

Inditex (Zara)

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ZARA ZARA
 HOME
 UTERQUE
Stradivarius

INDITEX

OYSHO Massimo Dutti

PULL&BEAR Bershka

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Introduction

The fast fashion industry has revolutionized the way we shop and dress, offering affordable and trendy clothing at a pace unmatched at any point in history. Zara, a flagship brand of the multinational fashion company Inditex, has played a significant role in the growth and popularity of fast fashion. This industry was built through a number of key innovations which reshaped the course of the entire fashion industry as well as supply chain management across all types of business. While Inditex and Zara have created a successful market where their products can thrive, the fast fashion industry has also faced criticism and controversy. As with every company that sells physical products, there are always environmental externalities, some which cannot be avoided. Both the positive and negative aspects of Inditex have contributed to shaping how the fast fashion industry is today. Over the course of this paper, we will discuss the origin of Zara, the development of the brand, and what the company has become today, while highlighting the key innovations along the way.

Background on Inditex

Inditex today is one of the leading fashion companies in the world, and is still based in Spain, where it was originally founded. Amancio Ortega established a dress making factory in 1963 under the name of Inditex, which was the first step in what would be a long journey. The factory made steady profits, so in 1975 Ortega and Rosalía Mera decided to sell their clothing in a store, the number of which has continued to grow year after year. This store was created under the parent company of Inditex, which they called Zorba (Hansen). However, in Galicia, Spain, there was already a restaurant with the same, so they decided to call their company Zara (Patriot Act). The store was a success, and Ortega and Mera decided to expand the business by opening more stores in Spain to test the waters. Store after store turned profits, and soon there were

aspirations for opening stores internationally. In its humble beginnings, Inditex was nowhere near the success it has achieved today.

The company really began to establish themselves over the course of the 1980s. Inditex began to expand internationally, opening stores in Europe, the United States, and Asia (Hansen). The company's success was due in large part to its unique business model, which focused on rapid production and distribution of trendy clothing. Zara was able to quickly respond to changing fashion trends and consumer preferences, which allowed it to stay ahead of the competition and attract a large customer base. Zara and Inditex single-handedly pioneered and perfected the fast fashion model, perhaps the biggest reason the company was able to grow at such a rapid pace (Patriot Act). The processes that went into the fast fashion aspect of the business model, which will be more thoroughly explained below.

Transitioning into the 1990s, Inditex continued to expand its international presence, opening even more stores across North America, South America, and Eastern Europe (Hansen). Not only were they expanding on a store location basis, but there were a few new brands introduced into the Inditex family. Some of these brands include Massimo Dutti, Bershka, and Pull & Bear, all which were introduced to increase Inditex's market width by targeting a different customer segments. The rapid growth of the company over the decade propelled Inditex to the top, and they had become a major player in the global fashion industry moving into the 21st century. Similar to many companies at the time, with the turn of the century Inditex embraced the technological changes associated with the development of the internet. With the continuous growth and innovation, Inditex was able to maintain its roots. Even with the emerging prevalence of online shopping, the company continued to open physical stores of each of the different brands. With the culmination of an already maximized supply chain, improved technology in

production facilities, and the ability to sell clothing online, Inditex was in a phenomenal position. Today, Inditex has more than 7,000 stores across 90 countries all around the world. The company's success has been driven by its innovative business model and its ability to quickly respond to changing consumer trends (Hansen). Zara remains the focal point of Inditex, and it continues to be a dominant leader in the fast fashion industry.

Company Structure

Inditex is headquartered in Arteixo, Spain, and it has a decentralized organizational structure. The way the company operates is with teams within the divisions holding a majority of the decision-making power on day-to-day affairs. Inditex wants to keep leadership as much as possible located close to its markets and customers to connect better with consumers. As for the specific organizations, Inditex is structured into several business divisions, the most prominent being Zara. This main brand put Inditex on the map and appeals to the most general market. Massimo Dutti is the brand that offers high-quality clothing and accessories for men, women, and children. The Bershka brand, which offers trendy, fast-fashion clothing and accessories, primarily targets a younger demographic. Other brands under Inditex include Pull & Bear, Stradivarius, Oysho, and Uterque, which all offer a range of clothing, accessories, and even some home goods. Overall, these subsidiaries all attempt to appeal to a younger target demographic, all while maintaining the fast fashion business model.

(See Appendix Figure 2 for Inditex Organization Chart)

Zara as a Disrupter

In order to understand the impact Zara had on the fashion industry, it is essential to understand how the traditional industry operated. At the core of the fashion industry, both before and after the fast fashion revolution, is the trend cycle. The trend cycle dictates what is considered to be “in style”. Previously, there were four seasons at the core of the industry; autumn-winter, spring-summer, resort, and pre-fall. Style was dictated based on these seasons and these seasons alone. Each year, top designers would host runway shows and release collections based on the fashion calendar. Stores would receive shipments, turning over inventory approximately every three months in conjunction with the fashion seasons (Backs et. al, 2021).

During this era of fashion, trickle-down fashion was at its peak. Best explained by Miranda Preisley of “The Devil Wears Prada” in the iconic cerulean blue scene (link provided in the appendix) fashion trends were set by top, luxury fashion houses and season after season, year after year, they filtered down to lower levels of fashion. There are two important things to take away from trickle-down fashion. The first, outwardly emulated in “The Devil Wears Prada”, is that fashion affects everybody. The trend-cycle is predominately consumer driven, so even the least fashion forward consumers contribute to the industry. If you wear clothes, you impact fashion. The second, less explicitly stated is the longevity of the trend. Something that is cerulean could be considered in fashion for years, at different scales, and clothes were made to support this longer trend cycle (Giedt, 2022).

Traditional fashion, especially at top levels, is focused on creating pieces of clothing and accessories that will last. To accomplish this designers and brands take time in selecting quality materials, and ensuring durability in their clothing. At the luxury level some pieces of clothing

and accessories, like the Hermes Birkin, border on artistry and will last as heirloom pieces throughout generations. At lower levels, clothes were made with quality materials combined with sturdy stitching so that the owner could wash, wear, and repeat for many years to come. Fast fashion operates differently (Crofton et. al, 2007).

The rise of fast fashion was attributed to many things, one of which was the increasing speed at which trends rose and subsequently fell out of popularity. Figure 3, located in the appendix, shows a part of the trend cycle, on the y-axis is the number of adopters of a trend versus time, on the x-axis (Yinyin, 2011). This figure is a good example of traditional versus fast fashion. Line one at the top, is classic pieces, things that never go out of style. An example of this would be a classic pair of denim blue jeans. Classic jeans have stood the test of time, and are considered to be a fashion staple, something like this has the greatest number of adopters and will always be around.

The next line is for “moderate” pieces. Moderate pieces are considered to be in style for a significant amount of time and have a high level of adopters. Wide-leg jeans are a good example of this, they first rose to popularity in the 1990s, where they remained a beacon of the industry until the early 2010s where the popular style of jeans shifted to skinny jeans. However, the second half of the moderate line shows that some pieces fall out of fashion then make a comeback. This is currently the trend with wide-leg jeans. Nineties fashion is currently experiencing a revival and along with it are wide-leg jeans (Bain, 2021).

The bottom line represents a fad, or something that is only popular for a very limited time. For a period of time in the early 2000s, every socialite and celebrity was wearing denim on denim, that trend did not last very long and fell out of style just as quickly as it came into it. Lastly is the orange fast fashion line, fast fashion falls in between moderate fashion and a fad.

Pieces that are popular for a little bit, quickly fall out of style. In the summer of 2022, colorful and patterned jeans were everywhere, but when the fall came around they were already out of style and nowhere to be found. This is an example of how, in 2022 fashion and trends are changing faster than ever with fast fashion as its lifeline (Stanton, 2022).

Zara was the first fast fashion company. In order to keep up with rapidly changing trends, they utilize a “52 micro season a year” mindset. Zara considers every week to be its own new season, and there are new styles emerging to constitute that demand. In order to keep up with consumer demands Zara constantly changes the inventory in their stores, sacrificing some quality for quick turnaround times (Bucks et. al, 2021).

The fast fashion industry also expedited trickle down fashion. Now, designs that appear on runways are being replicated by companies, like Zara, with the same season in which it made its runway debut. Going back to “The Devil Wears Prada”, immediately after Oscar de la Renat showed cerulean blue gowns, Zara, if it had existed, would create pieces in the signature color. Emulating high end pieces accounts for a large portion of Zara’s inventory, a real life example of this is the color “Valentino Pink” the color the fashion house Valention Garavani centered their fall-winter 2022-2023 collection around (Valentino, 2022). Where in previous years it would take years for this color to make its way down to the average consumer, Zara has made it accessible; by already carrying pieces in this color at a much lower price point (440 Industries, 2021) .

The affordable nature of fast fashion is another way in which they changed the industry. Although fast fashion clothes are cheaply made, they are very affordable to the average consumer. Zara is able to provide consumers with the opportunity for consumers to be “in-style”

at a price that traditional companies cannot compete with. To achieve such high levels of success in the fashion industry Zara utilized many significant positive innovations (Crofton et. al, 2007).

Stages of Evolution

| | Fluid Phase | Transitional Phase | Specific Phase |
|--------------------------------|-----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| Organizational Controls | Ortega beginning to find ways to expand his own business | Establishing Inditex as a publicly traded company | Divisions of teams dedicated to operating each individual brand with some central oversight |
| Innovation | Supply Chain | Coordinating production facilities and distribution centers | Constantly updating inventory and introducing new products every week |
| Production Process | A shift from simply producing clothes in a factory and selling them to establishing a line of stores under Zara | Optimizing Production at a large scale and keeping raw materials on hand at stores | Advancing new orders of successful products while always changing what is in production |
| R&D | How to obtain large quantities of cheap production materials | Strategically scaling the size of the business and testing new markets | Looking into more sustainable methods of producing clothing and staying with trends |
| Plant | Simple single factory production, but still made clothes efficiently | Lots of factories that were located close to distribution centers | Optimized locations of factories and plants placed throughout the world |
| Competitors | Looked for new market in an already saturated industry | Superior supply chain and organizational control allowed them to price lower than most competitors | Competitors are attempting to copy the extremely efficient supply chain of Inditex |

Positive Innovations

In order to accomplish their revolution of the fashion industry, and maintain their success, Zara combines vertical integration, an efficient supply chain and technological advancements in order to achieve maximum efficiency. Zara is a very vertically integrated company. They have exclusive control over all aspects of the process that goes into selling clothes. Zara has authority over the design, manufacturing, warehousing, logistics, and the distribution process. The control emulated by Zara is especially important because it allows for their supply chain to succeed (O'Marah, 2016).

Zara's supply chain is extremely lean and agile, centered around one building known as, "The Cube". The Cube serves as the global distribution center, everything both starts and ends in the cube. Figure 3 in the appendix shows a diagram of how The Cube runs (Mhugos, 2020). One of the most important factors of Zara's success is their management of the manufacturing process. At any given moment Zara only has four to five raw materials on hand, these materials change from year to year but never exceed five. Because of this, Zara's suppliers can quickly transport their bulk orders to The Cube. It only takes around 5 days for an order to be fulfilled. Once the materials arrive at The Cube, they are cut and dyed in house. The cut and dyed fabric is then sent via high speed monorail to one of 11 different factories surrounding The Cube (Caro et. al, 2010).

In the factories, the clothes are turned into finished garments, placed on hangers with tags attached and sent back to The Cube. Zara's factories operate so that they can quickly increase and decrease production rates based on demand. They only 50- 60% of their manufacturing in advance, as opposed to the 80- 90% done by their competition. This allows Zara to respond to new trends practically in real-time, satisfying consumer needs faster than competitors. Zara does

not make big bets on what clothing will satisfy the trend cycle, rather they place fashion bets on short term trends that are easier to predict. Zara makes their predictions off of two- six week demand forecasts. This offers Zara freedom from being stuck in market ups and downs when it comes to consumer demand, something their competition struggles with (O'Marah, 2016).

One of the key reasons why this works is because of how quickly Zara can get clothes to their stores, and consumers. It only takes a few days to ship garments worldwide with dispatch times being; 48 hours to China and the United States, 72 hours to Japan and 24 hours to Europe. Store managers send their orders to The Cube, once received the finished garments are dispatched to the stores. When the garments arrive at stores they are already on hangers with tags pre-attached, so the clothing can go directly onto the sales floor. Zara stores receive inventory shipments around two times per week, so this structure provides a large organizational advantage (Caro et. al, 2010).

The demand forecasts used by Zara also provide an advantage. As previously stated, because of their use of short-term forecasts, Zara is able to predict consumer behavior in almost real-time, which has many benefits to the company. Zara uses algorithms and data analytics to come up with these forecasts. Zara also uses a program that analyzes individual store inventory, analyzing stock levels and predicting what pieces need to be re-ordered from the Cube. This program is estimated to have increased sales revenue by 3-4%. The advanced technology Zara uses is instrumental in giving them a competitive advantage. Competitors are constantly trying to emulate the success Zara has found with their organization mode. However, while it is possible for other companies to acquire the same technology, Zara has spent over 30 years perfecting vertical integration and their supply chain. Because of this Zara's efficiency will be nearly impossible to replicate (Mhugos, 2020).

Negative Externalities

Inditex and more specifically Zara is certainly an innovator in the fashion industry, and the company has contributed in numerous ways towards streamlining a number of aspects of the process. Despite the great brand recognition and ongoing financial success, behind the smoke and mirrors of “affordable high fashion” are a multitude of negative externalities that could potentially outweigh the positive aspects of the company. Although almost everything in the world is some type of tradeoff that society faces, companies like Inditex might actually be doing more harm to the world than they do good.

Fast fashion has had many adverse effects, particularly on women. One of the most prominent negative effects is that these companies engage in shame-driven marketing. Shame-driven marketing is designed to tell women that their clothes are out of session, that they need to look a certain way, or that their look is out of style and no longer attractive. This marketing style has helped pump up their sales and resulted in fast fashion being more profitable than traditional fashion; however, it’s had severe consequences for women, particularly younger women.

Surprisingly enough, even now, fast fashion items are cheaper individually, and collectively fast fashion has actually proven to be more expensive. (Petro 2012) These clothes are designed to be cycled in and out of your wardrobe. They’re only meant to be worn a couple of times and then discarded. This resulted in fast fashion, making many cheaper clothing items with low-quality fabrics. Studies have shown that this is made it more expensive than traditional fashion. Well, only slightly more costly, the necessity to continue to buy new clothes create a situation where at the end of the year you’re spending more than you would have. (Petro 2012)

Additionally, fast fashion also traps young women in poverty. 80% of the people making our closer young women. These young women, mostly in south Asian countries, are usually

between the ages of 18 and 24. These young women, on average, make less than 3 dollars a day. This is not a livable wage and is not sustainable for them. This has adverse effects on these women and perpetuates a cycle making them unable to leave their job to find another one. (Petro 2012)

Inditex and other fast fashion companies contribute significantly to world pollution, and there is plenty of empirical data surrounding the harm of textile production facilities. In 2015 textile production produced "More emissions than all international flights and maritime shipping combined" (Butler 2018). Thinking of the vast quantity of planes and ships a year and how much exhaust they give off, it is difficult to picture exactly how much pollution is caused by textiles. Oil is the base material that is used in making clothing such as polyester, nylon, and spandex. The microfibers that are synthesized and used in fabrics use 342 million barrels of oil to produce tens of billions of garments every year (Patriot Act). Not only is there a tremendous amount of oil used in making clothing, it also requires a substantial amount of water. It takes about 5,000 gallons of water to produce only two pounds of cotton (Patriot Act 2019).

A key yet underrated aspect of the pollution created by the fast fashion industry has to do with the type of material that the clothing is made out of. Zara and other fast fashion retailers often use viscose in their clothing because it is extremely cheap, and it makes it easy for factories to produce clothing in large quantities. Viscose is a type of fabric that is made from plant-based materials, typically the aged carbon buried in the ground from the remains of trees, plants and whatever other once organic material that is compressed (Robertson). Once processed, however, viscose is known for its soft, smooth, and silky texture, so it is primarily used for clothing and bedding.

Unfortunately, the process of making viscose is the opposite of environmentally friendly. The wood pulp used to make viscose is typically obtained through unsustainable logging practices, rather than waiting for the raw materials to develop naturally (Robertson). If left unchecked, the need for cheap raw materials could lead to deforestation and decreased biodiversity, issues only fueled by the huge volume of clothing in demand. Beside the primary negative externalities, the production of viscose also involves the use of chemicals, such as carbon disulfide, which can be harmful not just to the environment, but to workers in Inditex facilities. The icing on the cake is that viscose is not considered a sustainable fabric because it is not biodegradable. When it is disposed of in landfills, it can take decades to break down, and this decomposition can release harmful chemicals into the surrounding soil and water (Robertson). Looking more specifically at this chemical process, most of the harm comes from the dyes used in coloring clothes.

Once clothing is put together, the next step in the process is dyeing the clothes. The chemical process for dyeing the clothes is detrimental to the environment in the immediate areas around production facilities, especially waterways. There are a number of Zara factories on the Citarum river in Indonesia, which is known as the most polluted river in the world (see appendix). Although Inditex is not the only one to blame as other companies also produce clothes in this area, the chemical runoff from dyeing clothes as well as overall pollution has completely devastated a region with approximately five million inhabitants (Butler 2018). Inditex should be held at least partially liable for this manmade disaster.

Not only does Inditex directly harm the environment through making clothes, there is a lasting impact through the clothing life cycle. Going back 40 years to the early 1980s, the average American bought around 12 new articles of clothing a year, which sounds like a

reasonable amount. The most recent data in 2019 says that Americans purchase on average 68 new articles of clothing a year, with 50 percent of these pieces being worn only 3 times a year or less (Patriot Act 2019). Unfortunately, this dramatic increase in the amount of clothing Americans have been purchasing cannot be offset by a solution as simple as donating your old clothes. Most of the clothes that end up at Goodwill or other clothing donation centers that are not sold in a month's time end up getting sold in bulk to developing nations in Asia and Africa (Patriot Act 2019). These countries pay little to nothing for tons of clothing to be imported, which is beneficial in the short run. However, around 87 percent of disposed clothing ultimately ends up incinerated or in a landfill (Patriot Act 2019). Without the proper means of recycling, the greenhouse gasses emitted from the sheer volume of clothes burnt has significantly contributed to climate change. The ever-growing number of articles of clothing produced by fast fashion companies like Inditex contribute to pollution both during the production phase of their products, and from the disposal. Investing more into using sustainable materials to use in production, methods of producing clothing that use less water, or even establishing a proper procedure for the disposal of old clothes are all steps that Zara could take to diminish their carbon footprint on the world. However, Zara has taken a much different approach when it comes to environmental conservation.

A new innovation in the world of corporations attempting to appear sustainable is known as "greenwashing." Greenwashing refers to companies who attempt to appear to be rather sustainable and virtuously green when in reality they have not taken any steps to physically make a better environmental impact (Patriot Act). When selling certain products, Zara slaps tags onto articles of clothing that say green, eco-friendly, and environmental sustainability. However, none of these terms have legal definitions when it comes down to the marketing implications of these

descriptions (Patriot Act). An “eco-friendly” Zara shirt does not have to meet any qualifications to retain its title as “eco-friendly” that a regular shirt at another store would not. A real world example that Zara has advertised is a jacket made with “the most sustainably produced polyurethane” (Patriot Act). Polyurethane is a type of oil, and unless Zara has discovered a more sustainable way of collecting crude oil that the big oil companies are not aware of, it is probably just standard oil. Additionally, Zara advertises shirts that are produced with “ecologically grown cotton” (Patriot Act). By definition, “ecologically,” means anything relating to life or living things. Cotton is a plant and inherently a living thing, so all cotton is “ecologically grown,” but that phrase is used in an attempt to greenwash the company. These buzzword terms can be utilized by Inditex to mislead both investors and consumers into the processes that go into their clothing production.

The best example of greenwashing in Inditex is through the Zara Join Life clothing line. In fact, this advertising campaign is next level greenwashing as Zara buries key pieces of information that alter consumers perceptions and change how they would view the product. For instance, the Join Life line has a pair of jeans that “reduce water used in the dyeing process” (Patriot Act). This claim seems like the jeans would be produced in a substantially more eco-friendly way to the consumer, however, only about 1% of the total amount of water used in the production of Zara jeans is in the dyeing process (Patriot Act).

Marketing

We talked about how Zara is a pioneer in fast fashion and how their business model minimizes the difference between fashion trends and when similar items had the racks. However, one of the reasons they keep their cost down is their minimal marketing budget. Zara sells clothes at extremely high margins. A big part of their success is that Zara spends only .3% of a sale on

marketing. This is compared to the 3.5% that most other fashion brands spend on advertising alone. They were one of the first companies to switch focus from advertising products to building a brand. They've created a luxury brand ethos yet sell affordable clothing. This has allowed them to build up a significant Fanbase of loyal customers.(Nazir 2019)

Additionally, they were one of the first companies to focus heavily on social media. They started pumping out cheap, high-quality images and videos and amassed over 30 million Instagram followers and 28 million Facebook followers.

The next revolution in terms of advertising that Zara started was influencer marketing. They were one of the pioneers in terms of clothing brands, specifically focusing on accounts with around 150,000 followers. They found tremendous success with this. They continued to be innovators in an immense number of aspects of their business. (Nazir 2019)

Recommendations

Although Inditex has done rather well over the course of its history, there are several potential recommendations that we believe the company could incorporate. To benefit the company in the long run, Inditex needs to be able to maintain its current business numbers while transforming its image in a more sustainable company. Further emphasizing sustainability would be an enormous factor in the way consumers view the company. Inditex has already made some progress in this area, but there are always steps that can be taken to improve sustainability. We recommend dedicating additional funds to research and development of more sustainable methods of obtaining raw materials and coloring clothing. The company could also consider implementing more sustainable practices in its supply chain, such as using less viscose and more eco-friendly materials. This would benefit the environment immediately, but Inditex could also start tree planting initiatives to make up for the forests that were decimated in the past. These

changes would improve Inditex's reputation as a socially responsible company, which ideally would in turn, improve their business.

One area that we wanted to emphasize is that Inditex and Zara have been able to maintain their growth in the fashion industry while competitors stagnate through their constant innovation and adapting to current trends. The fashion industry is constantly evolving, and it is important for Inditex to remain up-to-date with the latest fads and styles. One place where they might be able to see an increase in sales would be through expanding their online presence. In today's digital age, it is important for companies to have a well established connection with the internet community. Inditex could consider investing in its e-commerce side of the business, as well as increasing social media and advertising spending across all their digital platforms to better connect with customers. If Inditex cleans up its image on how the company treats the environment and they can establish a slightly broader market, they will continue to grow and innovate for time to come.

Conclusion and Lessons Learned

Overall, Zara is one of the most innovative fashion companies in history. They initially started as a disruptor turning traditional fashion on its head. Ever since they've been able to maintain their success, with an extraordinarily lean and agile supply chain, the company changed how fast fashion and fashion companies manufacture the clothing. Inditex spent over 30 years perfecting their supply chain, yet they still continue to find ways to make it more effective. Their research department is second to none and is always ahead of trends. Whether it be designing, manufacturing, advertising, etc. Zara has proven to be one of the most well-equipped, innovative companies today. Through the key innovations in production and distribution, Inditex has established itself as a leader in the global fashion industry. While the company has faced

criticism and controversy, it has continued to grow and adapt to changing consumer preferences and technological advancements. The success of Zara and Inditex can be attributed to their unique business model, which has allowed them to quickly respond to changing trends and maintain a large customer base. Despite the challenges, the fast fashion industry has continued to evolve and shape the way we think about fashion today.

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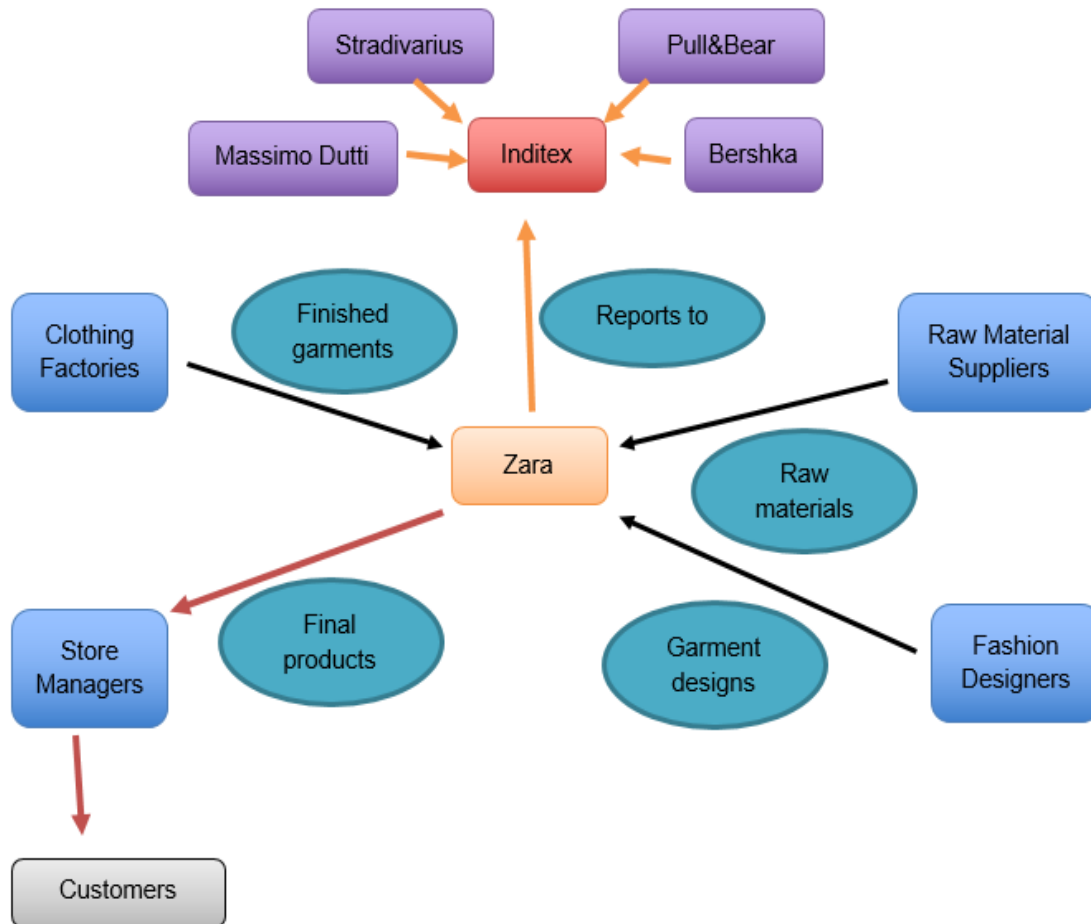
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Appendix

Figure 1: Inditex Organization Chart



Video Link:

<https://www.youtube.com/watch?v=Ja2fgquYTCg>

Figure 2. The Trend Cycle Diagram

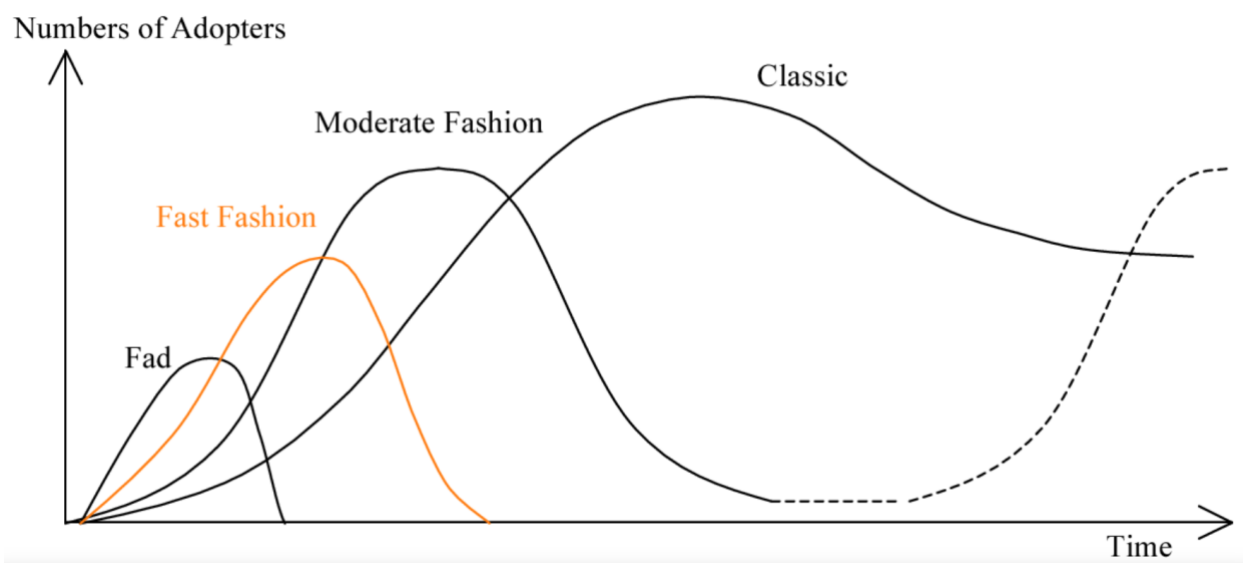


Figure 3: The Cube Distribution Center Diagram

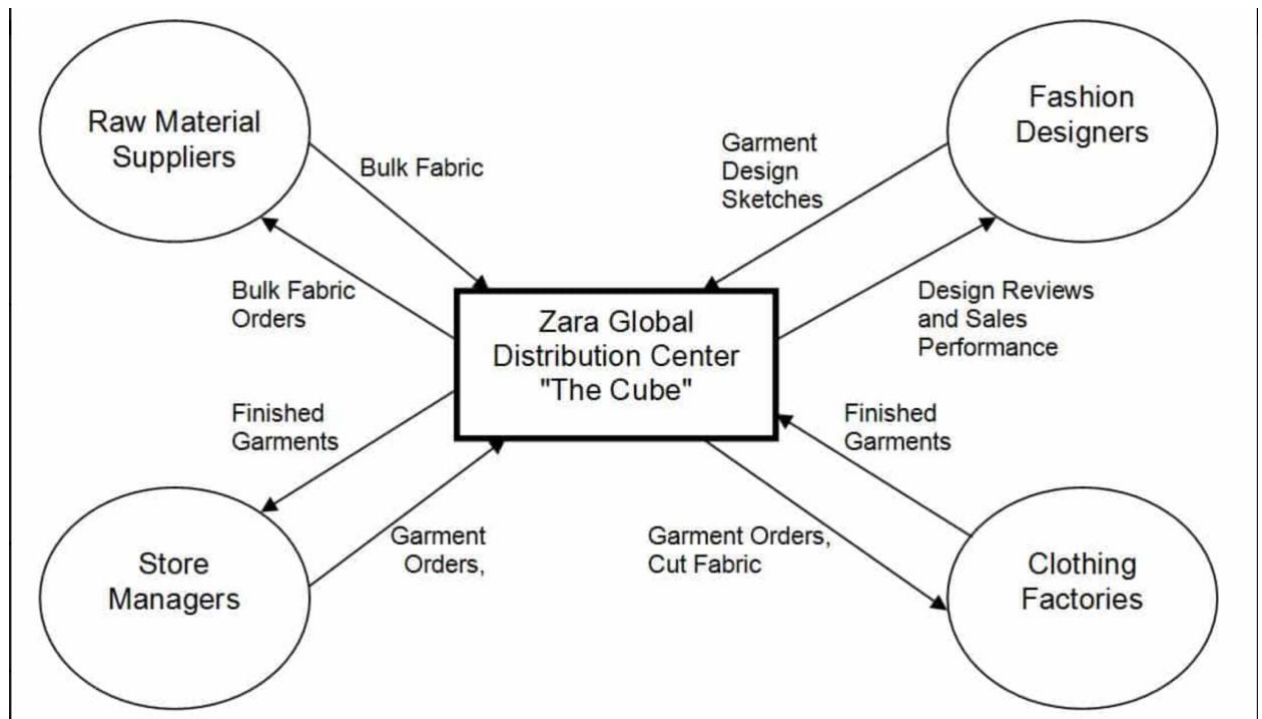


Figure 4: Citarum River Pollution

