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LIFESTYLE 3/23/2012 @ 11:41AM | 94,660 views

The Strategic Retail Genius Behind Zara

Pssst, retailers, want to know the secret of boosting sales and profits? Hint: It's not all about trimming expenses (ahem [Home Depot](#)) or focusing on a single pricing strategy (cough jpenney cough). Take a look at Spain's [Inditex](#) SA, parent company of fast-fashion chain Zara. The world's largest clothing retailer by sales reported a [12 percent surge in net profits to \\$2.68 billion](#) and a 10 percent net sales gain to \$19.15 billion for the fiscal year ending January 31.



Those increases mark the third straight year of gains during a tough economic climate with [fiscal 2010's 13 percent increase](#) in net sales 9 percent in 2009, and [12 percent in 2008](#).

So how are they beating analyst estimates year after year? Here are three reasons.

Grabbing the Globe by the Purse

Zara stores have been popping up all over, literally. This past year aggressive expansion saw Inditex investing in 49 markets. Five of them were new to the brand and included Australia, Taiwan, Azerbaijan, South Africa and Peru. The company continued to grow its presence in China which had 132 new stores throw open their doors. 30 those were Zara locations

and others were Inditex concepts, Oysho and Zara Home bringing the total number of Inditex stores there to 275. Worldwide Inditex is in 80 countries with more than 5,500 stores and eight retail formats.

The thing about global expansion is that its tricky business. Even with a recognizable brand name like Zara, companies must understand and sell to local customers (and customs). Part of Inditex's success lies in the execution of tailored retail strategies. The company reports that not only did it seek out prime real estate along established shopping corridors (hello Zara [flagship on Fifth Avenue](#) in NYC), it also changed up its retail strategy to cater to the different seasons in markets in the Southern Hemisphere. Custom weather-appropriate collections debuted in stores in Sydney, Melbourne, Johannesburg and [Lima](#).

But perhaps the smartest move was to break virtual ground in e-commerce for all its concepts in September 2011. Eager shoppers could now [order Inditex apparel and accessories online](#) in U.S., Europe and Japan while that other retail juggernaut [H&M](#) continues to keep devotees waiting.

Smart Supply Chain

You see this more often than not in discount fast fashion chains: the label that says the garment was made in China or some other Asian country. It's not surprising, considering that labor is still more affordable than in Europe or the U.S. But fast fashion by nature must capitalize on trends which come and go quicker than a girl can wrap a scarf around her neck. As [the Economist reports](#): "managing a long supply chain is hard. By the time a boat has sailed halfway round the world, hemlines may have risen an inch and its cargo will be as popular as geriatric haddock."

Inditex employs a counterintuitive strategy by sourcing more than half its goods from its home country as well as neighboring Portugal and Morocco. It may cost more up front but it saves markdowns on items that have fallen off the trend wagon.

Bottom Line: Quality

The apparel may be cheap (well, relative to designer goods anyway) but that doesn't mean that Inditex merchandise looks or feels cheap. As a long-time Zara shopper (I remember when the store opened on [Lexington](#) Avenue in the 90s) I have never seen the chain turn out cheap threads. A jacket I purchased in 1995 (and still own) was constructed to last and looks as good as the one I got last week.

Part of the reason for this is that Inditex doesn't seem to be scrimping on staff. The Group created 9,374 new jobs in 2011, bringing its workforce to 109,512 employees. This plays directly to the findings [reported in the New Yorker](#) by Harvard Business Review and the Wharton School which indicate that retailers are only as successful as their sales staff.

With plans already in place to keep growing, Inditex should be sitting pretty on the top of the retail heap for some time to come.

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