ZARA

On January 15, 2002, José María Castellano Ríos, chief executive officer of the Spanish apparel company Inditex, stepped to the podium at the Jacob Javits Convention Center in New York City to accept the International Retailer of the Year award from the National Retail Federation. The year just closed had been a tumultuous one on the international scene, and for retailers it had been a down year. Retail consolidations and bankruptcies were occurring at a fast pace. Yet Inditex and its flagship company Zara had managed yet another year of impressive growth and strong profitability. Indeed, 2001 had in many respects been a landmark year for Inditex, for founder Amancio Ortega Gaona and for Castellano.

History of Zara

Amancio Ortega Gaona, a native of Galicia, had worked as a clerk at a ladies' apparel retailer before starting his own housecoat manufacturing business in 1963. He opened the first Zara store in La Coruña in 1975; by 1989, there were 82 Zara stores in Spain, and Ortega began international expansion with Zara stores in Portugal, Paris and New York. Zara's parent company Inditex took on 4 other formats, Pull & Bear, Massimo Dutti, Bershka and Stradivarius,[1] and in 2001 had launched Oysho, an intimate apparel and swimwear brand. See Exhibit I for selected financial information. The brand names Zara, Pull & Bear, Bershka and Oysho were invented, generic names suitable for "export"; and by fiscal 2000, over half of Inditex sales were outside Spain.

During 2000-2001, Inditex received widespread favorable press and analyst coverage, touting Inditex's success and attributing it to Zara's unique integrated business model.[2] Its success has led to Zara being described as "possibly the most innovative and devastating retailer in the world" by Daniel R. Piette, Chairman and CEO, LV Capital. Inditex made an initial public offering of stock in May 2001, and was by then the world's third largest clothing retailer. Ortega's stake in Inditex was worth billions, but Ortega

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[1] Pull & Bear (6.6% of 2000 sales) was launched in 1991 as a men's basic, casual line, with women's apparel added in 1998. Inditex purchased an interest in Massimo Dutti (7.8% of 2000 sales), a men's shirt company, in 1991 and acquired 100% in 1995, in the meantime evolving it into a more classic and upscale line for men and women. In 1998, Bershka (5.2% of 2000 sales), a "club" look line for teenage girls, was launched, and a 90% interest in Stradivarius (2.8% of 2000 sales), a line of day or street wear for teenage girls, was acquired in 1999. See Exhibit II for position of various Inditex products.

[2] "The Most Devastating Retailer in the World", The New Yorker, September 18, 2000; "Just-in-Time Fashion: Spanish Retailer Zara Makes Low-Cost Lines in Weeks by Running Its Own Show", The Wall Street Journal, May 18, 2001; "Galician Beauty: Spanish clothier Zara beats the competition at efficiency – and just about everything else", Forbes, May 28, 2001; "Fast Fashion: How a secretive Spanish tycoon has defied the postwar tide of globalization, bringing factory jobs from Latin America and Asia back to Continental Europe", Newsweek, September 27, 2001.

remained a famously privately man, still living near La Coruña and involved in running Inditex.

Zara offered clothing for women (about 58% of sales), men (about 22%) and children (about 20%). In its offering document, Inditex described Zara in this way:

"Zara is a high-fashion concept offering apparel, footwear and accessories for women, men and children, from newborns to adults aged 45. Zara stores offer a compelling blend of fashion, quality and price offered in attractive stores in prime locations on premier commercial streets and in upscale shopping centers. Our in-house design and production capabilities enable us to offer fresh designs at our Zara stores twice a week throughout the year."

At year-end 2001 Inditex was operating over 1200 stores in over 35 countries around the world, under 6 fascia, and analysts projected that Inditex stores would easily number 2000 within 5 years. Zara's vertically integrated model depended to a great extent on local Spanish sourcing for a large proportion of garment manufacture. But Castellano had considered that Zara would shift more production offshore, probably to Asia, to take advantage of the lower wage costs. How much of a shift was necessary to support Zara's expansion and to meet possible pricing pressures, and how much of a shift could be made without undermining Zara's success—were critical issues facing Inditex.

The Textile and Apparel Industry

In 1999, the global textile and apparel industry accounted for 5.7% of the production value of world manufacturing output and more than 14% of world employment. The clothing market in the major countries was estimated at about $580 billion, with the U.S. accounting for about $180 billion and Western Europe about $225 billion. Eastern Europe (about $14 billion), Latin America (about $45 billion) and some parts of Asia represented areas for potential market growth as income levels rose and markets matured out of a highly fragmented stage dominated by independent retailers.

The production of textiles is relatively capital intensive, with labor costs accounting for about 40% of cost of goods sold, while for apparel this percentage is about 60%. Textile manufacture also tends to be highly specialized, depending on the raw materials (natural or synthetic or a blend), whether the cloth is woven, knitted, matted or fused, the dying or printing, treatment and finishing, and the overall performance characteristics desired for the end product, such as how well it accepts and holds dye, how well it insulates and machine washability. Though some fabrics are simple and basic, there is constant research and development in high performance textiles, including textiles for specialized industrial uses.

Apparel production involves the procurement of fabric, the preparation of designs, including samples and patterns, the cutting of fabric and the sewing and finishing of garments. For knitwear, the production process is modified to incorporate the procurement of yarn and the knitting process. Apparel production is intimately related to fabric procurement, so much so that apparel designers will design around a fabric or will design the fabric for a particular garment.

In terms of production, the apparel industry could be roughly broken down into three tiers of quality, with some correspondence to sourcing of production:

i. a high quality segment encompassing items that incorporate fashion elements and emphasize quality of material and workmanship, such as ladies' suits;

ii. a medium quality segment for more basic items where quality of material and workmanship had to be acceptable but where there was little differentiation among producers and relatively little in terms of a time-sensitive fashion component (cardigans and khakis);

iii. and a low quality segment (e.g., men's underwear) where products had commodity-like characteristics and competed principally on price.

The low wage countries had grown their production volume mostly in the medium and low quality segments, but were increasing their share of high quality production. Fifty percent of Europe's exports but only 20% of its imports were concentrated in the high quality segment.

The apparel industry was unusual in that many segments of it did not really benefit from economies of scale (volume production of identical goods) in the traditional sense; maintaining margin by more precisely meeting high quality demand was more important to profitability. For the more mechanized parts of production —fabric production, including knitting by machine, and cutting—setup time was not too significant. More importantly, except for commodity-like garments, the ability to manage small batch production to meet the ever-changing tastes of consumers placed a premium on flexibility and responsiveness of the production system. Sewing and finishing services were still done mostly manually and tended to be highly specialized and the most labor intensive part of the process, as reflected in the large participation of small and medium enterprises in the apparel industry. Also relevant was the preponderance of women, with their relatively lower wage levels, among apparel production workers.

Given the labor-intensive quality of apparel production, it was not surprising that relative wage levels had been a significant driver of production sourcing. Along with the analysis of wage levels, however, firms weighed other important factors: raw materials quality and availability, skills requirements and worker productivity, transportation time and cost and other components of lead time, political and foreign exchange risk, regulatory issues and social responsibility concerns. A complex system of quotas and tariffs had also been an important part of the sourcing equation, resulting in a number of distortions in the supply chain, such as transshipment of goods through Hong Kong to avoid quotas on products from China. China's entry into the World Trade Organization, as well as the staged dismantling of the textile and apparel quota system – to be complete by 2005 – were expected to increase China production but also result in the reduction of trade barriers affecting, e.g., import of goods from the E.U. into Latin American countries. In the meantime, the regional reduction of trade barriers had fostered increased manufacture in Eastern Europe, Turkey and Northern Africa in support of European markets and Mexican, Caribbean and Central American manufacture in support of the U.S. market.

The Textile and Apparel Industry in the E.U. and in Spain

The textile and apparel industry in the E.U. employed about 2 million people in 1999, accounting for 7.6% of total E.U. manufacturing employment, and generated a turnover of 178 billion euros. Italy had the largest percentage of the E.U. textile and apparel business, at 31%, with the U.K. at 15%, Germany at 14%, France at 13%, Spain at 9% and Portugal at 6%. The E.U. was the second largest exporter of textiles and clothing in the world, but stronger as an exporter of textiles than of clothing. In particular, the E.U. countries were leaders in the development of high-tech fibers and related technologies.

The industry was known for its fragmentation and the importance of subcontracting within regional clusters of small and independent but collaborative firms, such as in northern Italy, but there were also some large firms, like Inditex, managing or tapping into the subcontracting networks to run manufacturing on a larger scale.[3] This "industrial district" structure of the textile and apparel industry in the E.U., run on low overhead but at a high skill level, implied a different type of scale or network economy, shared across a group of firms; whether or not all firms within the system had common ownership was not as important as how well the components worked together.

In apparel, the E.U's special strength was design-driven manufacturing, where design stayed close to the customer and was bound up with production. Of particular importance was the close relationship between clothing companies and textile companies, which permitted collaboration on fabric design. On the other end of the production chain, there was a significant volume of outsourcing of labor-intensive operations ("outward processing transactions" (OPT)) to Eastern European and Mediterranean rim countries, which were near

[3] See The Competitiveness of the European Textile Industry, by Maurizio Giuli (South Bank University – London 1997), citing the "industrial district" model of production.

enough to provide rapid turnaround and could be relatively easily monitored for quality control.

The Spanish textile and apparel industry was comprised mostly of many very small firms, and had traditionally not been strong in R&D or technological innovation, nor had it needed to be in order to compete in the domestic market. However, during the 1990's Spain experienced greater prosperity, with rising wage levels, and its domestic customer base had become more sophisticated. Spanish consumers cared a lot about fashion and quality in clothing purchases, with price less of a consideration, but given general wage levels, luxury name brand apparel had been out of the reach of most shoppers.[4]

Ortega's home province of Galicia is in the rainy northwestern corner of Spain. A hilly and picturesque land alongside the Atlantic Ocean, with a Celtic heritage, its weather is often overcast or foggy. Galicia's economy had been rooted in farming, fishing and mining. Galicia had generally been poorer, and experienced higher levels of unemployment, than other parts of Spain, and in the early part of the 20th century, many people emigrated from Galicia to Argentina, Uruguay and Cuba. Reducing unemployment and improving skills levels had been priorities of the Galician regional government and labor organizations. The principal city of La Coruña (A Coruña in the regional dialect Gallego) had a modern and convenient airport, and there were frequent flights to Madrid and Barcelona, but La Coruña was not a major international port city.

Though Galicia had not been known as a center of textile and clothing manufacture on an industrial level, in the 1980's the region began an aggressive push to evolve traditional dressmaking skills and participate in the sector by promoting a concept of "Galician fashion". By 1998 it was estimated that 29 thousand people (most of them women) worked for about 760 firms in Galicia involved in the textile and apparel business. Many of the firms (over 450) were small workshops or cooperatives, with an average of 15 workers each, and seventy-five percent of production consisted of the assembly line production of garments and 16% of knitwear production. There were also several large firms headquartered in Galicia: Adolfo Domingues, Caramelo, Mafecco and Zara. Galicia's share of national production in the textile and clothing sector increased from 7% to 14% from 1991 to 1997, employment generated by Galician clothing firms represented 10.5% of the total jobs created by this sector in Spain for that period, and exports from the region increased ten-fold from 1991 to 1998.

The Zara Model

Zara's Planning and Design Cycle

The Zara timeline for a season began, as for other apparel manufacturers, a year or so in advance of the start of the corresponding season. There were two seasons, with the spring/summer collection scheduled to arrive in stores beginning in January/February and the fall/winter collection scheduled to arrive in stores beginning in August/September (reversed for the Southern hemisphere). About a year in advance designers began to work to define dominant themes and colors, and then to put together an initial collection.

Zara had 200 designers on staff. While designers were catwalk-influenced and expected to adapt haute couture style for the mass market**,** "they are not themselves encouraged to be ivory tower aesthetes making distinctive fashion statements," according to María Pérez, head of the Design department. "Zara produces about 11 thousand styles each year – perhaps 5 times as many as a comparable retailer would typically produce, and all in relatively small batches to begin with," she said. "This encourages them to experiment, but always within a commercial orientation."

The designers worked in large open spaces at Zara's headquarters, with one design center for each of the women's, men's and children's lines. Designers often prepared sketches by hand but eventually worked on a CAD system to illustrate the design and associated specifications. The

[4] According to a 1999 report of the U.S. and Foreign Commercial Service and U.S. Department of State, 6 out of 10 Spanish women rated quality, 3 out of 10 rated fashion, and only 1 out of 10 rated price, as the most important determinant in a clothing purchase.

design centers were light and modern, with pop music playing in the background.

The store specialists worked in the same rooms, reviewing daily detailed printouts of store sales and speaking to store managers by phone to gather informal feedback. Each store specialist was responsible for a group of stores by region and visited them periodically. Each store manager was likely to have retailing experience and was chosen for her commercial design sense and feel for market trends, because it was the job of the store managers to feed market information from the stores back into the design and production decision-making. Communications and workflow within the design center were very fluid.

Patterns and Samples

In some cases designs were sent out to third party suppliers for them to prepare samples (a 2-3 month process), or the paper pattern and then a sample garment were prepared in-house, with Zara's pattern-makers and the seamstresses who made up the samples working in the same large, open design center. Patterns once finalized could be made available to the computers that would guide the cutting tools. Based on samples, the initial collection for the season was finalized and shown within Zara.

Production Sourcing and Scheduling

Once the initial collection for a season had been approved, the related fabric procurement and production planning started. Where garments were third party sourced (about half of the total), commitments for production were made roughly 6 months prior to the scheduled store delivery, while garments for in-house production were scheduled for manufacture so that they would be ready in time for scheduled delivery to the stores. Of the outsourced production, about 60% came from Europe and 30% from Asia, with the balance from the rest of the world.

The decision to source with external suppliers or to manufacture in-house was based on a number of considerations, including expertise, relative cost and, especially, time sensitivity. Inditex owned 21 Zara factories, each of which was separately managed. Factory managers' bids were assessed against third party supplier bids to make sure that in-house manufacturing stayed competitive. In general, garments with fashion styling tended to be manufactured in-house while basics and knits tended to be outsourced.

Zara committed about 15-25% of its season inventory – the more basic items – six months in advance of the season, compared with 40-60% for most apparel retailers. By the beginning of the season about 50-60% of its season inventory had been committed (either already manufactured or subject to firm commitment with specifications), compared to what Zara estimated was closer to 80% committed for most apparel retailers. About a quarter of the season's collection was made available at the start of the season, with the inventory in the stores at the beginning of the season tending to be more heavily weighted toward basic items and including the initial fashion collection, both of which were produced based on regular lead time commitments maximizing third party supplier sourcing. In-house manufacturing was reserved more for current (in-season) production. Altogether, in-house production was weighted 85% to in-season production and 15% to the next season's production.

In-house Manufacture

In-house manufacture entailed two basic steps: fabric procurement and garment assembly and finishing. Inditex owned a fabric sourcing company in Barcelona (Comditel), several textile production companies and a share in a fabric finishing company, Fibracolor. Comditel managed about 40% of fabric procurement, with a specialty in greige goods (undyed fabrics, often woven cotton, which can be dyed or printed to order). Setup time for dying or printing was about 4 or 5 days, with the whole process taking about a week. For synthetics and more fashion fabrics, Zara relied mostly on external sourcing.

Based on decisions about which styles were to be produced and in what sizes, the Zara factories cut the fabric. A "mattress" of layered fabric was laid out on long tables, vacuum sealed and cut by machine based on a computer layout of pattern pieces. The layout itself was arranged by people working at computer terminals who specialized in appropriate layout with minimum waste; Zara managers had determined that these skilled workers were able, within 15 or 20 minutes, to arrange layout with higher utilization than could be achieved solely with computer algorithms, though the computer-generated layouts, which took only a few seconds to generate, were used for benchmarking. The cut fabric pieces were marked and bundled for sewing.

Sewing was subcontracted to a network of 400 smaller firms within Galicia and northern Portugal. Within this rural area, where wages were low and unemployment high, Zara's subcontracted sewing work enabled many women to work, including on a part-time basis. Zara reserved time with its sewing subcontractors but was not limited in terms of garment specifications given in advance.

Deliveries between the Zara factories and the subcontractors occurred many times a week, with subcontractors picking up new work as they left off completed work. Overall turnaround time for sewing ran a week or two. Pressing, tagging and final inspection of completed garments occurred upon their return to the Zara factories. Assuming it had the fabric in stock, Zara was in a position, with its in-house design, pattern-making and cutting capabilities, and its network of sewing subcontractors, to go from start to finish on a style production within as little as 10 days.

In-Season Production

Zara committed only 50-60% of production in advance of the season, with the remainder manufactured on a rolling basis during the season. It was the in-house portion of the in-season production that easily could be modified in response to market demand. If an item was not selling, further production could be eliminated. If an item sold well, more units could be made up within a week or so, assuming the fabric was available. Zara would produce more to meet demand to the extent of fabric in stock, but no more. Miguel Díaz Miranda, Vice-President of Manufacturing, explained:

"The size of the production run – 'scale', in the traditional sense – is not an issue. We recoup our costs on the garments through markup because people will pay a premium for the right garment at the right time. It is the product that drives the customer.

For an expected very strong demand, we'll take a bigger risk on the fabric purchasing decision. Sometimes we make a decision that from an economic point of view might not seem sound, but we know that. For example, we might have an item that was selling very well, but if we think that we are saturating the market with that look we will stop manufacturing it and create unsatisfied demand on purpose. From a strictly economic point of view, that is ridiculous. But the culture we are creating with our customers is: you better get it today because you might not find it tomorrow."

According to Zara's management, echoed by analysts and the press, it was the ability to respond in-season that gave Zara a different fashion risk profile from other apparel retailers. When the initial collection had items that were performing poorly in stores, Zara could respond with alternative offerings, while most apparel retailers could only respond with increased markdowns and more aggressive (costly) advertising to move unpopular merchandise. For Zara, in-season replenishment did not require incremental capacity to be found or much higher costs incurred at the last minute; instead the close-to-sale-time manufacturing permitted an ongoing reallocation of resources in the ordinary course and with minimal disruption. In-house manufacturing capacity had been reserved and was available, but exactly *what* was to be manufactured could be determined within a few weeks of when the garments would appear for sale in the stores. "We were able to tilt the in-store inventory from equestrian themes to black within 2 weeks of the September 11 terrorist attacks," said Hugo Alvarez Gallego, of the Inditex capital markets group.

Distribution

Distribution of both outsourced and in-house manufactured garments was centralized at

Zara's 500,000 square meter distribution center in Arteixo. The distribution center was centrally located among fourteen manufacturing plants. Garments moved along two hundred and eleven kilometers of track from the cluster of factories located there to the distribution center. Hanging garments were arranged on coded bars that sorted automatically by style within the distribution center; stock-picking of hanging garments was done manually. Folded garments were sorted on a carousel, with each garment dropped down a chute toward a box for its destination store based on its bar code.

About 2.5 million garments could move through the distribution center each week. Though the distribution center in Arteixo was utilized at only 50% capacity at the end of 2001, based on the company's growth plans of 20-25% per year, more distribution capacity needed to come on-line, and the company was building a second distribution center in Zaragoza, in the interior of the northeastern area of Spain.

Shipments were made out of the distribution center twice a week, by truck to Europe and by airfreight to stores outside Europe, so that stores received goods within 24-36 hours of shipment in Europe and within 1-2 days outside Europe. No inventory was held centrally, and there was almost no inventory at the stores that was not on the selling floor

Retailing

Store managers asked for the items from a collection that they wanted at their stores, but the final allocations of inventory were made centrally, taking into account current store sales and inventory information, and sometimes included new items not requested by the store manager. Stores received new inventory several times a week. "The freshness in assortment is very important for fashion forward merchandise. It creates an exciting anticipation on the part of our customers. They know when the trucks are expected at their local store so that they can be the first to see the new merchandise," reported Josefina Lucía Bengochea Martín, a store manager in Barcelona. "Our customers come into our stores on average of 17 times a year; that number would be 3 or 4 for our competitors" commented José María Castellano.

Items that were not sold could be returned for possible reallocation to other stores or for outlet sale. Sale periods were heavily regulated in Europe; only items previously in stock could be marked down. In general, Zara tried to minimize the volume of merchandise moved at end-of-season sale prices, since under their system there was no need for a large inventory clearance. Zara experienced 15-20% markdown sale of season volume, compared to 30-40% for much of the industry. Zara did not advertise, but instead relied on word of mouth. Typical expenditure for retail advertising is 3-4% of sales; at Inditex it ran at 0.3%, almost all of that for simple newspaper notices of the sales periods.

The Stores

Zara stores were uniform, including as to lighting, fixtures and window display, as well as the arrangements of garments, with a targeted floorspace of 1200 square meters (see Exhibit III). There was a model store located at Zara headquarters that was kept up-to-date in terms of current product selection. Store locations were upscale in prime high street areas such as the Champs Elysees in Paris, Regent Street in London and Lexington Avenue in New York City, and the store design, displays and windows emphasized an upscale, fashion forward message. The uncluttered arrangement of goods in uncrowded spaces coordinated by color made the experience of shopping more like that in high-end luxury stores, and quite different from that offered by the "value" marketers.

Pricing Strategy

Zara contrasted its pricing strategy to many others in its business, which set price equal to cost plus a target margin. "Zara prices are based on comparables within the target market, subject to covering costs plus a target margin," said Pablo Alvarez, Vice-President of Marketing. For example, a coat in Madrid, Spain could be priced for €100, and the same coat in New York's Lexington Avenue store could be priced $185 (a sample price-tag is shown in Exhibit IV).

During its long expansion through 2001, Zara printed price tags for multiple jurisdictions showing on the single tag all of its different prices by country. This simplified the tagging procedure and also permitted goods to be moved from store to store without retagging and also permitted goods to be transshipped between one country to another without retagging. However at the beginning of 2002 Zara switched to a system of local price marking in the stores, using a device that read the bar code and printed the appropriate local price.

Growth Strategy

Zara's growth had been outward from its base in Spain, with the locations for new stores chosen selectively to stake out sequentially new territories that could be supported within the Zara model. Most of the stores were company-owned, although in some markets (eg, the Middle East) Zara had opened a small numbers of stores through franchises and in some other markets (e.g., Japan) Zara had opened stores through alliances. Zara did not establish local distribution centers and warehouses when it entered a market, or engage in store-opening promotions.

Zara had about 450 stores in 33 countries (see Exhibit V) and was opening about 10 stores a month in 2002. Though Zara had stores in New York City, Miami, and Puerto Rico, Inditex management indicated that significant expansion in the U.S. market was not a near-term priority. "In our view, the U.S. is over-retailed, and the U.S. consumer, outside of the coasts and big cities, has very basic fashion tastes," said José María Castellano Ríos "The market for high volume styles typical of American fashion, like chinos, is saturated. Also in America you usually have to advertise. We have plenty to do closer to home."

A Sourcing Dilemma

As Castellano stepped to the podium he reflected on how far Zara had come since he joined the company from IBM in 1984. He felt comfortable that Zara was on the right track for a continuation of the measured and organic growth off its business model and unique positioning based in Galicia. However, he and other members of his management team, together with Ortega, constantly revisited Zara's strategy.

One element of the strategy before him now was production sourcing. To provide some cushion in its margins, particularly in view of possible pricing pressure as the Euro took hold in Europe, Zara had announced that the proportion of outsourced manufacture would grow, initially to 60%, to take advantage of increased low cost production coming on-line, principally in China. This seemed like a moderate, conservative step toward adopting the conventional wisdom that higher margins could be built off lower wage costs, but perhaps away from the "Zara model" of local, vertically integrated production. But how low could local, in-season production go without negatively impacting Zara's fashion-forward image, and ultimately, the competitive advantage that drove its margins?

Exhibit I: Selected Financial Information for Inditex

Source: Inditex May 2001 Offering Memorandum

(Euro in millions)	Fiscal Year				
	1996	**1997**	**1998**	**1999**	**2000**
Income Statement Data					
Net Sales	€ 1,008.5	€ 1,217.4	€ 1,614.7	€ 2,035.1	€ 2,614.7
Growth	*16.8%*	*20.7%*	*32.6%*	*26.0%*	*28.5%*
Gross Profit	487.5	599.1	814.8	1046.7	1337.7
Gross Margin	*48.3%*	*49.2%*	*50.5%*	*51.4%*	*51.2%*
Operating Income	152.4	192.8	242.1	299.6	390.3
Operating Margin	*15.1%*	*15.8%*	*15.0%*	*14.7%*	*14.9%*
Net Income	72.7	117.4	153.1	204.7	259.2
Balance Sheet Data					
Assets					
Cash & Equivalents	€ 79.6	€ 134.8	€ 151.7	€ 164.5	€ 203.9
Account Receivables	NA	NA	75.0	121.6	145.1
Inventories	NA	NA	157.6	188.5	245.1
Other Current Assets	110.7	139.2	7.1	7.3	6.2
Long-term Assets	597.7	669.2	915.1	1168.8	1395.7
Goodwill	0	1.7	1.2	98.1	89.1
Deferred Charges	32.3	32.3	18.6	24.1	22.5
Total Assets	820.3	977.2	1,326.3	1,772.9	2,107.6
Liabilities					
Short-term Debt	55.9	43.0	88.3	116.3	96.9
Other Current Liabilities	178.2	229.9	356.3	435.4	573.4
Long-term Debt	168	164.1	186.3	290.9	231.8
Other Long-term Liabilities	3.3	10.3	22.0	37.1	34.6
Total Liabilities	405.4	447.3	652.9	879.7	936.7
Shareholders' Equity	414.9	529.9	673.4	893.2	1170.9
Total L&SE	820.3	977.2	1,326.3	1,772.9	2,107.6

<u>Financial Statistics</u>					
Days Inventory (fye)			35.6	33.8	34.2
Net Working Capital	(123.4)	(133.7)	(204.9)	(234.3)	(273.9)
<u>Operating Statistics</u>					
Total Retail Sales (millions)			€ 1,525.5	€ 1,999.8	€ 2,606.5
Average Sales per Store (millions)			€ 2.04	€ 2.17	€ 2.41
Total Retail Stores			*748*	*922*	*1,080*
Average Sales per Sq. Meter			€ 4,752.34	€ 4,534.69	€ 4,853.82
Total Selling Sq. Meters			*321,000*	*441,000*	*537,000*
Same Store Sales			11.0%	5.0%	9.0%

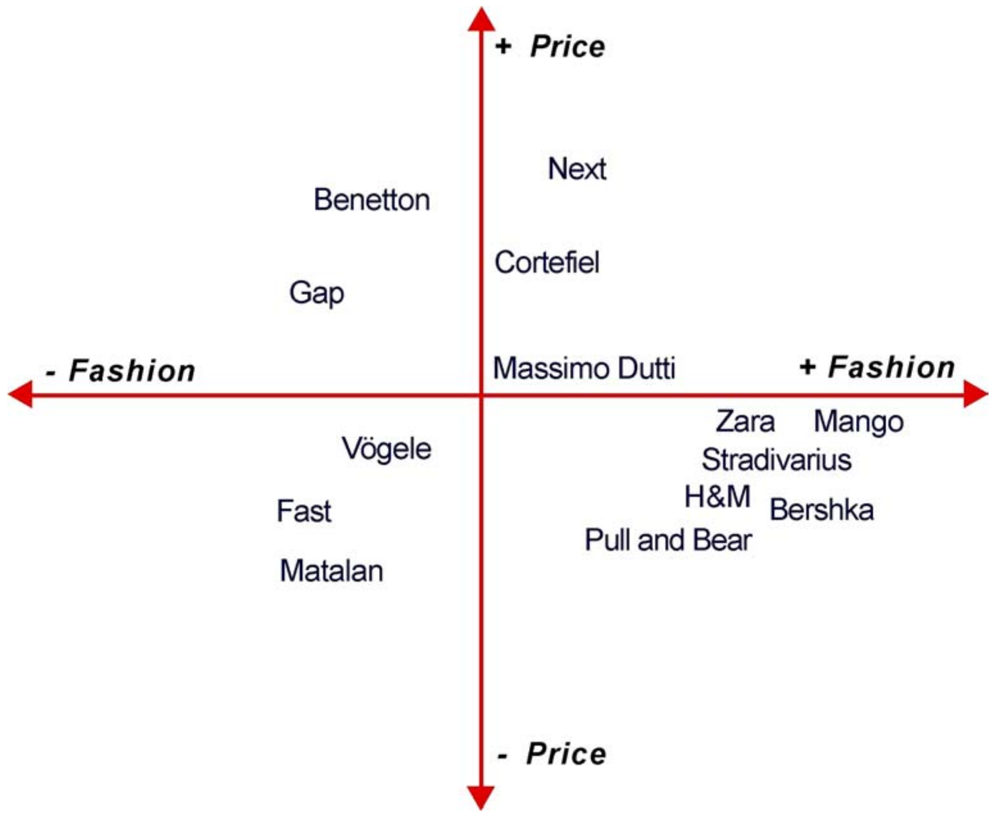
Source: May 2001, Offering Memorandum

Inditex - Net Sales & EBIT by concept
Source: May 2001, Offering Memorandum

(Euro in millions)	**Net Sales**		
	1998	**1999**	**2000**
Zara	€ 1,304.2	€ 1,603.4	€ 2,044.7
Pull & Bear	131.9	143.8	172.6
Massimo Dutti	120.5	144.2	184.0
Bershka	22.3	82.1	134.9
Stradivarius	N/A	26.3	72.5

(Euro in millions)	**EBIT**		
	1998	**1999**	**2000**
Zara	€ 213.0	€ 248.4	€ 327.9
Pull & Bear	15.0	17.1	24.1
Massimo Dutti	14.2	17.4	20.3
Bershka	(3.7)	7.1	8.4
Stradivarius	N/A	1.7	(3.2)

Exhibit II: Inditex's Product Positioning



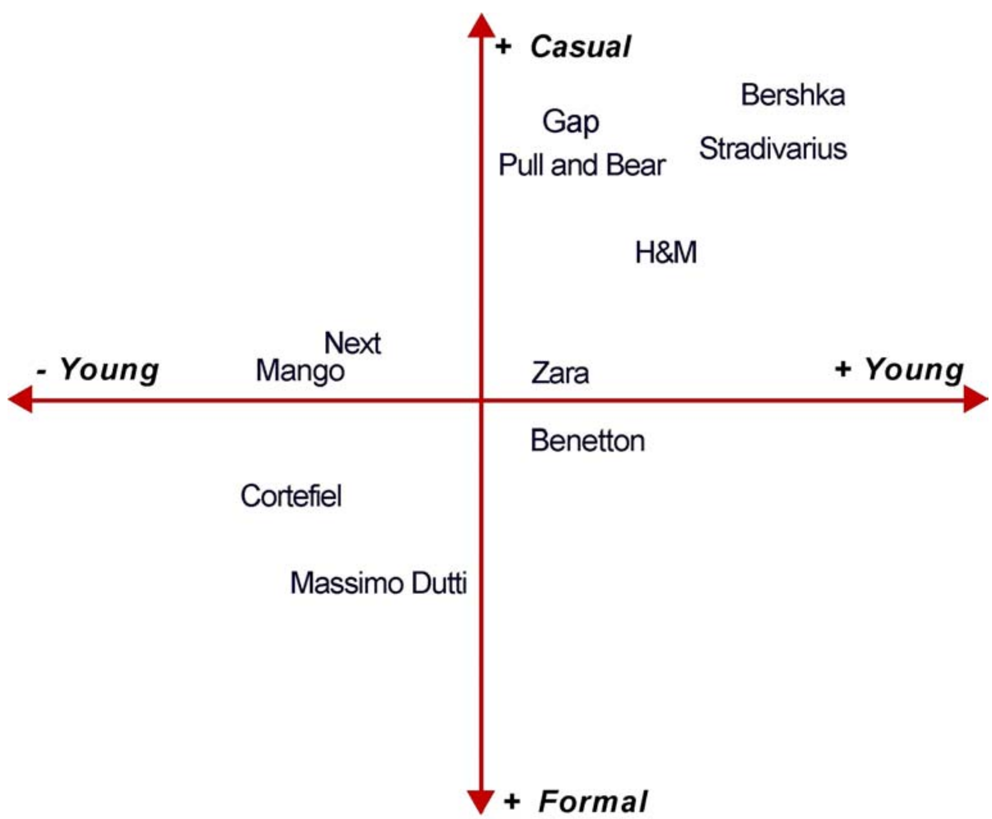


Exhibit III: The Display and Store Layout in a Zara Store

Exhibit IV: Sample Zara Price Tags

Exhibit V: Zara – Store Locations: 2000

Source: Inditex May2001 Offering Memorandum

	Company-owned	Franchise	Joint Venture	Total
Spain	220			220
Portugal	32			32
Belgium	12			12
France	63			63
United Kingdom	7			7
Germany			6	6
Poland		2		2
Greece	15			15
Cyprus		2		2
Israel		9		9
Lebanon		2		2
Turkey	4			4
Japan			6	6
United States	6			6
Canada	3			3
Mexico	23			23
Argentina	8			8
Venezuela	4			4
Brazil	5			5
Chile	2			2
Uruguay	2			2
Kuwait		2		2
Dubai		2		2
Saudi Arabia		5		5
Bahrain		1		1
Qatar		1		1
Andorra		1		1
Austria	3			3
Denmark	1			1
Total	410	27	12	449

Exhibit VI: Relative Wage Levels

Source: European Commission: 1998 statistics

	Hourly Labor Costs (US$)	
	Textiles	**Clothing**
India	$0.60	$0.39
China	0.62	0.43
Tunisia	1.76	NA
Morocco	1.89	1.36
Hungary	2.98	2.12
Portugal	4.51	3.70
Spain	8.49	6.79
USA	12.97	10.12
Italy	15.81	13.60

Relative Wage Levels: Textile & Clothing

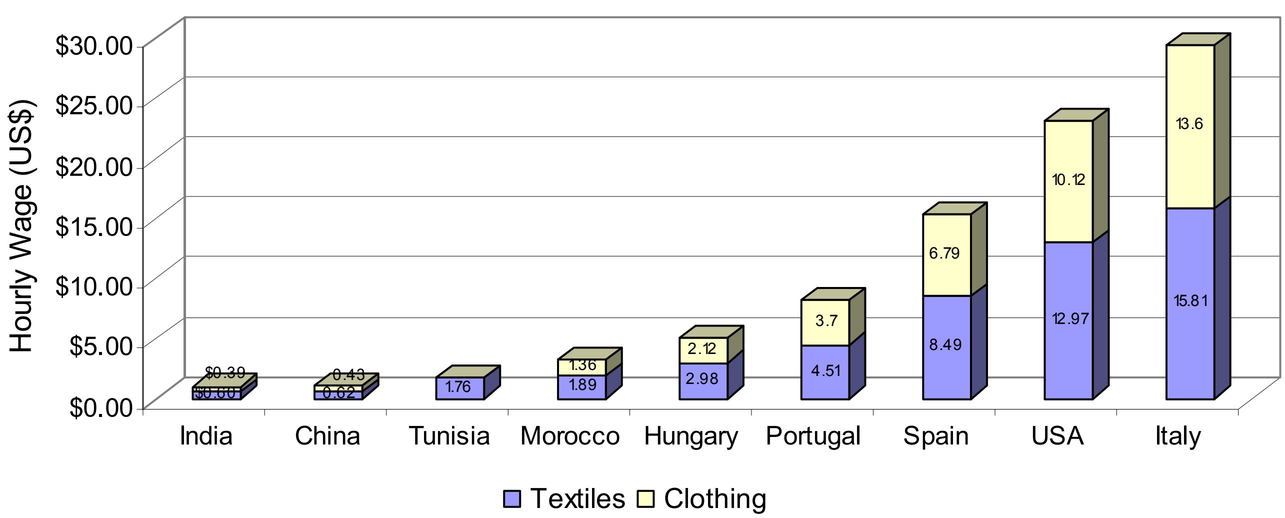


Exhibit VII: Production movement

Production Allocation

	1998	**1999**	**2000**
In-house	53%	50%	44%
External	47%	50%	56%
	100%	100%	100%

Origin of Production

	1998	**1999**	**2000**
Spain	29%	25%	20%
Portugal	27%	24%	22%
European Union	10%	9%	5%
Rest of Europe	8%	11%	15%
Asia	19%	23%	29%
Rest of World	7%	8%	9%
	100%	100%	100%

Source: Company Reports