CASE STUDY Supplying fast fashion

Garment retailing has changed. No longer is there a standard look that all retailers adhere to for a whole season. Fashion is fast, complex and furious. Different trends overlap and fashion ideas that are not even on a store's radar screen can become 'must haves' within six months. Many retail businesses with their own brands, such as H&M and Zara, sell up-to-the-minute clothes at low prices, in stores that are clearly focused on one particular market. In the world of fast fashion, catwalk designs speed their way into high street stores at prices anyone can afford. The quality of the garment means that it may only last one season, but fast fashion customers don't want yesterday's trends. As *Newsweek* puts it, *'. . . being a "quicker picker-upper" is what made fashion retailers H&M and Zara successful.* [They] *thrive by practicing the new science of "fast fashion"; compressing product development cycles as much as six times.'* But the retail operations that customers see are only the end part of the supply chains that feed them. And these have also changed.

At its simplest level, the fast-fashion supply chain has four stages. First, the garments are designed, after which they are manufactured; they are then distributed to the retail outlets where they are displayed and sold in retail operations designed to reflect the businesses' brand values. In this short case we examine two fast-fashion operations, Hennes and Mauritz (known as H&M) and Zara, together with United Colours of Benetton (UCB), a similar chain, but with a different market positioning.

- Benetton – Almost 50 years ago, Luciano Benetton took the world of fashion by storm by selling the bright, casual sweaters designed by his sister across Europe (and later the rest of the world), promoted by controversial advertising. The Benetton Group is present in over 20 countries throughout the world. Selling casual garments, mainly under its United Colours of Benetton (UCB) and its more fashion-orientated Sisley brands, it produces 110 million garments a year, over 90 per cent of them in Europe. Its retail network of over 6,000 stores produces revenue of around €1.6 billion. Benetton products are seen as less 'high fashion' but of higher quality and durability, with higher prices, than H&M and Zara.

- H&M – Established in Sweden in 1947, it now sells clothes and cosmetics in over 1,000 stores in 20 countries around the world. The business concept is 'fashion and quality at the best price'. With more than 40,000 employees, and revenues of around SEK 60,000 million, its biggest market is Germany, followed by Sweden and the UK. H&M is seen by many as the originator of the fast-fashion concept. Certainly it has years of experience at driving down the price of up-to-the-minute fashions. '*We ensure the best price,'* H&M says*, 'by having few middlemen, buying large volumes, having extensive experience of the clothing industry, having a great knowledge of which goods should be bought from which markets, having efficient distribution systems, and being cost-conscious at every stage.'*
- Zara – The first store opened almost by accident in 1975 when Amancio Ortega Gaona, a women's pyjama manufacturer, was left with a large cancelled order. The shop he opened was intended only as an outlet for cancelled orders. Inditex, the holding group that includes the Zara brand, currently has over 2,000 stores in over 100 countries and revenues of over €11.5 billion. The Zara brand accounts for over 75 per cent of the group's total retail sales, and is still based in north-west Spain. The Inditex group also has several other branded chains including Pull and Bear, and Massimo Dutti. In total it employs almost 40,000 people in a business that is known for a high degree of vertical integration compared with most fast-fashion companies. The company believes that its integration

along the supply chain allows it to respond to customer demand fast and flexibly while keeping stock to a minimum.

Design

All three businesses emphasize the importance of design in this market. Although not *haute couture,* capturing design trends is vital to success. Even the boundary between high and fast fashion is starting to blur. In 2004 H&M recruited high-fashion designer Karl Lagerfeld, previously noted for his work with more exclusive brands. For H&M his designs were priced for value rather than exclusivity, *'Why do I work for H&M? Because I believe in inexpensive clothes, not "cheap" clothes,'* said Lagerfeld. Yet most of H&M's products come from over 100 designers in Stockholm who work with a team of 50 pattern designers, around 100 buyers and a number of budget controllers. The department's task is to find the optimum balance between the three components comprising H&M's business concept – fashion, price and quality. Buying volumes and delivery dates are then decided.

Zara's design functions are organized in a different way to most similar companies. Conventionally, the design input comes from three *separate* functions: the designers themselves, market specialists, and buyers who place orders on to suppliers. At Zara the design stage is split into three product areas: women's, men's and children's garments. In each area, designers, market specialists and buyers are co-located in design halls that also contain small workshops for trying out prototype designs. The market specialists in all three design halls are in regular contact with Zara retail stores, discussing customer reaction to new designs. In this way, the retail stores are not the end of the whole supply chain but the beginning of the design stage of the chain. Zara's around 300 designers, whose average age is 26, produce approximately 40,000 items per year of which about 10,000 go into production.

Benetton also has around 300 designers, who not only design for all its brands, but also are engaged in researching new materials and clothing concepts. Since 2000 the company has moved to standardize its range globally. At one time more than 20 per cent of its ranges were customized to the specific needs of each country; now only between 5 and 10 per cent of garments are customized. This reduced the number of individual designs offered globally by over 30 per cent, strengthening the global brand image and reducing production costs.

Both H&M and Zara have moved away from the traditional industry practice of offering two 'collections' a year, for spring/summer and autumn/winter. Their 'seasonless cycle' involves the continual introduction of new products on a rolling basis throughout the year. This allows designers to learn from customers' reactions to their new products and incorporate them quickly into more new products. The most extreme version of this idea is practised by Zara. A garment will be designed, and a batch manufactured and 'pulsed' through the supply chain. Often the design is never repeated; it may be modified and another batch produced, but there are no 'continuing' designs as such. Even Benetton has increased the proportion of what it calls 'flash' collections, small collections that are put into its stores during the season.

Manufacturing

At one time Benetton focused its production on its Italian plants. Then it significantly increased its production outside Italy to take advantage of lower labour costs. Non-Italian operations include factories in North Africa, eastern Europe and Asia. Yet each location operates in a very similar manner. A central, Benetton-owned, operation performs some manufacturing operations (especially those requiring expensive technology) and coordinates the more labour-intensive production activities that are performed by a network of smaller contractors (often owned and managed by ex-Benetton employees). These contractors may in turn sub-contract some of their activities. The company's central facility in Italy allocates production to each of the non-Italian networks, deciding what and how much each is to produce. There is some specialization: for example, jackets are made in eastern Europe while T-shirts are made in Spain. Benetton also has a controlling share in its main supplier of raw materials, to ensure fast supply to its factories. Benetton is also known for the practice of dying garments after assembly rather than using died thread or fabric. This postpones decisions about colours until late in the supply process so that there is a greater chance of producing what is needed by the market.

H&M does not have any factories of its own, but instead works with around 750 suppliers. Around half of production takes place in Europe and the rest mainly in Asia. It has 21 production offices around the world that between them are responsible for coordinating the suppliers which produce over half a billion items a year for H&M. The relationship between production offices and suppliers is vital, because it allows fabrics to be bought in early. The actual dyeing and cutting of the garments can then be decided at a later stage in the production. The later an order can be placed on suppliers, the less the risk of buying the wrong thing. Average supply lead times vary from three weeks up to six months, depending on the nature of the goods. However, *'The most important thing,'* H&M says, *'is to find the optimal time to order each item. Short lead times are not always best. Some high-volume fashion basics, it is to our advantage to place orders far in advance. Trendier garments require considerably shorter lead times.'*

Zara's lead times are said to be the fastest in the industry, with a 'catwalk to rack' time as little as 15 days. According to one analyst this is because they *'owned most of the manufacturing capability used to make their products, which they use as a means of exciting and stimulating customer demand.'* About half of Zara's products are produced in its network of 20 Spanish factories, which, like at Benetton, tended to concentrate on the more capital-intensive operations such as cutting and dying. Sub-contractors are used for most labour-intensive operations like sewing. Zara buys around 40 per cent of its fabric from its own wholly-owned subsidiary, most of which is in undyed form for dying after assembly. Most Zara factories and their sub-contractors work on a single shift system to retain some volume flexibility.

Distribution

Both Benetton and Zara have invested in highly automated warehouses, close to their main production centres that store, pack and assemble individual orders for their retail networks. These automated warehouses represent a major investment for both companies. In 2001, Zara caused some press comment by announcing that it would open a second automated warehouse even though, by its own calculations, it was only using about half its existing warehouse capacity. More recently, Benetton caused some controversy by announcing that it was exploring the use of RFID tags to track its garments.

At H&M, while the stock management is primarily handled internally, physical distribution is sub-contracted. A large part of the flow of goods is routed from production site to the retail country via H&M's transit terminal in Hamburg. Upon arrival the goods are inspected and allocated to the stores or to the centralized store stock room. The centralized store stock room, within H&M referred to as the 'Call-Off warehouse', replenishes stores on item level according to what is selling.

Retail

All H&M stores (average size, 1,300 square metres) are owned and solely run by H&M. The aim is to '*create a comfortable and inspiring atmosphere in the store that makes it simple for customers to find what they want and to feel at home*'. This is similar to Zara stores, although they tend to be smaller (average size, 800 square metres). Perhaps the most remarkable characteristic of Zara stores is that garments rarely stay in the store for longer than two weeks. Because product designs are often not repeated and are produced in relatively small batches, the range of garments displayed in the store can change radically every two or three weeks. This encourages customers both to avoid delaying a purchase and to revisit the store frequently.

Since 2000 Benetton has been reshaping its retail operations. At one time the vast majority of Benetton retail outlets were small shops run by third parties. Now these small stores have been joined by several, Benetton-owned and operated, larger stores (1,500 to 3,000 square metres). These mega-stores can display the whole range of Benetton products and reinforce the Benetton shopping experience.

QUESTION

1. Compare and contrast the approaches taken by H&M, Benetton and Zara to managing their supply networks.