Zara's New Focus: Bigger Bricks, More Clicks -- 4th Update

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By Patricia Kowsmann

LA CORUÑA, Spain -- Zara's new flagship store in its hometown here illustrates part of the fashion retailer's strategy to stay ahead of its rivals: focusing on bigger brick-and-mortar stores and an online expansion.

Zara's new store, with over 54,000 square feet and five stories, opened in September and replaced four smaller ones spread around town.

It serves as the model for other Zara flagship stores the company is rolling out around the world. The retailer hopes the new stores, which will contain full range of its collections, will persuade customers to browse and ultimately buy more.

The changes at Zara come as traditional retailers are struggling to catch up with rapidly changing consumer purchasing habits, as more shoppers shun stores in favor of online purchases.

Such pressure helped prod Neiman Marcus Group Ltd. into its decision this week to begin talks to sell itself to the parent of Saks Fifth Avenue. And some analysts have suggested that it is time for Gap Inc. to explore strategic alternatives for Banana Republic, including a potential sale or shutting down the brand.

An urgent question for most retailers is the right brick-and-mortar strategy to adopt. For instance, Macy's Inc. is shutting hundreds of stores even as Gap is expanding its network after a big retrenchment.

Inditex SA, Zara's parent and the world's largest fashion retailer by sales, hasn't said how many such stores it will open.

The company's strategy, supported by a rapid-fire production system that lets it replenish its stores more quickly than rivals, is aimed at setting itself apart in an industry struggling to identify the right brick-and-mortar strategy.

Inditex seeks to have "full integration of the brick-and-mortar stores and online businesses, with store openings that are increasingly more relevant," said Inditex Chairman and Chief Executive Pablo Isla said in a press conference Wednesday.

Despite a difficult year for retailers, Inditex saw net profit jump 10% last year, while sales hit a record of EUR23.31 billion ($24.76 billion), according to figures released Wednesday. That momentum has continued this year, with 13% growth in store and online sales in constant currency terms over the past six weeks.

Sales at Inditex stores open at least a year rose 8% in the first six weeks of this fiscal year, according to calculations by Société Générale analyst Anne Critchlow. The Spanish retailer's main fast-fashion rival, Hennes &Mauritz AB, reported same-store sales fell 1% in February.

For years, H&M and Inditex raced around the world opening stores. But last year, Inditex started to slow down its expansion. H&M, instead, kept up the pace, but the push failed to pay off, with the Swedish retailer reversing its expansion plans in January after reporting a 2016 fall in profit.

Inditex, which also owns the Pull&Bear and Bershka brands, on Wednesday said it plans to open between 450 and 500 new stores in 2017 while absorbing 150 to 200 smaller ones. In 2016, it opened a net 279 stores, bringing its total to nearly 7,300.

Analysts say Inditex's new strategy leaves plenty of space for the online platform to expand without cannibalizing the brick-and-mortar shops. By closing smaller stores and focusing on flagship stores, customers who aren't close to these stores could be prodded into shopping online, according to analysts at Berenberg.

Inditex, which doesn't break down online and store sales, is trying to integrate the two services. For instance, customers can pick up and return online store-bought purchases. They can also order online with the help of a store clerk.
"Inditex is the best-in-class omni-channel retailer, complementing its flagship stores with a highly convenient ecommerce proposition," Berenberg analysts wrote in a note.
For all of 2016, Inditex reported a rise in sales at all of its eight brands, including Pull&Bear and Bershka, and across all regions. Zara alone was responsible for 66% of total sales.
Analysts welcomed a plan to raise the dividend payout by 13% to EUR0.68 a share, reflecting the company's EUR6.1 billion cash pile.
"Inditex is sitting on a very large cash pile and this looks set to increase over the years to come," Ms. Critchlow said.
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