates who can work in a team and links an individual's bonus to the success of that team. It requires employees who are humble enough to accept feedback from colleagues, share credit with their team for winning ideas, and, of course, fly coach and forego other trappings of status common in many companies.

Team-based systems have their own dysfunctions. They can sometimes devolve into talk shops, in which everything is discussed but no decisions are taken. Zara avoids this pitfall by ensuring that team leaders have a clear responsibility for decisions and make them after discussion. To avoid groupthink, team leaders seek out dissenting opinions when →


Hanging around Otto Press Photo

→ none emerge naturally, and team members are switched regularly to bring in new voices. Healthy competition across teams keeps people on their toes. Daily feedback makes it very clear how each product and team is doing in the stores. Peers genuinely praise each other for a job well done – and remain conspicuously silent for anything less – providing the recognition that creative and ambitious employees crave.

#3 Testing hypotheses

The final step in maintaining situation awareness consists of testing hypotheses about potential opportunities to verify that an apparent opportunity is real. Zara's process allows designers the chance to fail quickly and relatively cheaply. As new designs are created, they are discussed among the design team and either discarded, amended or carried forward. Items that receive the support of fellow designers – not necessarily full consensus – will be prototyped. The speed of prototyping described above permits designers to experiment more freely with possible items. The company creates mock-ups of approximately 25,000 items per year but culls about 60 per cent of them before committing to production.

Prototypes of garments-to-be are placed on the floor along with the rest of the collection. This way, designers and commercials judge whether a design fits with the rest of the collection in terms of colour, fabric and so on, and whether it contributes to the balance between basic and trendy items. Outliers are eliminated while surviving items are sourced in a limited quantity and sent to stores for testing. The responsible design team prepares a number of variations (typically three or four) to be kept as backups. Should the item sell quickly, proof of customer appreciation, they are ready to produce more while maintaining an aura of exclusivity.

One level down, beneath the 24,000 m^2 design hall, is yet another hypothesis-testing innovation. They call it *Fashion Street* – a long parade of stores resembling the high streets of Milan or London. Lined up on either side are Inditex's existing and forthcoming shop formats. Here not only can you glimpse next season's store windows in advance, but you can enter the store and peruse the collection in its entirety. The shop windows, the layout of the store, the merchandise displayed and the soundtrack playing in the air – everything is carefully tested, tuned and photographed by a team of architects, designers and visual merchandisers.

Fashion Street helps design teams maintain a shared situation awareness and envision how new products will fit into the overall picture of the company's current product offerings. And while the product line will differ across outlets, the layout for each shop window is exactly the same, ensuring a consistent look and feel. Store managers around the world will receive photographs to aid them along with their next orders.

Zara's weekly rhythm also cuts the cost of getting it wrong. If an item sells better than expected, the company can stock up the next week; and when it does not, the limited initial inventory minimizes the resulting markdowns. Bad decisions are not severely punished; after all, everything could change by next week anyway. This evolutionary approach to style makes it easier to incorporate fresh information that might influence fashion, including everything from regional weather forecasts and international events, to the vagaries and whims of admired social figures.

Zara – a fashion model?

Ultimately, Zara illustrates that a flexible supply chain is a necessary, but insufficient, condition for strategic agility. Companies in rapidly changing industries must be able to seize opportunities, of course; but they must be able to see them in the first place. Shared situation awareness is therefore of paramount importance, and making sense from ambiguous and conflicting data requires teams to have frequent and open discussions, as well as the ability to test their hypotheses about what will sell and what will not. Attempts by older mainstream companies simply to rethink their supply chains, or to borrow elements from fast fashion retailers without building situation awareness, have yielded only limited results.

Of course, the trouble with predicting the future of fashion is that it remains the industry most susceptible to trends. A backlash against fast fashion may be brewing as the generation that grows up with it becomes older and richer. What if consumers increasingly favour quality and buy superior goods? What if they become concerned about the environmental impact of disposable clothing? Might they turn against fast fashion as quickly as they tossed out those puffy gowns from 2006?

Good taste and good judgement, it is said, never go out of fashion. You can bet that companies that develop shared situation awareness will be best suited to adapt to an ever-changing future. Fast. ■

Resources

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