

MANAGEMENT IN ACTION

Fashion retail strategies: Zara versus H&M

SWEDISH GIANT H&M and the Spanish-owned retailer Zara are two European fashion store chains that are continuing to grow

internationally while many other retailers are in the doldrums. Zara opened its first store in Australia in 2011 and H&M in 2014, joining retail empires that now span multiple countries and thousands of stores. These cutting-edge retailers compete in the same market segment—high fashion apparel—with contrasting business strategies.

Incorrectly reading fashion trends is the big danger for fashion retailers: it risks leaving them stuck with unwanted stock or having to discount prices heavily, which can undermine the store's brand status. Successful retailers have a merchandising system that allows them to respond quickly to fashion preferences revealed through purchasing decisions. H&M and Zara respond to this challenge in different ways.

The Zara way

Zara's greatest strength lies in its supply chain, which allows it to turn over new styles in a fraction of the time (three weeks) it takes conventional retailers.

Zara's designers are based in its Spanish headquarters at La Coruña in northern Spain. Unlike most retailers, Zara rarely outsources to Asia. It cuts fabrics at its La Coruña headquarters and uses local cooperatives for sewing. The cooperatives sew and package the items (adding price tags and hangers) and send them to Zara stores all over the world.

When it does outsource, it uses cheap, neighbouring European countries. This makes it comparatively easy for head office staff to communicate with subcontractors and get completed garments back to Spain for distribution.

This approach fits with a design strategy that aims to respond continuously to latest trends. Each design is limited to one production run. This keeps designs scarce. Zara stores can expect to receive new merchandise at least twice a week. With the turnover of stock in individual stores far higher than that in other fashion stores, shoppers are encouraged to make frequent visits and buy a particular garment before the opportunity is lost. This approach emphasises turnover over maintaining well-stocked stores.

The H&M way

H&M follows a more traditional seasonal model akin to Australia's established fashion retailers such as Country Road and Just Jeans. Stores are well stocked year-round with staple items as well as seasonal fashion items.

H&M achieves a similarly fast turnaround as Zara, but makes far greater use of Asian outsourcing. Asian outsourcing means that there is less scope to alter designs and fabrics during a season than Zara achieves; H&M outsources the entire production process and its designers don't interact directly with the garment makers. H&M nonetheless outperforms many other fashion retailers in being able to make production volume decisions in response to sales.

Rather than turning over styles, H&M aims to lead fashion by drawing on big name designers such as Karl Lagerfeld, Stella McCartney and Jimmy Choo. Claiming inspiration from celebrities such as Madonna and Beyoncé and having them help to promote the brand are other techniques employed to

give budget-conscious shoppers a sense they are buying a high-end designer label.

The savings made by H&M in having garments produced in low-cost locations thus contribute to the high marketing costs their business model absorbs.

Zara spends almost nothing on marketing—just 0.5 per cent of revenues—while many fashion retailers can spend up to 30 per cent on advertising. In another reversal of priorities, Zara gives store managers freedom to make stock decisions (managers place orders based on what they like from the options in Zara's latest catalogue) but store window layouts are centrally controlled from Spain.

Comparing Zara and H&M, University of Melbourne marketing professor, Mark Ritson, says, 'H&M's stock terms are still excessively quick. But if you have Zara as the model of fast-fashion, H&M just doesn't qualify. It still follows seasons, for example . . . H&M is widely successful, but it's no Zara. Its growth and business model is less radical. If there was no Zara, H&M would be the king of fast fashion.'

In terms of worldwide sales, Zara owner Inditex overtook H&M in 2011 and subsequently H&M has seen its profitability drop further. In 2016, there were continuing signs that Zara's fast-fashion model was pulling ahead of H&M, whose parent group has been developing other retail brands to a greater extent than Inditex. Whether Zara's or H&M's business models will be most successful in Australia remains to be seen. In the past, northern hemisphere retailers have not found it easy to deal with the inverted seasons and Australian fashion preferences.

Source: Adapted from M. Robin, *Zara v H&M: which will win the battle for Australian fast-fashion?* *Leading Edge*, 8 May 2013. Updated with information from T. Buck, *Inditex earnings jump buoyed by new stores and online expansion*. *Financial Times*, 14 December 2016. R. Milne, *Hennes & Mauritz faces up to challenge of online competitors*. *Financial Times*, 19 February 2017.