

EOI Madrid - Escuela de Negocios

Analysis of the Corporate Social Responsibility at the INDITEX Group

**Final Thesis within the International Master in Sustainable Development
and Corporate Responsibility in 2007/08**

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“It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently”.

Warren Buffet

Introduction – Proposition of the Thesis

The perception and the necessity of Corporate Responsible behaviour has dramatically changed in the last decades. Until recent years Corporate Social Responsibility (CSR), from the corporate point of view, was more likely seen as a fulfilling of legal obligations, or the most as a necessary marketing tool. With the beginning of the “technology age” and the globalisation of markets and industries, where medial coverage and the new information technologies - such as the internet- are increasingly influencing the day to day business in companies, has changed the perception of CSR. The “global players” are conscious about the high volatile markets and the increasing consumer awareness, which can destroy the reputation of a well established brand very quick, if they do not act responsible as a company that delivers goods or services or has a relation with the different stakeholders, such as governments, Business partners, NGOs, international Institutions, society as a whole, etc.

Even though a lot of businesses are still focusing on the tension between society and business, rather than on the possible shared value (benefits for both sides) between them, the most businesses try to improve their corporate performance increasingly, regarding CSR.

It is evident that today it is inevitable for any company, to manage all the intangible assets that are referring to their business actions and beyond them. Thus, to integrate a sustainable Strategy in the core business in order to meet the current and future needs of all your stakeholders that are engaged in your company and act responsible by finding a balance between the social, environmental and economical issues in the company’s daily business, the triple bottom line.

The Analysis of the Corporate Strategy of Inditex – as one of the fastest growing apparel retailers worldwide- was from the beginning a very appealing challenge for us, considering that -at a certain degree- the core business of the Inditex group affects almost everybody’s daily life decisions. Thus, from the

workers in the fabrics in developing countries, the business partners of Inditex, the competition in the apparel retail sector, even governments that try to attract big global companies to their country, until the consumer at the end of the supply chain that buys the designed clothes everybody is more or less affected by the way how Inditex implements a socially responsible Strategy in his core business or not.

Furthermore, the textile sector is one of the most controversial in the global economy markets, when it comes to the issues of basic human rights and labour conditions at suppliers' factories in development countries. Many of the most known and powerful companies in the textile and sports wear industry, such as Adidas, Nike, Benetton, H&M or Zara were already dealing with scandals about working conditions in factories, too low wages or similar urgent complaints by workers or trade unions in development countries.

In the following approach we analyse the Corporate Social Responsibility Strategy at the Inditex Group. The analysis is structured into three parts:

The first part treats the economical and financial evolution of the Inditex group since the year 2000. Beginning with a short introduction about the history of the Inditex group the analysis of the Group's financial and stock performance follows. The Business diversification and the international Expansion build the bridge to the main focus in this part, the competition and market analysis in the garment industry. This section begins with an introduction of the global apparel chain, from the producers to final consumers and continues with the analysis of the different important apparel market regions Europe, Asia-Pacific, US and a more detailed analysis of the Spanish market, as the domestic market of Inditex. After the (inter)national competition analysis, this part concludes with a deep analysis of the business strategy of Inditex, illustrated by the system of Zara, the most lucrative concept of the Inditex group.

It is to be mentioned that, due to the fact that this work is not a profound business analysis, we do not explain the Market entry and selection process of the Inditex group in the first part, but rather concentrate on their highly competitive production chain model, since this is what characterizes Inditex's success the most.

The second section of the work is about the social pressure that the Inditex group suffered from the Clean Clothes Campaign and other international

social networks or NGOs. After the introduction to workers' rights the objectives of the different international institutions is explained before the pressure that was executed on the different stakeholders of the companies and the results of the Clean Clothes Campaign on national and international level are illustrated.

The third section presents the reaction of Inditex to the social pressure by studying their social and environmental performance and the commitment to their employees. Here the focus is laid at the social dimension of the group, which initially illustrates the supply chain model of Inditex and how the group intends to implement a social responsible behaviour throughout the production chain by implementing the code of conduct and certain international standards through social investment and different steps of internal and external auditing and a very special, so called "DNA-Model", which is a model of controlling each supplier's business.

The Dialogue Platforms, which explain the institutional partnerships, that share and develop ideas to implement models of Corporate Social Responsibility between the third sector and multinational companies. Last but not least, the programs of Social Investment and the Patronage programs, as well as the transparency strategy towards the different stakeholders of Inditex.

At the end of the document we give a final conclusion that will include our personal opinion about the elaborated approach.

1. The Early History of Inditex

The Inditex Group (Industria de Diseño Textil Sociedad Anónima), the owner of Zara and seven other apparel retailing chains, was founded officially in 1985. In order to understand properly the company's major success until nowadays one has to go further back.

The history of Inditex cannot be understood without his founder: Amancio Ortega Gaona (born in Busdongo de Arba, Spain, 1936), who is listed in the Forbes as Spain's richest man (Forbes, 2007).



Amancio Ortega, Founder of Inditex

Coming from a modest family, he began to work in the apparel trade with only thirteen years as an errand-boy for a shirt maker in La Coruña (Spain). During fourteen years working also for another textile company, called *La Maja*, he got to know the textile industry since the origin, made many contacts with other entrepreneurs that would be useful years after and apparently developed a heightened awareness of how costs piled up through the apparel chain.

In 1963, he started his own business as garment-maker and founded Confecciones GOA (his initials reversed), to manufacture products such as housecoats. He was very successful from the beginning due to the combination of low prices and good quality products. Low prices were possible due to the savings he made by obtaining raw material to a low cost from Catalan business partners during the time he was working in *La Maja*, a prosper apparel business in La Coruña. Eventually, after continuing in the textile sector, his quest to improve the manufacturing and retailing performance led him in to found the first Zara store in 1975, on an upmarket shopping street in La Coruña.

Through market research Ortega found out, that most of the women were interested in fashion, but they didn't have enough money to pay for it. From the beginning Zara positioned itself as a store selling "medium quality fashion clothing at affordable prices." This objective was achieved by means of controlling the whole productive process, from the design of the garment to the distribution process: the first clothes shop with a vertical integration was

founded. Thus, manufacturing, distribution and sales are managed internally (for further explanation see Zara's business strategy on page 48).



José María Castellano, former CEO

By the end of 1970s this strategy paid off, there were already half a dozen Zara stores in Galicia cities (Ghemawat/ Nueno, 2004).

At the beginnings of the 80's Zara started the expansion into the national market using the same strategy as in Galicia. In order to make the transition from the regional market into the national market more fluent, Ortega delegated functions on expertise hands and tried to be up to date with the newest technology (he bought his first computer in 1976). His interest in information technology also brought him into contact with Jose Maria Castellano, who had a doctorate in business economics and professional experience in information technology, sales, and finance. Castellano joined Inditex in 1985, as the deputy chairman of its board of directors and helped to transform the company into a "sociedad matriz," a holding company.

Under Ortega and Castellano, Zara continued to expand nationally through the 1980s into adjoining markets. It reached the Spanish capital, Madrid, already in 1985 and, by the end of the decade, operated stores in all Spanish cities with more than 100,000 inhabitants. In the follow up Zara began to open stores outside Spain and to make heavy investments in manufacturing logistics and IT. The early 1990s was also, when Inditex started to add other retail chains to its network through acquisition as well as internal development (see Ghemawat/ Nueno, 2006).



Pablo Isla, Current CEO of Inditex

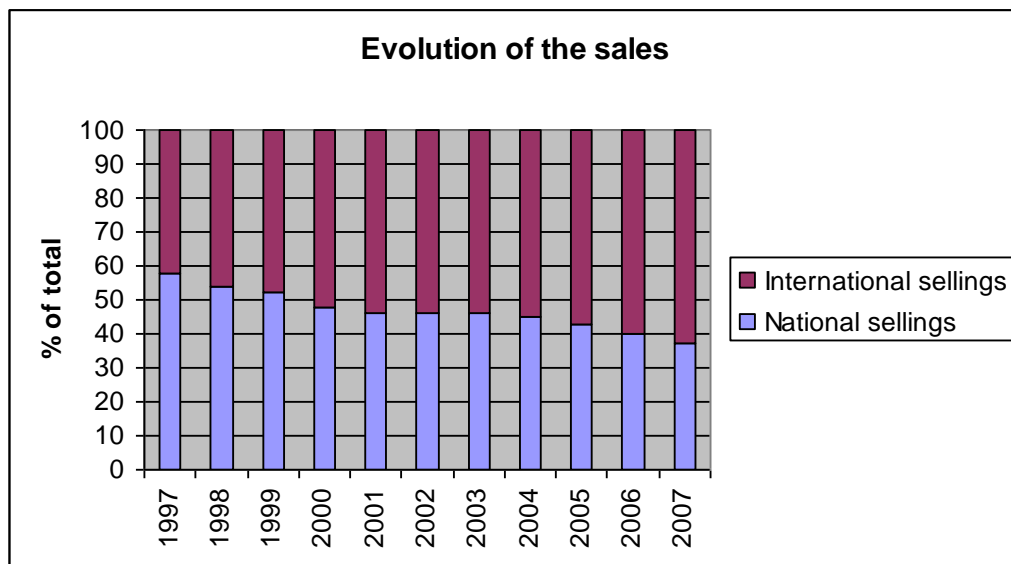
José María Castellano abandoned Inditex in November 2005, since then Pablo Isla is the Chief Executive Officer and First Deputy Chairman.

2. Financial and economical performance of Inditex

2.1. Evolution of the Sales

The company began their international expansion in 1988 and has since then increased every year. Internationalization of the company is corroborated by the evolution of the international turnover, which has increased since the opening of the new shops in Spain. Today, more than 60% of the group's turnover comes from outside. Forecasts for the next years suggest that the company will follow the internationalization process (see **figure 1** for evolution of the sales).

Figure 1

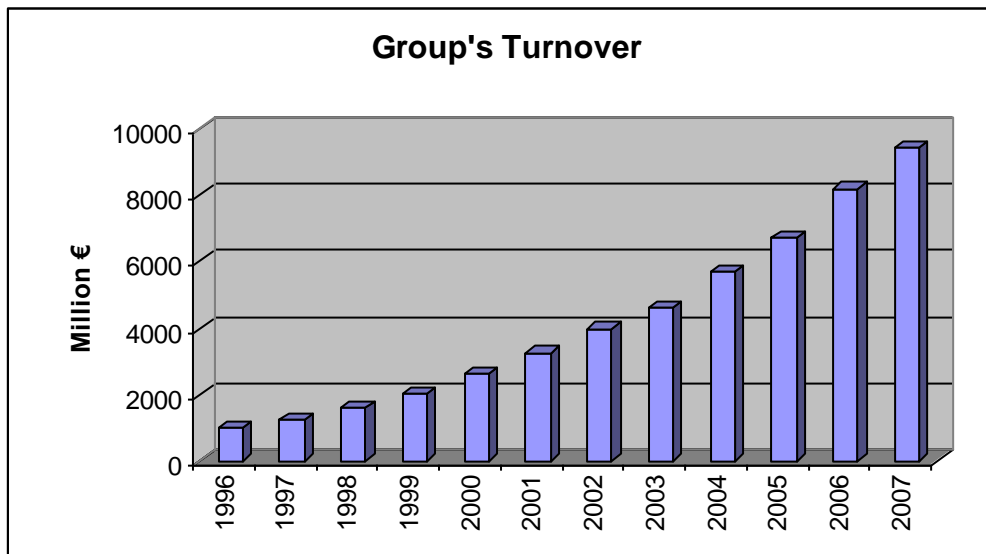


Source: Annual reports of Inditex

2.2. The Group's Turnover

The group's turnover has increased exponentially, but the margin between 2006 and 2007 was "only" 15%, which is the lowest increase in the history of the company. According to different sources, annual growth since February 1st 2006 to March 27th 2007 has increased 17% (see **figure 2**).

Figure 2

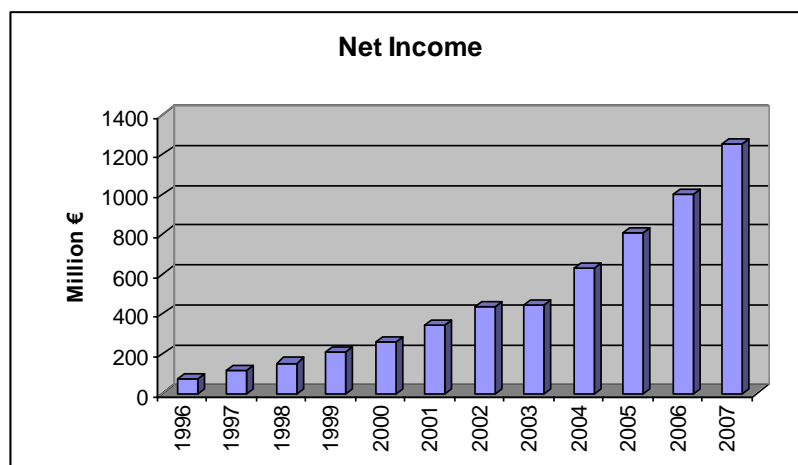


Source: Annual reports of Inditex

2.3. The Net Income

Net income has also increased exponentially since the foundation of the group in 1975. Figure 3 shows the increase from 1996 until today. The Turnover registered in 2007, compared to 2006, is approximately 25% higher. This was mainly achieved by the new strategy of the company cutting on the expenditure. According to the sales forecast, and supported by the new projects and stores openings around the world, net income will increase in the same way it did in previous years. High incomes allow the international expansion of the company, planning the opening of new shopping centres in other countries (see **figure 3**).

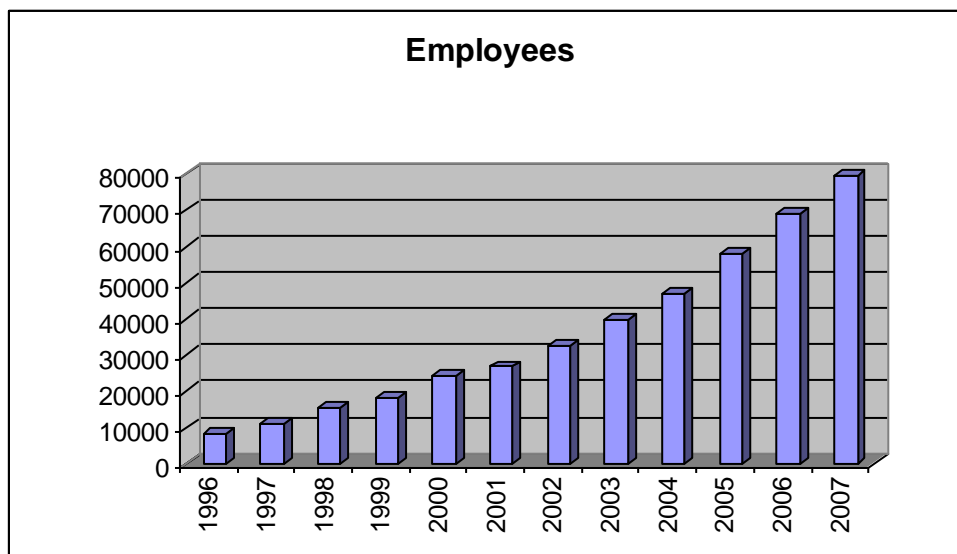
Figure 3



2.4. Number of Employees

Accordingly to the expansion of the company on an international level, the number of employees also increases in order to satisfy the necessities of the company. The Inditex group currently is made up over 70.000 professionals (see **figure 4**). Inditex has an international staff –half of its employees work outside Spain- the majority of whom are female (82,8%), with an average age of 26 years (see Inditex homepage).

Figure 4



Source: Annual reports of Inditex

2.5. Stock Performance

The quotation of INDITEX on the stock market began on May 23rd, 2001. The highest value of the share (53, 25€) was reached on November 7th, 2007, and the lowest share (15, 39€) on February 2nd, 2004 (see **figure 5**).

Inditex shares have fallen nearly 24% in 2007, in large part because investors are worried about an economic downturn in Spain, where Inditex generates over a third of its €8 billion in annual sales.

Figure 5: Quotation of Inditex



Source: Bolsa de Madrid.

2.6. Business Diversification of the Inditex group

At the beginning of 2008, Inditex markets its range of products through eight separated brands including: Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Kiddy's Class.

The way of management, based on innovation and flexibility, and the way of understanding fashion, creativity and quality design, together with the quick answer to the market demands, has allowed Inditex a rapid international expansion and a huge success of his multi-concept strategy.

All of those retailer subsidiaries were grouped into over one hundred companies associated with the business of textile design, manufacturing and distribution. A great part of those companies were consolidated into the Inditex group while the remainder were involved in textile purchasing and preparation, manufacturing, logistics, real estate, finance, and so forth.

The eight retailing chains are organized as separate business units within an overall structure that also included eight business support areas (raw materials, manufacturing plants, logistics, real estate, expansion, and international) and eight corporate departments or areas of responsibility. In effect, each of the chains operates independently and are responsible for its own strategy, product design, sourcing and manufacturing, distribution, image, personnel, and financial results, while group management (corporate centre) set the strategic vision of the group, coordinated the activities of the concepts, and

provided them with administrative and various other services (see Ghamawat/ Nueno 2004).

Certainly, the experience of the older and better-established chains, particularly Zara, had helped accelerate the expansion of the newer ones. Thus Oysho, the lingerie chain, drew 75% of its human resources from the other chains and had come to operate stores in seven European markets within six months of its launch in September 2001.

The key of this multi-concept model is to be capable to satisfy a broad view of customers through diverse offerings in its portfolio, in the less time possible. Top corporate managers saw the role of the corporate centre as a “strategic controller” involved in setting the corporate strategy, approving the business strategies of the individual chains, and controlling their performance rather than as an “operator” functionally involved in running the chains. The ability to control performance down to the local store level was based on standardized reporting systems that focused on sales growth, earnings before interest and taxes (EBIT) margin, and return on capital employed (see above).

As one will see, the following differentiation shows that every brand has a unique profile and a certain target group, this multi-concept format is one of the keys for the long lasting success of the Inditex group’s business model.

Zara

The first Zara shop opened in La Coruña in May 1975. Zara masters a mixture of attractive, traditional styles and a high degree of fashion which appeals to its customers and also has a higher flexibility in sourcing as many of its competitors. The brand is directed to women, men and youth, from infants until the age forty five and drives a continuous innovation based on customer desires.



Zara store

Shops are located in highly visible locations, often including the premier shopping streets in the biggest capitals (e.g., the Champs Elysées in Paris, the Regent Street in London, or the Fifth Avenue in New York). Zara introduces in the market over 10.000 different models each year, so that the stores are updated twice a week with new collections.

At the end of 2007 Zara operated a total of 990 stores in 63 countries, which includes 138 new openings since the last fiscal year in January, having a total selling area of over 1.000.000 square meters 37 countries. The turnover increased that year 21%, up to 5.352 millions Euros, which represents 65,3% of the total sales of the Group. Until now the number of stores located has reached 1.421 internationally (Datamonitor/ Inditex, 2008).

Massimo Dutti

Massimo Dutti was launched in 1985 and acquired by Inditex in 1995. Since then the brand has increased ten times their size and benefits.



Advertising image of Stradivarius

At the beginning they just offered masculine design. Since 1995 the brand offers as well clothes for women. Massimo represents universal design, which starts from sophisticated urban fashions to sporty casual wear. It supposed to reach men and women between 25 until 45 years.

In 2007 Massimo Dutti had 397 stores in 29 different countries, it was launched as the first brand after Zara. The Massimo Dutti division recorded revenues of €533.8 million in fiscal year 2006, an increase of 16.4% over 2005. Those revenues represent a 7,5% turnover of the total of the group (see Datamonitor/Inditex, 2008).

Pull & Bear



Advertising image of Pull & Bear

Pull & Bear was launched in 1991 to offer basic fashion for young men. In 1998 they introduced for the first time a design for women. It caters primarily to males and females aged 14 to 28 years with a rather informal style and affordable prices. In 2000 the brand counted for 229 stores in ten countries. Its establishments attract people due to its modern image and the competitive prices.

Pull & Bear currently operates 467 stores around 27 countries. It is the third brand of the Inditex Group that expands in the Pacific-Asia region, after Zara and Massimo Dutti. The Turnover of Pull & Bear represents a 6,3% of the total of the Group. The division recorded sales was €559 million in fiscal year 2006, an increase of 17% over 2005 (see above).

Bershka

This brand was founded in 1998 as a trend clothing for younger female target audience between 13 and 23 of age. At the end of the first year, Bershka had 40 stores in Spain, Portugal and Chipre. In only three years it has become a reference in the sector with 104 shops in four



Bershka store

countries. During 2006 Bershka also was able to consolidate its position as second most contributing brand of the Group. The Bershka division recorded sales of 798 millions in fiscal year 2006, thus, an increase of 25.7% over 2005, and 9,7% share of the total turnover of the Group. At the beginning of 2007 Bershka owned 433 establishments in 24 countries. Bershka stores are large and spacious. They are intended to be meeting points for street fashion, music and art. In the store, customers can watch videos, listed to CDs or read magazines (see Datamonitor/Inditex, 2008).

Stradivarius

In November 1999 the Inditex Group acquired Stradivarius due to its excellent commercial position and its perspective of expansion. It offers clothes for women between 15 and 25 years old and reflects a youthful outlook on urban fashion.



Advertising image of Stradivarius

During 2006 the brand introduced its fashion in new markets such as Italy, Ireland, Poland, Andorra and Slovenia. It also expanded their markets in the Middle East and North Africa. In January

2007 Stradivarius had 304 shops in 19 different countries. The total turnover of this part of the Group reached 428 millions Euros, which represents 5,2% of Inditex total turnover. The Stradivarius division recorded revenues of €341.1 million in fiscal year 2006, an increase of 41% over 2005.

Oysho



Advertising image of Oysho

In 2001 Inditex launched the Oysho lingerie chain. The Group began its activity in Puerto Rico, Jordan, Ireland, Iceland, Luxembourg, the Czech Republic and Italy.

Oysho offers fashion trends in women's lingerie and undergarments. During 2006 the brand initiates its business in Poland and Qatar. At the beginning of 2007 Oysho had 201 stores in 12 countries. The Oysho division recorded revenues of €107 million in fiscal year 2006, an increase of 49.2% over 2005. The turnover reached 165 millions Euros representing 2% of the total of the Group.

Kiddy's Class

The first Kiddy's Class store was launched in Spain in 1991 and the figures generated by stores were part of the Zara format. In 2002, the Group decided to foster its presence in the segment of fashion for kids with the development of Kiddy's Class as an independent chain. In addition to clothes, the brand offers other products such as children's fragrances, cosmetics, and small accessories like bracelets and necklaces.

In January 2007, Kiddy's Class division recorded 185 stores in Spain, Portugal, Italy, France and Greece and revenues of €155.4 million in fiscal year 2006, an increase of 28.7% over 2005. The sales of this brand marked 7,2% of the total of the group. During 2006 they increased a 17% up to 182 millions Euros.



Kiddy's Class shop window

Zara Home

The brand was created in 2003 and it was the latest chain of the Group. Zara Home specializes in home furnishings. It offers textiles for bed, table and



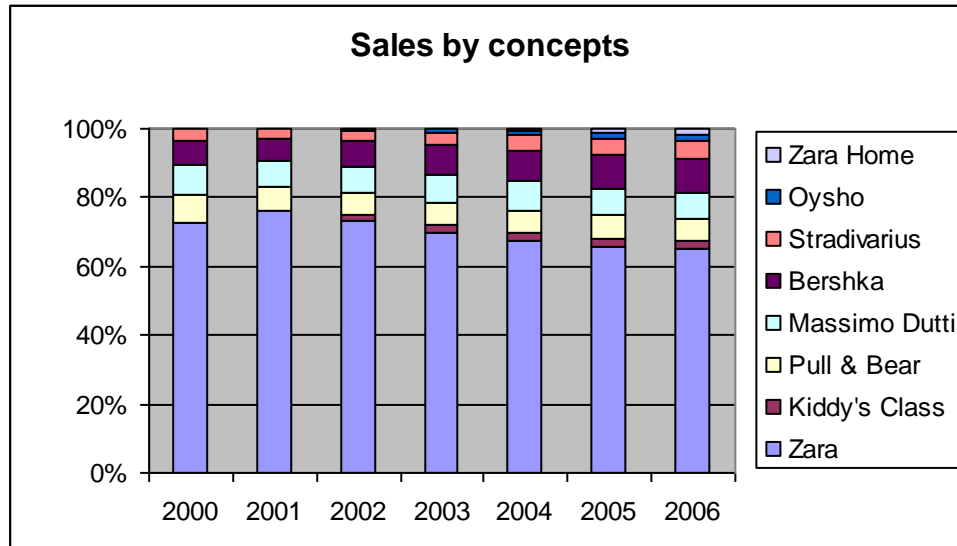
Store window of Zara Home

bathroom linens, as well as tableware, cutlery, glassware and decorative items.

At the beginning of 2007 Zara Home recorded a total of 152 stores in 15 different countries around Europe, America and Middle East. Its turnover marked 139 millions Euros, representing 1,7% of the total turnover of the Inditex Group. The Zara Home division recorded revenues of €78.1 million in fiscal year 2006, an increase of 93.3% over 2005.

In October 2007 Inditex launched the Multi-channel “Zara Homo: e-commerce.” It turned out as a highly satisfactory launch in 14 European countries and is expanded to grow fast in the next years.

Figure 6



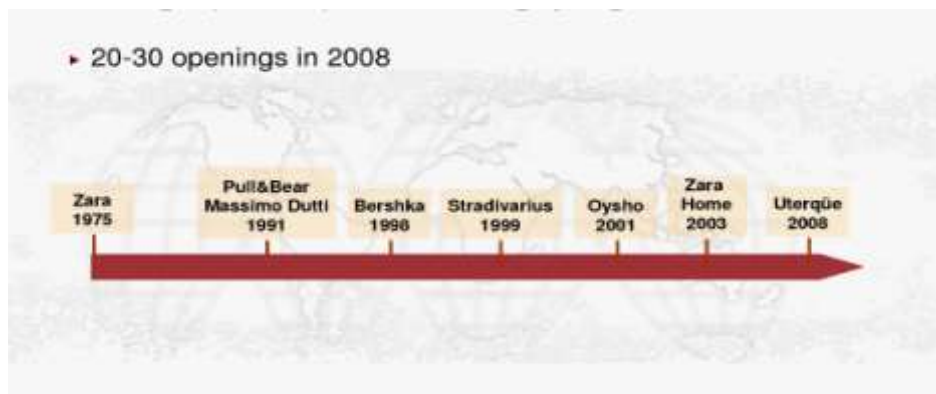
Source: Inditex, Annual report 2006

As we can see in the chart above, Zara clearly represents a high percentage of the total sales of Inditex but at the same time also loses sales

slightly each year. Other brands, such as Bershka or Stradivarius are increasing their sales over the last years.

Additional to the eight brand concept, Inditex plans to open a new retail concept specializing in accessories, footwear and other fashion items that will be launched in the second half of 2008 under the name Uterque. It is planned to open 20-30 new stores throughout the year.

Figure 7: Years of brands launching



Source: Inditex annual report 2006

2.7. International Expansion of the Inditex group

In the following section it is to be shown the evolution of the global expansion regarding the number of stores established worldwide, the countries which they expanded to, and the number of sales reached. Furthermore it is analysed, how Inditex entered new markets and managed to control their geographically widespread business operations.

Accordingly to the success in the evolution of every single brand, the international expansion of the group has been as well a constant success, since the beginning.

Since Amancio Ortega Gaona opened its first Zara shop in 1975, in La Coruña (Spain), the group expanded over the following decade first with the network of Zara stores extending to the major Spanish cities.

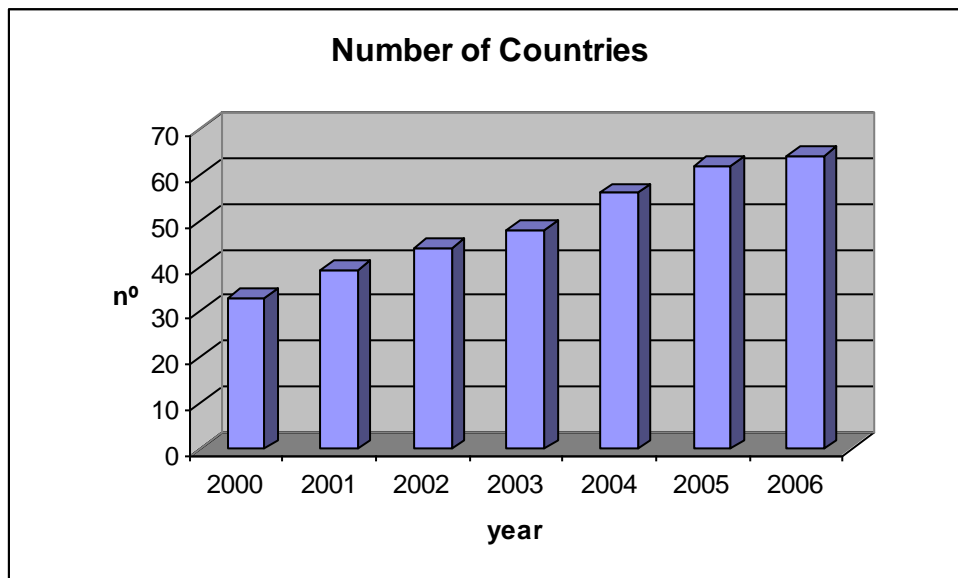
The company witnessed expansion outside of Spain for the first time in December 1988, with the opening of the first Zara store in Oporto (Portugal). The US and France became the next markets, in which the group began its

activity, with the opening of outlets in New York (1989) and Paris (1990). Since then, the numbers of stores have been growing exponentially (see **figure 10**).

In 1991 Inditex continued to open new international markets in the mid 1990s in Mexico, Greece, Belgium and Sweden. In 1995 the opening of the first store of the group in Malta and in the following year in Cyprus, was seen. Norway and Israel joined the list of countries, in which the company had presence in 1997.

Meanwhile, Bershka(1998) and Stradivarius(1999) commenced its activity. Until 2000 the group saw shops openings' in new countries like Argentina, Japan, the UK, Venezuela, Lebanon, the UAE, Kuwait and Turkey, Netherlands, Germany, Poland, Saudi Arabia, Bahrain, Canada, Brazil, Chile and Uruguay.

Figure 8



Source: Inditex Annual Report 2006

The opening of stores in four new countries took place in 2000, including Austria, Denmark, Qatar and Andorra. The company went public in 2001, and became listed on the Spanish Stock Market. During the same year, the group also began its activity in Puerto Rico, Jordan, Ireland, Iceland, Luxemburg, Czech Republic, and Italy. In 2002, the company began construction work on the Zara Logistic Center in Zaragoza, Spain.

Zara and Massimo Dutti opened their first stores in Switzerland, in the city of Geneva in 2002. The company also opened outlets in Sweden and in Russia in 2003. It also opened its first Zara Home stores in the same year. The first Zara store in Rome was opened in Galleria Colonna in 2003.

During 2004, the first stores in Morocco and Hong Kong were also opened. A Zara store was also opened in Tallinn, Estonia in the same year.

Inditex opened its first store in Indonesia, in August 2005. This was followed by an agreement signed between PT Mitra Adiperkasa TBK, a leading retailer in Indonesia and Inditex during March 2005. In October 2005, the first Zara store was opened in the Philippines.

In 2006, Inditex marked its presence in several markets for the first time. These include Serbia, Mainland China and Tunis. Zara store was launched for the first time in Shanghai and Norway; and Massimo Dutti and Bershka launched their first stores in Russia in the same year. Pull and Bear was launched for the first time in the Asia Pacific region after Zara and Massimo Dutti.

Figure 9: Worldwide presence of Inditex stores



Source: Inditex homepage

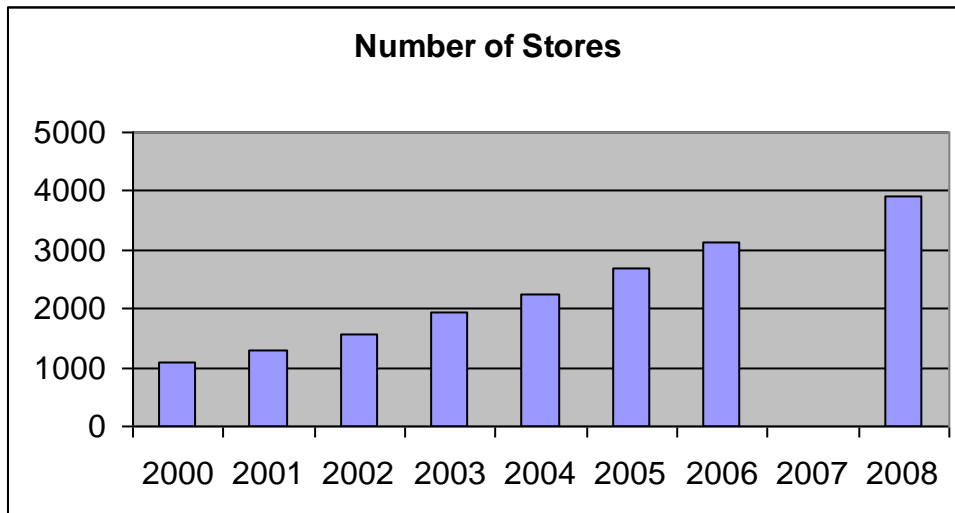
In January 2007, the company entered Saint Petersburg, the second largest city in Russia, by opening five stores. Inditex has begun to expand its

commercial formats outside the Moscow area. In February 2007, the company opened its first Zara store in Beijing, China (Datamonitor/ Inditex, 2008).

Overall, Inditex expanded in Europe until 2006 with a total of 2661 stores, and in the rest of the world with 58 stores in Asia, 252 stores in America, and 160 stores in the Middle East. Just in the last year Inditex established 560 new stores, which shows a enormous pace of expansion and a functioning business model.

The opening of stores in four new countries took place in 2000, including Austria, Denmark, Qatar and Andorra.

Figure 10



Source: Annual Report Inditex, 2006

Presently, the Inditex Group owns 3.895 establishments in 70 different countries, with a network of 990 stores in privileged locations of over 400 major cities. Compared to the international fast increase in stores, the number of stores in Spain is increasing very slowly, since the Spanish market is the home market and therefore more saturated, especially in the case of Zara. Nevertheless, there is still potential for the smaller chains to find their niche in the Spanish market and grow in number of stores. (see Annual report 2006/ homepage Inditex).

The main expansion market of Inditex is still Europe by percentage of sales and stores appearance. In store sales the EU market grew almost 2% in 2007, whereas the sales in the Spanish market decreased. 80% of the new

Zara stores opened during 2006 have been located in international markets. Other younger concepts, such as Pull and Bear and Bershka have also enjoyed significant growth in their international presence, with 73% and 70% of their new stores opened outside the domestic market (see Datamonitor/Inditex 2008).

Although the Asian-Pacific region is still behind in sales, there is a tendency to further growth, shown by 2% in 2006. It can be expected that the Asian market will play a more important weight in the future. Inditex expanded as well in North America and a big part of South America, even though the store numbers are still small compared to those of Europe (see **figure 11**).

Figure 11: Presence of Inditex stores worldwide

	2007	2006
Europe exSpain	42,4	40,6
Spain	37,5	39,6
Americas	10,8	11
Asia	9,4	8,9

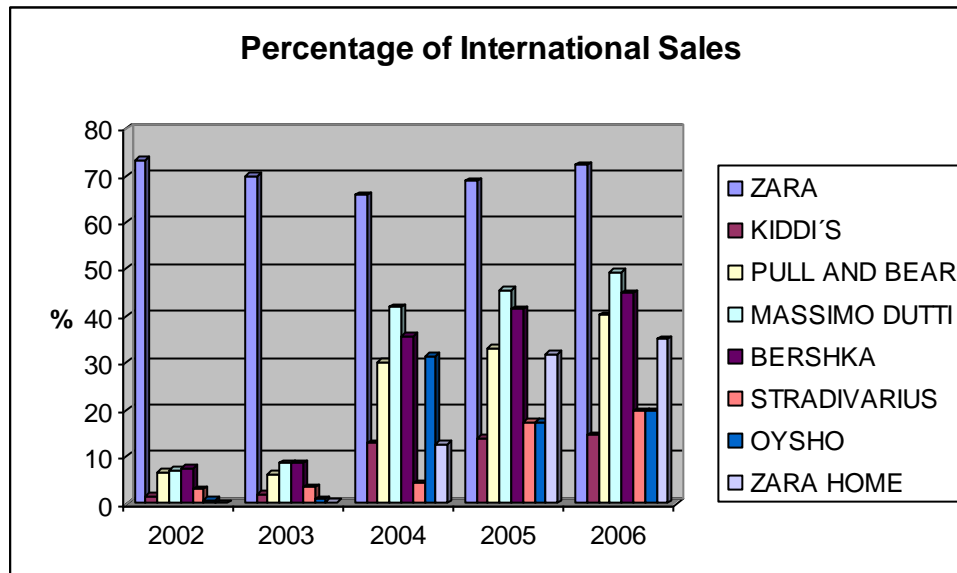
Source: Inditex, Annual report 2006

The business model of Zara, which is by far the most internationalized as well as largest of Inditex's chains, is a template for the continuous success of all the brands, as seen above. The profitability of Zara's operations was not parted geographically but, according to top management, was roughly the same in the rest of Europe and the Americas as in Spain. Approximately 80% of the new Zara stores to be opened in 2006 were located outside Spain, and Inditex even cited the weight of Zara in the group's total selling area as the principal reason Inditex's sales were increasingly international. But over a longer time frame, Zara faced several important issues regarding its international expansion, such as market selection and entry, which are not further elaborated in this work. We will give just a short Analysis of the international sales

2.8. Evolution of the international sales

Observing the international sales there is a clear coherence with the development of the store expansion. The faster the store number grew the more sales, which is logical but not to be taken for granted. All the concepts in the Group increased their sales during the fiscal year 2006, as already seen above, which made possible a global growth in sales of 22%. Likewise, the level of profitability achieved by the Group is based on the return on investment in the different formats.

Figure 12



Source: Inditex, Annual Report 2006

As seen in the **figure 12**, the year 2004 can be seen as a breakthrough in almost all of the concepts. In that year all of the concepts increased significantly. Oshyo, Massimo Dutti and Bershka are the concepts with the highest increase in sales in that year, whereas Stradivarius had an increase in sales in 2005.

Furthermore, net income rose by 25% from 2005 to 2006, by 1,002 million Euros. At the end of the 2006 financial year, Inditex had 3,131 stores in 64 countries in Europe, America, the Asia-Pacific Region, the Middle East, and Africa (see Datamonitor, Inditex 2008).

The growth in net sales was the consequence of the satisfactory behaviour of like-for-like sales, which increased by 5.5%, and an increase in the commercial area of 16%, up to 1,657,299 square metres. In relation to the increase in net income, it is worth pointing out that the gross margin reached 56.2%.

Growth of the commercial area was derived from the opening of 439 new stores of all formats, with a significant part of the growth taking place outside Spain. Zara, with 138 net openings, was the chain with the greatest increase in number of stores and is also the concept with the highest contribution to space growth.

The company's eight commercial formats -Zara, Kiddy's Class, Pull and Bear, Massimo Dutti, Bershka, Stradivarius, Oysho and Zara Home- have showed solid growth in sales during the year 2006 in all geographical areas in which they operate (see above **figure 9**).

Oysho and Zara Home showed particularly outstanding performance, with a growth in sales of 54% and 78% respectively. In the same way, Zara, the concept with the highest weight in Group sales, raised its sales by 21%. The global average return on capital employed was 43%.

After two financial years with a strong increase in the net margin, this rose by 75 base points until it reached 12.2% of sales (see Inditex, Annual Report 2006).

3. Market analysis of the Apparel Retail Industry worldwide

3.1. Market Definition

The apparel retail industry consists of the sale of all menswear, women wear and infants wear. The menswear sector includes all garments made for men and boys. It includes both outer and under garments. The women wear sector consists of the retail sale of all women's and girls' garments including dresses, suits and coats, jackets, tops, shirts, skirts, blouses, sweatshirts, sweaters, underwear etc. The infants wear sector is calculated as sales of garments for children between the ages of 0-2 years. The market value is calculated at retail selling price (RSP), and includes all taxes and levies (see Datamonitor, 2006).

For the purpose of this report the Americas comprises Brazil, Canada, Mexico and the US. Europe comprises Belgium, the Czech Republic, Denmark, France, Germany, Hungary, Italy, Netherlands, Norway, Poland, Russia, Spain, Sweden and the UK. Asia-Pacific comprises Australia, China, Japan, India, Singapore, South Korea and Taiwan.

3.2. The Global Apparel Chain

The global apparel chain had been characterized as a prototypical example of a buyer-driven global chain, in which profits derived from “unique combinations of high-value research, design, sales, marketing, and financial services that allow retailers, branded marketers, and branded manufacturers to act as strategic brokers in linking overseas factories” with markets (Gereffi, 1999). These attributes were thought to distinguish the vertical structure of commodity chains in apparel and other labour intensive industries such as footwear and toys from producer-driven chains (e.g., in automobiles) that were coordinated and dominated by upstream manufacturers rather than downstream intermediaries (see **figure 13**).

Figure 13: Comparison of the Global Supply Chains

	Buyer-Driven Global Chains (e.g., Apparel)	Producer-Driven Global Chains (e.g., Automobiles)
Upstream Structure	Fragmented, locally owned, dispersed, and often tiered production	Global oligopolies
Downstream Structure	Relatively concentrated intermediaries	Relatively fragmented intermediaries
Key Cross-Border Links	Retailers, branded marketers, and branded manufacturers	Producers
Rent Concentration	Downstream	Upstream
Types of Rents	Relational Trade policy Brand name	Technology Organizational
Typical Industries	Labor-intensive consumer products	Capital- and technology-intensive products

Source: Casewriter compilation of data from Gary Gereffi (June 1999), "International Trade and Industrial Upgrading in the Apparel Commodity Chain," *Journal of International Economics* 48: 37–70.

Many attempts had been made to identify the strategic implications of the changing structure of the global apparel chain. Some implications simplified to "get big fast"; others, however, were more sophisticated. Thus, an article by three McKinsey consultants identified five ways for retailers to expand across the borders: choosing just a part of value instead of competing across the entire value chain; emphasizing partnering; investing in brands; minimizing (tangible) investments; and arbitrating international factor price differences. But Inditex, particularly its Zara chain, served as a reminder that strategic imperatives depended on how a retailer sought to create and sustain a competitive advantage through its cross-border activities (Incandela, Mclaughlin, Smith Shi, *The McKinsey Quarterly*, 1999, p.84-97).

3.3. Production

About 30% of world production of apparel was exported, with developing countries generating an unusually large share, about one-half, of all exports. These large cross-border flows of apparel reflected cheaper labour and inputs in developing countries (see **figure 14**). Despite extensive investments in substituting capital for labour, apparel production remained highly labour-intensive so that even relatively large “manufacturers” in developed countries outsourced labour-intensive production steps (e.g., sewing) to lower-cost labour sources nearby. Proximity also mattered (as you will see in the case of Inditex) because it reduced shipping costs and lags, and because poorer neighbours sometimes benefited from trade concessions. While China became an export powerhouse across the board, greater regionalization was the dominant motif of changes in the apparel trade in the 1990s. Turkey, North Africa, and Eastern European countries emerged as major suppliers to the European Union; Mexico and the Caribbean Basin as major suppliers to the United States; and China as the dominant supplier to Japan (ibid. Gereffi,2002).

World trade in apparel and textiles continued to be regulated by the Multi-Fiber Arrangement (MFA), which had restricted imports into certain markets (basically the United States, Canada, and Western Europe) since 1974. Two decades later, agreement was reached to phase out the MFA’s quota system by 2005, and to further reduce tariffs (which averaged 7% to 9% in the major markets). As of 2002, some warned that the transition to the post-MFA world could prove enormously disruptive for suppliers in many exporting and importing countries, and might even ignite demands for “managed trade.” There was also potential for protectionism in the questions that nongovernmental organizations and others in developed countries were posing about the basic legitimacy of “sweatshop trade” in buyer-driven global chains such as apparel and footwear (see Ghemawat/Nueno, 2006, p.2).

Figure 14: Landed Costs of a Large Men's Shirt in Spain (Illustrative)

Manufactured in Spain		Manufactured in Asia	
Fabric costs	€17.20	€25.32	Purchasing costs
Other input costs	€13.25	€1.49	Transportation costs
Labor costs	€11.79	€2.28	Rehandling costs
Total	€42.24	€29.09	Total

Source: Ghemawat/ Nueno, 2003.

3.4. Cross-Border Expansion

By looking at the physical flows of apparel from factories in exporting countries to retailers in importing countries the trading companies had traditionally played the primary role in providing this service. They continued to be important cross-border intermediaries, although the complexity and the specialization of their operations seemed to have increased over time. Thus, trading companies derive the greatest percentage of their turnover from apparel by setting up and managing multinational supply chains for retail clients. For example, a down jacket's filling might come from china, the outer shell fabric from Korea, the zippers from Japan, the inner lining from Taiwan, and the elastics, label, and the other trim from Hong Kong. Dying might take place in South Asia and stitching in China, followed by quality assurance and packaging in Hong Kong. The product might then be shipped to the United States for delivery to a retailer such as GAP or The limited, to whom credit risk matching, market research, and even design services might also be supplied (ibid. p.2).

Outsourcing the production of apparel that one sold under the own brand name, is another strategy addressing the growing competition in the apparel sector and created a new breed of middlemen, the branded marketers. Hennes and Mauritz, the Swedish retailer, is a good example, as you will see further on.

Other types of cross-border intermediaries could be seen as forward or backward integrators rather than as pure middlemen. Branded manufacturers, like branded marketers, sold products under their own brand names through

one or more independent retail channels and owned some manufacturing as well. Some branded manufacturers were based in developed countries (e.g., U.S.-based V.F. Corporation, which sold jeans produced in its factories overseas under the Lee and Wrangler brands) and others in developing countries. In terms of backward integration, many retailers internalized at least some cross-border functions by setting up their own overseas buying offices, although they continued to rely on specialized intermediaries for others (cf. p.3).

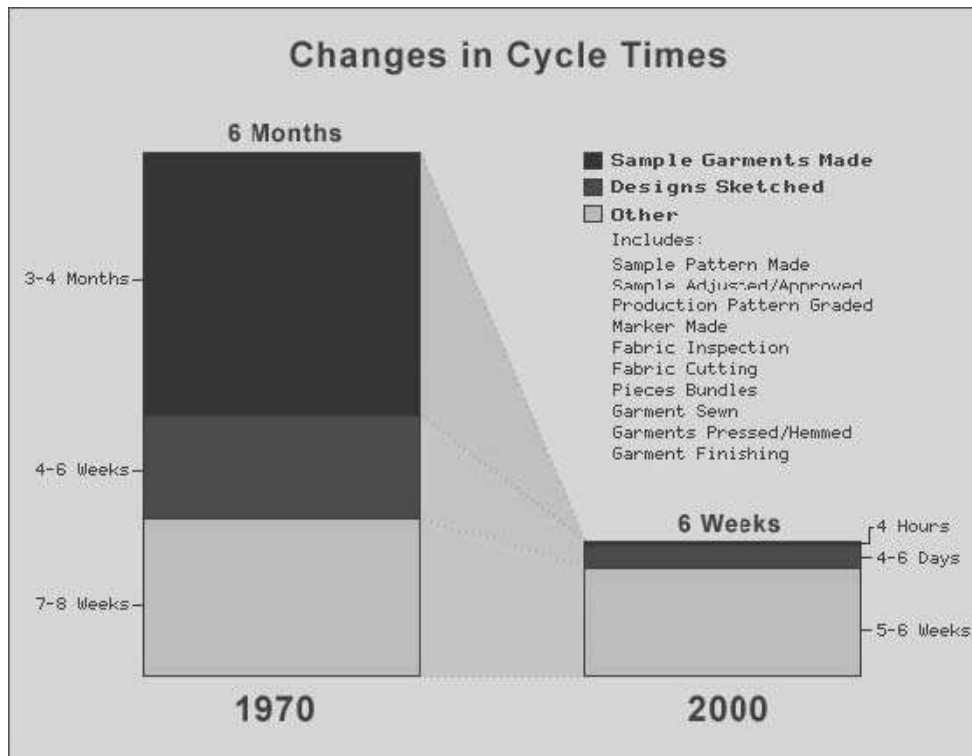
3.5. Retailing Strategies

Irrespective of their cross-border strategy it is evidently seen, that retailer played an important role in shaping imports into developing countries: thus, the direct imports by retailers accounted for half of all apparel imports into Western Europe (ibid. Scheffer, 1994). The increasing concentration of apparel in major markets was thought to be one of the key drivers of increased trade. In the United States, the top five chains came to account for more than half of apparel sales during the 1990s, and concentration levels elsewhere, while lower, also rose during the decade. Increased concentration was generally accompanied by displacement of independent stores by retail chains, a trend that had also helped increase average store size over time. By the late 1990s, chains accounted for about 85% of total retail sales in the United States, about 70% in Western Europe, between one-third to one-half in Latin America, East Asia, and Eastern Europe, and less than 10% in large but poor markets such as China and India (see Kearney in Newsweek, 2001).

Larger apparel retailers had also played the leading role in promoting quick response (QR), a set of policies and practices targeted at improving coordination between retailing and manufacturing in order to increase the speed and flexibility of responses to market shifts, which began to diffuse in apparel and textiles in the second half of the 1980s. QR required changes that spanned functional, geographic, and organizational boundaries but could help retailers reduce forecast errors and inventory risks by planning assortments closer to the selling season, probing the market, placing smaller initial orders and reordering more frequently, and so on. QR had led to significant compression of cycle times (see **figure 15**), enabled by improvements in information technology and

encouraged by shorter fashion cycles and deeper markdowns, particularly in women's wear (see Hammond/Kelly in Ghemawat/ Nueno, 2003).

Figure 15: Cycle Time Compression through Quick Response



Source: Ghemawat/Nueno, 2004

Apparel retailing chains from Europe had been the most successful at cross-border expansion, although the U.S. market remained a major challenge. Their success probably reflected the European design roots of apparel—somewhat akin to U.S.-based fast food chains' international dominance—and the gravitational pull of the large U.S. market for U.S.-based retailers (Ghemawat/ Nueno, 2003).

3.6. General Apparel Market and Customer Trends

Differences in market size reflected significant differences in per capita spending on apparel as well as in population levels. Per capita spending on apparel tended to grow less, than proportionately with increases in, per capita income, so that its share of expenditures typically decreased as income

increased. Per capita spending was also affected by price levels, which were influenced by variations in per capita income, in costs, and in the intensity of competition (Euromonitor, 2001).

There was also significant local variation in customers' attributes and preferences, even within a region or a country. Just within Western Europe, for instance, one study concluded that the British sought out stores based on social affinity, that the French focused on variety/quality, and that Germans were more price-sensitive. Differences between regions were even greater than within regions: Japan, while generally traditional, also had a teenage market segment that was considered the trendiest in the world on many measures, and the U.S. market was, from the perspective of many European retailers, significantly less trendy with a few regional exceptions (Child/Heywood/Kliger, 2002, p.11-13). There seems now to be higher cross-border homogeneity within the fashion sector. It now seemed to move much more quickly as people, especially young adults and teenagers, with ever richer communication links reacted to global and local trends, including other elements of popular culture (e.g., desperately seeking the skirt worn by the rock star at her last concert).

3.7. The European Apparel and Textile Market

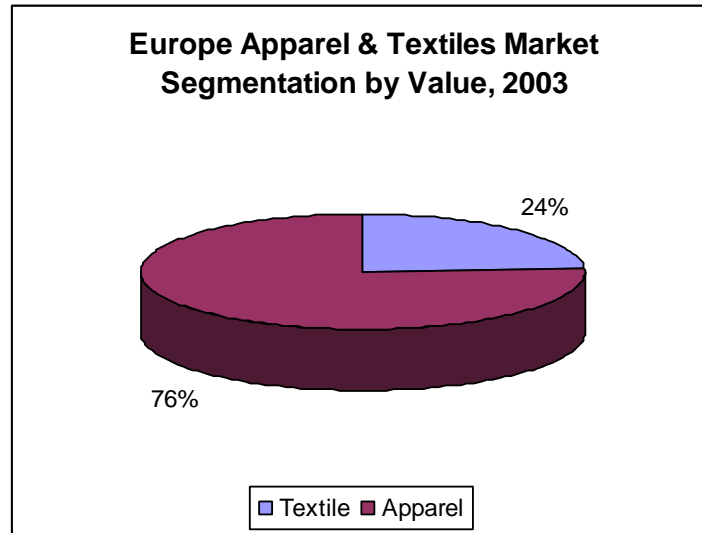
The European fashion industry is facing a lot of challenges in the last recent years. Following a difficult period from 1999 until 2003 in which the market registered had barely grown in sales numbers, according to the consultancy Datamonitor, the European apparel market is seeing now sales rising as consumer confidence is revived with the improved economic climate. The experts disagreed about the key reasons for the recession a few years ago. They point to several different causes, such as declining consumer spending, high competition in the sector, and especially production from Asian countries.

Pedro Nueno, professor at the IESE and founder of the China Europe International Business School, told *Expansión* in 2005, the Spanish business daily that "Europe has spent all these years with a tranquil sense that their competitors were never going to arrive."

The leading revenue source for the European apparel and textiles market in 2003 was the apparel sector, which accounted for almost 76% of the market's

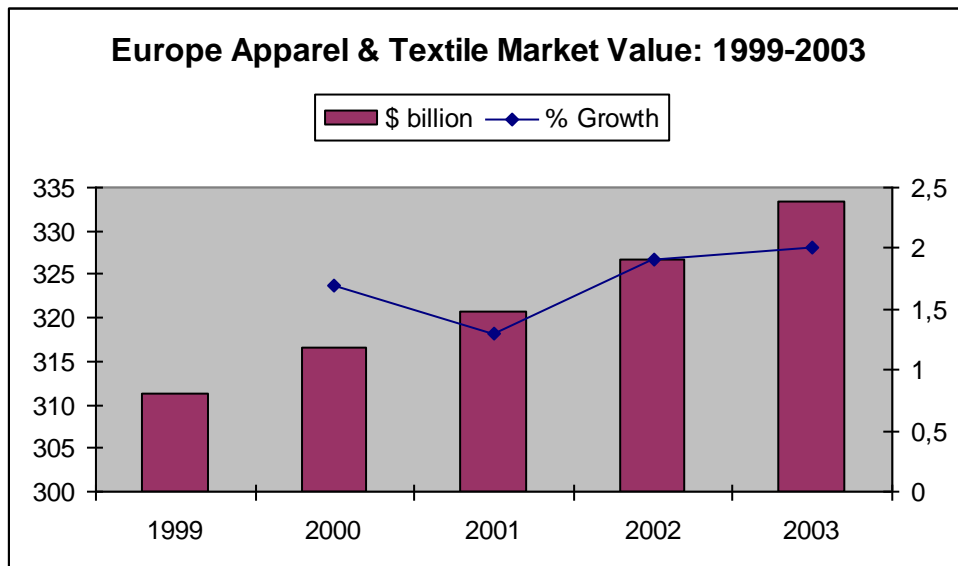
value. In value terms, this sector was worth \$253.23 billion in 2003. The textiles sector reached a value of \$80.05 billion in 2003, equivalent to 24.02% of the market's value (see **Figure 16 and 17**).

Figure 16



Source: Datamonitor 2004

Figure 17



Source: Datamonitor 2004

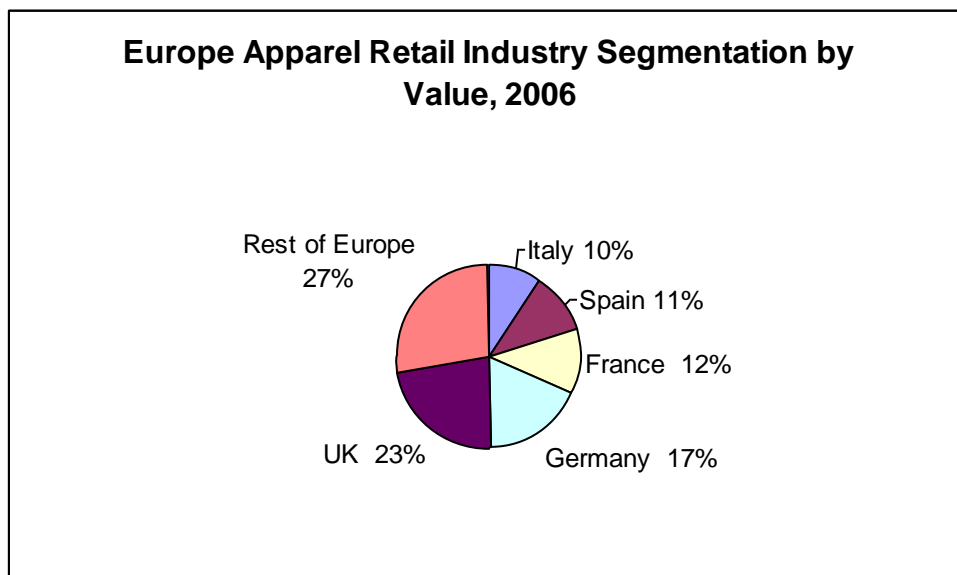
Following that difficult period due to economic downturn, the European apparel market was seeing sales rise as consumer confidence was revived with

a improved economic climate and higher growth rates. Brands such as H&M and Zara have been able to expand despite the difficult conditions due to their constant innovation, low cost, frequent short-term collections and product quality. Across Europe there has been a shift towards discount retailers such as Matalan, Metro AG and others.

On the other hand, mid-priced retailers such as Marks and Spencer have had to battle for their share of the market. For example, Marks and Spencer was overtaken in August 2004 as the UK's biggest apparel retailer by supermarket giant Asda, which is owned by the world's largest retail store Wal-Mart. Asda's market share reached 9.4% whilst Marks and Spencer's share of the market fell to 9.1%. Marks and Spencer is attempting to regain market share by revamping its image and responding more closely to the demands of consumers.

As already mentioned above, the vast majority of textile companies in Europe are small to medium sized enterprises. However a sizeable proportion of Europe's textiles come from a small number of large scale producers, such as Inditex, H&M or Benetton.

Figure 18



Source: Datamonitor

The European apparel industry generated total revenues of \$260.1 billion in 2006, this representing a compound annual growth rate (CAGR) of 1.2% for

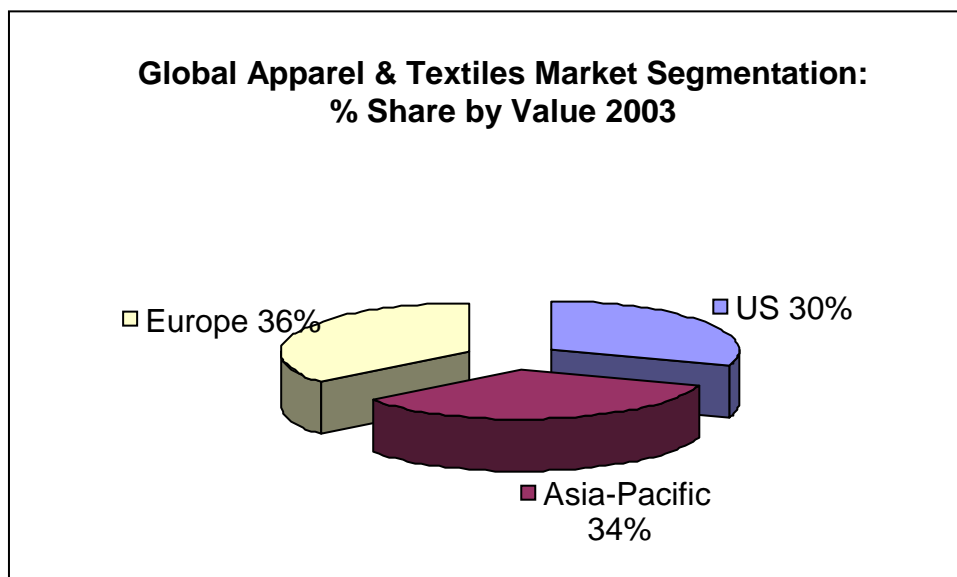
the period spanning 2002-2006. In comparison, the United States and Asia-Pacific industries grew with CAGRs of 1.9% and 4.4% over the same period, to reach respective values of \$295.5 billion and \$213.3 billion in 2006.

The womenswear segment was the European industry's most lucrative in 2006, generating total revenues of \$147.2 billion, equivalent to 56.6% of the industry's overall value. The menswear segment contributed revenues of \$85.7 billion in 2006, equating to 32.9% of the industry's aggregate revenues.

FORECAST

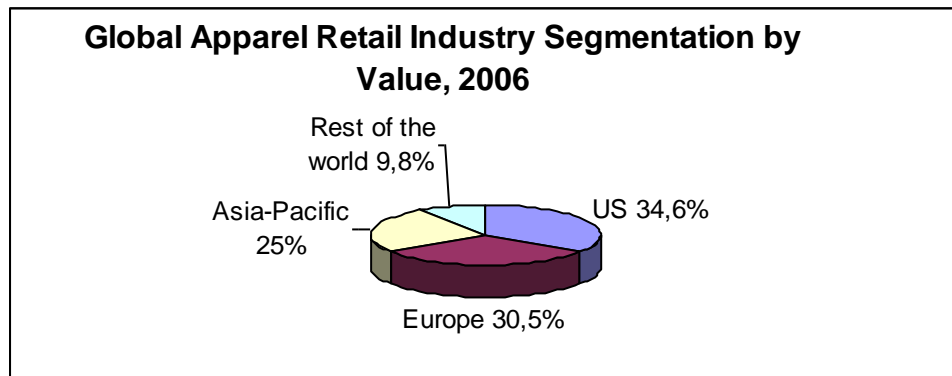
In 2011, the European apparel retail industry is forecast to have a value of \$295,2 billion, an increase of 13,5% since 2006. The compound annual growth rate of the industry in the period 2006-2011 is predicted to be 2,6% (Datamonitor,2006).

Figure 19



Source: Datamonitor 2004

Figure 20



Source: Datamonitor 2006

3.7.1. The EU quota limits for Chinese textile imports

The European textile industry is facing ever-increasing competition from textile manufacturers in the Asia-Pacific region. In 2008 the Agreement on Textiles and Clothing (ATC) is expired, and with it the quota system for international trade in textiles and clothing is no longer be used to govern international textiles trade. This announced the EU's executive arm in October 2007. The textiles quota agreement with Beijing was imposed on fears that Chinese imports were flooding the European market. China accounted for 23.8% of the EU market in 2007, according to Euratex, the producers' lobby group.

China agreed on a replacing of the quotas by a textile import "double checking system" that will track both the issuing of export licences in China and the importation of goods into the EU, a move meant to prevent European textile makers from being overrun once trade limits expire at the end of this year. Although imports of these goods will be closely monitored, their level of import will not be restricted by this arrangement, Peter Mandelson, the EU's Trade commissioner said. Furthermore he expects European textile producers to enjoy the same "equal opportunity and fair treatment" in the Chinese market that Chinese producers, which manufacture at a fraction of the price because of dramatically lower labour and production costs, receive in Europe. He said a system of joint monitoring means predictability for EU producers and traders as

well as a clear picture of future developments as the EU makes the final step to free global trade in textiles and clothing.

The E.U. and the U.S. both suspended restrictions on Chinese textile imports already once in 2005. An avalanche of imports followed in some categories accompanied by savage price cuts in just a few months after all trade restrictions were removed. Tens of millions of clothing items were blocked at European ports. Bowing to pressure from domestic manufacturers, the E.U. agreed to extend the quotas until 2008. The U.S. decided to keep its quotas in place until 2009.

Medium size Entrepreneurs believe the double-checking surveillance system will be of little use unless it prevents the surge in imports from China to the EU that took place following the lifting of international quotas in 2005. They also want new safeguard measures to be enforced, covering product categories specified by Member States. New trade barriers to slow textile and clothing imports include safeguard or anti-dumping measures if there is evidence of damage to the EU industry.

According to the commission, the joint surveillance system will cover eight categories of textiles and clothing from China, namely T-shirts, pullovers, men's trousers, blouses, dresses, bras, bed linen and flax yarn (Dow Jones International News, 2007).

As a result from the liberalisation of the importation, it is likely that textiles manufacturers from the Asia-Pacific region will further strengthen their position within the European textiles market while the Europe textile industry fears a wipe out by the surge in imports from China. The region's top producers, namely China, Taiwan and South Korea, as well as a second tier of rising regional powers, particularly India, Indonesia and Thailand will continue to increase their market share. Competition between the Asia-Pacific countries is also expected to increase (Datamonitor, 2004). As Neil Kearney, general secretary of the International Textile, Garment and Leather Workers' Federation mentioned in January at the Davos meeting 2008, the possibility of meltdown in the textile sector is very great, with the biggest impact of course being on the new member states, like Rumania and Bulgaria.

In the first few weeks of the year 2007 European imports from China of some categories such as shirts, underwear and knitted goods had risen by

1,000 percent, although it would be two or three months before a clear picture emerged, Kearney said. European textile producers have said they will watch the import data, and if justified, ask the European Commission to impose new restrictions on Chinese imports. That could trigger another row among EU countries, some of which favour more limits on imports from countries like China while others say such moves are protectionist (ef. The Guardian, 2007).

But European importers also welcomed the new textile agreement cautiously. "We welcome the fact that quotas have ended, but the double checking system will put administrative burden on our members, and on importers and retailers," Stuart Newman, a spokesman for the Foreign Trade Association (FTA) representing EU importers. He said the introduction of the monitoring system was at least a better choice than the retention of quotas as pressed for by EU textile producers and some member states.

Michael Jennings, a commission spokesman for trade, described the new system as basically data collection and double check. "We will be sharing information with the Chinese side. It's a good opportunity for us to monitor together," he said in the Agence France Press. Meanwhile, Jennings warned the double checking system will not exclude the possibility of using special trade protection measures again if a surge of imports is monitored, which may replay the scene in the 2005 textile trade friction.

Newman said they will advise their members not to buy all the products from China, but look elsewhere to avoid a surge in imports. "I don't think the monitoring system itself will affect the trade flow, but I think importers will be more cautious about importing from China than it was in 2005," he said in the Agence France Presse, in October 2007.

Figure 21: The arguments on the EU quota ending

Pro	Contra
<ul style="list-style-type: none"> - Opportunity of monitoring with the Chinese (sharing information) - Importers also welcome the new regulation - Importers will be more cautious about importing from China than it was in 2005 - The monitoring system will not affect the trade flow - New trade barriers to slow textile and clothing imports include safeguard or anti-dumping measures 	<ul style="list-style-type: none"> - Fear of Chinese imports flooding the European market - The Asia-Pacific region will further strengthen their position within the European textiles market - Double checking system puts administrative burden on members of the EU, and on importers and retailers. - Medium size Entrepreneurs believe the double-checking surveillance system will be of little use

Instead of complaining about the situation, the European garment industry cannot afford to stand on the sidelines simply watching the Asian competition. One way to deal with competition, as Isabel Díez Vial, professor of strategic management at the Complutense University of Madrid notes, is to lower your prices, “which implies relocating production in order to reduce production costs so you can lower prices.” But the strategy with the greatest potential to help textile companies to break free of Asian competition, she believes, is to “try to offer something different in order to establish brand reputation” (Wharton article, 2005).

3.8. The Asian-Pacific Apparel & Textile market

The Asia-Pacific apparel market has been grown steadily over the last few years, with the Indian and Chinese markets achieving rapid growth since their WTO membership.

The market reached a value of \$319.62 billion in 2003, having grown with a compound annual growth rate (CAGR) of 3.4% in the 1999-2003 period. This growth was higher than that of the global market itself, leading to the Asia-

Pacific market's global share increasing by 1.6 percentage points between 1999-2003, accounting for 34.2% of the global market by the end of this period.

The leading revenue source for the Asia-Pacific apparel and textiles market in 2003 was the apparel sector, which accounted for just over 67% of the market's value. In value terms, this sector was worth \$215.61 billion in 2003. The textiles sector reached a value of \$104.01 billion in 2003, equivalent to 32.54% of the market's value.

The region's top producers, namely China, Taiwan and South Korea, as well as a second tier of rising regional powers, particularly India, Indonesia and Thailand will continue to increase their market share.

FORECAST

Going forward, the market is expected to experience higher growth rates. By 2008, the market is forecast to reach a value of \$416.68 billion, which equates to a CAGR of 5.4% in the 2003-2008 period, higher than the global market (Datamonitor, 2004).

3.9. The U.S. Apparel Retail market

The United States apparel retailing industry generated total revenues of € 191,9 billion in 2006, this representing a compound annual growth rate (CAGR) of 1.9% for the period spanning 2002-2006. In comparison, the European and Asia-Pacific industries grew with CAGRs of 1.2% and 4.4% over the same period, to reach respective values of € 168,9 billion and €138, 5 billion in 2006.

The womenswear segment was the United States industry's most lucrative in 2006, generating total revenues of €111,8 billion, equivalent to 58.3% of the industry's overall value. The menswear segment contributed revenues of \$ 67,07 billion in 2006, equating to 35% of the industry's aggregate revenues.

FORECAST

The performance of the industry is forecast to accelerate, with an anticipated CAGR of 2.6% for the 2006-2011 period expected to drive the

industry to a value of €218.6 billion by the end of 2011. Comparatively, the European and Asia-Pacific industries will grow with CAGRs of 2.6% and 4.5% respectively over the same period, to reach respective values of €191,6 billion and €172,3 billion in 2011.

3.10. The Spanish Apparel Retail Market

Spain has enjoyed a period of outstanding retail growth since 2002. It has significantly outperformed its Western European peers, delivering growth more comparable to new EU member states. Spain was the second largest contributor to EU retail growth over the past five years, behind France.

The Spanish apparel retailing industry generated total revenues of \$28.7 billion in 2006, this representing a compound annual growth rate (CAGR) of 0.9% for the period spanning 2002-2006. In comparison, the United Kingdom and Italian industries grew with a CAGR of 3,1% and a compound annual rate of change of (CARC) -1.5% over the same period, to reach respective values of €60.3 billion and \$24.6 billion in 2006.

The womenswear segment was the Spanish industry's most lucrative in 2006, generating total revenues of \$14.2 billion, equivalent to 49.4% of the industry's overall value. The menswear segment contributed revenues of \$9.5 billion in 2006, equating to 33.1% of the industry's aggregate revenues (see Datamonitor, Spanish Apparel Retail Market, 2006).

SUPPLIER POWER

Though Spain is the fifth largest retail economy in Europe, the market is characterised by some features more typically associated with immature retail economies. Average store sizes are small and the domestic apparel manufacturing industry contains a predominance of SMEs (Small and Medium Entrepreneurs). Also, the ability of major retailers to source from foreign manufacturers means that the effective supplier fragmentation is made greater. As international trade liberalizes, supplier power in the Spanish industry is decreased through competition from manufacturers in low-wage regions.

Additionally, 'vertical retailers' such as Zara (see further down) operate their own design and production facilities, although some of their production is outsourced conventionally. Switching costs for retailers are not very high: they include the risk that choosing a low-cost supplier involves a more extended supply chain that may not be able to cope with sudden changes in demand in an industry susceptible to changes in fashion. Suppliers are further weakened by their lack of diversity, which makes the apparel retail industry highly important to their business. Retail is also labor-intensive, and the existence of a minimum wage in Spain slightly increases the power of suppliers of labor. Overall, there is moderate supplier power in this industry.

In fact the Spanish apparel industry has stagnated in terms of value in the recent years which makes it uninviting to new entrants. Substitutes for apparel retail include buying direct from manufacturers, which is facilitated by the growth of online sales.

DOMESTIC COMPETITION

The Spanish apparel retail industry is increasingly concentrated. Major increases in capacity may be fairly costly to smaller players, if they require the outlay of opening additional outlets, less so if they can be accomplished by taking on more staff on a flexible basis.

Spain's textile industry is also suffering under the pressure from the Asian competition and at the end of the day a significant number of medium sized companies are disappearing in Spain since they can't compete anymore against low prices from companies in Morocco, Tunisia and Asia.

For example the Spanish shoemaker industry suffered a lot under the Chinese pressure. The Spanish shoe-manufacturing industry was concentrated chiefly in the Valencia area and in the Balearic Islands. According to a Spanish government study, 90 percent of the country's 2,100 shoe factories had fewer than 50 employees, and a large part of the industry operated in the underground economy.

Mrs. Torres Garcia, a owner of a small shoe factory and member of a trade union in Valencia, admits that competition from Asia is acute, but she believes that Spanish manufacturers are ready to accept the challenge. "China

now exports more cheap products to Spain, making it harder for us to survive; but we possess sophisticated skills for which there is no substitute. Also, it mustn't be forgotten that China is shaping up to become an excellent consumer market for Europe-based manufacturers" (Businessweek, 2006).

BUYER POWER

Retailers can differentiate themselves quite strongly through the styles of clothing offered. However, buyers have negligible switching costs. Where brand loyalty exists, it is more likely to be to the designer than the retailer, although some labels also have their own retail operations, and there is a large market for non-designer apparel. The position of retailers at the end of the value chain, making it impossible for them to integrate forwards, means that they are obliged to offer buyers what they want, in an industry often subject to unpredictable changes in fashion. There are therefore, as already mentioned, mainly a few big retailers in Spain, such as Inditex, which dominate the market.

The average spending on clothing in 1999 represented 5.5% of the total consumption in Spain. In 2005 it represented 5.4%. At the same time there has been, for example, in Italy, France and Germany a 10% reduction, said Isabel Díez Vial, professor of strategic management at the Complutense University of Madrid in 2005.

Nowadays, consumers prefer to do their shopping in major clothing chains rather than in shops that sell several different brands at once." The growing concentration in major retailers is not a favourable trend for the sector. Consumers are no longer shopping as much in the multi-brand shops," so Díez. Independent shops have lost 10% of the market, and their market share has dropped from 36% in 1999 to 32% in 2005. Meanwhile, the big chains grew by 21 % over the same period, according to the consultants at Euromonitor.

In 2006 the Spanish apparel retailing industry generated total revenues of \$28.7 billion, this representing a compound annual growth rate (CAGR) of 0.9% for the period spanning 2002-2006. In comparison, the United Kingdom and Italian industries grew with a CAGR of 3.1% and a compound annual rate of change of (CARC) -1.5% over the same period, to reach respective values of \$60.3 billion and \$24.6 billion in 2006.

The womenswear segment was the Spanish industry's most lucrative in 2006, generating total revenues of \$14.2 billion, equivalent to 49.4% of the industry's overall value. The menswear segment contributed revenues of \$9.5 billion in 2006, equating to 33.1% of the industry's aggregate revenues (Datamonitor 2006).

FORECAST

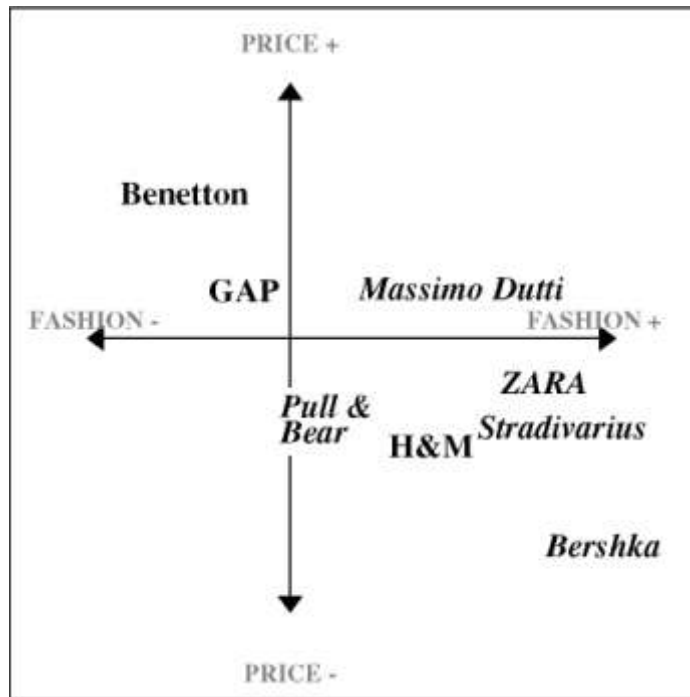
The performance of the industry is forecast to accelerate, with an anticipated CAGR of 1.6% for the 2006-2011 period expected to drive the industry to a value of \$31 billion by the end of 2011. Comparatively, the United Kingdom and Italian industries will grow with CAGRs of 3.3% and 1.7% respectively over the same period, to reach respective values of \$71 billion and \$26.8 billion in 2011.

4. Key International and national competitors

Although Inditex has to compete with local retailers in most of its markets, analysts consider its three closest comparable competitors to be The Gap, H&M, and Benetton. The Gap and H&M were the two largest specialist apparel retailers in the world, ahead of Inditex, until the last years. In 2006 Inditex outperformed the first time his competitors. As mentioned above, the competitors owned most of their stores but outsourced all production. Benetton, in contrast, had invested relatively heavily in production, but licensees ran its stores. The three competitors were also positioned differently in product space from Inditex chains (see **figure 22** for positioning map).

On the Spanish textile market the Grupo Cortefiel is the only mentionable competitor.

Figure 22: Product positioning



Source: Adapted from Morgan Stanley Dean Witter, "Inditex," 1998.

4.1. Hennes and Mauritz (H&M)

Hennes and Mauritz, founded as Hennes in Sweden in 1947, is Inditex's closest competitor. The Swedish retailer has expanded substantially in recent years and today it has around 1500 stores spread across 28 countries. Germany is the biggest market, followed by the UK and Sweden. The chain sales show a strong performance too. They increased by 15 percent in 2007 compared to the year before, according to their full year report given on their homepage.

For the financial year 2007/2008 a net contribution of 190 stores is planned. Most of the stores are planned to open in the USA, Spain, the United Kingdom, France, Germany and Italy. In collaboration with the franchisee Alshaya new stores openings are planned in four new markets in 2008: Egypt,

Saudi Arabia, Bahrain and Oman. Preparations for the opening in Tokyo, Japan during the autumn 2008 are ongoing.

H&M is also preparing for the establishment in Russia. The first stores is planned to open in 2009 in Moscow. The Russian market is deemed to be very interesting with great potential for long-term growth. The initial focus will be Moscow and its surroundings. H&M's target is to increase the number of stores with 10-15 percent each year and at the same time increase sales in existing stores, according to their full year report 2006/2007. In January 2008 Internet sales in Germany and Austria were supplemented with catalogue sales.

While H&M is considered Inditex's closest competitor, there are a number of key differences in their strategy. The Swedish chain's business outsources all its production, half of it to European suppliers, implying lead times that were good by industry standards but significantly longer than Zara's. As at Zara, these items move quickly through the stores and are replaced often by fresh designs. But H&M also keeps a large inventory of basic, everyday items purchased by Asian suppliers. H&M is already warning, that, since 30% of the chain's clothing is purchased from China, the re-imposition of quotas on textile and apparel imports from China will make it harder to buy clothing in that country. That could have a negative influence on the group's operating profits.

Another potential disadvantage mentions Jane Coffrey, a fund manager at Royal London Asset Management in the International Herald Tribune. He indicates that Inditex and H&M "are targeting two different markets. H&M is on the younger and sort of cheaper end of the market. Perhaps one of the reasons that they haven't done so well is that this is a much more competitive part of the market."

H&M had been quicker to internationalize, generating more than half of its sales outside its home country by 1990, 10 years earlier than Inditex. The Swedish Retailer also had adopted a more focus approach, entering one country at a time –with an emphasis on northern Europe- and building a distribution centre in each one. Unlike Inditex, H&M operates single format, although it marketed its clothes under numerous labels or concepts to different customer segments. H&M tends also to have lower prices than Zara (which H&M displayed prominently in store windows), engaged in extensive advertising like most other apparel retailers, employ fewer designers and refurbished its

stores less frequently. Another strategy of H&M is to contract high-fashion designers like Stella McCartney and Karl Lagerfeld to create limited, one-time collections, which generally sell out within days.

The company recorded revenues of approximately \$9,917.3 during the fiscal year ended November 2006, an increase of 11.7% over 2005. For the fiscal year 2006, Eurozone excluding Finland, the company's largest geographic market, accounted for 54.8% of the total revenues.

4.2. The Gap

U.S.-based Gap Inc., has been founded in 1969 and had achieved excellent growth and profitability through the 1980s and much of the 1990 with what was described as an "unpretentious real clothes stance," comprising extensive collections of T-shirts and jeans as well as "smart casual" work clothes. The Gap production was internationalized –more than 90% of it was outsourced from outside the United States- but its store operations were U.S.-centric.

According to a report by BBVA, the Spanish bank, Gap is a multi-platform brand based on a single image. The Gap Inc. group consists of three other labels that were launched after the success of the main brand GAP, which is Old Navy, Banana Republic and the latest launched Online Shoe Shop Pimperline. In 2007 the company's fourth traditional retail concept, Forth & Towne was discontinued after an 18-month trial period in June 2007 and the 19 stores were closed.

The business model of Gap Inc. is similar to that of H&M, focusing on its own design and sales but outsourcing its production to others. Its positioning is less tied to style than that of Inditex, and its pricing is less aggressive (Nueno/Ghemawat, 2006).

International expansion of the store network had begun in 1987, but its pace had been limited by difficulties findings locations markets such as the United Kingdom, Germany, and Japan (which accounts for around 80% of store locations outside North America), adapting to different customer sizes and preferences, and dealing with what were, in many cases, more sever pricing pressures than in the United States. By the end of the 1990s, supply chains that

were still too long, market saturation, imbalances and inconsistencies across the company's different labels and the lack of a clear fashion positioning had started to take a toll even in the U.S. market.

Some years ago, the chain indiscriminately opened shops in several European countries. It was forced to close some, including several in Spain. In 2004, Gap sold all of its German operations to H&M. A failed attempt to reposition to a more fashion-driven assortment triggered significant writedowns for the chain, a massive decline of stock price and the loss of value from 22% in the rankings of 2006, created by Interbrand, the brand consultant. Even though the brand is still in the top 60 of the world most known brands and still ahead of Zara, the group lost 12 places in 2006 and suffered a massive loss in value, from \$8,195 to \$6,416 million. The struggling in sales is an ongoing development while the chain is searching for its fashion identity (Business Week, 2006).

The company recorded revenues of \$15,943 million during the fiscal year ended January 2007, a decrease of 0.5% over 2006. For the fiscal year 2007, the US, company's largest geographical market, accounted for 84.9% of the total revenues. Gap generates revenues through four business divisions: Gap (40.8% of the total revenues during fiscal year 2007), Old Navy (42.8%), Banana Republic (16%) and Other (0.4%).

4.3. Benetton Group

Benetton, founded in 1965 in Treviso, Italy, emphasized on brightly coloured knitwear as their core business strategy. It achieved prominence in the 1980s and 1990s for its controversial advertising and as a network organization that outsourced activities that were labor-intensive or scale-insensitive to subcontractors. But Benetton actually invested relatively heavily in controlling other production activities. Where it had little investment was downstream: it sold its production through licensees, often entrepreneurs with no more than \$100,000 to invest in a small outlet that could sell only Benetton products. While the group was fast at certain activities such as dyeing, it looked for its retailing business to provide significant forward order books for its manufacturing business and was therefore geared to operate on lead times of several months.

Benetton's strategy appeared to reach saturation by the early 1990s, and profitability continued to decrease through the rest of the 1990s. In response, it started of a strategy of narrowing product lines, further consolidating key production activities by grouping them into "production poles" in a number of different regions, and expanding or focusing existing outlets while starting a program to set up much larger company-owned outlets in big cities. About 100 such Benetton megastores were in operation by the end of 2001, compared with a network of approximately 5,500 smaller, third-party-owned stores (see (Ghemawat/ Nueno, 2003).

The company markets distinctive casual and leisure-wear under the following brand names: the casual "United Colors of Benetton" adult and children lines, the fashion oriented "Sisley", "Playlife" leisure-wear and "Killer Loop" street-wear. Benetton is traditionally known for knitwear and casual clothing in a wide array of colours, featuring Italian design and projecting a youthful image. Benetton's philosophy has been to offer product lines on a worldwide basis that have sufficient breadth to accommodate the needs of many markets.

Benetton also licenses its trademarks for products manufactured and sold by others, including fragrances and cosmetics, watches, sunglasses, housewares and other fashion accessories, which complement its product lines. The group's operations are divided into two primary sectors: apparel and other activities. The apparel division includes casual and sport clothing and complementary products such as accessories and shoes. The other activities of the group are composed mainly by the sale of raw materials, semi finished products, industrial and advertising services and income and expenses from real estate activity.

Benetton coordinates the distribution of its casual wear collections in 120 countries principally through approximately 56 independent sales representatives, each of whom is assigned a geographical territory, although Benetton also owns or leases some stores directly. The representatives receive commissions on sales in their territories and, sometimes, own stores that sell Benetton products. Benetton's manufacturing operations are based in its own factories and those of a network of subcontractors.

Benetton has 17 factories operating for the apparel and textile segments, 12 of which are located in Italy, 2 in Croatia, and one each in Tunisia, India and Hungary (see Datamonitor/Benetton Group SpA, 2006).

The company recorded revenues of approximately \$2,400.6 million during the fiscal year ended December 2006, an increase of 8.3% over 2005. The operating profit of the company was approximately \$226.1 million during fiscal year 2006, an increase of 14.6% over 2005. The net profit was \$157 million in fiscal year 2006, an increase of 11.6% over 2005.

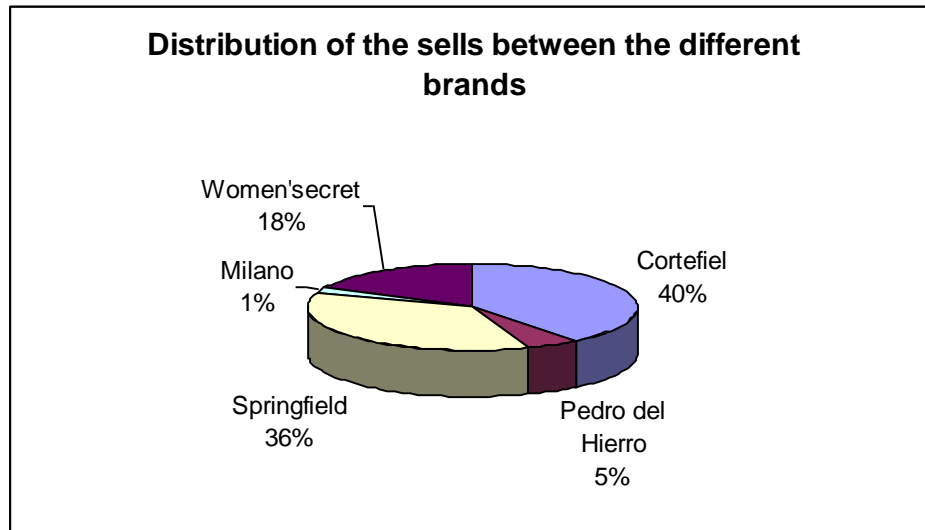
4.4. Grupo Cortefiel

Looking at the Spanish retailing market, the Grupo Cortefiel is the only noteworthy competitor of Inditex. The company was founded in Spain in 1880 as a small family business in the centre of Madrid and evolved continuously their capacities. They closed the performance in 2006 with 1.255 stores in 47 countries, reaching a turnover of 1.040 millions of Euros which is an increase of about 100 million Euros compared to 2005.

Since the Iberian Peninsula is the main market for Cortefiel it accounts for more than 74% of the sales. It is the second largest apparel retailer and main competitor of Inditex in Spain, which has 38% of their business volume within the Spanish market. The group contains at the moment five labels and one chain of outlet: Cortefiel, Springfield, Women´s Secret, Pedro del Hierro, Milano and Fifty Factory Outlet (see **figure 23**).

The growing importance in the Spanish market one could realize, when in 1991 Inditex founded Pull & Bear, as Alonso Álvarez explains, in order to compete with Springfield over the target group for 14 to 28 year old customers.

Figure 23



SOURCE: Based on the 2006 report of Grupo Cortefiel.

The Grupo Cortefiel is currently not a serious international competition for Inditex. Therefore the company has made a tremendous effort by investing \$27,27 million in 2006 in international expansion. Recently, in November 2007, the group opened the first store in Singapur, which reinforces the expansion strategy, that the group has in the Asian market. The chain is also applying the strategy of the vertical integration, as explained before, into their core business (Annual report Cortefiel, 2006).

5. Inditex

The inventing of a unique brand reputation seems to have been the maxim of the Inditex group. The Zara brand has become one of the world's leading brands, ranking with Coca Cola, Microsoft and Disney, and above such brands as Levi's and Armani. Inditex managed to enhance his market shared value at 14%, compared to 2005. Zara advanced in 2006 from the 77th to the 73th place in the rankings created by Interbrand, the brand consultant, as published in the Business Week. The closing retailer is so popular that it was

opening more than a store a day in 2006. According to Interbrand, the Zara brand was worth \$4,235 billion in 2006. It was the first time in 2005 that a Spanish company has made this international listing (Business Week, 2006).

In March 2007 Inditex was crowned “Retailer of the Year” at the World Retail Awards, which took place during the first ever World Retail congress in Barcelona. Ian McGarrigle, congress director of the World Retail Congress, commented, that “Inditex has achieved massive commercial success both in domestic and international markets. In Recent years, the brand has gone from strength to strength, with its shares oversubscribed some 26 times over when it first listed on the Spanish stock exchange, making them a clear front runner [...]”.

As already seen above the sales and revenue numbers indicate the major success of the business strategy of Inditex. A key reason for the growth was that the company opened 448 new stores in 2005, by 2009 they want to have established 4000 new stores (see **figure 10**). That brings up the questions if Inditex has discovered any groundbreaking innovations? In the following paragraph we will therefore analyse the Business system of Zara, which is the largest and most internationalized of Inditex’s chains (it counts for more than 60% of the sales in Inditex). Finally, the competition analysis will conclude with a SWOT analysis of the Inditex business system in general and a personal opinion.

4.1. Zara’s Business Strategy

Zara is a unique retail proposition, and is Inditex’s strongest concept. Zara’s philosophy is to under-produce inexpensive high fashion apparel, thereby encouraging frequent purchases and limiting its own markdowns. While the Zara concept has some similarities to H&M, Mango or Topshop, it offers a higher degree of fashion more quickly and frequently than its competitors.

The business system, which Zara practices, may seem questionable, if not downright crazy, when taken individually. Zara defies most of the current conventional wisdom about how supply chains should be run. The company can design, produce, and deliver a new garment and put it on display in its stores worldwide in a time span of just 15 days. Such a pace is unheard of in the

fashion business, where the designers typically spend months planning for the next season.

Because Zara can offer a large variety of the latest designs, quickly and in limited quantities, it collects 85% of the full ticket price on its retail clothing, while the industry average is 60% to 70%. As a result, it achieves higher net margin on sales than its competitors; in 2001, for example when Inditex's net margin was 10.5%, Benetton's was only 7%, H&M was 9.5, and Gap's was near to zero. But despite the assumption that, in order to run a superresponsive supply chain, Inditex probably discovered any groundbreaking innovations, the strategy relies on a reinforcing system built on three principles:

The first concentrates on **closing the communication loop** between the end users and the upstream operations of design, procurement, production and distribution and try to be as quickly and easily as possible.

Stick to a rhythm across the entire chain is the second one. Thus, it spends money on anything that helps to increase and enforce the speed and responsiveness of the chain as a whole.

Leverage your capital assets to increase supply chain flexibility is the third principal. Zara has made major capital investments in production and distribution facilities and uses them to increase the supply chain's responsiveness to new and fluctuating demands. It produces complicated products in-house and outsources the simple ones (see Ferdows/Lewis/Machuca, 2004).

5.1.1. Close the Loop and create Exclusivity

For most clothing stores, running out of best-selling items is a disaster, but Zara encourages occasional shortages to give its products an air of exclusivity. "We don't want everyone to wear the same thing," Chief Executive Pablo Isla says. For the customers who did walk in through the door, the rapid turnover obviously created a sense of "This green shirt fits me, I better buy now, if not, I will lose my chance" (see Business week, 2006).

Such a retail concept depends on the regular creation and rapid replenishment of small batches of new goods. Zara's designers create approximately 40,000 new designs annually, from which 10,000 are selected for

production. Some of them resemble the latest couture creations. But very often Zara beats the high-fashion houses to the market and offers almost the same products, made with less expensive fabric, at much lower prices.

The introduction of new products in small quantities, ironically, reduces the usual costs associated with running out of any particular item. Zara makes a virtue out of stock-outs. The empty racks do not drive customers to other stores because shoppers always have new things to choose from.

The fast-fashion approach also helps Zara reduce its exposure to fashion failure. The company produces batches of clothing in such small quantities that even if it brings out a design that no one will buy - which happened during an unseasonably warm autumn in 2003- it can cut its losses quickly and move on to another trend. Items that were slow to sell were immediately removed by the store manager which had the incentives from the headquarters to do so.

Unsold items account for less than 10% of stock, compared with the industry average of 17% to 20% (see above).

Returns to the distribution centre were either shipped to and sold at other Zara stores or disposed of through a small, separate chain of close-out stores near the distribution centre. The target was to minimize the inventories that had to be sold at marked-down prices in Zara stores during the sales period that ended each season.

This “fast fashion” system depends on a constant exchange of information throughout every part of Zara’s supply chain – from customer to store managers, from store managers to designers and the production staff, from buyers to subcontractors, from warehouse managers to distributors, and so on. The problem of too much bureaucracy that can slow down communication between departments does not exist. Zara’s organization, operational procedures, performance measures, and even its office layouts are all designed to make information transfer easy (see Ghemawat/Nueno, 2004,).

Organisational proximity

Zara’s system consists of an approximately five-story, 500,000-square-meter distribution centre located in Arteixo, close to La Coruña, in a remote corner in Galicia, and much smaller satellite centres in Argentina, Brazil and

Mexico that consolidated shipments from Arteixo. Zara's single, centralized design and production centre is attached to Inditex's headquarter. It consists of three spacious halls – one for women's clothing lines, one for men's, and one for children's. Unlike most companies, which try to excise redundant labour to cut costs, Zara runs three parallel, but operationally distinct, product families. Accordingly, separate design, sales, procurement and production-planning staffs are dedicated to each clothing line. A store may receive three different calls from La Coruña in one week from a market specialist in each channel; a factory making shirts may deal simultaneously with two Zara managers, one for men's shirts and another for children's shirt. Though it's more expensive to operate three channels, the information flow for each channel is fast, direct and unaffected by problems in other channels- making the overall supply chain more responsive.

Unlike other companies that separate their design staffs, Zara's 200 designers sit right in the midst of the production process. Split among the three lines, these mostly twenty something designers work next to the market specialist and production planners. Large circular tables are giving room for impromptu meetings. The physical and organizational proximity of the three groups increase both the speed and the quality of the design process. Designers can quickly check initial sketches with colleagues. Market specialists, who are in constant touch with store managers (and many of whom have been store managers themselves), provide quick feedback about the look of the new designs and suggest possible market price points. Procurement and production planners make preliminary, but crucial, estimates of manufacturing costs and available capacity. These cross-functional teams can examine prototypes in the hall, choose a design, and commit resources for its production and introduction in a few hours, if necessary (see above).

Flat communication and Quick response

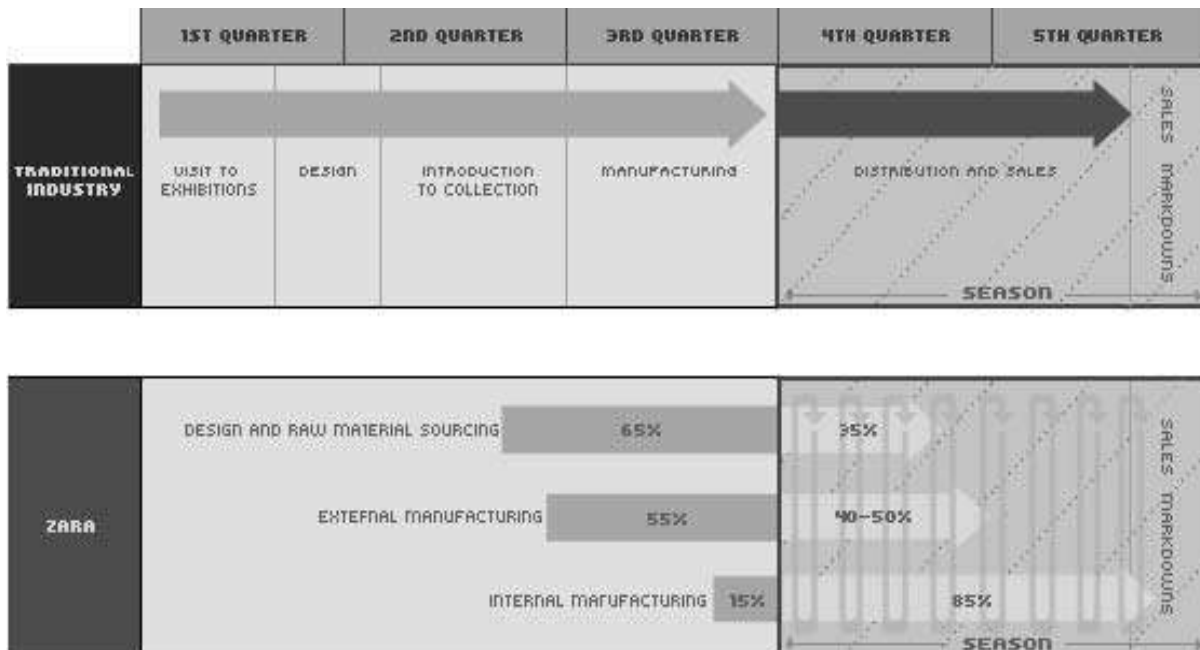
Inditex selects carefully about the way it deploys the latest information technology tools to facilitate these informal exchanges. Customized handheld computers support the connection between the retail stores and La Coruña and connects through PDAs regular (often weekly) the store managers and the

market specialists to transmit all kind of informations, such hard data as orders and sales trends but also such soft data as customer reactions and the “buzz” around a new style. Zara’s flat organization ensures that important conversations do not fall through the bureaucratic cracks.

Once the team selects a prototype for production, the designers refine colours and textures on a computer-aided design system. If the item is to be made in one of Zara’s factories, they transmit the information directly to the relevant cutting machines and other systems in that factory. Bar codes track the cut pieces as they are converted into garments through the various steps involved in production (including sewing operations usually done by subcontractors), distribution, and delivery to the stores, where the communication cycle began.

As one can see the Zara business model is based on a very short product life cycle. Ortega’s simple philosophy of reaping profits through end-to-end control of the supply chain could be directly applicable as well in other industries. The short cycle time reduces working capital intensity and facilitated continuous manufacture of new merchandise, even during the biannual sales periods, letting Zara commit to the bulk of its product line for a season much later than its key competitors (see **figure 24**). Thus, Zara undertook 35% of product design and purchases of raw material, 40%–50% of the purchases of finished products from external suppliers, and 85% of the in-house production *after* the season had started, compared with only 0%–20% in the case of traditional retailers. In this way, Zara avoids costly overproduction and the subsequent sales and discounting prevalent in the industry (cf. Ghemawat/Nuevo, 2004).

Figure 24: Product Commitments: Zara vs. Traditional Industry



Source: Inditex, in Ghemawat/Nueno, 2004.

Merchandising without Advertising

The high traffic in the stores circumvents the need for advertising: Zara spent only 0.3% of its sales on media advertising, compared with 3% to 4% its rivals spend. Its advertising was generally limited to the start of the sales period at the end of the season, and the little that was undertaken did not create too strong a presence for the Zara brand. The Zara name had nevertheless developed considerable drawing power in its major markets. Thus by the mid-1990s, it had already become one of the three clothing brands of which customers were most aware in its home market of Spain, with particular strengths among women between ages of 18 and 34 from households with middle to middle-high income (ef. Ghemawat/Nueno, 2003).

Zara's drawing power reflected the freshness of its offerings, the creation of a sense of scarcity and an attractive ambience around them, and the positive word of mouth that resulted from that. Freshness was rooted in rapid product turnover, with new designs arriving in each twice-weekly shipment. Devout Zara shoppers even knew which days of the week delivery trucks came into stores,

and shopped accordingly. About three-quarters of the merchandise on display was changed every three to four weeks, which also corresponded to the average time between visits given estimates that consumers in central London, for example, visited the chain 17 times a year, compared with an average figure of three to four times a year for competing stores (ibid. 2003). Attractive stores, outside and inside, also helped. Luis Blanc, one of Inditex's international directors, summarized some of these additional influences:

“We invest in prime locations. We place great care in the presentation of our storefronts. That is how we project our image. We want our clients to enter a beautiful store, where they are offered the latest fashions. But most important, we want our customers to understand that if they like something, they must buy it now, because it won't be in the shops the following week. It is all about creating a climate of scarcity and opportunity” (see Crawford in Factiva online, 2001).

The interior design and the centralization of the stores is surely a key marketing element of the group to promote his market image. The store is seen as a cautiously cared design space, created as a touching point between the demands of clients and the continuous and quick demands of the company.

Stores were occasionally relocated in response to the evolution of shopping districts and traffic patterns. More frequently, older, smaller stores might be relocated as well as updated (and typically expanded) in new, more suitable sites. The average size of the stores had gradually increased as Inditex improved the number of its customers. For example, the average size of Zara stores opened during the year 2001 was already 1,376 square meters. In addition, Zara invested more heavily and more frequently than key competitors in refurbishing its store base, with older stores getting makeovers every three to four years (see Ghemawat/Nueno, 2006).

5.1.2. Stick to a Rhythm

Zara has a very high-controlled supply chain – much more than its competitors. Instead of relying on outside partners, the company manages all design, warehousing, distribution, and logistics functions itself, outsources a

smaller portion of its manufacturing than its peers and owns nearly all its retail shops. This level of control allows Zara to set the pace at which products and information flow and is comparable to the predictable rhythm that resembles Toyota's "*Takt time*" for assembly. By carefully timing the whole chain, Zara avoids the usual problem of rushing through one step and waiting to take the next.

The precise rhythm begins in the retail shops. The store managers in Spain and southern Europe place orders twice weekly. There are deadlines that are strictly enforced: If a store misses the Wednesday deadline, it has to wait until Saturday.

Order fulfilment follows the same strict rhythm. The central warehouse in La Coruña prepares the shipment for every store, usually overnight. Once loaded onto a truck, which are run through third parties, the racks and boxes are rushed to the next airport or directly to the European stores. All trucks and connecting airfreights run on established schedules, like a bus service to match the retailers' twice-weekly orders. Shipments reach most European stores in 24 hours, U.S. stores in 48 hours, and Japanese shops in 72 hours, so store managers know exactly when the shipments will come in. Once the trucks arrive, the rapid rhythm continues. Since all of the items have already been prepriced and tagged, and most are shipped hung up on racks, store managers can put them on display the moment they are delivered. The need of control at this stage is minimized because the shipments are 98.9% accurate with less than 0, 5% shrinkage.

This fast and transparent rhythm aligns all the players in Zara's supply chain. It guides all daily decisions made by managers and reinforces the production of garments in small batches, though larger batches would reduce costs. It justifies the higher transportation costs by air and truck, though ships and trains would lower distribution costs. And it provides a rationale for shipping some garments on hangers, though folding them into boxes would reduce freight charges.

Zara has shown that by maintaining a strict rhythm, it can carry fewer inventories (about 10% of sales, compared to 14% to 15% at Benetton, H&M and Gap); maintain a higher profit margin on sales; and grow revenues (see Ferdows/Lewis/ Machuca, 2004).

5.1.3. Leverage your Assets

Zara turns upside down the conventional wisdom, shared by many stock analysts and management gurus, to keep risk low in a highly volatile market by owning fewer assets. Zara buys 40% of its fabric from another Inditex firm, Comditel, and it purchases its dyestuff from yet another Inditex company. So much vertical integration is clearly out of fashion in the apparel industry; rivals like Gap and H&M, for example, own no production facilities. But Zara's investment in capital assets increases actually the organization's overall flexibility. Owning production assets gives Zara a level of control over schedules and capacities that, its senior managers argue, would be impossible to achieve if the company were entirely dependent on outside suppliers, especially ones located on the other side of the world.

The simpler products, like sweater in classic colours, are outsourced to suppliers in Europe, North Africa and Asia while more complicated products, like women's suits in new seasonal colours are reserved for the own factories. When Zara produces a garment in-house, it uses local subcontractors for simple and labour-intensive steps of the production process, like sewing. These are small workshops, each with only a few dozen employees, and Zara is their primary customer.

Zara can increase production of specific garment quickly and conveniently because it operates many of its factories for only a single shift. These highly automated factories can operate extra hours if they have to react to seasonal or unforeseen demands. Specialized by garment type, Zara's factories use sophisticated just-in-time systems, developed in cooperation with Toyota, that allow the company customize its processes and exploit innovations. Like Benetton, Zara uses "postponement" to gain more speed and flexibility, purchasing more than 50% of its fabrics undyed so that it can react faster to midseason colour changes.

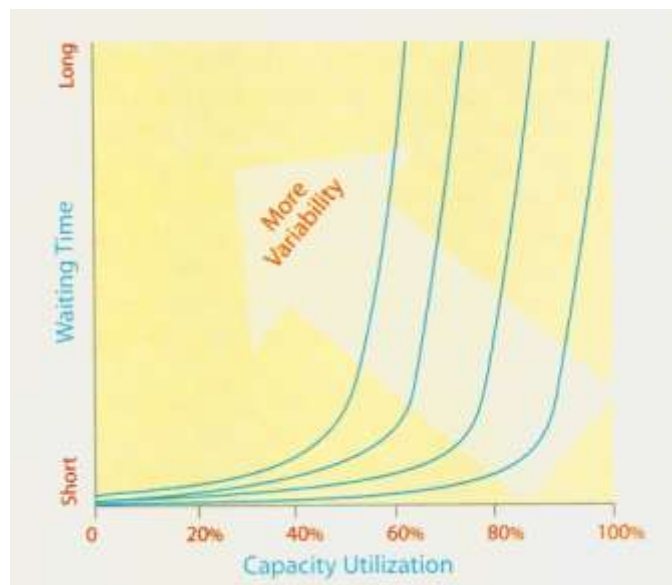
Extra Capacity for fast Response

All the finished products pass through the distribution centre in Arteixo, where approximately 2.5 million items are shipped per week. There, the

allocation of such resources as floor space, layout and equipment follows the same logic that Zara applies to its factories. Storing and shipping many of its pieces on racks, for instance, requires extra warehouse space and elaborate material-handlings equipment.

But even though there's ample capacity in this distribution center during most of the year, Zara opened a new 120,000-square-meter logistic center in Zaragoza, northeast of Madrid, in October 2003. This generous acquaintance with capacity follows a fundamental rule of queuing modes, which says that waiting time shoots up exponentially when capacity is tight and demand variable (see **figure 25**). By tolerating lower capacity utilization in its factories and distribution centres, Zara is able to react to peak or unexpected demands faster than its rivals.

Figure 25: Extra Capacity for fast Response



Source: Harvard Business Review, 2004, p. 151

Surprisingly, these practices do not waste investment money. Thanks to the responsiveness of its factories and distribution centres, Zara has dramatically reduced its need for working capital. Because the company can sell its products just a few days after they are made, it can operate with negative working capital. The cash released helps to offset the investment in extra capacity (see Ferdows/Lewis/ Machuca, 2004).

The Inditex business model is nothing particular new or radical. Each step outlined above, could improve the responsiveness of any company's supply chain. But together, they can create a powerful force because they reinforce one another. When a company is organized for direct, quick, and rich communications among those who manage the supply chain, it's easier to set a steady rhythm and a strict schedule for moving information and goods quick through the supply chain. When the company focuses its own capital assets on responsiveness, it becomes simpler to maintain this rhythm. These principles applied over many years, put together the major success of Zara's practices.

5.2. SWOT Analysis of the Inditex Group

Strengths	Weaknesses
<ul style="list-style-type: none"> - Highly vertically integrated structure - Leverage of the assets 	<ul style="list-style-type: none"> - Weak international presence of other brand concepts - Over dependence on the European market
Opportunities	Threats
<ul style="list-style-type: none"> - Growth in online retail spending - Continual growth in the retail apparel industry - Growth in Asian retail sector - Multi-concept format as an assurance for growth 	<ul style="list-style-type: none"> -New avenues being utilized by competitors - Increasing labour costs in Europe - Consumer Slowdown in Spain - Too fast Expansion raises costs and image problems

Source: Datamonitor, 2007 & own laboration

Strengths

Highly vertically integrated structure

As already explained above the competitive advantage for Inditex is a higher flexibility in sourcing than most of its competitors, which gives it an edge over the others. Thus, his highly controlled supply chain up until the costumer and their ability to react very quickly to the needs of the costumer. It can also protect its gross margin better than its competitors which have longer lead times.

Leverage of the Assets

Inditex's investment in capital assets increases actually the organization's overall flexibility, whilst most of the other companies do not because of the highly volatile textile market.

Weaknesses

Weak international presence of other brand concepts

The company has not been laying stress on opening the other stores apart from Zara in other locations, because of which the revenue generation is highest from Zara stores as compared to other stores. The revenues of the group might see an increase in the near term if equal attention is paid to other outlets in other regions. Dependence on a single brand limits the company's revenues and growth.

Over dependence on the European market

The company is heavily dependent on Spain and the European markets for its revenues, thus making it highly vulnerable to economic, political or social change taking place in these markets (especially Spain).

Opportunities

Growth in online retail spending

Online retail spending is expected to increase from \$102.1 billion in 2006 to \$144 billion in 2010, a CAGR of 10%. By 2010, 71% of online users are likely to shop over the internet as compared to 65% in 2006. By 2010, the internet will influence about half of total retail sales, compared to 27% in 2006. The company doesn't sell its products online. Growth in online retail spending would enable the company to earn more revenues from its online websites. US online retail sales are expected to grow annually by 17% through 2008. Inditex markets its products through www.inditex.com.

A positive outlook in the US online and catalogue retail market would boost the company's revenues.

Continual growth in the retail apparel industry

Women's retail clothing sales in the US are forecast to expand 2.1% per year during 2004-2009 to reach \$ 137.5 billion. In addition, the intimates and sleepwear segments is expected to advance at an above-average pace through 2009. The sales are primarily expected as a result of a shift towards dressier apparel, sports clothes and premium fabrics. The positive outlook for the apparel sector is likely to increase the demand for the company's offerings and help boost its top line growth.

Growth in Asian retail sector

Countries such as China offer a large and growing market for consumer goods. Rising income levels and sustained economic growth is expected to improve the purchasing power of consumers in these countries. In the period 2006-10, retail clothing sales are forecast to grow at a CAGR of 11.9% in China. Inditex forayed into the Chinese market by opening Zara store for the first time in Shanghai and Beijing in 2007.

Entering China offers the company an opportunity to diversify its revenues, which are heavily concentrated in Europe.

Multi-concept format as an assurance and growth opportunity

The concept of homewares represents a good growth opportunity for clothing retailers to diversify out of clothing and make style and price credentials count in another sector, as Inditex already showed with the Zara Home brand. There has opened a gap in the price-focused young fashion and of the homewares market, since furniture retailers operate in a tough market and focus on the harder edges (Marketline, 2007).

Just as well the new retail concept specializing in accessories, footwear and other fashion items that will be launched in the second half of 2008 under the name Uterque. With strong growth in accessories globally, the new concept is a welcome addition to the group's multi-format strategy. Should it prove successful, it is highly likely to be rolled out internationally, similar to the group's other brands.

Threats

New avenues being utilized by competitors

The company's competitors are determined to seek out cheaper manufacturing locations in order to offer consumers lower prices. This is resulting in a shift in apparel manufacturing from Turkey to Eastern Europe. The main advantage of Zara's vertical integration is not its internal production, but the frequent feedback from store staff to design. Only if this feedback is truly effective, will Zara be able to sustain higher manufacturing costs than its competition, in the future. Furthermore, the competitors are reducing their lead-time, and if the competitors overtake Zara in this regard, then Inditex would face a reduction in revenues and loss of market share. Additionally, competitors across the globe are watching the company's successful logistical makeover and adopt slowly Zara's methods and are changing their own practices.

Increasing labour costs in Europe

Europe is the primary market for Inditex, accounting for nearly 84% of the company's revenues. The region has been witnessing an increase in labour costs. For example, the UK government increased the adult minimum wage rate from £5.05 to £5.35 per hour in October 2005. The rate for those aged 18 to 21

years will be increased from £4.25 to £4.45 per hour and the rate for workers aged 16-17 years would increase from £3 to £3.3 per hour. An increase in labour costs could adversely impact the company's margins (see Datamonitor, 2008).

Consumer Slowdown in Spain

The consumer slowdown is adding pressure. Inditex shares have fallen nearly 24% in the last 12 months, in large part because investors are worried about an economic downturn in Spain, where Inditex generates over a third of its \$12 billion in annual sales.

Too fast Expansion raises costs and image problems

With more outlets in Asia and the U.S., replenishing stores twice a week, will be increasingly complex and expensive. Production close to home could lose its benefits when a growing number of stores is far away. The Zara model is limited as long as it has one production and distribution base. For now, the company makes up for some of the cost by charging more for goods sold overseas. That could lead to an inconsistent brand image.

II. Study of the Social Pressure on the Textile Market through the Clean Clothes Campaign and others

6. The Origin of Workers' Movements

The way to a CSR Strategy is long but it has no return. Societies, in a slow but unstoppable way, demand the companies' ethic behaviour, the responsible consumption is winning supporters and the demand of a fair trade is increasing. This has made that companies in the textile sector start caring about their suppliers, because they don't want to make business with people who doesn't respect the workers rights.

Since 1910 workers have been fighting for decent labours conditions. Nowadays developed countries almost fulfil all the conditions established in the ILO, but in many undeveloped countries there is still a lack of workers rights, and people work in really hazardous conditions.

As the ILO Director-General said when referring to the Decent Work Agenda, “Decent Work must be Safe Work, and we are a long way from achieving that goal”. The protection of workers against injury and disease has always been a key issue for the ILO since it was founded in 1919, and many of its activities have been directed to that end. Many Conventions, Recommendations and other instruments on occupational safety and health (OSH) have been adopted over the years, and these have helped to improve working conditions throughout the world.

We could say that a decent work has to have at least the following characteristics:

- Regulation of the hours of work including the establishment of a maximum working day and week;
- Regulation of labour supply, prevention of unemployment and provision of an adequate living wage;
- Protection of the worker against sickness, disease and injury arising out of his employment;
- Protection of children, young persons and women;
- Provision for old age and injury, protection of the interests of workers when employed in countries other than their own;
- Recognition of the principle of equal remuneration for work of equal value;
- Recognition of the principle of freedom of association;
- Organization of vocational and technical education, and other measures.

These characteristics are completely ignored in many undeveloped countries. South America, Asia and Africa, are the ones that has the highest index of people working in deplorable conditions. The Asiatic continent is the one with the highest percentage of workers working under bad conditions. Most of the people working in this situation are women and children.

Globalisation has increased the commercial competitiveness, also in the textile sector. Companies have no frontiers and look forward to maximize their benefits by decreasing costs. Big firms and fashion chains externalize the part of the process more intense in the human capital (the cut, tailoring and the garment end) and put it where the labour costs are more low. The geographic mobility of this part of the process of production makes a strong pressure over the suppliers, always afraid of not getting the next order.

The commercial strategy answers to the principle of maximum flexibility of the bottom link of the production chain. The firms want to increase their market quota and to achieve it they change their shops windows frequently, they elaborate designs that respond to the immediate tastes of consumers and offers prices more competitive.

The pressure that fashion chains make over their suppliers to produce quality clothes in a low price and quicker, displace towards the workers, most of them women, in long working day, bad paid and without rights.

Most of the women that sew the cloths that we wear can't not cover the basic necessities of their families they neither have absence for disease or maternity. They don't have the trade union right, they don't have a labour contract and few of them has a sanitary insurance and they can't not think about a pension for their old age. Their labour situation translates into a high familiar, social and healthy cost.

7. Women and Child labour

The problem of bad working conditions in undeveloped countries is an issue that affects all the population, but it focused specially in to main groups: women and child.

7.1. Child Labour

According to the International Labour Organization (ILO), one of every six children works in the world. Approximately 218 million children aged 5 to 17 are

involved in child labor world wide and that 126 million children work in hazardous conditions.

The highest numbers of child labourers are located in the Asia/Pacific region, where there are 122 million working children and the highest proportion of child labourers is in Sub Saharan Africa, where 26% of children (49 million) are involved in work.

In many developed countries, it is considered inappropriate or exploitative if a child below a certain age works, excluding household chores or schoolwork. An employer is often not allowed to hire a child below a certain age. This minimum age depends on the country. For example, child labor laws in Spain set the minimum age to work in an establishment without parents' consent and restrictions at age 16.

In 90s every country in the world except for Somalia and the United States became a signatory to the Convention on the Rights of the Child (CRC). The CRC provides the strongest, most consistent international legal language prohibiting illegal child labour; however it does not make child labor illegal. The CRC contains several articles that refer specifically refer to the issue of child labour. Article 32 protects children from economic exploitation and dangerous labour.

...States Parties recognize the right of the child to be protected from economic exploitation and from performing any work that is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral or social development.

Child labor is still widely used today in many countries, including India and Bangladesh. Even though country law states that no child under the age of 14 may work, this law is ignored. Children as young as 11 go to work for up to 20 hours a day in sweatshops making items for US companies, such as Hanes, Wall-mart, and Target. They get paid as little as 6 and a half cents per item. One of the largest companies in Bangladesh is Harvest Rich, who claim not to use child labor, although the children only got 1\$ per week.

7.1.1. Campaigns against child labour

Child labor was approached from the beginning of the Industrial Revolution. For example, Karl Marx called for "Abolition of children's factory labor in its present form" in his Communist Manifesto. Concern has also been raised about the buying public's moral complicity in purchasing products assembled or otherwise manufactured in developing countries with child labor. Others have raised concerns that boycotting products manufactured through child labor may force these children to turn to more dangerous or strenuous professions, such as prostitution or agriculture. For example, a UNICEF study found that 5,000 to 7,000 Nepalese children turned to prostitution after the United States banned that country's carpet exports in the 1990s. Also, after the Child Labor Deterrence Act (1992) was introduced in the US, an estimated 50,000 children were dismissed from their garment industry jobs in Bangladesh, leaving many to resort to jobs such as "stone-crushing, street hustling, and prostitution, all of them more hazardous and exploitative than garment production. The study says that boycotts are "blunt instruments with long-term consequences that can actually harm rather than help the children involved.

Today there are several industries and corporations which are being targeted by activists for their use of child labor.

A UK investigative report in October of 2007 found children as young as nine working sixteen to nineteen hours a day without pay in India producing Gap for Kids clothing. One child, Jivaj, from West Bengal told The Observer that some of the boys in the sweatshop had been badly beaten. 'Our hours are hard and violence is used against us if we don't work hard enough. This is a big order for abroad, they keep telling us that. "Last week, we spent four days working from dawn until about one o'clock in the morning the following day. I was so tired I felt sick," he whispers, tears streaming down his face. "If any of us cried we were hit with a rubber pipe. Some of the boys had oily cloths stuffed in our mouths as punishment".

Friedman's theory, an important economist, posited that the absence of child labor is a luxury that many poor states cannot yet afford, and that to prohibit it is to prevent the overall economic growth necessary to eventually relieve a society of the need for child labor. In poor societies he claimed that

children will be put to work by their families by whatever means necessary. Moreover, in addition to possibly increasing family costs on a depleted family income, in the absence of a public school program, parents may have to forego potential labor time and income, to care for their children.

According to Thomas DeGregori, an economics professor at the University of Houston, in an article published by the Cato Institute, a libertarian think-tank operating in Washington D.C., "it is clear that technological and economic change are vital ingredients in getting children out of the workplace and into schools. Then they can grow to become productive adults and live longer, healthier lives. However, in poor countries like Bangladesh, working children are essential for survival in many families, as they were in their own heritage until the late 19th century. So, while the struggle to end child labor is necessary, getting there often requires taking different routes -- and, sadly, there are many political obstacles."

7.2. Women Labour

Most female workers in developing countries, particularly in Asia-Pacific and Africa, *do not* have wage jobs. Female workers in these regions work mostly in agriculture, with a status of unpaid family worker. In Sub-Saharan Africa, the majority of the economically active female population is in agriculture (68%).¹ In Asia and the Pacific, this trend is more pronounced the lower the income level of the country, with about 78% of female workers in least developed countries in the region employed in agriculture.

Women throughout the world are denied human rights in the labor force with no effective redress. Governments turn a blind eye to illegal practices and enact and enforce discriminatory laws. Corporations and private individuals engage in abusive and sexist practices without fear of official condemnation or sanction. For example, job advertisements in Ukraine often specify "man" among the requirements for work in business and government agencies, and employers often deny women employment based on age and marital status and family status. Private manufacturing companies in Mexico, Guatemala, and Dominican Republic routinely oblige female job applicants to undergo

pregnancy exams as a condition of work and deny work to pregnant women. South African farm owners deny black women farm workers legal contracts, pay them less than men for similar work, and deny them maternity benefits. Guatemala's labor code denies live-in domestic workers — many of whom are indigenous women — equal rights under the labor code. Women are often the last chosen for retraining programs and the first to be fired, particularly in transitional economies and in economic recessions, when downsizing leads to discrimination. Sexual harassment and violence in the workplace are common and constant threats to working women's lives and livelihoods. Women migrant workers in Malaysia and Saudi Arabia are especially vulnerable to abuse, including trafficking and forced labor.

In 1989 when solidarity and women's organisations in the Netherlands and UK took up the case of a garment factory lockout in the Philippines. Women at this William Baird (UK) and C&A (NL) subcontractor were fired for demanding their legal minimum wage. During the year the workers picketed, groups in the Netherlands and UK continued campaigning. The Campaigning for "clean clothes" had started, taking up the demands of Southern women's groups and labour organisations. Having started in the Netherlands and the UK, the Clean Clothes Campaign (CCC) is now a Europe-wide network that has built up over the past seventeen years. This Europe-wide network is in turn part of a larger international network of trade unions and labour NGO's, both in producing and consuming countries, which strives to advance workers' rights worldwide.

The CCC is one of the most important movements in this sector and its repercussion reached the interest of lot of media at the private sector.

8. The Different Initiatives

8.1. The Clean Clothes Campaign



The Clean Clothes Campaign (CCC) aims to improve working conditions in the global garment industry and to empower workers, most of whom are

women, with the ultimate goal of ending the oppression, exploitation and abuse in this sector.

The CCC aims to achieve these objectives by:

1. Putting pressure on companies to take responsibility to ensure that their garments are produced under decent working conditions.
2. Supporting workers, trade unions and NGOs in producer countries.
3. Raising awareness among consumers by providing accurate information about working conditions in the global garment and sportswear industry, in order to mobilise citizens to use their power as consumers.
4. Exploring legal possibilities for improving working conditions, and lobbying for legislation to promote good working conditions and for laws that would compel governments and companies to become ethical consumers.



These women work at the Panarub factor in Indonesia; Production of football boots for adidas. Pho:OxfamAU

8.1.1. Urgent Action Appeals

There are various ways of putting pressure on companies. The Urgent Actions Appeals are actions taken, when a specific call for help comes in from workers in producer countries.

With the agreement of the workers, the campaign makes the particular violation of rights public, by posting it on the network of CCC websites internationally, asking for people to sign an e-card to be sent to the particular company explaining why they are not happy with what has happened. The CCC of course contacts the company in questions, ask them to react to the news, and give them the opportunity to put it right. They may also organise a press conference and press statement to release the news more widely.

8.1.2. Commissioning Studies or Reports



Working at the bottom of the global supply-chain in Cambodia

Other ways in which the CCC puts pressure on companies is by commissioning studies or reports on a certain theme, for example the '*Clearing the Hurdles*' report which has been released just recently, highlighting the terrible conditions which workers from factories producing sportswear in various

Asian countries are enduring. Companies spend millions on their brand image, and it is very important for them not to lose customers. Consumers therefore have considerable potential in influencing the decisions made by these companies, and how they work. By informing the general public, the CCC is therefore giving them the opportunity to exercise this potential. Other ways of informing the general public is through educational programmes, street actions, publicity, debates etc.

8.1.3. Actions taken by the CCC

The campaign network is facing two indomitable opponents in the next few years. After all, the two most notable campaigns are the campaign aimed at the Olympic Games in China and the campaign targeting the large multiple retailers, the Giants, whose extremely cost-conscious acquisition policies greatly restrict room for improvements in the garment industry.

Informing companies and industry associations

CCC also cooperated with various multi-stakeholder initiatives such as the Ethical Trading Initiative (ETI) and the Fair Wear Foundation (FWF) within a common project (JOIN), to further share their critique of social auditing, resulting in a newly developed 'assessment methodology' that was tested with 6 companies in the last 3 months of 2006 and to adaptations in methodology used by the Fair Wear Foundation.

Urgent appeals

In 2006 the CCC took up 34 new urgent appeals cases. These involved workers' rights violations in Cambodia, the Philippines, Thailand, India, Turkey, China, Bangladesh, Mexico, Indonesia and Malaysia. In 67% of these cases the CCC was contacted directly by trade unions



Indonesian factory worker housing

with a request to follow-up on the rights violations; 33% of those contacting the CCC were representatives of labour rights or other sorts of NGOs who were in direct contact with the workers or the workers' representatives.

The key rights violations in these cases were: violation of freedom of association, including illegal dismissal of union members; harassment including physical violence against union members; health and safety violations; non-payment of (full) compensation or wages owed; the misuse of temporary contracts; and violation of freedom of expression.

In 18 cases, the CCC has intensively followed up with companies about the labour rights violations taking place at their suppliers, including about 45 different companies. In other cases public authorities have been addressed with the urgent request to undertake action.

Rating and ranking database



At adidas supplier PT Panarub

The CCC continued its work on developing a database that allows rating companies against specific policy aspects. A framework for a pilot (including a questionnaire to gather information, guidance to those inputting the information in the database, and indicators) was developed and discussed in June, at the Rating & Ranking working group meeting. Given the fact that within the CCC network not all participating organisations consider rating and ranking of companies an appropriate task for the CCC, the working group decided during the meeting in June to restrict the project to the development of a database, of which as many parts as possible would be disclosed for public use. Other organisations would

then be able to use the content of the disclosed database for rating and ranking purposes.

8.1.4. Structure of the CCC

The CCC is a network organisation, made up of:

- European CCC coalitions: autonomous coalitions with NGOs (consumer, research, women's, fair trade and youth organisations, solidarity groups, churches, etc) and trade unions as members in European countries, each with a national secretariat.
- CCC 'projects', 'project groups' or 'task forces' in garment producing countries.
- An international partner network of NGOs, unions, individuals and institutions in most countries where garments are produced.
- A loose, informal network of organisations or coalitions that run similar campaigns in other consumer countries (ex. US groups, Fair Wear in Australia), several NGOs in European countries that do a lot of CCC related work and may one day establish a complete campaign (Ireland, Norway, Portugal) and the international trade union organisations.
- An international and a Dutch secretariat.

The Clean Clothes Campaign does not have a management staff. Every staff member is part of the collective decision making, which contributes to productivity and efficiency because team-members are fully informed and involved, and stand behind each decision since they were part of making it.

This also means that CCC is internally in line with the external values it promotes: grass-roots democratic organizing, participatory methods of research, workplace assessments, direct involvement of workers themselves in all processes established to promote their rights. All employees of the Clean Clothes Campaign are paid the same salary, regardless of their age, seniority or position within the organisation.

8.2. Setem Spain

Setem is a Spanish Federation of NGOs of international Solidarity, founded in 1968, which dedicates his independent work to sensitize the society for the disparity between the North and South and wants to accuse the causes for it, and promote a social transformation, individual as well as collective, in order to achieve a more equitable world.

The fields of action are:

- The awareness raising and the formation through courses, journeys, workshops, publications and campaigns.
- The promotion of alternatives, in first place by means of fair trade markets by campaigns, special programs and sales of products.
- The solidarity with organisations from the south through exchange and cooperation activities.

The clean clothes campaign in Spain is promoted and coordinated by the Setem Foundation since 1996. Setem participates as well in the Observatory of Corporate Social Responsibility, which was founded in 2003 by a group of organisations that were concerned about the image of the businesses in the society. The Observatory is founded with a clear vocation to create opinions, without any link to business interests, able to present innovative idea, true information, as well as proposals of reflection of CSR which generates positive impacts to the society.

The Observatory is an open and independent association which objective is to create a network that promotes participation and cooperation between social organisation and different countries.

In the case of Inditex, Setem bought, in 2001, 120 shares. Since then Inditex has been very active and created a CSR department. There is a fluid communication between the CSR department and Setem, as Annie Joh from Setem Madrid mentioned in an interview. According to the recommendation of the CCC Campaign, Inditex also joined ETI (Ethical Trade Initiative).

8.3. Fair Wear Foundation (FWF)

As a foundation, FWF supports and promotes good labour conditions in garment production. FWF was set up by various interested parties and stakeholders from the fashion industry.

Due to these various stakeholders FWF is also referred to as a Multi-Stakeholder Initiative (MSI). FWF distinguishes itself through this MSI approach. FWF is not only a collaboration between all sorts of parties from the fashion industry, but thanks to its MSI status it also gives extra credibility to those companies affiliated to FWF.

The objective of the FWF, work towards improving the labour conditions in factories that produce garments throughout the world. The basis of the collaboration between FWF and a member is the Code of Labour Practices. European fashion, industrial clothing and promotional garment companies can join FWF and become a member. Eight labour standards form the core of the Code of Labour Practices. Members of the FWF must comply with this Code of Labour Practices.

FWF verifies whether companies comply with the Code of Labour Practices. This makes a member more credible. In addition to this, FWF provides support. In this way FWF also shares its knowledge and (local) contacts with the member companies. Members therefore do not have to 'rediscover the wheel' for themselves and have access to information on local legislation, labour standards and culture. Members can also employ inspection teams that have been trained by FWF. The Foundation also has a complaints procedure that enables the workers at the factory to bring to light anonymously any abuses related to labour conditions (see FWF homepage).

8.4. The Maquila Solidarity Network

The Maquila Solidarity Network (MSN) is a labour and women's rights organization that supports the efforts of workers in global supply chains, to achieve improved wages and working conditions and a better quality of life.

Since 1994, they have been working in solidarity with women's and labour rights organizations in Mexico, Central America and Asia, promoting

greater respect for workers' rights through corporate campaigning and engagement, networking and coalition building, and policy advocacy. The fundamental aim of their work is to strengthen the capacity of civil society organizations in the North and South to challenge the negative impacts of industry restructuring in the global garment industry. The network promotes campaigns for global employment conditions with dignity, fair wages, healthy workplaces and communities, to improve the disparity between the North and South.

8.5. International Trade Union Confederation

It has been the historic role of trade unionism, and remains its mission, to improve the conditions of work and the life of workers and their families, and to strive for human rights, social justice, gender equality, peace, freedom and democracy.

More than ever in its history, confronted by unbridled capitalist globalisation, effective internationalism is essential to the future strength of trade unionism and its capacity to realise that mission. The Confederation calls on the workers of the world to unite in its ranks, to make of it the instrument needed to call forth a better future for them and for all humanity (see ITUC Homepage).

8.6. The International Textile, Garment & Leather Workers' Federation

The International Textile, Garment and Leather Workers Federation (ITGLWF) is an International Trade Secretariat bringing together 217 affiliated organisations in 110 countries.

- draw up policy guidelines on important issues for unions in the sectors and coordinate the activities of affiliates around the world;
- act as a clearing house for information of relevance to the daily work of unions in the sector;
- undertake solidarity action in support of unions in the sector whose trade union rights are being denied;

- run a programme of education and development aid to assist unions in developing countries in organising workers and educating their members to play an active role in their union;
- lobby intergovernmental organisations and other relevant institutions to ensure that the interests of workers in the sectors are taken into account in decisions made at international level (see homepage).

8.7. The Ethical Trading Initiative

The Ethical Trading Initiative (ETI) is an alliance of companies, NGOs and trade union organisations. They exist to promote and improve the implementation of corporate codes of practice which cover supply chain working conditions. Since Inditex joined the ETI, there is a more precise description of the structure and the work the ETI does, in the Social Dimension (see **12.7.2.**)

8.8. Global Compact

The Global Compact is a framework for businesses that is committed to align his operations and strategies with ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption . As the world's largest, global corporate citizenship initiative, the Global Compact is first and foremost concerned with exhibiting and building the social legitimacy of business and markets.

Business, trade and investment are essential pillars for prosperity and peace. But in many areas, business is too often linked with serious dilemmas, for example, exploitative practices, corruption, income equality, and barriers that discourage innovation and entrepreneurship. Responsible business practices can in many ways build trust and social capital, contributing to broad-based development and sustainable markets.

The Global Compact is a purely voluntary initiative with two objectives:

- Mainstream the ten principles in business activities around the world
- Catalyse actions in support of broader UN goals, such as the Millennium Development Goals (MDGs)

To achieve these objectives, the Global Compact offers facilitation and engagement through several mechanisms: Policy Dialogues, Learning, Local Networks and Partnerships projects.

The Global Compact (GC) is not a regulatory instrument that enforces or measures the behaviour or actions of companies. Rather, the GC relies on public accountability, transparency and the enlightened self-interest of companies, labour and civil society to initiate and share substantive action in pursuing the principles upon which the Global Compact is based on.

The GC involves all the relevant social actors: governments, who define the principles on which the initiative is based; companies, which actions seek to influence labour, where concrete process of global production takes place; civil society organizations, representing the wider community of stakeholders, and The United Nations, the world's only global political forum, as an authoritative convener and facilitator (see Global Compact).

8.9. Oxfam International

Oxfam International is a confederation of 13 organizations working together with over 3,000 partners in more than 100 countries to find lasting solutions to poverty and injustice. With many of the causes of poverty global in nature, the 13 affiliate members of Oxfam International believe they can achieve greater impact through their collective efforts.

Oxfam International seeks increased worldwide public understanding that economic and social justice is crucial to sustainable development. They strive to be a global campaigning force promoting the awareness and motivation that comes with global citizenship while seeking to shift public opinion in order to make equity the same priority as economic growth (see Oxfam Homepage).

Even if Oxfam is not specialized in the global garment industry, they have to be mentioned since they also public regularly reports that regard the sportswear industry, such as the report “offside” about the labour rights and sportswear production in Asia or they participate at campaigns such as the “play fair at the Olympics” in 2004 (www.fairalympics.org).

8.10. Business Social Compliance Initiative (BSCI)

The BSCI is a non-profit organisation, based in Brussels. BSCI membership is open to any and all European and non-European companies or associations. The initiative is founded as a sector solution for retail but is also open to importers and manufacturers of consumer goods.

The objective of the Initiative is to reach responsibility in global trade, since tough competition and decreasing tolerance with regard to poor working conditions in production facilities represent a huge challenge for retailing companies as well as for suppliers.

The BSCI offers a common approach for European commerce, provides standardized Management Tools for all countries, supplies a database, thus, an information pool to optimise coordination of the process. It is open to retailers, importers and manufacturers, covers all consumer goods, involves stakeholders in Europe and supplier countries and is transparent.

The whole process is accompanied by local and European stakeholder networks, which will ensure the spread, and in the long term local ownership of the process. Cooperation with non-governmental organisations, governmental authorities, trade unions and associations will also ensure social acceptance and independence of the system.

The BSCI is beneficial for all participants, since it secures more efficient implementation procedures than other monitoring systems, saves cost and time through prevention of multiple auditing and optimizes working conditions. Additionally it increases productivity, higher product quality, higher satisfaction for workers and consumers and same requirements for all suppliers involved through their customers (see BSCI homepage).

9. The Pressure executed upon the Stakeholders

As it said in the CCC web page, “the Clean Clothes Campaign brings together consumers, trade unions, campaign groups and other diverse

organizations to do just that: calling on those with the power in global supply chains to take responsibility in workers' rights".

The objective of the CCC is to guarantee the human rights of workers, and more concretely workers in the textile sector. The way that CCC put pressure to achieve their objective is by means of the different campaigns they do. These campaigns are directed to the stakeholders that can have a special influence, or that have more power, into the garment industry: governments, multinational companies, consumers and international organizations. In order to be tidier, we are going to describe separately the different stakeholders, explaining why they are important for the garment industry and for the workers' rights, describing examples of the most representative campaigns.

9.1. Governments

Governments have the power to regulate corporations and enforce the labour standards to which they have committed through international conventions. They also have the power to legislate and establish the rules in their own countries.

One of the consequences of globalization is offshoring, which means, that a multinational company moves their factories to another country with the objective of reduction of costs. The way that cost reduction is achieved is mainly thanks to the low salaries that multinationals pay to the workers in developing countries. The huge difference among workers' salaries in developed and developing countries (see **figure 26**), and the strong competence in the textile sector makes outsourcing an essential tool to be competitive. Outsourcing is also profitable for multinationals because most of these companies install the new factories in countries with less social protection, low advanced legislation in social issues, less restrictive legislation in environmental issues, nearness to raw materials, etc. (Ribó, 2001).

Figure 26

	Labor Cost (€/h)	Value Added (€)
EU Countries		
Germany	18	23
Spain	7	11
Italy	14	20
Portugal	4	6
UK	11	13
Major Suppliers		
Turkey	2	12
China	0.4	na
India	0.4	2
Egypt	0.7	2
Other Major Markets		
US	10	20
Japan	14	na

Source: Casewriter compilation of data from: Werner Stengg, "The Textile and Clothing Industry in the EU,"

Outsourcing implies an opportunity for developing countries, to generate employment and are an extra source of income. These are some of the reasons by which governments don't pay attention to labour conditions: if they put more restrictive legislation, their countries become less attractive for investments of foreign companies.

In order to protect workers' rights by means of pressuring the governments, the CCC launched several campaigns against them. Some examples are the following:

- In December 1996 the Fair Wear Campaign was launched in Melbourne (Australia). This campaign is a coalition of the church, community organizations and unions. The campaign addresses the exploitation of workers who make clothing at home in Australia. The Fair Wear campaign has many diverse areas of activity, ranging from global solidarity with garment workers overseas, to local action that members of the community can take in their school or local shopping centre. One of the achievements

of this campaign was the creation in 2003, by the Australian government, of the “behind the label strategy”.

- In June 1998 in Italy, a campaign called “transparent shopping” was launched in order to pressure the Italian parliament to pass legislation that would create a controlling body for socially-guaranteed products. The campaign managed to persuade several members of the parliament to redact a proposal of law, centred on the following issues: transparency of socio-environmental conditions during production, creation of a surveillance authority and the creation of a quality of labour label (which includes the country of origin).
- In January 1999 three separate lawsuits were filed challenging the unlawful sweatshops conditions in Saipan. A total of twenty six



U.S. based retailers and manufacturers on the island were sued for violating workers’ rights. The lawsuit ended with a victory for the garment

workers, who have received 20 millions dollars from the affected companies. One of the companies affected was Levi’s Strauss.

- One of the most recent campaigns is “play fair at the olympics”, which aim is, according to their website “to pressure sportswear and athletic footwear companies, the International Olympics Committee (IOC), its organising committees (OCOGs), the National Olympic Committees (NOCs), and national governments, into taking identifiable and concrete measures to eliminate the exploitation and abuse of workers in the global sporting goods industry”. This campaign is an alliance of Oxfams, Global Unions, the CCC and their constituent organisations worldwide. The campaign declares that the abuses upon workers rights can only be avoided when governments assume their responsibilities in human rights matter and when workers are able to organise in order to advance their own interests. The alliance also declare that

sporting bodies such as the Olympic Committee, through their licensing arrangements, and the totality of those companies which market or produce sportswear, athletic footwear and other sporting goods can take far greater responsibility for the labour practices in this industry than they do now.



9.2. Multinational companies

Multinational companies are the most powerful single entities in global supply chain. CCC try to show to public opinion how some companies make profit at the expense of worker' rights in order to make them conscious of how the garment they buy are produced. According to the CCC web site, CCC invites companies to put into practice the following points:

1. Accept their responsibility for the conditions in which their products are made.
2. Adopt a code of conduct that sets out workers' rights, and defend these rights by joining a trade union.
3. Prove that the code is being implemented using credible and independent verification.
4. Work with suppliers where working conditions aren't up to scratch, rather than pulling out of them.
5. Make sure that their purchasing practices don't get in the way of attempts to guarantee workers' rights.
6. Work with trade unions and labour rights to achieve all this, through multistakeholder initiatives.



There are many so companies affected by campaigns, all of them in order to prevent workers exploitation and to protect their rights. In the graph below we can see logos of some the most famous companies that have a campaign in process against them.

The activities of these companies are very different. Some of them are dedicated to the sports garment (Adidas, Nike, Puma, Reebok, etc), others have the core of the business in the distribution (WalMart, Carrefour, etc) and others base the business in the leisure time (Walt Disney). The case of Inditex is described in depth some pages after.

A very famous case in human rights violation was the collapse of the textile plant Spectrum in Bangladesh, in April 11th, 2005. The effects of the collapse were 64 people killed, 74 injured and hundreds lost their job. This factory supplied textile of some multinational companies (Inditex, Carrefour, CMT Windfield, Solo Invest, Cotton Group, KarstatQuelle, New Yorker, Bluhmod, Scapino, New Wave Group, etc). Some of these companies declare having policies to control working conditions in their production chain, but these policies were called into doubt after the accident.

After the accident, local and international pressures persuaded multinational companies to defray medical expenditures of the injured people and to establish compensation fund for the families of the dead and injured people. Only five of the multinationals (Inditex, KarstadtQuelle, New Wave Group, Scampino, Solo Invest) accepted to pay contributions for the compensation fund. Today, more than three years later those promises are empty words. Only seventy five dollars have been paid to each one of the injured and nothing has been paid to the families of the dead.

9.3. Consumers

Consumers are the most important stakeholder for the companies because they are the purchasers and who provide money to the multinationals. Without them, companies couldn't survive. CCC is conscious of this situation and, as it is said in CCC web site: "We should not forget consumer power. The CCC raises awareness among consumers of the conditions in which the clothes they buy are made, and of the causes of and solutions to the abuse of workers' rights".

The best example of a campaign directed to the consumer was the boycott campaign against Nike. Nike moved their factories to cheaper zones than United States. These movements were possible thanks the policies that many developing countries in Latin America, Asia and Africa did in order to attract foreign investment. As the urban metropolitan areas in these countries developed a new industrial base, traditional rural agricultural economies were destroyed. Traditional subsistence farming and manufacturing disappeared in many zones and a lot of families that lived in this traditional way were forced to go to the industrial zones to work. In some cases who were obliged to work are women and children. They are specially appreciated for their abilities, not skills, such as the ability to do fine stitching for rugs, shoes and soccer balls. The campaign against Nike began in 1996, when Life magazine carried an article about child labour in Pakistan. Although 1996 was the first year in which real public attention was focused on Nike's labour practice abroad, it's important to recognise that manufacturing shoes in low-wage countries was, from the start of the company, a key plan for Nike. In fact, Nike's first factories were installed in Japan during the 60s, when that company was still part from the third world. Since his foundation, Nike have been migrating from nation to nation, arriving as countries install the necessary mechanisms for orderly business operations and leaving and living standards become too high to make manufacturing profitable. This was the first time that Nike had had to face real questions about its labour practices abroad, the first time that it had felt a public-relations impact. But that impact does not seem at all devastating. While in the short run Americans are generally horrified by the issue of child labour and has expressed concern over the working conditions in foreign factories, Nike took

immediate actions in order to provide remedy to all the activism it faces, otherwise it can prove devastating for the company's image in the long run. The campaign developed was directed to consumers, as we can see in a related issue web page: "Consumers should take an immediate action in order to eradicate child labour practices discharged by these multinational U.S corporations. This can only be done by not buying their products which are produced in the third world and which have suspicion of a child being involved in the process. Child labour is a human rights issue. What is more of a human right than growing up as a free person, attending school without being held in bondage? Now the burden is on the company both to do a better job of implementing company-wide global standards of conduct and also to improve its openness to the media. The more you hide, after all, the more people think you have something to hide. Every hand that goes up hurts Nike in the public eye, "And when you're a consumer company, that's the only eye that matters".

9.4. International institutions

International institutions, such as the International Olympic Committee, have to take the decision of giving contracts to companies, and they can decide among them. Other international institutions have different role. As an example, the International Labour Organization has as its main role to enforce the accomplishment of the international agreements.

There are no campaigns directed specifically to the international institutions, but some of them can contribute with valuable information that can help to decide which suppliers are more respectful with workers rights.

10. Results at national and international levels

The credibility of the biggest textile groups is under suspect due to the pressure of many NGOs at a national and international level. Setem and Intermon Oxfam are the most important NGOs that had pressured those companies and as a result there had been big changes.

The Clean Clothes Campaign sees three main elements in purchasing practices that need to be addressed: price that is offering a price that reasonably allows for compliance with an ethical labour policy, the deadlines which relates to lead times and the effect of last minute changes, and last but not least the location that is the primarily importance of a buyer taking into account true supplier capacity and the possibility that the size of an order may lead to unauthorized sub-contracting.

10.1. National Level

In Spain many companies have faced problems related to the Clean Clothes Campaign, for instance: the Spanish Television, (RTVE), continues refusing to broadcast the documentary on the appalling conditions in workplaces in Morocco producing clothes for famous Spanish retailers. According to the documentary, four of the biggest Spanish retailers; Inditex (owner of Zara), Mango, Mayoral and El Corte Ingles produce in Morocco, in some cases in "clandestine" workshops, in unhealthy, unsafe and undignified conditions. The documentary, filmed inside the factories with hidden camera, also interviews unionists and workers, including some minors. Clean Clothes Campaign in Spain released a report on the same issue and with similar conclusions.

For instance, the case of Induyco, the principal clothing supplier to Spanish retailer El Corte Inglés, came under pressure from Clean Clothes Campaigners. Its clothing is known to be produced in Bulgaria, Morocco, India and China, but the company is unwilling to engage with rights activists about working conditions there.

Therefore, CCC Spain is mobilising consumers to pressure Induyco through a postcard and e-mail campaign, with the slogan "¿Qué hay detrás de la ropa de Induyco?"

If we focus our attention on Induyco, little things have been done. There is no code of conduct that mention the labour conditions of the workers, there has been no evolution but at least they have sign the Global Compact of the United Nations.

As a results, many actions have been taken by the different companies involve in the CCC; for example, Levis published a supplier's list in 2005 and has joined the Ethical Trade Initiative that is a good evolution for the company. Nike is also publishing the list of suppliers and has joined the Fair Labour Association. However it is remarkable that is very difficult to differentiate between the publicity of the company and the real actions towards the improvement of the labour conditions.

10.2. International Level

At this level, many actions have been taken, for instance, a three day conference with forty five main Asian partners was organized at 25-27 March 2004 in Phnom Penh, Cambodia by the CCC together with AMRC and Thai Labour Campaign. Half of the participants were representing trade



Sewing station in a chinese factory

unions, the other half from NGOs from the following countries: Cambodia, Hong Kong, Thailand, Philippines, India, Pakistan, Bangladesh, Sri Lanka, Indonesia, China, Taiwan, Australia. Speakers strongly emphasized that the campaign must focus on concrete ways for workers themselves to increase their power to improve their lives. They particularly want sportswear brands to ensure that workers are allowed to form unions and bargain together for better wages and conditions.

In varying degrees the companies were moved to:

- Address freedom of association issues via worker training, to be organised in cooperation with Play Fair organisations (Umbro & Puma).
- Create space for direct dialogue with the International Textile, Leather and Garment Workers' Federation regarding workers' rights to form and join trade unions (notably Puma and Umbro).
- Develop more credible workplace investigations and complaints procedures and engage directly with local stakeholders (notably Puma and Umbro).

- Pay greater attention to the impact of purchasing practices on ethical programmes and share relevant information with the campaign (Puma).
- Evaluate and further develop their labour practice policies, including supply chain mapping and wage criteria (notably Asics and Mizuno)
- Call upon the World Federation of the Sporting Goods Industry to play a more active role in putting forward an industry wide benchmark, specifically to facilitate progress for the smaller companies such as Lotto, Mizuno and Asics.
- Consider working with other active companies and non-governmental organisations via the Fair Labor Association (Umbro has applied for membership, Asics is considering this, Puma had joined FLA prior to the campaign).

As a result of CCC, Europe has seen the birth of many Clean Clothes Communities such as in 2004, in total ten new cities in France, the Netherlands, Belgium North and Germany adopted a resolution about sustainable public procurement of their work wear. In Belgium North, sixty nine communities out of three hundred adopted a resolution, while in France this number now totals to two hundred and seventy. In the same year, ten community councils (mostly in Belgium North and the Netherlands) were pushed or worked with to take concrete steps towards actual implementation of the resolution. In Belgium North, several local training sessions were organised with civil servants, local politicians and trade unionists on this topic.

There is still a lot of miss understanding between the lobbies that are pressuring the companies and the international agreements (that support ethical trading). For instance, the ETI (Ethical Trading Initiative) is an archetypal multi-stakeholder body and in its board that provides strategic direction, is made up of companies, trade unions and NGOs. However, Clean Clothes Campaign, one of the most prominent international lobby groups participating in the debate, has not joined the ETI, but Ineke Zeldenrust (CCC's international secretariat) in the Netherlands says that there has been some progress in certain areas but still much work has to be done in the area of purchasing practices(Just – Style, 2007).

Also at international level the CCC has pressured the Government to improve the legislation related to the labour conditions. For instance, the CCC campaigns towards governments, who have the power to regulate corporations and enforce the labour standards to which they have committed through international conventions. The CCC have supported lawsuits against companies who refuse to arrange their supply chains, pushed for corporate accountability at EU level, and used the OECD guidelines for multinational enterprises to hold companies accountable.

Governments are also important consumers of clothing, through the procurement of uniforms and work wear for millions of people working in the public sector. National CCCs across Europe have been calling for ethical public procurement on a national and international level. The enforcement and way of applying it is the biggest problem. All of the employees should have the chance to know about the code of conduct.

The Verifications and auditing should be independent, from outside; The CCC is trying to set up a network of foundations that try to do auditing from a multi-stakeholder approach in China; if the auditing is external, why not doing it honestly and in a good way?. It is important to convince the auditors that by joining the network they will improve their competitiveness.

The biggest weapon of the CCC is the online questionnaires, the urgent appeals: when a lot of complains come from one factory, the information is getting verified, than the CCC starts a signing campaign.

In relation to companies, It's a very effective tool to improve the communication and to increase the awareness about the labour situation in the garment industry e.g. G-star in India had a lot of complaints, that's why the company forbid that the workers were allowed to talk to any NGO etc.

11. Impacts on the Inditex Group

11.1. National Level

From the national point of view, Inditex has suffered many critics from the most important NGOs like Intermon Oxfam or Setem. Intermon Oxfam considered Inditex as the more advance Spanish textile group regarding its CSR actions. However, this NGOs states that there is still a lot of work to do, for example in the field of conciliation of its aggressive commercial deadlines and the need of a code of conduct for the suppliers. On the other hand, Inditex has improved a lot, and now is incorporating the extra hours in the final price of the products. When a supplier does not follow the code of conduct, it is asked to change in this point and if the supplier doesn't change this attitude there is the possibility of breaking up the relationships between the Inditex and this supplier (CincoDías, 2004).



In august 2001, the Spanish NGO Setem bought 120 shares of Inditex, in order to be present in the shareholders' meeting and to have a voice and be able to put pressure in the company in corporate responsibility issues. The revenues coming from those shares are going to be invested in research into the company's activities. According to Diego Copado, manager director of the communication department of Inditex, this action allows an approach to the social objectives of Setem. What is more, Copado asked PriceWaterHouseCoopers about the situation of the workers in foreign countries in an audit and the reports showed that there were no problems. On the other hand, Copado agrees that there is a lack in the legislation of extra communitarian countries so Inditex need to improve the international installations. Toni Codina, the director of Setem said that they have chosen Inditex because there was a lack of transparency in this company in the past and at the same time it is the first textile industry in Spain and the fourth in the world(Europa Press, 2001).

In 2001, the national press informed about the bought of 120 shares of Inditex by Setem. For example, in “El País”, we can read that Setem is now part of the shareholders of Inditex and this will give them the chance to put pressure on the company and ask it for more information and transparency. This NGO coordinates the Clean Clothes Campaign since 1997, asking the five most important textile companies of Spain for transparency. They say that the aim of the campaign is not to show the world the commitment of Inditex and other companies in corporate responsibility issues but to give the right information to the consumers about the situation of the workers that are producing the clothes that they buy. Besides, Inditex created in 2000 a Corporate Social Responsibility Department that is linked directly with the president of the company and the board of directors, showing that is taking this campaign very seriously (El País, 2001).

The Spanish newspaper “El Mundo” also informed about the notice. Setem has done this kind of pressure with other companies in the U.S. and now is the pioneer in Spain. Some Trade Unions have also pressured the company to change its code of conduct.

However, the company has refused to answer in many cases, for example, when Setem asked Inditex to join the “Fair Wear Foundation”, a multi-stakeholder initiative (also done in Holland), Inditex argues that it already belongs to the “Business Social Compliance Initiative” that is an European initiative that is quite similar to the Fair Wear Foundation (El Mundo, 2004).

11.2. International Level

The ethical source of the retailing companies is one of the key issues that affect to the image of these companies and Inditex has had many problems in the past but at the same time has been able to solve those problems very well.

The NGO Setem has shown his happiness because of the agreement that Inditex has signed in October 2005 with the Ethical Trading Initiative (ETI), certifying the fulfilment of the human rights and the standards of the International Trade Organization. Setem say that there is still a lot of work to do but it is big change in the company behaviour since 2001 when the NGO started to pressure the company (Europa Press, 2005).

On July 6, 2006, Spanish –based retailer Inditex sent a letter to invite brands to participate in a voluntary relief scheme to provide much needed support to workers who were injured and the families of those who died when the Spectrum/Shahriyar factory collapsed on April 11, 2005. Spectrum/Shahriyar was a garment factory supplying Inditex and many other European retailers, including Carrefour, etc. Sixty four people died, more than seventy were injured and hundreds of workers were left jobless as a result of the disaster. The relief scheme, is one of the demands that the Clean Clothes Campaign and Bangladeshi partners have been making to garment companies sourcing from the factory since its collapse. Inditex is organizing the voluntary relief scheme with the international textile, garment and leather workers’ federation. The Clean Clothes Campaign, their partners in Bangladesh (unions and NGOs) and Spectrum/Shahriyar workers have all supported the idea of a transparent trust fund involving all companies and Bangladeshi partners and that includes not only lump-sum compensation payments, but also pensions based on calculations that take wages, family composition and injury level into account.

As the Entreculturas’ expert Ramón Almansa’s told on an interview, the case of Spectrum, in Bangladesh, is one of the most important problem that Inditex has suffered from an international point of view; the company has a great implication in the case and has put a lot of effort to develop a protocol to act in this cases of disaster even if the factory is not yours. Inditex is having a proactive attitude in this case.

Inditex aims to have the relief scheme in operation by September 1st, 2006. The CCC supports the request that companies sourcing from the factory join the scheme and calls upon them to contact Inditex immediately to join up before September 1st. The CCC wants to create a fund like Voluntary Relief Scheme to ensure the safety of the men and women at their jobs and that will meet the long term needs of those whose lives have been so impacted by this disaster.

In 2008, the Clean Clothes Campaign is performing many actions in order to increase the labour standards in developing countries. As an example, there has been an agreement with an Indian retailer: “Fibres and Fabrics International (FFI), to build an office in India to defend workers rights. Another

important action the “Rugmark” label, certifying that no child labour has been used in the production of these clothes (Europa Press, 2008).

III. Study of the Corporate Social Strategy at Inditex

12. Social Dimension

12.1. The Supply chain in general

Before explaining on what consists the Inditex’s strategy on the suppliers’ issue, we will give a little definition of what supply chains means:

*“A **supply chain** or **logistics network** is the system of organizations, people, technology, activities, information and resources involved in moving a product or service from supplier to customer. Supply chain activities transform natural resources, raw materials and components into a finished product that is delivered to the end customer. In sophisticated supply chain systems, used products may re-enter the supply chain at any point where residual value is recyclable.”*

The Inditex group has revolutionized the way to work efficient with the suppliers and also has developed a transparent system to control and assure the quality of the origin of the clothes and materials that the company uses.

Inditex has a wide network of external suppliers around the world, who act as business partners and contribute to the organisation’s growth. Inditex designs, develops and supervises programmes of support for this collective and demands the fulfilment of the Code of Conduct for Manufacturers and External Workshops by all members of the chain of production. The programmes for strengthening the chain of production are aimed directly at the factories and workshops, their employees and the communities in which they live with their families.

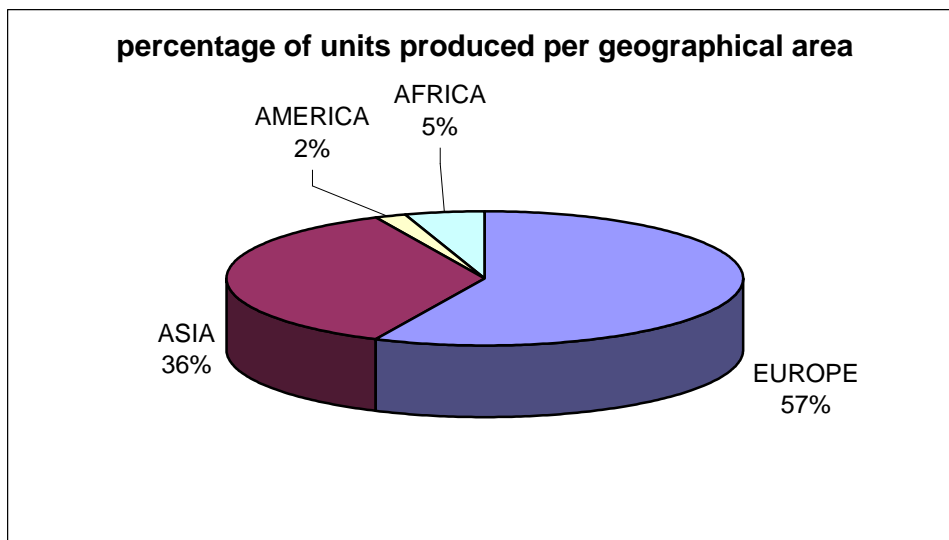
The approval of the Inditex Code of Conduct for Manufacturers and External Workshops, in February 2001, has given us the opportunity to face up to a new challenge which has transformed itself into an excellent opportunity for

business growth and humanising innovation. A challenge which, definitively, has involved:

1. Developing an exercise of business prudence which is capable of generating confidence among the main “interest groups” affected by the conduct of Inditex’s activities of production, distribution and marketing in very complex social and employment scenarios.
2. Building a business vision which is capable of generating global citizenship.
3. Adapting the business model to the complex demands of the current process of globalisation, having recourse to ethics based on the principles of the main conventions of the United Nations and the International Labour Organisation.

The Number of direct suppliers and percentage of units produced per geographical area are seen in **figure 31**, Europe represents more than the half of units produced in the world. Is followed by Asia, and far away there are Africa and America.

Figure 31



Source: Inditex’s annual report, 2006

Europe also counts with the biggest amount of suppliers, with 806. Asia is the second one with 333 suppliers. In third position appears Africa with 87, and finally America with 34 suppliers.

12.2. The Supply Chain Strategy of Inditex

The Programmes for strengthening the production chain are projects of social investment designed to implant the Code of Conduct for Manufacturers and External Workshops and, subsequently, for verifying the degree of fulfilment by independent auditors in accordance with international standards.

These programmes are developed in five steps:

1. The regulatory framework:

The Principles on which the process of social auditing is articulated are based on:

- The local and sector regulations in force in those countries in which Inditex carries on its production activities.
- The Agreements of the International Labour Organisation (hereinafter, ILO) and of the United Nations, in the absence of local and sector regulations and/or when there is not a greater demand.
- The 10 Principles of the Global Compact.
- The Base Code of the Ethical Trading Initiative.
- The Code of Conduct for Manufacturers and External Workshops of Inditex.
- Other applicable standards.

2. The instruments

a) Pre-Assessment:

Pre-Assessment is a procedure of “on-line” standardisation designed for those suppliers who wish to take part for the first time of the Inditex chain of production. It has been designed by the Compliance team and professionals from the Departments of Corporate Social Responsibility and Purchasing from Zara, respectively. This procedure assigns each potential supplier a “rating” provisionally, prior to the conduct of the corresponding social, quality, health and safety audits on the product.

Finally, the “rating” is obtained as a result of the evaluation of the information that the supplier gives corresponding to the following areas:

- Production capacity.

- Quality, health and safety of the product.
- Fulfilment of the Codes of Conduct for Manufacturers and External Workshops of Inditex, Base Code of ETI and, finally, the ten Principles of Global Compact.

The structure and operation of the biological concept of DNA is used as a reference to understand and analyse the model of interrelationship of Inditex with the agents in the chain of production - purchasers from each chain, purchasing offices, suppliers, workshops and CSR Department.

b) Company Profile:

The Company Profile is a document which is filled in at the beginning of a social audit and in which the following information is recorded, which is necessary for planning the “fieldwork” of the social audit:

- company name and address
- number of employees
- organisational structure and
- number of subcontractors, a key aspect for a proper control of the chain of production.

c) Social Audit Programme:

The Social Audit Programme is made up of the substantive and fulfilment tests which have been designed to verify the degree of fulfilment of the Codes of Conduct in the installations of a certain Manufacturer and/or External Workshop of Inditex.

d) Corrective Action Plan Audit Report:

The Corrective Action Plan Audit Report is the document in which the social auditor summarises the conclusions obtained in the social audit and in which, among other aspects, the following are detailed:

- The main breaches of the above-mentioned Code.
- The Corrective Action Plan designed and agreed by both parties - the social auditor and the head of the Workshop – to correct the breaches detected.
- The deadlines for correction.

e) Corporate DNA:

Corporate DNA has been developed jointly by the Compliance teams with Professionals from the Departments of RSC and Purchasing, respectively.

This is probably the most important project that Inditex has developed: Knowing the structure of DNA and how it works is in all probability the most powerful concept in modern biology.

For some scientists, the molecular approach of the “science of life”, being the DNA the reference molecule, allows a global understanding of living nature.

That is why at Inditex, have developed the DNA Project with the aim of understanding, starting from its very first roots, the complex procedure that the manufacture of Inditex’s garments, footwear and accessories entails.

This Project has been organized in the following stages:

Stage I: Determining the elements that comprise the molecular structure of the production line of Inditex.

In other words, assessing the breaches of the Code of Conduct for External Manufacturers and Workshops, through the allocation of a given number of marks in accordance with the seriousness of the breach.

Stage II: Understanding its molecular structure.

The factories of the production line of Inditex are divided into four categories in accordance with the marks accumulated , arising out of the conclusions of the social audit, as shown below:

Category “A”.- Between 0 and 24 marks

Category “B”.- Between 25 and 49 marks

Category “C”.- Between 50 and 74 marks

Category “D”.- Upwards of 75 marks

Stage III: Breaking the DNA molecule and examining the different groups of atoms they contain.

Allocating to each garment, shoe or accessory a category of individual risk in accordance with the breaches of the Code of Conduct for External Manufacturers and Workshops of the factory where they were manufactured.

Thus, as at 31 January 2006, through the DNA Programme, a risk – rating- has been associated to over 400 million garments, shoes and accessories, in accordance with the social and labour conditions of the factories where they were manufactured.

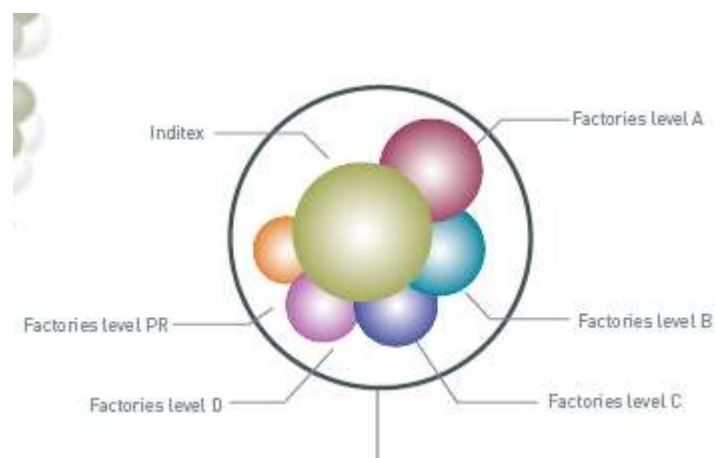
Stage IV: X-ray crystallography.

The DNA Programme has developed a powerful computer tool that can incorporate the information on the purchases made by each of the eight commercial formats of Inditex with the audits carried out by independent consultants at the workplace of the suppliers.

Stage V: Identifying the genes that are responsible for specific disorders and behaviours, allocating to each buyer a global risk arising out of the degree of compliance with the Code of Conduct for External Manufacturers and Suppliers of each garment, shoe and accessory that they have brought to the production line of Inditex.

Starting from the understanding and improvement of the purchasers´ behaviour, if they are understood as genes, Inditex may be able to give an answer to the key question: how can they, starting with a garment, shoe and / or accessory, develop a complex organism in a sustainable way?

DNA-Structure Detail



Source: Inditex Annual Report 2006

These two steps, the Frameworks and the Instruments, are the most significant ones. The other three are:

3. The phases. They establish the phases of the process and the objectives of the same.

4. The audits. First they make a selection of auditors and audits carried out by geographical area. Secondly they make Inventory of Manufacturers and External Workshops, thirdly they monitor Audits carried out during the year, and fourthly they monitor Audits planned for the next year.

5. Corrective Action Plans. The proper development of the “Corrective Action Plans” constitutes an “exercise of co-responsibility”, in which Inditex and the heads of the production centres which make up its chain of suppliers undertake to develop responsible working environments committed to the main Conventions of the ILO and the United Nations. For this reason, the “Corrective Action Plans”, contemplated in Phase V of the Social Auditing Process, set down that, depending on the nature and the gravity of the breaches detected in the course of an Audit, the Monitoring Audits will be carried out subsequently to verify that they have been properly corrected.

Clusters of suppliers

The clusters of suppliers are working groups made up of suppliers, trade unions, sectorial employers' associations and international buyers, all of whom are inter-related, with the common objective of generating a sustainable productive environment in a strategic geographical area for the development of the Inditex business model.

Developing a business model in a global and complex environment involves:

- Understanding that the Society around us is a network made up of inter-dependent organisations.

- Orienting the business strategy from an ethical, political and cultural perspective which develops stable and lasting relationships based on trust with each of their “interest groups”.

Only in this way will we be able to understand and measure the richness of the relationships - business, public, state and non-governmental - which habitually develop close to the chain of production.

Another prove that shows that this issue is very important for Inditex, and that they really takes it seriously is the international framework agreement that the signed in 2007, with the global trade union, International Textile, Garment and Leather Workers' Federation (ITGLWF), designed to promote decent work in the textiles, garments and footwear industries.

Under this agreement, Inditex recognizes the ITGLWF as its global trade union counterpart for workers employed in the production of textiles, garments and footwear. And both undertake to collaborate to ensure the sustainable and long-term observance of all international labor standards throughout the Inditex supply chain.

The agreement is the first of its kind to cover a retail supply chain and because it provides workers with the mechanisms to monitor and enforce their rights at work, the agreement places the right of workers to unionise and to bargain collectively with their employer at the heart of efforts to secure sustainable compliance to key labour standards by suppliers to Inditex. The application of the agreement will be reviewed annually by a six person group drawn jointly from Inditex and the ITGLWF.

To facilitate this ongoing review Inditex will provide the ITGLWF with relevant information on its supply chain and both Inditex and the ITGLWF will jointly develop training policies and programmes to drive compliance.

12.3. Code of Conduct

In February 2001 Inditex approved the code of conduct for producers and external suppliers. It was a great challenge for the company that has turned into an opportunity of increasing from the business point of view and the human

rights too. This challenge means: First, to develop the business prudence needed to generate trust in the stakeholders affected by their activities of production, distribution and commercialization in complex social scenarios; Second, to develop business vision able to create a global citizenship; Third, to adapt the business model to the complexities of the actual globalization process with the help of the Work International Organization and the United Nations conventions.

12.3.1. Internal Code of Conduct

Employees

The Group Inditex does not employ anyone who is below the legal age. No-one who is employed at Inditex is discriminated against because of their race, physical disability, religion, age, nationality or sex. The employees of Inditex have their right recognized to associate or organize themselves or to bargain collectively. At Inditex no form of physical, sexual, psychological or verbal harassment or abuse is permitted. The salary received by Inditex employees is in accordance with the function performed, always respecting the pacts of each sector. Inditex guarantees that its employees perform their work in safe and healthy workplaces.

Business Partners

Inditex makes sure that each and every one of its business partners fulfils the contents of the paragraphs of this code on customers and employees.

Suppliers

Inditex's external manufacturers and workshops are bound to comply with the contents of the employees and customers paragraphs of this code. Likewise, they permit any monitoring by Inditex, or authorized third parties, to verify their compliance.

Customers

A standard of excellence is offered to all its customers by Inditex in all its products; at the same time, it guarantees that its products do not entail a risk to their health or safety.

Society

Inditex undertakes to collaborate with the local, national and international communities in which it operates. By this adequate introduction and subsequent management of the code of conduct in the chain of production is guaranteed.

12.3.2. Code of Conduct for External Manufactures and Workshops

A second code of conduct was designed for external manufacturers and workshops. Its conceptual framework contains the human rights declarations, the UN Convention on Rights on Minors and the Conventions of the International Labor Organization.

This second Code is organized in 11 points and includes issues like child labour, non-discrimination, Freedom of association, harassment and abuse, health care issues, remuneration policy and the environment itself. Furthermore the subcontracting policy, the supervision and that the opponent compliance with national legislation

The external manufacturers and workshops authorize Inditex itself or through third parties to carry out inspections, which guarantee the observance of this code.

12.4. Programmes of Social Investment

Inditex is supporting the programmes of social investment, which have as beneficiaries the members of the communities where Inditex carries on its activities. These programmes are oriented in three directions: first, the programmes of social capital; second, the programmes of community development and third, the emergency programmes.

From different points of view, an influence is shed on each one of the collectives of interest, with the aim of improving their social and employment

conditions through collaboration projects with independent institutions and organisations with ample experience in actions on the ground.

12.4.1. Creation of Corporate Capital Programmes

The Internal and External Social Capital Creation Programmes have been created to help train committed people both inside and outside suppliers' factories, and through them, to make them feel that their fate is linked both to the evolution of their surrounding environment and to the improvement of the social and working conditions.

These programmes start from education as a key element for the improvement of the human capital of the workers making it possible in the medium term: to train workers for the production of goods and services in a more efficient manner and, in consequence, to increase their personal income, to improve the possibilities of negotiating, communicating and selecting so that, definitively: firstly, they become persons who hold the trust of the community (and factory) and second, accumulate social capital in the form of respect and humanity.

12.4.2. Community and Associations Development Programmes

The company support initiatives which promote the education of the most disadvantaged populations in those geographical areas that are close to the conduct of Inditex's activities, especially in Latin America. Education must reach the largest possible number of persons but also that its quality should get better and better and it should be aimed at social transformation.

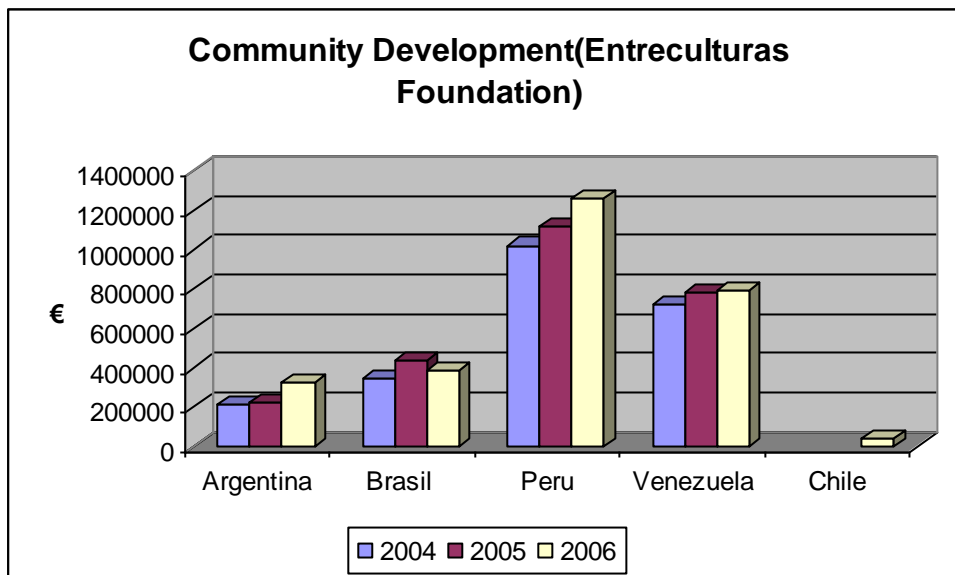
Inditex tries not only to carry out projects of specific social investment but also support educational processes. For this purpose, community education and promotion must advance hand in hand, complementing each other to achieve fully both inclusion in social and employment life and the democratic participation of all the citizens. The main social agents of the development programmes are:

- Entreculturas Foundation
- Fe y Alegría

- Carolina Foundation (Spain).
- Fundación Molí d'en Puigvert (Spain).
- Red Cross (Spain).

Entreculturas Foundation and Fe y Alegría are developing together programmes of social investment in different South American countries. These projects, detailed below (see **figure 27**), have as their reference the six objectives of the text approved by the World Educational Forum that UNESCO presented in Dakar to the international community from 26th to 28th April 2000

Figure 27



Source: Inditex's Annual Report, 2006

ARGENTINA

Inditex has supported two educational projects located in rural areas in provinces in the north of the country with the purpose of improving the educational conditions in two centres of basic education.

Project I. Increase and continuity of the initial, primary and secondary educational offer in the locality of Embarcación (Salta), within the Educational Centre of Fe y Alegría.

Project II. Improvement of the educational conditions for 170 young people in the locality of Taco Pozo (Chaco). It consists on the construction of toilets and a library within the Educational Centre of Fe y Alegría in the district

of Mocoroa. The objectives are to adapt the Centre to the necessary hygienic conditions, to guarantee access for the pupils to reading materials and to create a place of reference outside the school.

BRAZIL

Inditex collaborates in a range of social and educational projects for the inclusion of children, adolescents and young people in training, recreational and cultural proposals promoted in their “districts of residence”.

Project one consists in the educational proposal for social integration in the region of Farrapos (Porto Alegre). It consists of the creation of a Social and Educational Centre whose options are based on multiple cultural activities.

Project two consists in a programme of family reintegration and social integration in the boroughs of Florianópolis and Sao José. The Education Plan is based on the conduct of a programme of family integration and social integration for children and teenagers and on the creation “working groups” for teaching.

VENEZUELA

Inditex collaborates in the country through three great projects to reinforce the social and human capital of the most vulnerable sectors. In this way, it is intended to create a stable social fabric, reinforcing the system of existing networks among the organisations which attend to social needs.

The first project consists in training in fundamental human rights in the state of Alto Apure. Project I concentrates its activities on the creation of an office called “Justice and Peace” for the defence of fundamental human rights. The specific objective is, mainly, to sensitise and train the rural population in Human Rights. And the second project consists in support for self-management in the native communities of Ye´Kuana, Sanema, Warao, Pumé, Kariña and E´Ñepá. The Project concentrates principally on improving the conditions of life of the native communities and implementing models of sustainable development in these communities.

PERU

In this country the Group is supporting the education of the most vulnerable communities through five projects located in marginal urban areas and rural areas of the country, working in two lines:

- Improving the teaching capacity of the educators.
- Modernising the rural centres of Fe y Alegría.

The first project consists in strengthening of the educational network in the Vicariato de Jaén. The second project is articulated through the educational network of Fe y Alegría, composed of twenty five educational institutions and eight Centres of Occupational Education. The third project concentrates on the reduction of illiteracy through radial education in the areas of Lima Callao. The training proposal of this project is articulated through a basic educational initiative, carried out via the radio. The fourth project concentrates on the improvement of the technical equipment in the schools of Tarma, Cutervo and Vicariato de Jaén. The fifth project play attention to children, teenagers and young people at social risk in the areas of Piura, Chiclayo, Lima, Ayacucho, Cusco, Tacna and Ilo. The sixth project consists in University training for young people without resources and last but not least, the seventh project concentrates on the provision of grants to students who come from the Fe y Alegría schools to study at the Universidad Antonio Ruiz de Montoya.

CHILE

Inditex began its Programmes of social investment in this country by means of the conduct of programmes of technical and professional education and continuity plans for educational continuity for the students of the four schools of Fe y Alegría which teach technical and professional education in Chile.

The first project consists in strengthen the technical education, and concentrates on giving support to: five schools of basic education and three “pre-vocational workshops” for students who have abandoned their studies.

Programmes carried out by the Carolina Foundation

The promotion of cultural relations and international cooperation is the fundamental objective of the Carolina Foundation in the educational and scientific spheres between Spain and the countries of the Ibero-American Community of Nations as well as with those others with which there are special historical, cultural or geographical links.

Training programmes

The Training Programmes are oriented towards the extension of the studies of graduates, teachers, researchers and professionals from Latin America in Spain. For this purpose, annually the following lines of financing have been offered through study grants.

Programmes of Research

The target of these programmes are important persons and groups with projection for the future in their respective countries, with the aim of them getting to know the Spanish reality and, at the same time, establishing contacts with Spanish personalities and institutions in their field of interest.

Some specific programmes are:

- Leader Grants.
- Hispanic Leaders in the United States.
- Young Latin American Politicians.
- Leading Latin American Women.

Other programmes

Programmes of Emergency

These programmes are designed to reduce the negative consequences in the life of the communities affected by a catastrophe in geographical areas that are close to the conduct of the activities of manufacture and distribution of Inditex. Natural disasters cause grave deterioration both in the infrastructure and the living conditions of the affected communities. Communities which, in the majority of cases, are little prepared to face up to these phenomena. For this

reason, although the strategy of social investment in projects of community development of Inditex does not contemplate the financing of emergency projects, it is sensitive to the reality of those communities that are affected by a situation of these characteristics in geographical areas that are close to the conduct of activities of manufacture and distribution. According to this, for over three years, Inditex has been doing programmes as follow:

The Spectrum Project

The Spectrum Project was started up as a consequence of the catastrophe which occurred in the factory of Spectrum Sweater Industries, Ltd. in Bangladesh, which was flooded in April 2005 causing the death of 64 persons and injuries of different degrees of severity to over 80 workers. The gravity of this accident and its consequences showed: first, the need to adopt preventive measures to prevent similar accidents, second to have a methodology for the evaluation of personal damages in the Developing Countries Factories in line with the most advanced techniques to act rapidly and effectively.

From the experience of this project and having covered the first phase of help to those affected, work is being done in parallel to draw up a model of management of emergency projects, with the participation of the main social agents involved. The estimated voluntary compensations under the “Spectrum Project” are articulated:

- 1) “Lump Sum Payment” or Initial Payment and
- 2) A monthly Pension to be received by the family members of the dead and/or by the injured (depending on the case).

12.5. Sponsorship and Patronage

Inditex devotes part of its budget for social investment to programmes of sponsorship and patronage, in collaboration with a range of institutions and organisations of known solvency and experience.

An internal body, the Commission for Sponsorship and Patronage, evaluates each one of the projects that it receives from a range of organisations, analysing their viability and affinity with the corporate policies of

the organisation. If the evaluation is positive, the assignation of funds is made and actions of monitoring the results of the investment are programmed. This commission is made up of the Secretary General and Secretary of the Board, the Director General of Communication and Institutional Relations and the Director of Corporate Social Responsibility.

Projects linked with health, make up over half of the total investment. Two programmes, that of the Pro-CNIC Foundation in Spain and that of the Fundación Teletón in México, were the main beneficiaries of the contributions made in the sphere of health in the period 2005-2006.

Figure 28: Investment in programmes of sponsorship and patronage

	2005	2006	% in 2006
Health	873.004	700.000	39%
Culture & Sport	410.249	702.006	40%
Training	167.864	152.202	9%
Social assistance	116.310	119.11	7%
Business promotion	153.855	84.238	5%
General Total	1.721.282	1.789.043	100%

Source: Inditex, Annual Report 2006

The budget devoted to paying for sponsorship and patronage is increased each year, as well from 2005 to 2006, one can see in the **figure 26** above.

Support for medical research

Inditex collaborates with the Fundación Pro CNIC (www.cnic.es), giving continuity to the project initiated in December 2005, as the result of an agreement signed between the Spanish Ministry of Health and Consumption and thirteen private companies, among others, such as Acciona, Banco Santander, BBVA, Endesa, Repsol or Telefónica, was Inditex.

The companies undertook to supply the foundation with one hundred million Euros up to 2012, which would be added to the contribution of 166 million by the State. This investment is devoted to financing the research activities of the Centro Nacional de Investigaciones Cardiovasculares (CNIC) which opened its new headquarters in Madrid during 2006. Currently at CNIC there are a number of leading-edge laboratories devoted to the study of a range of areas which are beginning to be a reference for scientific consultations by specialists internationally.

In 2006, Inditex received the first FUINSA Prize for Clinical Research in the Company or Health Institution category, for contributing to the creation of the Centro Nacional de Investigaciones Cardiovasculares (National Centre for Cardiovascular Research, CNIC) in Spain. Fuinsa intends to encourage biomedical research; to promote and disseminate scientific, technical and health advances; and to contribute decisively to the improvement of quality in social and health assistance.

Financing of technology for medical rehabilitation:

The collaboration with the Mexican Fundación Teletón, whose activity is centred in offering programmes of integral support to children with mobility problems and to their families through its system of Centres of Child Rehabilitation Teletón attended by specialist professionals. Teletón works for the promotion of the culture of integration in favour of persons with handicaps and also supports the institutions that attend to handicapped persons in Mexico.

On the tenth anniversary of the Fundación Teletón, Inditex gave over 700,000 dollars which have been devoted to the purchase of a latest-generation piece of neurological rehabilitation apparatus called Locomat. This is a robot which, through a system of harnesses, helps the patient to walk on a revolving belt and induces him or her to “relearn” the movement which is made in order to walk. The Locomat has formed part of the equipment of Fundación Teletón since March 2006 and is the only rehabilitation apparatus in Latin America currently.

12.6. Transparency of Information

Recording to the Annual report 2006, Inditex has made a firm commitment to transparency when carrying out its activity. This commitment is aimed at transmitting an external image to the interest groups with which it interacts, deriving from its policy of corporate social responsibility. The organisation maintains a solid relationship with the communications media and with organisations and institutions different areas.

Since Inditex considers the relation with the media channel as the main transmission channel of information between companies and the public, the Group states that it accepts their independent, critical and committed point of view and manages their relationship under this point of view. Inditex intends to use the informative relationships, not only to fulfil its obligations deriving from the regulation from the market but also to respond to the needs and demands of its different stakeholders in the knowledge of the company and its activity. This work with the media is managed by the General Directorate of Communications and Institutional Relations, which maintains a permanent and fluid contact with journalists in over 60 countries.

Inditex's international presence in the main commercial areas of the world, demonstrates also his wide visibility in the international media. The company mentions, that it has a monitoring service carried out on the written press o the 32 countries with the greatest commercial presence of the Group, mostly European, which during 2006 gathered over 24,159 pieces of information published about Inditex.

Apart from that, Inditex distributed in 2006 a total of 44 press releases and other news on the Group to the media. Over 5, 600 applications for information made by the communications media from all over the world were attended to in this same period, with a strong predominance of European countries and an increase in applications form Asian countries.

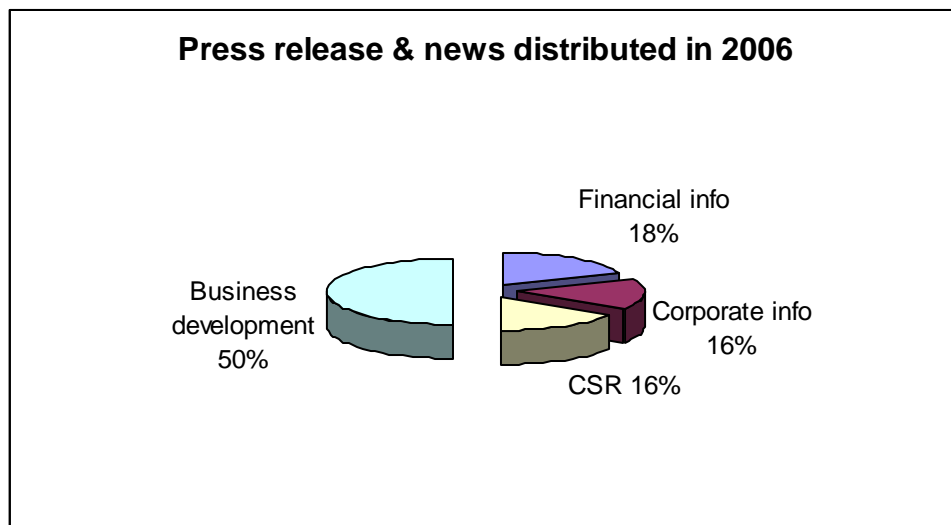
Press releases and news in 2006

The Commitment to transparency, Inditex says, drove them in 2006 to organise a range of events in which they offered information on the future

projects of the Group and the evolution of the results of the company, which made an impact on the press, radio and television, both Spanish and international.

Likewise, the media visited the headquarters of the company in Arteixo for the press conferences organised for the presentation of the annual results and the holding General Meeting of Shareholders.

Figure 29



Source: Inditex, Annual Report 2006

Online press office:

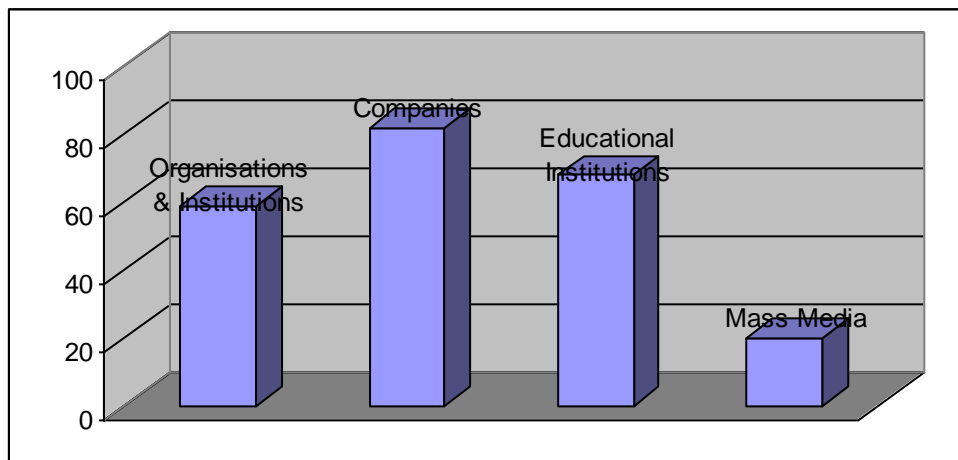
Inditex also has a press office on its corporate web site (www.inditex.com) which has now become a habitual channel for relations between the company and the media from all over the world.

The press area includes all the press releases and pieces of news issued by the company as well as a range of materials, of which the most important are: corporate reports on the company since 1998, a press dossier with information on the business model and other data of interest on the company or updated information on Inditex's actions.

Institutional relations

Inditex has a policy of opening up to different target audiences, which took off in 2006 with more than 2,850 persons from companies, national and foreign educational institutions, and organisations of a range from different types. In the visits they had the opportunity to get to know the processes of design, patterning of garments, manufacture and the pilot shops of Zara and the other brands.

Figure 29



Source: Inditex, Annual Report 2006

Contact with Shareholders

The shares of the Company are represented by means of account entries. The keeping of the registry of these entries is the responsibility of the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores (Iberclear).

Inditex had 64,048 shareholders according to the data from the X-25 form that the Company requested from Iberclear for the Ordinary General Meeting of Shareholders for the year 2006. Of these, 61,140 were individual shareholders and the rest were investment institutions. Including the significant stockholdings registered at the National Securities Market Commission, the approximate summary of the shareholding structure is shown in the following **figure 30**.

Figure 30

Shareholders	Shares	%
Individuals	26,073,316	4.18
Institutional investors	227,657,021	36.52
Partler, S.L.	57,872,465	9.28
Gartler, S.L.	311,727,598	50.01
Total	623,330,400	100.00

Source: Inditex, Annual Report 2006

Inditex wants to fulfil with that the already mentioned transparency and that all of the shareholders have a clear, complete, homogenous and simultaneous information in order to be able to evaluate the management of the company and its economic and financial results. There are various measures set down by the board to regulate the relations with the shareholders.

Shareholders' Office:

Any private can go to the Shareholders' Office to obtain detailed information on the evolution of the business and the future strategy. Through this channel the individual shareholders can make any request for information that they consider relevant on the development of Inditex. The shareholders office attended to over 1,000 requests from individual shareholders during 2006.

Corporate web page:

Any user who accesses the corporate web page gets provided with updated information about the daily and historical quotation of the share, the annual public reports of Inditex since 1998, the management team, the financial calendar and the financial information recorded at the National Commission of the Securities Market (Comisión Nacional del Mercado de Calores, CNMV).

Apart from the corporate web, there are the other web pages of the Group, corresponding to each concept.

Department of Relations with Investors and Analysts:

The relevant information on the evolution of the business is notified quarterly, apart from the CNMV, to the shareholders as a whole, the media and the financial community. This relevant information includes the Balance Sheet, the Profit and Loss Account and the Management Report.

In the sphere of institutional investors, Inditex complements this information with the quarterly conduct of free access multi-conferences on the Internet and over the telephone to explain the quarterly results and the evolution of the business.

The presentations of annual results to analysts and investors in London and Madrid, with an audience of some 70 persons, are worthy of note. Additionally, information meetings are held in the main financial capitals and visits to corporate facilities.

Activities taken with institutional Investors are Roadshows, Sector conferences, individual meetings and visits of investors to the corporate facilities.

12.7. Dialogue Platforms

As one of the most important but also challenging parts of the Social Dimension of the CSR Strategy of the Inditex Group can be seen the dialogue platforms. Without the dialogue between the different parties of interest in the specific context of a country where Inditex has suppliers, the credibility through external and independent frameworks and auditing would not be given. This necessary dialogue is recognised by Inditex in their Annual Report 2006. They want to achieve that the values contemplated in the Code of Conduct for Manufacturers and External Workshops:

- Do not have a fixed and closed meaning
- have to become a reference point for dialogue to be operative
- are not limited to being control elements and
- permit the construction of the common project of “a citizen and participatory company”

As a basic principal for dialogue Inditex notes that it is necessary to share respect for, and encouragement of, Fundamental Human and

Employment Right with Inditex's manufacturers and external Workshops and to integrate these values on the agendas of the different "interest groups", such as trade unions and manufacturers, mainly.

Inditex further mentions that the dialogue platforms are those spaces designed to promote and share experiences of implantation of models of Corporate Social Responsibility between multinational companies, institutions and organisations of the Third Sector (see Annual Report 2006, Dialogue Platforms).

Following the different dialogue platforms, in which the Inditex Group is engaged or was even a part of the founding process together with other companies or institutions, are explained.

12.7.1. The "Multifiber Agreement" Forum – MFA Forum

The MFA Forum is an open dialogue platform of over seventy participants representing, brands and retailers, international trade union organisations, as well as NGOs and multi-lateral institutions. The MFA was constituted in 2004 for the purpose of dealing with the challenges which arise from the progressive disappearance of the quota system which governed the textile industry.

The aim of the MFA Forum is to promote social responsibility and competitiveness in national garment industries that are vulnerable in the new post-MFA trading environment.

The MFA Forum has agreed a set of overarching principles to guide actions of individual actors and collaborative initiatives, which are laid out in The Collaborative Framework (MFA Forum March 2005). These principles are implemented through engagement at a country level, ensuring that efforts are or lead to 'home owned' and 'home grown' actions to sustain the national industry. This means that MFA Forum participants try to meet with all stakeholders of national industries, including the government, and aim to bring these different groups together into discussions around the future of their industry.

Governance

AccountAbility (an international NGO for Accountability of Sustainable Development) holds the Secretariat function and is responsible for fundraising, convening and coordination of the Forum. Strategic and policy decision-making is made by the entire MFA Forum.

Since the MFA Forum has started working in different countries, the question of governance has been reassessed. An Executive committee (representing business, public sector, trade unions, NGOs and multi-stakeholder initiatives) was selected at an MFA Forum meeting in January 2006 to help lead the MFA in the next phase of in-country work.

The Executive Committee In-Person Meeting takes place monthly to guide the MFA Forum to ensure that the policy and strategy of the network, as set by the whole MFA Forum bi-annually, is implemented effectively.

In-country groups are formed when there is a 'critical mass' of sufficient interest amongst MFA Forum participants, when there is multi-stakeholder representation by Forum participants, and a willingness on the part of one or two to lead the group's efforts. The groups are free to initiate meetings in any country that is vulnerable in the post-MFA trading environment, in order to set up a collaborative approach to outlining strategies for that industry. It is important to know, that participation in the in-country sub-groups of the MFA Forum is voluntary and open to organisations with an interest in developing the competitiveness and social responsibility of the garment and textiles industry in that country.

As a member of the Executive committee of the MFA, Inditex joined three in-country sub-groups: (1) The "MFA Forum Marruecos", (2) the "MFA Forum Lesotho" and (3) the "MFA Forum Bangladesh." For Inditex the two most Forums with the highest preference are certainly Bangladesh, due to the incidents at the SPECTRUM factory and Marruecos, because they are the main purchaser there.

As an example of the different participants and actions taken in such in-country groups, we will compare those two cases:

MFA Forum Morocco	MFA Forum Bangladesh
Agents:	
<ul style="list-style-type: none"> - Trade Union organisations: ITGLWF & ILO. - Multilateral Organisations: MFA (Secretariat) - Moroccan Assoc. of Textile Industry: AMITH. - Spanish business association: CEOE. - Moroccan Ministry of Industry & Employment. - Spanish Ministry of Work and Social Affairs. - International purchasers: Inditex, mainly. 	<ul style="list-style-type: none"> - Trade Union organisations: ITGLWF & ILO. - Multilateral Organisations: UNDP. - Business associations: BGMEA and BKMEA. - International purchasers: Carrefour, Disney, The Gap Inc., H&M, Levi's, Marks & Spencer, Nike Inc., Wal-Mart Inc. and Inditex.
Objectives:	
<ul style="list-style-type: none"> - To draw up a sectorial Code of Conduct from the standard "Fibre Citoyenne" drawn up by AMITH, following the experience of the MFA Forum in other countries, which should serve as a reference point for: (1) those multinationals which carry out activities of manufacturing and (2) the local Moroccan manufacturers. - To study the creation of alliances between: (1) the MFA Forum (2) AMITH and (3) international purchasers, to study actions which make it possible to increase the productivity in the factories of the suppliers of members of MFA and, definitively, to contribute to the development and improvement of competitiveness of the sector as a whole. 	<ul style="list-style-type: none"> - To implement a Single Code of Conduct applicable for: (1) those multinationals which carry out activities of manufacturing and (2) the local Bengali manufacturers. - To review the legal and employment framework in Bangladesh. - To promote actions which increase productivity in the textile sector. - To develop a working group to update the current system of remuneration at "piece rate". - To strengthen the implantation of the Principle of Freedom of Association and the Right to Collective Negotiation as key elements to guarantee the development of mature relationships between workers, factory managers and trade union organisations.
Actions:	
<ul style="list-style-type: none"> - To create a working group responsible for the design of a "Single Code of Conduct" for both (1) international purchasers and (2) local manufacturers. <p>Period: Immediate</p> <ul style="list-style-type: none"> - To create a common system of Compliance which makes it possible for all the members of the MFA Forum who carry on activities of 	<ul style="list-style-type: none"> - To carry out joint actions - association of businesspeople (BGMEA and BKMEA), local industry and international purchasers for: (1) improving the current employment framework (2) increasing the systems which guarantee proper health and safety in the workplace, as is contemplated in Convention 155 and Recommendation 164 of the ILO and (3) promoting a review of current minimum

<p>production in this country: (1) To share information relating to the result of the social audits and (2) to correct the main breaches through the Conduct of joint plans of action.</p> <p>Period: Medium Term</p>	<p>salaries.</p> <p>Period: Immediate.</p> <p>- Designing programmes of integral training within factories to increase productivity and, definitively, the compet. of the textile industry.</p> <p>Period: Medium Term.</p>
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Source: Annual Report Inditex, 2006/ MFA Forum Homepage

12.7.2. The Ethical Trading Initiative

The Ethical Trading Initiative (founded in 1998) is a ground-breaking initiative which brings together a wide range of organisations from all parts of society. It is a multi-sectorial platform of dialogue with a wide spectrum of multinational companies from different economic sectors, NGOs and trade union organisations and organisations from the international civil society.

Objectives:

- To encourage respect for the Fundamental Human and Employment Rights in different spheres of influence of its members.
- To promote the application of the Base Code in the chains of production of the member companies.
- To develop instruments for the implantation of the Base Code among its members, through the development of the “best practices”.

The board of management is made up of:

- Representatives of multinationals: The Gap, Boots, Marks & Spencer and Inditex (since 2006).
- Trade union organisations: International Confederation of Free trade Unions (ICFTU); International Textile, Garment and Leather Federation (ITGLWF); International Union of Food Workers (IUF); and, finally, the Trade Unions Congress (TUC).

- Representatives of civil society: Women Working Worldwide (WWW), Christian Aid (CA) and National Group on Homeworking and Homeworkers Worldwide (NG HHW).

Why the ETI?

In the late 1990s, after many companies suffered increasing pressure – from NGOs, trade unions and consumers- to ensure decent working conditions for the employees. But many companies who adopted such codes soon found that they had neither the public credibility, nor the necessary experience and skills, to answer these questions alone. They realised they needed the backing of relevant civil society organisations, in particular of trade union organisations and NGOs with expertise in labour issues and overseas development.

With this need in mind, ETI was set up in 1998 to bring the combined knowledge and influence of relevant NGOs and the international trade union movement to work alongside these companies in identifying and promoting good practice in code implementation. In 2005 Inditex joined the ETI and the following year they got a member of the board as well.

12.7.3. Other Initiatives

The GRI – Apparel & Footwear Sector Supplement

The Global Reporting Initiative (GRI) has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. This framework sets out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. Thus, developing methodologies for the preparation of Sustainability Reports.

The cornerstone of the framework is the Sustainability Reporting Guidelines. The third version of the Guidelines – known as the G3 Guidelines - was published in 2006, and is a free public good. Other components of the framework include Sector Supplements (unique indicators for industry sectors)

and Protocols (detailed reporting guidance) and National Annexes (unique country-level information).

During 2005-2007, Inditex has actively collaborated in the preparation of the Apparel and Footwear Sector Supplement. This document is a supplement which makes it possible to adapt the Guide to the textile sector including, among other aspects, specific indicators of this sector.

The objectives of the meeting in Fortaleza, Brasil in 2006 was to define the new working framework and the indicators of the Apparel and Footwear Sector Supplement. The Implantation is planned until 2008, but is still not available at the GRI side (see www.globalreporting.org).

Index of Sustainability: FTSE4Good/Dow Jones Sustainability

They have been designed to measure the performance of companies that meet globally recognised corporate responsibility standards and the matter of sustainability, and to facilitate investment in those companies.

Inditex has been included in the list of: (1) FTSE4Good Index and (2) Dow Jones Sustainability Index since 2002 and 2003 respectively.

Business and Society Foundation

The objectives of the Foundation are, mainly: to promote Companies' activities to help the integration of vulnerable groups such as inmigrants and handicapped, among others, and to promote a practical development of the Social Action from the Corporations' reality.

(See www.empresaysociedad.org)

Asociación Española del Pacto Mundial (ASEPAM)

The Asociación Española del Pacto Mundial (2004) is an initiative made up of 412 companies, 80 NGOs and institutions of the Third Sector, 25 educational institutions and 16 employers' associations and trade unions.

Inditex was the first Spanish company to join the Pacto Mundial and has been part of the Executive Committee of ASEPAM since 2005.

Cátedra Inditex

The Inditex Cátedra of Corporate Social Responsibility is a meeting place which is held at the University of A Coruña (Spain) where locally and internationally recognised experts provide their experience regarding RSC to the academic sphere.

The objective is to Promote and disseminate matters related with the RSC in the academic sphere.

Spanish Association of Company Accounting and Administration

AECA is the Spanish Association of Company Accounting and Administration and among other activities it carries out studies aimed at improving the management techniques for Spanish companies (see homepage AECA).

13. Environmental Dimension

13.1. Environmental Management System:

The 10th March, 2003, Inditex published his first sustainability report, which was the sustainability report for the year 2002. Annual reports before 2002 don't make any mention to sustainability or to the care of the environment, but, as it is said in the annual reports of the company, the compromise and responsibility of Inditex with the environment began when the company started his activity.

Thanks to the work developed by the company since the beginning has made possible to create and consolidate an efficient and adapted management system, that allow Inditex legal compliance and ongoing improvement. The following activities are carried out periodically in the framework of the management system:

- Continuous assessment of compliance with legal requirements at international level and constant application of an environmental indicator system.

- Implantation of the software uncharged of managing environmental indicators and report writing.
- Twice a year, systematic internal and external auditing is carried out in 100% of the industrial centres and head offices. In Spanish stores, a random sample environmental assessment process is completed.
- Waste minimization plan and packaging reduction plan are still in force, with more exigent annual objectives every year.
- The Environmental Commitments with suppliers are still in force and are strengthened.
- ISO 1400 certification reaches 100% of the industrial work centres and is planned to include more logistic centres during the following years.
- Environmental training continues to be provided to new staff by means of a new web platform and to the corporate newsletter.
- All new industrial development processes include the environmental variable and eco-efficiency on the design phase.
- The Control and Prevention Programme is still in force.

The management system implanted by Inditex makes periodical evaluations of the potential impact upon biodiversity and natural environment. Thanks to the management system, the company can guarantee that their business doesn't generate impacts neither biodiversity nor protected habitats, or protected species included on the IUCN red list.

The pillar of the Environmental Management System is the company Environmental Policy. In order to guarantee sustainability, always according to the requirements of the society, Inditex has undertaken to enforce and fulfil four principles, which form the environmental policy of the company:

1. Inditex have undertaken to consider always the environmental variable when planning and developing their activities, encouraging environmental awareness of the staff, suppliers and society in general.
2. Inditex have undertaken to fulfil the environmental regulations that apply to their activities, always to preventing pollution and reducing the environmental impact of their activities to the minimum.
3. They work towards continuously improving his management system.

4. Inditex guarantee to inform all their employees and society about this policy, establishing a fluid communication with the authorities, local communities and agencies.

During years 2002-2005, Inditex developed the first Strategic Environmental Plan of the company, focused on the legally compliant. Basing on the old environmental plan, Inditex is developing a Strategic and Environmental Plan for 2007-2010 (PEMA 2007-2010), based on eco-efficiency, innovation and improvement, which are the three main pillars of the strategic plan. PEMA 2007-2010 is developed in four main projects: Environmental and Energy Integration, Inditex Pro Kyoto, Textile Life Cycle Analysis and Store Sustainability System (3S). The four projects are going to be explained in the following paragraphs:

ENVIRONMENTAL AND ENERGY INTEGRATION (IEMA):

The objectives of this project are oriented to reduce the emissions of greenhouse gases by means of increasing efficiency and minimizing energetic consumption, installation of renewable energy sources in factories and developing mechanisms in order to compensate the emissions generated.

The lines of action of the project IEMA have taken place in the headquarters of Arteixo (La Coruña). The energetic model is oriented to guarantee the energy supply, giving priority to the integration of the sources of renewable energy installed in the headquarters, with a high level of energetic efficiency. The Arteixo's energetic model is a combination of different sources of energy:

- Natural gas tri-generation: this source of energy is not renewable, but improves enormously the efficiency of the electricity production process, as over 4/5 of the fuel energy is converted to usable energy compared with 1/3 on conventional plants, which is translated into both financial and environmental benefits: It allows a reduction in fuel consumption and as consequence a reduction in contamination, a reduction in loss of electrical energy in transit and reduction in emissions (CO₂, NO_x, SO₂ and particulate matter).
- Installation of photothermal solar energy: the purpose of this installation is to substitute the electricity used by the heating pumps for the

production of hot/cold water through solar panels. The existing installation is based on a system consisting of hot air-water pumps, which handle the needs of the Inditex Head Office.

- A wind turbine has also been installed in the headquarters of Arteixo. The wind turbine has a nominal power of 850 kW and produces 1290 MWh per year, which is equivalent to 111 tonnes of crude oil.

INDITEX PRO KYOTO (IPK):

This project has the same objective than the previous one, with the difference that in the IPK project the reduction in the emissions will be done in logistics and in collaboration with subcontractors. In order to achieve this objective, Inditex is following the next lines of action:

- Inditex has substituted 5% of the conventional fuel for bio-diesel in the trucks that are used for logistics and distribution for Zara (which means 60% of the total distribution). The critical factor for the development of the project, which is the availability of a bio-diesel supply network, was solved installing bio-diesel fuel pumps at departure points (La Coruña, Zaragoza and Meco) and designing European routes were designed taking into account fuelling points.
- In order to minimize consumption globally, Inditex have drawn up a Work Schedule with the logistics providers that includes the following compromises: all vehicles in fleets serving Zara will comply with the EURO 5 directive (the strictest regulation on NO_x, HC, CO, particle and fume emissions) and the compromise that all the staff will receive training in Efficient Driving (which will permit a reduction in fuel consumption of between 7% and 10%).
- Due to the large size of the Inditex's logistics centres and factories, and the need to respond swiftly in case of incidents in production, they need their own mobile equipment. The Scheme sets forth the substitution of petrol-run vehicles for electrically powered, zero emission vehicles, which entered into use in January 2007.

TEXTILE LIFE CYCLE ASSESSMENT (ACVTEX):

The objective of this project is to define the main variables to be studied and design a simplified tool that would allow the company to homogeneously assess the production using criteria of sustainability. The assessment will include efficiency in the consumption of production resources, use of substances in fabrics and the optimisation of production processes.

STORE SUSTAINABILITY SYSTEM (3S):

The main objectives of the project 3S are oriented to implement the environmental variable in the stores of the company. In order to guarantee that this project is done as it was projected, the company established some strategic objectives that are the following: guarantee the compliance with legal requirements in stores, optimise environmental management costs in stores, integrate and involve store staff in the environmental management model, include the supply chain in environmental agreements and guarantee the obtaining of indicators and reliable data.

14. Human Resources

The incorporation of people to Inditex is always related to the expansion of the company and the opening of new stores. Specifically, during 2006, the company created 11050 new employments and opened 439 new stores. 87% of the employees of the company have fixed contract, while the other 13% have temporary contract, always used under extraordinary circumstances. Most of the new employees in 2006 were hired with fixed contract.

14.1. Inditex's Commitment to its employees

The Inditex commitment to its employees is developed into the Responsible Practices Directory. The objective of the directory is to seek professional, ethical and responsible behaviour from employees in the performing of the activities of the company.

The directory defines the type of conduct that the company expects from their employees and that is part from the Inditex's business culture. The values that they wishes to see in their teams are: ethics and co-responsibility, honesty, professionalism, respect and transparency.

The directory explains the relationship between the company and its employees, based always on mutual respect, dignity, justice and cultural sensitivity. These conditions of relationship are included textually in point 3 of the code of conduct and are the following: Inditex doesn't hire people under the legal age; employees have right of association; no form of harassment or physical, sexual, psychological or verbal abuse is permitted; no person employed by Inditex is discriminated on grounds of race, physical incapacity religion, age, nationality or gender; the salary received by employees are always according to the functions performed and all Inditex's employees perform their jobs in safe and healthy surroundings.

14.2. Inditex Commitment to equal gender opportunities

Inditex is a company committed to gender equality. In fact, women constitute a significant majority of Inditex employees in its principle spheres of activity, with the exception of the logistical centres, where they only account for 43% of the staff. In the other spheres of activity, such as factories and stores, the female presence exceeds largely the male presence (see **figure 32**). At Inditex men and women compete equally for opportunities in the selection processes, and apply for internal promotion based on the same criteria of assessment and development.

Figure 32

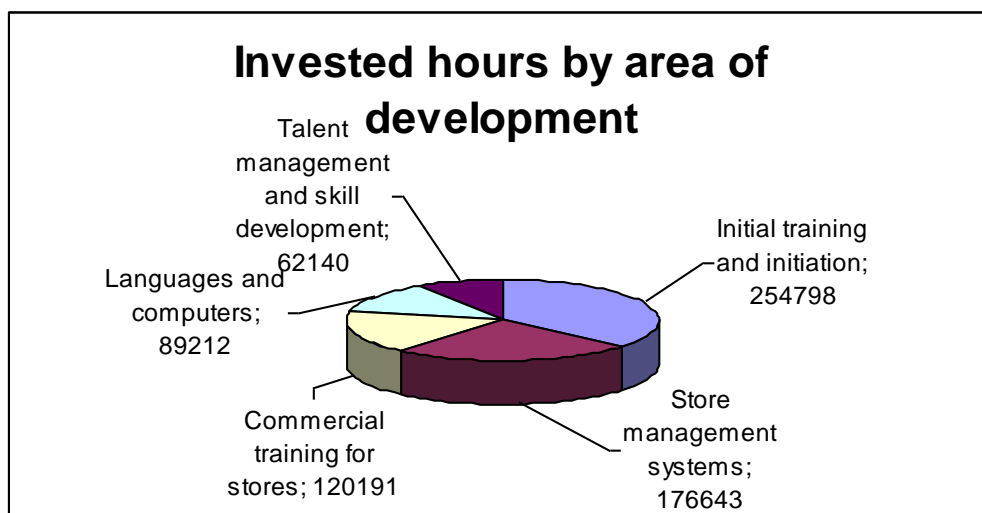


Source: Inditex Annual Report 2006

14.3. Continuous training and internal promotion

Group Inditex spent a total amount of 702894 hours among 8998 employees during 2006. This amount of hours is distributed in different areas of development, as it is shown in **figure 33**.

Figure 33



Source: Inditex Annual Report, 2006

The Group's corporate training plan has many different programmes, but among them, the most important by the total amount of hours and people involved are the following three:

PROGRAMME TO IDENTIFY HUMAN POTENTIAL:

Is a program implemented in all subsidiaries of the Group. The objective of this programme is to guarantee internal promotion in the stores and also in the points of sale of each of the chains.

TRAINING PROGRAMME FOR LEARNING SPANISH

As a Spanish company, Group Inditex has given the opportunity to all its employees to learn Spanish. This was possible thanks to an agreement with Instituto Cervantes and through an internet platform. The program began in 2006 and in that year Inditex's training department financed a total of 2000 licenses.

TRAINING PROGRAMME FOR CENTRAL SERVICES TEAMS

This program was oriented in a double direction: the training of corporate service employees in areas of specialist knowledge (auditing, human resources, finance, etc) and the training of the commercial group in areas of high impact for the business (industrial property and labelling, environment, procurement, etc).

14.4. Employment conditions

Inditex is conscious of the importance of the contentment of the workers to have a successful business and to improve competitiveness. In 2006, Inditex launched a series of measurements in Spain, in order to make easier the conciliation of professional and personal life. The measures are the following:

- Possibility to enjoy annual holidays apart from periods for pregnancy, giving birth, lactation, maternity leave, etc
- Possibility of mothers accumulating lactation leave into full days.
- The possibility of suspending an employment contract due to risk during natural lactation of a baby of less than nine months.

- Paternity leave of eight days apart from those granted to the mother due to birth. This leave is increased by two days in cases of multiple birth.
- Extension of maternity leave by two weeks in the event of the birth of a handicapped child.
- The right to maternity leave remains even in the event of the death of the newborn baby.
- Possibility of reducing the working day between one eighth and a half, for those caring for handicapped children or those under eight years of age.
- The possibility of splitting leave of absence for two years when caring for family members who are unable to care for themselves.

One of the aims of the company is to offer diverse jobs with different working hours and to provide work shifts that are as stable as possible. The promotion of part-time work is one of those practices. In 2006, part-time employees represented 61% of the total.

Recruitment Strategies

As can be seen in the first section of these report, Inditex have increased the staff exponentially since the beginning. This means that the company must have an adequate recruitment strategy to guarantee the incorporation of human resources into the company.

The number of subsidiaries of Inditex has caused the necessity to hire a high number designer and buyers for the areas of creation and product development. In order to attract and retain this kind of professionals, they are developing training and promotional activities for young people, in conjunction with educational establishments offering higher studies in design in various countries.

In order to find new sources of employment, the general directorate of human resources in cooperation within its corporate structures a new function, the immigration division. This area promotes relations with the ministry of employment and the secretary of state for immigration.

In 2007, Inditex opened two work centres in Madrid and Barcelona. The functions of these centres are centralising recruitment, selecting and training of personnel for the network of stores and employees of logistical centres. This

model will be implemented in other cities out of Spain, such as London and Paris. The main source of recruitment is the jobs web site, on which almost 2000 job offers were posted this year.

15. Personal Opinion

The subject of Corporate Social Responsibility nowadays is a topic that gains importance in all parts of the society, companies, governments as well as in the third sector. The analysis of the CSR Strategy at Inditex has been useful for us to acknowledge that the social compromise and the evaluation of the supply chain in multi-national companies affects the whole society. It leaves a lot of times disadvantaged behind and the improvement of the working conditions and the rights of workers is dependent on the efforts which multinational businesses are willing to make, often just after the pressure from Social networks such as the Clean Clothes Campaign. Therefore it is necessary to acknowledge that the work of NGOs has really been pushing the increase of CSR activities in multi-national concerns and that the work they do is inevitable.

In the 90s the textile sector suffered a revolution in means of a significant expansion of the markets due to the increasing consume, intensive advertising, the quicker response to demand and the fast changing fashion industry. All these influences made information and time the key issue between the Fashion companies and the consumers. This puts a lot of pressure on the retailers and the textile industry. To cope with all these developments in the market, the supply strategy is the essential part in textile companies today.

The Inditex Group developed a complex and an effective evaluation system of their suppliers to implement the code of conduct in an efficient and, what is the most important, responsible way into the suppliers' businesses.

After analyzing the CSR Strategy of Inditex we can say, that the ethical values integrated into their policy has been successful and that their model is the most advanced in the apparel and textile sector worldwide. It has to be pointed out that Inditex had been making a lot of efforts to improve the corporate actions', their transparency and that they managed to integrate an efficient and successful model into their core business, by creating a win-win

situation for the companies and the communities around their businesses and the economical benefits for the company. The effectiveness of their model was seen by the corrective action plan, which obliged the company to cancel a business relation, if a supplier did not fulfil the code of conduct.

The Inditex group does not only go in the right direction but is a shining example for the main competitors and all the companies in the Apparel Sector, which they should try to imitate.

Nevertheless there are still issues to improve. In countries where the major suppliers are situated, for example in Bangladesh and Morocco, the industry is growing, but due to lack of management systems factory conditions are deteriorating or the communities are not benefiting enough from the companies profits. This happens a lot of times when the participation and engagement in forums and multi-stakeholder initiatives is voluntary.

CSR is a quite new tendency, and as seen with the example of the Inditex Group it is a process of learning through mistakes. The implementation of a responsible and effective CSR Strategy does have to be a constant and an evolution process. Thus, audited by various parties and finding the balance not only between the social, environmental and economical issues in the company's daily business but also contribute to the sustainable development of communities, especially in developing countries.

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