

THE BUSINESS MODEL OF THE LARGEST RETAIL CHAINS

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ABSTRACT: *This paper aims to be a case study regarding one of the organizational arrangements of the commercial apparatus namely the integrated commerce. This type of trade can be carried out, in his turn, through several types of commercial units. In the last decades a global expansion have known it the corporative chains whose way of organization corresponds to the integrated commerce but that have exceeded the boundaries of a simple trading activities of this kind, reaching to lay the groundwork of an integrated business model both vertically and horizontal.*

KEY WORDS: *integrated commerce; business model; retail chains; international markets; sales concepts; store; customers.*

JEL CLASSIFICATION: F23; L81; M30.

1. THEORETICAL APPROACHES ON INTEGRATED COMMERCE

The economic and social transformations, technical and technological progress highlighted over the years on the global market, immeasurable desire for internationalization have led to the outline of new ways of organizing the commercial apparatus.

In the organization of the the commercial apparatus are taken into account the operations and affiliation at all institutions, bodies, together with all organizational structures involved in commercial activity as a whole. Most experts agreed the recognition as classical forms of organization of the commercial apparatus, the following:

Independent commerce. This is conducted as a separate business activity, isolated, in which the companies have no dealings with the organizations of coordination or centralization for the purchase or sale activities carry out by merchants.

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In most of these cases we deal with specialized merchants. In the independent commerce activity there are two major categories of independent traders:

- the small independent commerce practiced by small firms, isolated, unaffiliated to any organization;
- the big independent commerce representing the type of activity closely linked both to the retail trade and also to the wholesale through contracts to buy or franchise.

Integrated commerce. This fulfills simultaneous functions of wholesale and retail commerce. The category of integrated commerce includes „big store” types (general store, department store), popular store, stores with branches and consumer cooperatives.

The department store appeared for the first time in the US and later in Europe, by creating, in 1927 in Milan, the first department store of the *Rinascente Group*, which commercialized high quality clothing products and offered services for customers at high levels.

The popular store appears as a form of organization around the same time with the department store and offers the same groups of goods, but of questionable quality with fewer customer service and at prices below those offered by department stores. An important feature of the popular store is that all products have the same price.

We can say that the popular store format was successful in Europe. Lately, the popular stores have joined with the department stores offering assortments, services and differentiated prices. The most known such stores are *Coin* and *La Rinascente* in Italy.

Stores with branches (corporate chain) are constituted by two or more stores purchasing and marketing the same product range. This chain stores can be found in all types of retail trade, but most of them can be found in department stores such as *House of Fraise* in the UK, *C&A* in the Netherlands, *Ica* in Sweden, the *Inditex Group* in Spain etc.

Through their mode of organization, these stores can afford to hire specialists at the commercial unit level, in order to study issues relating to pricing, promotion, inventory control, for carrying out forecasts of sales activities and marketing. In this way the advertising costs and the promotional costs are reduced substantially, being supported through quota part by several stores.

Consumer cooperatives are constituted by the residents of a community willing to open their own shop where, through the cooperative members' vote, is decided the commercial strategy. Consumer Cooperatives promotes a reduced level of prices - in order to be able to give dividends to their members, a zonal competition for retailers which came from outside, which offer appropriate service and which practice sometimes even higher prices and which offer poor quality products. The cooperative commerce is constituted by the store owners aiming for a better utilization of the distributive capacities and the technologies.

The global cooperative movement brings together 230 national organizations in more than 100 countries. The International Cooperative Alliance (A) comprises about 800 million members, being founded in 1895.

Associated commerce. This is the form of organized distribution that includes associations of firms which develops cooperation relations based on cooperation agreements. Associated commerce is characterized by a concentration of resources without financial integration in a single organization, in which the firms continue to be owners of their capital and at the same time responsible for its management. Associations can be achieved between retailers - and then are called buying groups - or between retailers and wholesalers - in which case they are called voluntary unions (voluntary chains). Irrespective of the form of association, the main purpose of the associated commerce is to obtain savings in the supply system. (Costea & Săseanu, 2009, pp. 102-106)

2. BRIEF DESCRIPTION OF THE INDITEX GROUP

Inditex (**IND**ustrias de **DI**seño **TEX**til) S.A. is a fashion retailer which dates back to 1963 when began its activity in a small workshop manufacturing women clothing. Today it has over 6,900 stores throughout the world. Through its history the Group has evolved to become the business it is today reaching many notable milestones along its journey. But it has always remained focused on listening closely to its customers to offer them the fashions they desire.

This strong customer orientation would give rise, years later, to the launch of the first Zara store in 1975. This was followed by the brand's international expansion at the end of the 1980s and the successive launch of new retail concepts: Pull&Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe.

This customer focus underpins an organisational structure that encompasses all stages of the fashion value chain (design, manufacturing, distribution and sale in proprietary stores). The customer promise is also the driving force behind the integration of our sustainable and environmental policies used throughout the Group's supply chain.

The Group's brands strive to sell fashionable products of the highest quality. Inditex is committed to its customers; which means that its strong workforce is focused on staying true to its word. A state of the art logistics system centred in Spain helps deliver new products to all of the Group's stores twice weekly to meet our customers' needs. (https://www.inditex.com/our_group/at_glance)

Inditex has been listed on the Spanish Stock Exchange since May 23, 2001 after an initial public offer which generated a great interest among investors worldwide, with shares oversubscribed 26 times. Inditex shares are also listed on the major stock indexes from Spain and the world.

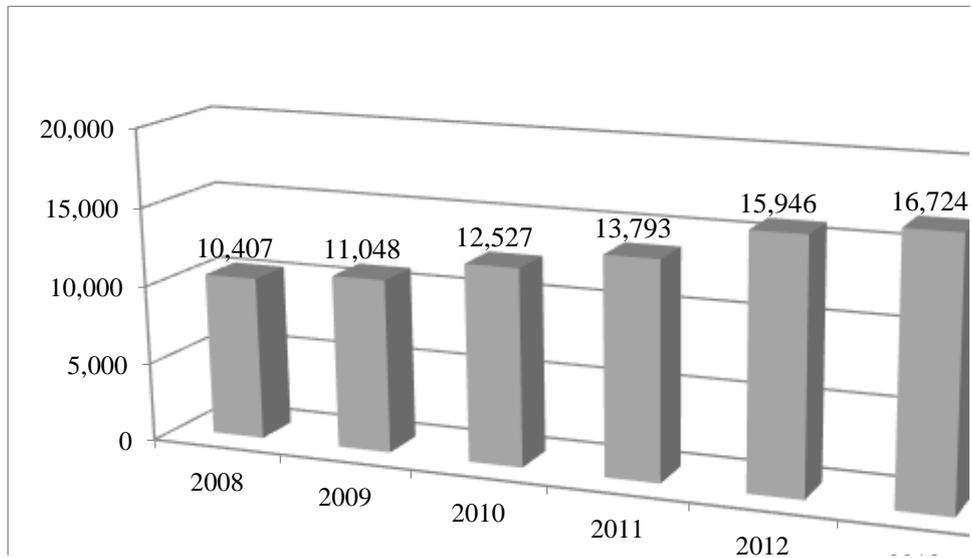


Figure 1. The evolution of the Inditex Group turnover during the period 2008-2014 (million euros)

Inditex has grown dramatically during the last years, achieving a consolidated turnover of 18.177 million euros (Figure 1) in 2014, and a net profit of 2,510 million euros (Figure 2). On 31 January 2014, the Group had 137,054 employees worldwide. (https://www.inditex.com/en/our_group/at_glance#panel_5)

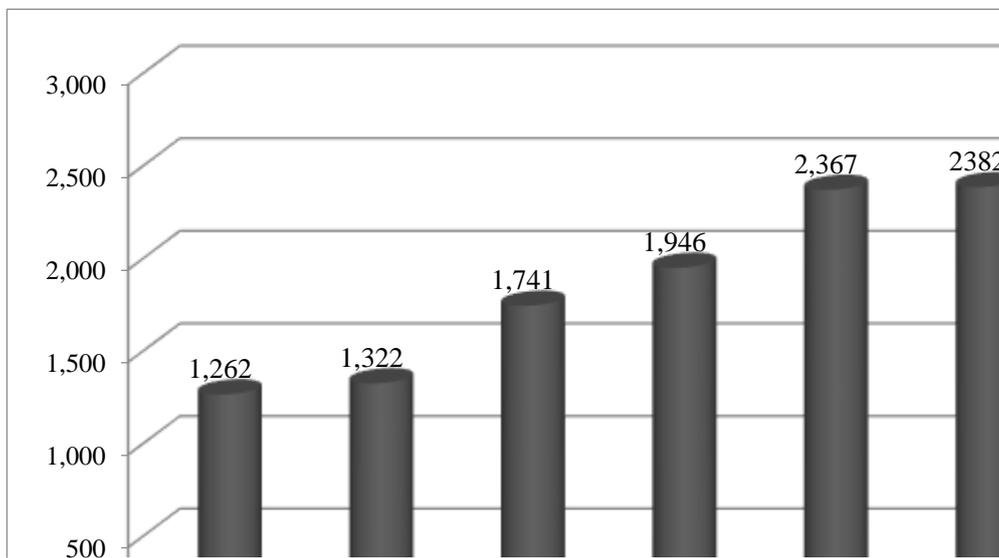


Figure 2. The evolution of the Inditex Group's net profit in the period 2008-2014 (million euros)

3. THE SALES CONCEPTS OF THE INDITEX GROUP

In order to segment its approach to different market niches, Inditex operates eight fashion retail chains. They all share the same commercial and managerial focus: to be leaders by leveraging a flexible business model and to build a truly international reach. However, each concept has great leeway for managing its business; management teams are independent in retail decision-making and in their ability to administer their resources.

Nonetheless, the fact that they belong to a Group operating in more than 88 markets provides a great number of organisational and knowledge-management synergies. Each management team can thus concentrate on developing its business in the knowledge that certain support elements are covered by the Group's accumulated experience.

Inditex, as the parent company, is responsible for central corporate services, i.e., services shared by the eight concepts and which facilitate international growth: administration, the use of logistics technology, general HR policy, legal issues, and financial capacity, among others. (Inditex, *Press Dossier*, p. 13)

ZARA opened its first store in 1975 in A Coruña (Spain). It now operates in 88 markets with a network of more than 2,000 stores located in major cities.

The vertical integration of activities (design, production, logistics, and sales in the company's own stores) means that Zara is flexible and fast in adapting to the market. Its model is characterised by constantly updated merchandise: new garments land in stores twice weekly. Zara pays special attention to the design of its stores, shop windows and décor, and sites them in the best locations in major shopping areas. Its central services base is in Arteixo (A Coruña). (Inditex, *Press Dossier*, p. 14)

Zara sales increased in 2014 up to 11,594 million euros. During 2014 Zara has taken its online expansion a step further with the launch of its online store in four new markets (South Korea, Greece, Mexico and Romania). Zara also launched its official store on Tmall.com, the largest online sales platform in China, an important development of the brand's Internet business in this market.

Some of the most important openings for the brand in 2014 include the stores in Zurich, Miami, Madrid, Krakow, Hong Kong and Shanghai, which represent the new model of larger, technologically advanced, sustainable stores. Zara thus opened a total of 94 stores, reaching 2,085 stores in 88 markets. (Inditex, *Annual Report 2014*, p. 18)

PULL&BEAR was founded by the Inditex Group in 1991. From its inception, This brand has been skilled at adapting to the needs of young people. Pull&Bear aims to be something more than just a store. In addition to clothes and accessories, it offers special spaces in the stores in which display fixtures are combined with vintage elements to create the kind of environment that young people enjoy. (Inditex, *Press Dossier*, p. 15)

Pull&Bear opened 45 stores during the year 2014, the majority in Russia, Mexico, China and Italy. The newest Pull&Bear stores include exclusive design elements and differ from the brand's other sales points. This stores concept is based around the Californian city of Palm Springs. Since 2014 Pull&Bear has had an official

Spotify account with a selection of the music played in stores. (Inditex, *Annual Report 2014*, p. 18)

Pull&Bear has almost 900 stores in 65 markets. It is headquartered in Narón (A Coruña). Pull&Bear increased its sales in 2014 up to 1,284 million euros.

MASSIMO DUTTI was founded in 1985 and acquired by Inditex in 1991. It now has more than 700 stores in 68 markets. Massimo Dutti offers quality international fashion for men, women and children, with collections ranging from sophisticated urban fashions to casual wear. It is headquartered in Tordera (Barcelona). (Inditex, *Press Dossier*, p. 16)

Massimo Dutti opened new stores in Albania, Austria, Bosnia-Herzegovina, Estonia and Panama in 2014. During this year the brand launched a new image for its stores with openings in Vienna, Madrid and Palma de Mallorca. In this stores there is a new concept where all details are aligned to consolidate the brand's identity and style.

The other main Massimo Dutti opening in 2014 was Llagostera (Girona). It is a store which forms part of Inditex's social and labour integration project for and from and boasts a staff of nine, five of whom suffer severe mental disability (SMD). Massimo Dutti now has three for and from stores.

Massimo Dutti closed the year 2014 with a noticeable growth in sales, standing at a total of 1,413 million. At the end of 2014, Massimo Dutti had a total of 706 stores in 68 markets, 41 of which were inaugurated during the year. (Inditex, *Annual Report 2014*, p. 20)

BERSHKA was founded in 1998 as a new store and fashion concept, targeting the young female market. Since 2002 it has also sold men's fashion. Bershka stores are large and spacious with a cutting-edge look. The brand has more than 1,000 stores in 68 markets. It is based in Tordera (Barcelona). (Inditex, *Press Dossier*, p. 17)

Bershka, along with Stradivarius, is the brand which opened more stores during 2014, only exceeded by Zara. The markets with the most new stores are in Russia, Japan, Mexico and Italy. In the same year Bershka reopened its store on Calle Colon in Valencia. Here were carried out structural renovations based on eco-efficient criteria, which won the store a Platinum rating on its LEED certification, the highest category of international certification for environmental architecture.

Bershka increased its turnover in 2014, placing it at 1,664 million euros, being the second largest brand in the Inditex Group by sales volume. (Inditex, *Annual Report 2014*, p. 20)

STRADIVARIUS was acquired by Inditex in 1999, and is addressed to a young female target market. Its stores are spacious (910 in 59 markets) and offer a wide range of fashion options, with a casual and imaginative style. Its head office is in Sallent (Barcelona). (Inditex, *Press Dossier*, p. 18)

In 2014 Stradivarius opened its first British store, where it had operated an online store since the previous year. The brand's first brick-and-mortar store in this market presents the brand's new image, in which light is one of the most important aspects, both on the facade and in the store's interior. The new image has also been an important part of the Stradivarius opening in Osaka, the brand's largest store in Japan and its 900th in the world.

During 2014, Stradivarius also presented its new online store image, in line with the style of its brick-and-mortar stores. At the end of the same year, the turnover was by 1,130 million euros. (Inditex, *Annual Report 2014*, p. 22)

OYSHO launched in 2001. This concept brings the philosophy of the Inditex Group to the women's lingerie and intimate wear market. It has more than 570 stores in 40 markets. Its headquarters is in Tordera (Barcelona). Oysho increased its turnover in 2014, placing it at 416 million euros. (Inditex, *Press Dossier*, p. 19)

During 2014 Oysho has extended its presence in markets such as China, making a total of 53 premises. The Inditex Group's lingerie brand continues to extend its *gymwear* collection, and in 2014, launched the *Mountain* line, created especially for winter. In 2014, for the second consecutive year Oysho sponsored the Women's Race against Breast Cancer, which took place in a number of Spanish cities. (Inditex, *Annual Report 2014*, p. 22)

ZARA HOME is the seventh Inditex Group brand. It specialises in home furnishings, namely textiles such as bed, table and bath linens, in addition to tableware, cutlery, glassware and decorative items. It has more than 430 stores in 48 markets. It is based in Arteixo (A Coruña). In 2014 the turnover was by 548 million euros. (Inditex, *Press Dossier*, p. 20)

Zara Home opened 43 stores in 2014. During the year Zara Home launched its electronic sales platform in Mexico and Russia, bringing the number of markets where it operates online stores to 23. Zara Home was the first Inditex Group brand to launch online sales in 2007. (Inditex, *Annual Report 2014*, p. 24)

UTERQÜE is the latest Inditex Group concept. Uterqüe sells accessories – handbags, footwear and leather goods, jewellery and other accessories such as shawls, eyewear, umbrellas and hats, together with a select range of garments and leather clothing. Uterqüe has more than 60 stores in 12 markets. Uterqüe closed the year 2014 with a noticeable growth in sales, standing at a total of 68 million euros. (Inditex, *Press Dossier*, p. 21)

The Uterque brand's new concept is based on elegance, clarity and functionality. The brand's new spaces boast furniture made from top-quality materials. The walls are decorated with details which provide a contemporary and sophisticated style and the Italian marble floors give a sensation of space. (Inditex, *Annual Report 2014*, p. 24)

Of course Zara brand is the point from which started now almost four decades the global expansion of Inditex Group. Its vision on development has considered the business entry that revolve around clothing on niches that address to different categories of consumers based on age, income, etc. but which all have in common the love for fashion.

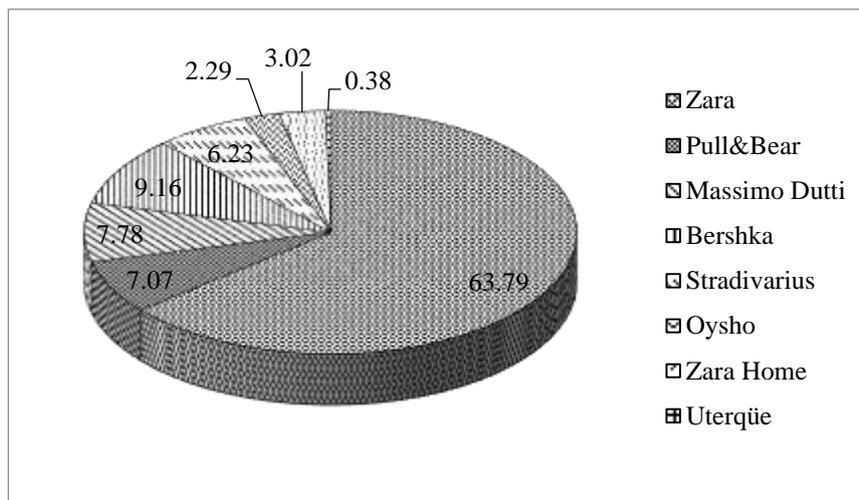
For the year 2014 the contribution of the Zara stores to the Group sales is most significant, 63.79 % due, of course, to the fact that they are most numerous, 2,085 out of a total of 6,683 stores. Out of these only in 2014 have been opened other 94, penetrating five new markets and reaching to be present in 88 countries.

Table 1. Inditex concepts contribution to total sales in 2014

	Sales (million euros)	Concepts contribution (%)	Number of stores at the end of 2014	Net openings in 2014	Number of markets with an online store in 2014	Number of markets with commercial presence in 2014
Zara	11,594	63.79	2,085	94	26	88
Pull&Bear	1,284	7.07	898	45	21	65
Massimo Dutti	1,413	7.78	706	41	24	68
Bershka	1,664	9.16	1,006	52	17	68
Stradivarius	1,130	6.23	910	52	17	59
Oysho	416	2.29	575	26	15	40
Zara Home	548	3.02	437	43	23	48
Uterqüe	68	0.38	66	-10	14	12

Source: Inditex, *Annual Report 2014*, pp. 19-25, [Online], Available at: http://www.inditex.com/en/shareholders_and_investors/investor_relations/annual_reports, [Accessed 3 October 2015]

Zara is followed, although at a great distance by Bershka, with a contribution of only 9.16% to the value of Inditex sales. Close enough values record the following concepts: Massimo Dutti, Pull&Bear and Stradivarius, noting that in the case of Massimo Dutti its place in the ranking is not the same also for the value of sales and for the number of stores. This is because items of clothing sold in the brand stores are the most expensive because of the style which it approaches, classic toward luxury, but also because of the superior quality materials from which they are made.

**Figure 3. Inditex concepts contribution to total sales in 2014 (%)**

Oysho, although it has opened stores with only 131 less than Massimo Dutti, its sales are only 38.78% of the sales of the luxury retailer. Regarding the small contribution that Zara Home and Uterqüe have registered, it is not surprising given the "age" of the two stores and the much lower number of the stores.

4. THE INDITEX GROUP BUSINESS MODEL

Inditex's business model is presented on the company website (http://www.inditex.com/our_group/business_model) but also within some defining elements for the company's activity contained in the press dossiers and annual activity reports. These are all publicly available via the company's website (<http://www.inditex.com>).

The Inditex business model is characterised by a high degree of vertical integration. It is involved in all stages of the fashion process: design, manufacture, logistics and distribution to its own managed stores. It has a flexible structure and a strong customer-centric focus across all of its business areas.

The key element for Inditex Group is the store, a carefully designed space designed to make customers comfortable as they experience the brands collections. It is also where is obtained useful information for adapting the collections to customers' tastes.

The key to this model is the ability to adapt the merchandise to customer tastes in the shortest time possible. For Inditex, speed is the No. 1 priority, above and beyond production costs. Vertical integration enables to shorten turnaround times and achieve greater flexibility, keeping merchandise stock and fashion risk at a minimum. (Inditex, *Press Dossier*, p. 6)

The key elements of Inditex's business model are (Inditex, *Press Dossier*, pp. 7-9):

Design. The success of Inditex's collections lies in the ability to spot and adapt to rapidly changing trends in fashion, designing new items constantly to satisfy customers' cravings. Inditex uses its flexible business model to adapt to changes occurring within each season, reacting swiftly to deliver new product to stores in the shortest time possible.

The merchandise for each season -over 50,000 items in 2014- are developed in their entirety by creative teams at each concept. More than 600 designers -250 of them at Zara alone- draw their main inspiration from both prevailing trends in the fashion industry and customers themselves, through feedback received from stores.

Manufacturing. A significant share of manufacturing is done at the Group's own factories, which primarily produce the most fashion-forward garments. The Group directly controls fabric supply, marking and cutting and the final finishing of garments, while subcontracting the garment-making stage to specialist firms located predominantly in the northwest region of the Iberian peninsula. As for external suppliers, a large percentage of which are located in Spain and nearby countries, they too often receive the fabric and other items they need to produce their garments from Inditex.

Logistics. All merchandise, irrespective of origin, is delivered to each concept's distribution hubs, from whence it is distributed simultaneously to all stores worldwide on a very frequent and continuous basis. Deliveries arrive in stores twice weekly and always contain new styles, to ensure that store collections are constantly refreshed and updated.

The logistics system, based on software designed by the company's in-house teams, guarantees that the time between when orders are received at distribution centres and when merchandise is delivered to stores is on average only 24 hours for European stores and no more than 48 hours for American and Asian stores.

Retail at company stores. The store is not the end of the process, it is the beginning, representing a vehicle for gathering market information, sending feedback to design teams and reporting on trends requested by customers.

Both interior and exterior store design are given the highest priority. Shop windows play a major role, acting as an advertising vehicle for all the concepts in the world's major shopping streets. As for interior design, the intent is to create a well-lit space where the clothes take pride of place, eliminating all barriers between garments and customers.

The main development strategy for Inditex concepts entails opening stores managed by companies in which Inditex is the sole or majority shareholder. In smaller or culturally different markets, the Group has expanded its store network through franchise agreements with leading local retail companies. At the end of 2014, it had 873 franchised stores out of a total of 6,683 stores.

The most noteworthy feature of the Inditex franchise model from a business point of view is the seamless integration of the franchised stores' management in core areas such as window dressing, product, training, logistics, etc. This ensures standardised store management practices and a global image from the viewpoint of customers worldwide.

At the same time the work carried out by Inditex Group is based on several priorities that come to complete its business model, as follows (Inditex, *Annual Report 2014*, pp. 28-29):

❖ The Inditex business model is based on horizontal, flexible organization, focused on innovation and team work. This allows all professionals in the organization to participate in identifying global fashion, social, demographic and environmental trends, while remaining aware that the entire company is focused on the customer and the customer's needs. This enables a swift and efficient reaction to the identification of any trend that could aid the business in a sustainable way or that could affect the business.

Inditex professionals are aware that the information they deal with in their management area could be key to creating a competitive edge or soften a possible impact in the shortest time possible. As Inditex is committed continuously to improve its product in order to keep the customer's trust in the long-term, the entire organization is dedicated to creating quality fashion, in a constructive social environment with efficient environmental management and this is achieved thanks to a solid and flexible business model.

❖ Sustainability is without doubt one of the most relevant topics for any company's future. In Inditex's case, sustainability is part of its business model and its daily activity and is the starting point for the development of guidelines in spheres such as longterm operations, management and strengthening of the supply chain, control of the Group's environmental impact and good practice in corporate governance issues.

With sustainability as both a great challenge and opportunity, Inditex identifies and incorporates global trends which affect its activity in the short and long-term thanks to multidisciplinary teams of over 80 nationalities and a risk prevention policy which applies to the entire organization.

❖ Inditex has operated in international markets since 1989 although it was the beginning of the current century which saw its main international expansion. It currently operates in 88 markets with brick-and-mortar stores and in 27 with online stores. This global nature of its operations and its staff have proved the importance of understanding the world as a global and integrated market. In this respect, Inditex has opted for the multi-brand format and for new technologies as an alternative to communication in order to face the challenges of a global world.

Consumers are more and more informed and demand direct, personalized communication with companies. In response to this general trend, Inditex has invested in new technologies to provide an immediate response to customer demand and to possible changes in habits of consumption, the quality of its products (safe, healthy and sustainable) and to customer care. This is what Inditex describes as quality fashion in the long-term.

❖ In a global world, guaranteeing the sustainability of all production processes means having an exhaustive map of the Group's entire supply chain. To ensure the traceability of the supply chain, Inditex uses efficient management tools and controls based on stable relationships with its suppliers, which assume transparency as a essential requirement for working with Inditex.

Stakeholders demand a sustainable supply chain and it is a responsibility that the company takes seriously. The company has been working for over ten years to ensure appropriate working conditions for employees producing its products, using tools such as the Code of Conduct for Manufacturers and Suppliers and the Compliance Programme.

Inditex has created a Strategic Plan 2014-2018 for a stable and sustainable supply chain, which, as well as continuous systemization and updating of analytical methods and optimization of the supply chain, also encourages dialogue and contact between all the relevant stakeholders.

❖ Mindful that natural resources, particularly water, are limited and also of the competition for key natural resources, since 2007 Inditex has put strategic environmental plans in place that, as well as attempting to mitigate the environmental impact of the Group's activity, also aim to contribute to the conservation of ecosystems and biodiversity. Inditex's Global Sustainability Strategy is present in all aspects of the Group's business model, with three main environmental strategies (Global Water Management Strategy, Global Energy Strategy and Biodiversity Strategy) and concrete actions in the value chain.

❖ Inditex works with a concept of good corporate governance as the driving force to achieve the aim of net wealth creation in the long-term which is articulated through a management team which acts ethically and transparently and which is subject to internal and external verification and control.

Inditex uses a socially responsible business model, in an ongoing, participative dialogue to mutually benefit all stakeholders (employees, shareholders, customers, business partners, suppliers and civil society) connected to it.

5. CONCLUSIONS

In a world where companies are expanding globally, conducting an activity that is profitable and to a large scale must be based on an efficient and sustainable business model.

Inditex Group is a good example for the global expansion of large retail chains. Its business model is based on integration both vertically and horizontally. Vertical integration refers to the fact that the company is involved in all stages of the fashion process: design, manufacture, logistics and distribution to its own managed stores. Horizontal integration involves a flexible organization, focused on innovation and team work.

This business model frames the Inditex Group in the typology of the integrated commerce conducted through the corporate chain. But the company has expanded the characteristics of this type of organization of commercial activity integrating in addition to its specific activities of wholesale and retail trade also those concerning design, production and logistics.

This integration of all activities and operations that involve the road of the product in its movement from producer to consumer make possible the control of the company in terms of meeting the needs of the final consumer to a high degree.

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