Zara owner Inditex profits rise as quick-trend model pays off

MADRID - Zara-owner Inditex posted a rise in first-half profits Wednesday thanks to what analysts said was a well-honed business model allowing the Spanish group to beat rivals in whisking new trends to the shopfloor.

Picture: Reuters

The world's largest fashion retailer by turnover, owned by the publicity-shy Amancio Ortega who has become the world's second richest man, said higher clothes sales drove the eight-percent jump.

Profits rose to 1.3 billion euros ($1.4 billion) in the six months from 1 February, the company said.

"All of the group's brands increased their international presence during the period, with 83 new stores in 38 countries," Inditex said in a statement, adding that it ventured into three new markets -- Aruba, Paraguay and Nicaragua.

Sales in the first half rose 11 percent to 10.5 billion euros.

The results of the company, which operates eight store brands including Zara, upmarket label Massimo Dutti and teen chain Bershka, beat analyst expectations, but only slightly. All brands posted a rise in sales.

Zara and home decoration brand Zara Home were the clear winners, with a 13-percent and 17-percent rise in sales respectively.

Analysts said Inditex is reaping the rewards of its now famous business model which allows it to get clothes to stores much faster than its rivals and avoid excess inventory.

While its competitors prioritise low production costs and outsource manufacturing to China, Inditex makes more than half of its clothes in factories in Spain, Portugal, Morocco and Turkey -- relatively close to its main markets.

This allows Zara, for instance, to take clothes from the design stage to the store floor in a mere two weeks. By comparison the process takes Inditex's nearest rival H&M six months because it sources it collection further away in China.

The Swedish group regularly challenges it for the global number one spot but Inditex is currently the largest fashion retailer by sales, based on the two companies' first-half results this year.

"If something does not sell, they stop producing it," Rosario Silva, a professor of business strategy at the IE Business School in Madrid, told AFP.

Designers at Inditex's head office in La Coruna in the northwestern region of Galicia, where the first Zara shop opened in 1975, are in close contact with store managers to identify which items are flying off the shelves as well as those that don't move.

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But Noel Byrne, a business strategy professor at the Madrid branch of Boston's Suffolk University, warned that the Spanish group was bound to face tighter competition in the coming years as rival retailers adjust their own processes to match its quick delivery times.

"When you are making big profits it is one of the most dangerous times in business because the competition want a share of that, and they smell it and they inevitably come," he told AFP.

Source: AFP