



Zara - a Company's Architecture in the Light of the Amber Compass

Most consumers see Zara as a global chain which offers affordable versions of trending designer fashion. But for the insider, Zara stands for the revolution of fast fashion. The company was founded in 1974 in Northern Spain, and has, under the name of Inditex, grown into one of the largest fashion empires with several brands. Zara is at its core. As its founder Amancio Ortega said, Zara is a top level logistics company situated in the fashion industry. Let us see what this means, and how their approach happens to mirror the key elements of the [Amber Compass](#). While the first reading of the Amber Compass usually leads you to understand what you as an individual can *do* in order to deal with complexity, in this case we look at how the company's architecture enables and fosters these things to be done by many.

So let's dive in and see what makes Zara so interesting.

Whereas a traditional fashion producer presents 4 collections a year, Zara puts new designs to stores twice a week. In terms of variety, this means that about 10 000 designs get to the stores each year, which, accounting for various sizes and colours, amounts to about 300 000 stock keeping units that need to be managed. Quantity and variety are one side of the challenge, speed and responsiveness the other. In a story reported by the Economist, when Madonna came to Europe, by the end of her tour her fans came to the concert dressed in an exact copy of her outfit, which was designed, produced and brought to the shops in less than 3 weeks. This may be an extreme, and many of the basics of the collection circulate at a slower pace. But the potential of fast fashion is to react short term to consumer demands, and success depends on the capability to yield it. Speed, turnover, and variety are in the focus of this system.

On the highest level of architecture, the system is designed to allow for this focus at a manageable level – by limiting the constraints for various sub-systems. Picture the overall fashion supply chain: fibres are spun into threads and woven into fabrics, dyes give them colour at various stages of the process, and accessories such as buttons are produced. These are cut and combined according to specific designs to produce garments, which are shipped to the point of sales. The goal is to allow for a fast drumbeat at the storefront, changing the offer in reaction to very recent information. A rash conclusion would imply that you build your whole supply chain to this drumbeat, down to the very end of how much fabric or dye to order for your product – a true nightmare. But does it have to be that way? The inbound part of the supply chain, the ordering of raw materials, can move slower, not the least since it obeys other rules of the industry.

For consumers, fashion trends seem to be the epitome of complexity and emergence: Many voices, from famous designers, influencers and powerful fashion magazines, combine in a kind of free jazz tune: each one wants to set the leading melody, the next big thing, but since they all know they cannot create a trend alone, they carefully observe each other in order not to fall out of harmony. The reality is quite different. When you make a difference between the materials on the one side, and what you do with the materials on the other, you realise that the former resembles classical music much more than jazz. The trending colours and fabrics of a season are decided over a year in advance by a small number of people, the organisers of the *Première Vision* trade show, and published as the *Première Vision Colour Card*. While these people don't act without observation and a wide variety of sources and inspiration, the *Colour Card* creates a bottleneck in the otherwise complex universe of fashion: a hand-built, very deep attractor basin – if you want, an attractor well. It allows the production of dyes and fabrics to run according to industrial logic, with planning, scaling and longer production cycles. It reduces the zone of exploration in order to allow for the industrial exploitation of fabric and dye production with limited risk. Zara is no different from their competitors on this side of the value chain. They order fabrics and materials, and stock them before the designs are created. Only in one element do they account for the higher flexibility needed further down the value chain: Two thirds of the fabrics are ordered undyed, so their colour can be chosen short term. For the designers, this means that as long as they work with the existing stock of materials (the constraint), they can be as free and adaptable as they want – or as the signals from the market indicate.

A second constraint becomes visible in the geography of the sewing factories: Zara works with a number of external suppliers, but most of them are in Southern Europe: Spain, Portugal, Turkey and Morocco. Although the cost of labour is higher than in South Asia, the speed of delivery to European markets compensates for this disadvantage. Not surprisingly, some basics such as white t-shirts, which don't obey the laws of fast fashion, are produced further away, and circulate at slower speeds. Also, Zara is the dominant client for most of its suppliers. This, too, impacts speed. With higher levels of trust, bureaucratic hurdles can be easily removed. IT systems can have real time access to data across company borders, and phone calls can be binding. On the other hand of the spectrum, negotiation power is high, which helps ensure a unified system of collaboration across all suppliers.

As third structural constraint, Zara has divided the outbound value chain in three separate units: womens, mens and children. Each of these sectors has a separate team of designers, product managers, and market specialists. In comparison to competitors, this redundancy represents an increase in manpower, but it pays off by allowing for what is more important: the flow of information, and a combination of “hard” and “soft” information channels which allows many of the players to have a comprehensive overview of what is going on in the whole sector – the combination of high and low granularity, the trees and the wood.



Here, within the individual “lane”, the constraints are wide open. At headquarters, the three sectors all have an identical central office: the core of their operation. A large room with a huge table, where designers, market specialists, procurement managers and production planners work next to each other. Away from the table, there are small meeting areas to be used ad-hoc, where prototypes can be checked and discussed. The area is designed for the maximum flow of osmotic communication from multiple perspectives: people can reach out to each other informally any time. If some designers discuss a decision, market or production specialists around them catch up snippets of the conversation, and can weigh in. If someone makes a phone call to a shop, someone else may overhear something, and react to it. A certain amount of distraction is accounted for, because every now and then, a distraction turns into serendipity: something is overheard and identified as important by the listener only – something that would never have happened through the structured channels of communication. At the heart of the whole organisation, this place is specifically designed to reduce relevance filters within the various functions, and to connect various perspectives.

At the same time, relevance filters to the outside world are carefully managed, and possibly reduced. One part is, of course, digitized data: sales and inventory figures, at shop level granularity if necessary. Everybody in the room has access to real-time data from the stores, and uses them daily. This implies a fundamentally different posture of the designer. The over 200 designers at Zara are not the divas we know from other brands, whose artistic genius alone is the source of the brand’s success. They are expected to be attentive and reactive to what the customers desire. Designers consult market data on a daily basis, not for reasons of vanity, but in order to make better decisions. Picture the star designers of the industry over a PDA, trying to learn something about their customers... Based on this responsiveness to the outside, the community of designers creates aligned autonomy by forming a highly interdependent network based on information, dialogue, mutual visibility and feedback. There is no chief designer.

Apart from data, which has an increasing share in the information used throughout the room, unstructured channels are carefully maintained. In the corner, there is a small prototype shop, where mostly employees from all areas of headquarters try on garments, and give feedback. While this feedback has no quantitative importance, its weight lies in the quality of the source: someone who knows the industry, and who is well known by those who listen.

By comparison, the next layer of unstructured feedback weighs much more. About once a week, each shop has a short phone conversation with a market specialist in each of the three rooms. This is where they can give qualitative comments on the data, and tell stories about what they have observed. The micro-narratives help make sense of the figures. Data may tell that a certain piece has sold fast, but the stories tell what kind of customers bought it, why they bought it, and what else they asked for. In 2015, a lady walked into a Zara shop and asked the manager for a pink scarf. They did not have any, and the manager happened to mention it to headquarters. So did half a dozen others from around the world. And someone connected the dots. A week later, Zara flooded the shops with 500'000 pink scarfs, which sold out in 3 days.

While the designers thus use the huge network of shops as an exploration and monitoring tool for the market, they also observe the usual centres of attention of high fashion – not the least because Zara strives to replicate Haute Couture at affordable prices. Interestingly enough, it is some of the designers who do the scouting – another filter removed by integrating the two functions. But also, the trend-spotters never go to fashion shows. They follow bloggers and influencers. Instead of tracking the signal at the core, they monitor the first and most important step of diffusion, the first and most important relevance filter of an emerging hit or trend.

The key capacity of this system of information flow is to recognize trends in the market. A carefully constrained internal complexity allows to absorb the complexity outside. This principle also applies to the store network. In comparison to competitors, store managers have a relatively high degree of autonomy. They are encouraged to take entrepreneurial decisions, as “intrapreneurs” within the company. This allows for a high degree of responsiveness to the store’s local context. At the same time, alignment takes place through the store manager’s strong involvement in the discourse of market responsive design, and through the fact that most of them are recruited internally, and as such socialised within Inditex’s culture.

The responsiveness to local situations, ingrained in the store’s autonomy, works all the better on the basis of the drumbeat of fast fashion: small but frequent orders. Having two deliveries a week means higher cost of deliveries, but lower cost of stock. In comparison to competitors, Zara produce more styles per year, but less designs per style. The consequence is a huge advantage, again throughout the system’s design. Instead of reducing the number of mistakes, this system reduces the cost of mistakes, by focusing on frequent corrections. Shop managers are allowed to change 40-50% of their orders during the season, as compared to 20% average in the industry. Unsold items are at 10% per year, in comparison 17-20% industry average. Customers learn: if I don’t buy this item now, next week it could be gone. In fact, items are often sold out, and this is on purpose. The intended scarcity in the shops, combined with the fast turnover of collections, nudges the customer into a corresponding behaviour. What emerges are much more frequent visits of the average customer. In a place like London, the industry average is at 4 visits per year to a shop. By comparison, Zara has 17 visits per year.

What we see is a company which is built with a careful regard to most areas of the [Amber Compass](#)– and since the concept comes after the fact, it proves that the Compass only depicts and structures what intelligent management in the light of high complexity and speed is doing anyway. To be precise, while the Compass first and foremost describes what people could pay attention to and what they could do, Zara's architecture described in here is built to *foster* these same things - in a few cases to impose them, in many others to encourage them, or simply to *let* people do them. The separate drumbeats of inbound and outbound supply chain account for a different balance between *exploration* and *exploitation* according to the industrial logic. The core of the outbound architecture is the management of *constraints*,

allowing for highly contextual, *granular* information from *multiple perspectives* to converge through very few *relevance filters* in a manageable core area of high complexity, where *sensemaking* is centralised. Both within this area and with the stores, *aligned autonomy* of agents allows for the adaption to context within a limited range. Small quantities and fast iterations, with closed information loops to the core, increase the *resilience* of the system and its capability to regard every design as a life *experiment*. And the drumbeat is mirrored by customer behaviour, through the emergence of frequent visits and fast buying decisions.

2019, Bernhard Sterchi