The Economist

Clothes retailing

The dedicated followers of fast fashion

Spain's most successful fashion retailer, Inditex, has two ambitious local rivals snapping at its heels

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ON HIGH streets and in

Enjoying Desigual's Mediterranean vibe

shopping centres across the globe, Spain's most successful clothing retailer, Inditex—best known for its Zara outlets—does battle daily against such other multinational fast-fashion giants as Hennes & Mauritz of Sweden, Uniqlo of Japan and Gap of the United States. But it also faces rising competition, at home and abroad, from two Spanish rivals, Mango and Desigual.

The larger of the two contenders, Mango is still fairly small: its turnover of €1.9 billion ($2.6 billion) last year was less than one-fifth that of Inditex's Zara branches. But Mango already has more outlets than Zara, and is in more countries (107) than Inditex as a whole (88). Mango plans to open lots more branches and increase its turnover to €5 billion by 2017.

Desigual is smaller still. It had sales of €828m last year, four-fifths of them outside Spain, and has outlets in 109 countries. It has expanded tenfold since 2007. Its heady growth has attracted the attention of Eurazeo, a French private-equity firm, which in March bought a 10% stake. This valued Desigual at €2.9 billion; Inditex's current stockmarket valuation is €70 billion.

Besides all being from Spain, the three retailers each have media-shy founders who have brought in outside managers to help them expand, explains Marcel Planellas of Esade Business School in Barcelona. Amancio Ortega of Inditex—*Forbes* reckons he is now the world's fourth-richest man—began by making bathrobes before opening the first Zara in 1975 in Galicia. His success blazed a trail for the other two. Isak Andic, Mango's Istanbul-born founder, started by selling imported goods at a market stall in Barcelona, and Desigual's Swiss-born Thomas Meyer made denim jackets in Ibiza. Mr Andic and Mr Meyer both opened their first shops in the mid-1980s, though Desigual was a late bloomer until its recent growth spurt.

Whereas its two younger rivals follow a more conventional fashion-retail model of changing their collections two to four times a year, Inditex constantly churns out new designs, to encourage consumers to return to its shops frequently. Inditex has about half of its clothes stitched together in Spain or nearby countries, so it can react fast to changing trends. This costs more but helps avoid fashion misses and markdowns. The other two, again following the industry's conventions, have largely outsourced production to Asia, though Desigual is also starting to stitch more clothes in Europe to get them into the shops faster.

Inditex has been able to do without advertising, relying on good store locations in big cities to attract custom. Desigual, in its rush to catch up, has created a buzz with controversial advertisements (such as a television spot in which a young woman, wishing to get pregnant, puts pinholes in her partner's condoms) and quirky promotions such as offering free clothes to shoppers who arrive in their underwear. Desigual promotes itself as a "lifestyle" brand, more like Nike than Zara. Its bold prints and carefree, Mediterranean vibe are almost as popular in France as they are in Spain, says its chief executive, Manel Jadraque, who is aiming to make France the company's biggest market by the end of this year. "If we can make it in Paris, the birthplace of fashion, we are doing well".

Though Desigual has outlets all over the world, around nine-tenths of its sales are still in Europe, so it is unclear how far its vibe can travel. It has closed its shops in China to concentrate on other Asian markets, such as Japan. Inditex, in contrast, has more than 450 shops in China.

Mr Jadraque, seeing how crowded the budget end of fast fashion is getting, is targeting a slightly fancier segment of the market: in Spain Desigual's T-shirts start at €29 compared with around €13 at Zara and €10 at Mango. It sells its clothes through a variety of channels, such as wholesalers and department stores, and it has extended its brand into shoes, sportswear and cosmetics. So far, Desigual's focus on "fun and profit" is paying off. Last year its margin (on earnings before interest, tax, amortisation and depreciation) was 29%, higher than Inditex's and double that of Mango.

Europe's recession hit Mango harder than its rivals. In 2011 it had to cut its prices and reinvent itself, ditching glitzier clothes to focus more on casual basics, says its chief executive, Enric Casi. Last year sales grew 9%, outpacing Inditex's. So far, Mango's shops have been relatively small, and aimed at young women. Emulating Inditex, it is now opening bigger ones that stock men's and children's clothes, sportswear and underwear, as well as a separate chain called Violeta by Mango, for women with fuller figures. All this means heavy spending on logistics, says Mr Casi, and less reliance on franchised outlets for growth.

Such change is akin to altering Mango's DNA says Joan Enric Ricart of IESE, another business school in Barcelona—a formidable challenge. Even if all goes to plan, it will take almost a decade to get to where Zara's sales are now. Nevertheless, having two such ambitious rivals on its doorstep will surely keep Inditex on its toes.

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