The challenges Marta Ortega will face leading Inditex’s new era

By Triana Alonso  -  April 1, 2022

Inditex opens a new chapter in its history. Announced unexpectedly last November, the executive changes of the group founded by Amancio Ortega take final shape this Friday, April 1, following a period of transition undergone by the company these past few months.

Marta Ortega, the businessman's youngest daughter from his second marriage to Flora Perez, assumes the non-executive presidency of the group, which last year recorded an increase in sales of 36% to 27,716 million euros and today boasts a total of 6477 stores and more than 165,000 employees worldwide. The heiress and London Business School graduate has had 15 years of experience in the company, more specifically in the Zara retail chain, in which she actively participated in its repositioning to a more premium market.

Passionate about equestrian sports, well connected with relevant players in the fashion industry such as Pierpaolo Piccioli or Steven Meisel and an expert in trends, Ortega assumes the position this spring to ensure the generational handover of the company while guaranteeing the viability of a successful business model facing the unprecedented threats of a new era. We analyze the major challenges that the Spanish fashion giant faces.
The legacy Pablo Isla leaves behind

"I have the utmost confidence in the new era that Inditex is entering, with Marta as chairman and Oscar as CEO. It's a new chapter full of promise for the future. Marta has been with the company for 15 years, knows it perfectly well and has a lot of criteria. Óscar is an impressive CEO. When looking at the 2021 annual results, considering everything that has happened, you realize the solidity of the company and the quality of its teams," said the group's chairman, Pablo Isla, during the presentation of the group's annual results on March 16. A press conference held at the Inditex headquarters in Arteixo (A Coruña), which was not attended by any member of the Ortega family, in which the executive bid a public and formal farewell to the company to which he dedicated the last 17 years of his career.

While Ortega taking over had always seemed like the logical evolution the fashion company was heading towards, the announcement of its top executive's departure together with the appointment of Óscar García Maceiras as CEO was surprising to say the least. Under Isla, who succeeded José María Castellano in 2005, Inditex implemented the integrated model that characterizes the company and boosted its international growth, in addition to multiplying its stock market value 10 times over. "I think that the work we have done together in recent years has been fantastic and we have overcome very difficult challenges such as the financial crisis and the Covid-19 pandemic," stated the Madrid-born executive as he announced his "voluntary resignation" at the end of last year.

Isla left a healthy company that, despite falling 2% behind 2019 turnover, raised its Ebitda by 58% to €7183 million in 2021, increased its net profit to €3242 million and recorded the highest gross margin in the last six years, at €15814 million. "I have been fully focused on the transition," revealed Isla in his last public appearance when asked about his professional future. "It's been a very intense and beautiful few months on a personal level, it's been a very natural process. I'm not going to retire, obviously, but I can't say anything more," he said under a relaxed smile during an informal conversation in which jokes accompanied his final farewell as well as García Maceiras' first presentation of results.
According to the company’s annual compensation report, Isla received 23 million euros for leaving the group. A considerable amount, of which 19.7 million euros corresponded to the non-compete clause whereby the executive agreed to never work for another company in the clothing sector again. When he joined the conglomerate, this clause covered only two years. In the first half of April, Isla will additionally receive 3.25 million euros in compensation for termination of the contractual relationship. In the past year, the executive, who has often been considered the best CEO in the world, received a remuneration of 12.4 million euros, more than double the amount of the previous fiscal year.

A traveling companion from outside the Inditex family

When the changes at the top of the company were announced last November, the resignation of its former CEO Carlos Crespo came as a surprise. Akin to Isla and with more than two decades of experience in the company, the executive was redirected to the position of managing director of operations, sustainable and digital transformation, only two years after having been promoted to the position of CEO. His successor, García Maceiras, took over the role with immediate effect. A state lawyer with extensive experience in the banking sector, the executive had only been in the company for a few months before being appointed general counsel and secretary of the board in March 2021.

"Pablo has set the bar quite high, but I hope to have the opportunity to present the company's results over the next few years. Without his work, it wouldn't be possible to understand either the present or the future of Inditex, which I believe is tremendously solid," said García Maceiras as he begun his speech on March 16, praising the work of his predecessor over the past 17 years. "I would like to convey the enormous pride I feel on such an important day in my professional career," he continued, stressing that "Inditex is a global, digital, integrated and sustainable company."

A delicate global context

The group's sales increased by 33% over 2021 and by 21% compared to the "historic highs" reached in 2019. Meanwhile, turnover in the Russian Federation and Ukraine, where Inditex has halted operations since February 22 and March 5 respectively, accounted for 5% of total sales. "We believe that figures of this enormous power underscore the company's commercial strength," said the CEO, indicating that with the exception of these two markets, all regions have rebounded to "the level and pace we had before the pandemic."

The Russian market, which accounts for around 8.5% of the group’s global Ebit, represents nonetheless a "non-financially relevant investment" for the company, given that the 502 stores it operated (86 of them Zara stores) were leased. Second only to Spain, the Russian market had the highest number of the Spanish company's stores with 9,000 employees. In Ukraine, stores were limited to 80 and the number of employees exceeded 1,000. "Our fundamental objective is to support our workforce through a special scheme in both countries. This being a temporary suspension of operations, but our goal is to resume them when circumstances allow it," declared the executive, preferring not to make “conjectures” about the possible evolution of the situation.
In addition to the uncertainty in Eastern Europe, there is also instability in China, marked by the supply chain crisis of the past few years, as well as recent weeks seeing ongoing restrictions and confinements in the country. The Chinese market is extremely relevant for business, where Inditex is present with more than 300 stores after having progressively restructures its retail network over the past years.

Conquering the American market

Among the most surprising data from the company's latest financial presentation was the evolution of sales in the United States, making it the group's second largest market in terms of sales volume, ranking second only to Spain, which accounts for 14.4 % of total turnover. "We see a lot of growth potential in the North American market. It has evolved very favorably, and we believe it will continue to do so in the coming years," said Isla about Inditex's commitment to the region, where it only operates physically with Zara while the other chains sell exclusively online. This market is not among the company's top 10 in terms of number of stores, with a limited network of 99 stores. "We believe that they have growth potential on their own and we do not foresee a spectacular expansion during the year, but rather continue to explore the stores already we have and continue to focus on improving our locations," added García Maceiras.

"In all the markets where we are currently present, we have the potential to continue growing and to offer our business model to our customers: high quality, sustainable fashion at the best price," said the CEO when asked about the strategies implemented for coping with the impact of the suspension of sales in Russia and Ukraine. "We have an international presence in 90 markets with physical stores and, among all of them, it will be possible to guarantee solid, sustainable growth and a completely healthy income statement, as evidenced by the start of the campaign," said García Maceiras.

How high can prices be increased in response to inflation?

"Price stability is one of our company's policy and we intend to keep it that way," said García Maceiras, adding that "in markets where there is material inflation or currency depreciation" "selective adjustments" may be carried out. This price increase stands at around 2% in Spain and Portugal from the Spring/Summer season onwards. Meanwhile, Isla added: "obviously, there are inflationary pressures, and the company wants to protect margins, being very selective, moderate and acting very prudently when it comes to making adjustments."

However, the increase in prices of the company's brands, and more specifically of Zara, has been closely linked for some time now to a progressive increase in terms of quality a move towards a more premium positioning through launching limited collections offering products with a more refined appearance and produced with materials of higher quality. The group's strategy is to intensely seduce its customers, increasing the brand's perceived value through strategic partnerships with renowned brands or creatives, careful marketing and improving the quality of its fabrics. In other words: a company can selectively raise prices, of course, but it's important to ensure that the customer believes that these products are worth purchasing.

Online growth and sustainability in the spotlight

In 2021, the group's online sales grew by 14% to 7.5 billion euros and already account for 25.5% of total sales. During the pandemic, e-tail accounted for 32%. However, the group's top executives view these figures as overall performance figures. "We see sales as a whole. Omni-channel at Inditex is a reality. Our stores serve as logistical support for online sales and vice versa," explained Maceiras. Last year, the company's online visits rose by 13% to 6.2 billion, followers on social media platforms already total 228 million and active apps reached 146 million.

"When speaking of Inditex's online sales, we always have to put the data in such a way that it translates as fully integrated sales. A very high percentage in all markets, over 60%, of returns occur in the store; we understand that
integrated sales. A very high percentage in all markets, over 60%, of returns occur in the store, we understand that this gives enormous strength to the integrated approach. This is our differential element and Inditex’s online sales cannot be compared with those of a purely online retailer,” said Isla.

While the group insists on underlining its “commitment to sustainability” with specific communicated strategies such as promising to become a greenhouse neutral company by 2040 or exclusively sourcing "cotton, linen, polyester and viscose from sustainable sources”, Inditex faces the considerable challenge of combining its economic ambitions and production model with the demands of increasingly aware customers and the needs of a planet that requires change to survive. This is by no means an easy feat, and it remains to be seen how the company performs under the leadership of its new CEO.

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