

STRATEGIC FORMULATION DOCUMENT

INDUSTRIA DE DISEÑO TEXTIL, S.A.
(INDITEX)

Report 2025

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ZARA

ZARA
HOME

stradivarius

INDITEX

OYSHO

Massimo Dutti

PULL&BEAR

Bershka



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Executive Summary

Inditex, headquartered in Arteixo, Spain, is the world's largest fashion retailer and the parent company of globally recognised brands such as **Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, and Oysho**. The groups vertically integrated model, which spans design, production, logistics, and retail, has revolutionised the fashion industry, establishing a benchmark for agility and responsiveness (*Eriksson & Jonsson, 2011*).

Overview/ PROBLEM

This business strategy project examines Inditex S.A., the world's largest fast fashion retailer. Through analysis, we assess Inditex's strategic position within the global fashion industry, and see how Inditex's vertically integrated supply chain, digital transformation, and sustainability initiatives enable it to remain competitive in a rapidly evolving market shaped by technological innovation, shifting consumer behaviors, and increasing environmental regulation.

INDITEX STRATEGIC SUCCESS

ZARA PULL & BEAR MASSIMO DUTTI BERSHKA OYSHO

BERSSKKA, AND OYSHO UNITE FOR GLOBAL LEADERSHIP



Performance Analysis

This section presents a comprehensive performance analysis of Inditex, evaluating key financial indicators, operational efficiency, and strategic positioning over recent periods. The objective is to identify trends, assess strengths and weaknesses, and provide data-driven insights to support future strategic decisions.

Revenue Growth (YoY)

Inditex Growth Metrics



Inditex's revenue rose from €27.27bn in 2022 to €38.6bn in 2025, reflecting strong post-pandemic recovery and the success of its digital-first and omnichannel strategy. The steady increase in gross profit relative to revenue highlights effective cost control and supply-chain efficiency. Asset variations correspond to logistics and sustainability investments, signalling continuous reinvestment for long-term scalability.

(Inditex, 2022, 2023a, 2024, 2025; Macrotrends, 2025)

Competitive Intelligence

	Zara	H&M	Shein	Uniqlo
Global Rank	#287	#270	#88	#367
Industry Rank	#4	#3	#1	#6
Total Visits (M) (9/2025)	83.04	93.8	333.6	75.53
Visit Duration	0:05:04	0:04:10	0:04:52	0:02:58
Pages per visit	9.28	7.92	5.32	6.78
Bounce rate	27.47%	32.90%	40.17%	39.97%
Page Views (M)	770.6	742.7	1,774.00	512.3
Top Traffic Source	Direct/Search	Direct/ Search	Social/ Direct	Direct

Using SimilarWeb and SEMrush, Zara's* digital performance was compared with strong viral competitors, H&M, Shein and Uniqlo. Shein attracts the most visits but relies heavily on social traffic and has a higher bounce rate. Zara records the longest visit duration and the most pages per session, showing stronger engagement and user loyalty. H&M's performance is steady but less immersive, while Uniqlo's activity remains regionally concentrated. Overall, Zara demonstrates a balanced and effective digital presence, combining brand recognition with customer depth. This confirms Inditex's digital strategy is focused on quality engagement rather than viral reach.

*This comparison focuses on Zara, which accounts to approximately 70% of Inditex's total sales, making it a reliable indicator of the group's overall digital performance.

(SEMrush, 2025; SimilarWeb, 2025)

\$ 58.3 M

This year, Zara is projected to spend \$58.3M on IT, according to Aberdeen.

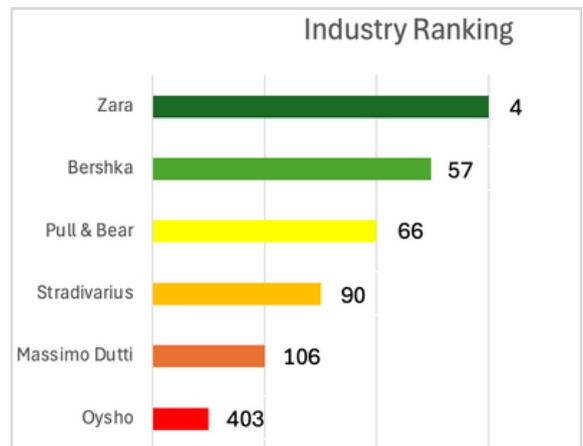


Inditex's ROI

Inditex's TTM ROI of 21.41%, compared to a five-year average of 14.15%, reflects a notable improvement in short-term profitability and capital efficiency. Strategically, this rise indicates successful operational execution, digital acceleration, and agile supply chain management, core to its vertically integrated model. The improvement likely stems from post-pandemic recovery, enhanced online channels, and tighter inventory control driving margin expansion. While the 5YA ROI confirms long-term stability, the higher TTM ROI highlights Inditex's strategic agility and data-driven decision-making. To sustain this momentum, Inditex must reinvest these gains into ESG-led innovation, AI-based personalisation, and circular fashion platforms, ensuring the short-term boost translates into durable advantage. Overall, the figures illustrate how Inditex's hybrid strategy, which combines operational efficiency with innovation, continues to strengthen its competitive position in global fashion retail.

(Fernando, 2025; Investing.com, 2025)

Domain: Lifestyle/Fashion and Apparel Industry Rank



Inditex's internal brand rankings reflect its diversified market strength and strategic positioning across fashion segments. Zara's rank confirms its role as Inditex's global growth engine and brand equity leader. Bershka and Pull&Bear remain strong youth-market players, while Stradivarius and Massimo Dutti serve niche demographics. Oysho's rank shows limited but emerging potential.

(SimilarWeb, 2025)

Stakeholder Analysis

Inditex's long-term competitiveness depends on how effectively it balances the expectations of diverse stakeholder groups while executing its sustainability, digital transformation, and growth strategies. Stakeholder analysis identifies who holds influence over strategic outcomes, what interests drive them, and how Inditex should engage each group to ensure alignment between profitability, innovation, and responsibility.

Stakeholder Power Interest Matrix

Quadrant	Stakeholder Groups	Strategic Role & Expectations	Recommended Engagement Strategy
High Power / High Interest	<ul style="list-style-type: none"> Board of Directors Senior Management Major Shareholders Governments & Regulators 	Shape strategic direction, approve investments, enforce compliance, and oversee ESG and reporting standards.	Manage Closely – continuous dialogue, transparent reporting, alignment of ESG and financial KPIs, quarterly reviews.
High Power / Low Interest	<ul style="list-style-type: none"> Institutional Investors Strategic Partners (tech & logistics) Franchise Owners 	Provide capital, infrastructure, and channel access but have limited day-to-day involvement.	Keep Satisfied – periodic performance updates, partnership innovation forums, assurance of returns and brand standards.
Low Power / High Interest	<ul style="list-style-type: none"> Customers Employees NGOs / Sustainability watchdogs Local Communities 	Drive brand perception and ethical legitimacy. Expect transparency, fair labour, and circular fashion practices.	Keep Informed – publish sustainability reports, launch community programmes, engage through digital platforms and training.
Low Power / Low Interest	<ul style="list-style-type: none"> Competitors Media (general press) Academic Institutions Suppliers with limited contracts 	Indirect influence on reputation and innovation diffusion.	Monitor – track narratives, benchmark best practices, maintain open information channels.

Strategic Implications

Governance & Investors



The Board and shareholders expect proof that ESG initiatives drive financial performance. Inditex must keep linking sustainability KPIs with profitability to sustain investor confidence.

Customers & NGOs



Gen Z's demand for transparency and ethical sourcing makes stakeholder trust central to long-term brand loyalty and differentiation.

Employees & Culture



As Inditex accelerates digital transformation, strong internal engagement and up-skilling are essential for smooth change adoption.

Regulators



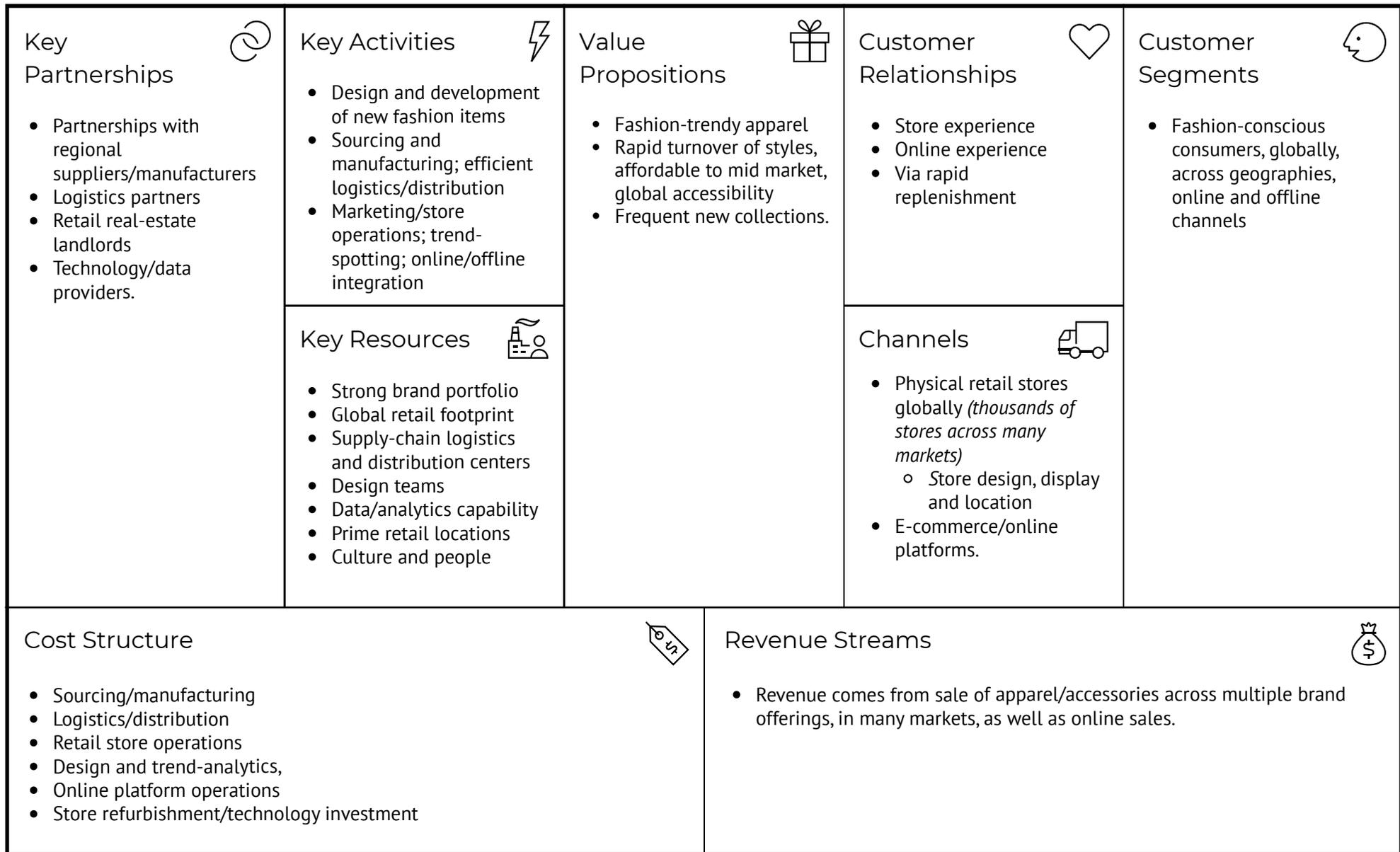
Strengthening frameworks make compliance both a legal obligation and a reputational differentiator.

Partners & Suppliers



Collaboration with logistics and technology partners strengthens data transparency and supply-chain traceability, which are core enablers of ESG credibility.

Business Model Canvas



External Environmental Analysis

PESTLE ANALYSIS

Political	<ul style="list-style-type: none"> • Trade tensions (tariffs, import/export restrictions), geopolitical instability in supply countries. • Regulatory pressure on labour / working conditions in supply chain. • Increasing regulation of environmental impact (e.g. rules on fibres, chemicals, waste, emissions).
Economic	<ul style="list-style-type: none"> • Slowing growth in some mature markets; macroeconomic headwinds (inflation, currency shifts). • Rising input costs: materials, energy. • Demand variability and consumer sentiment impact (discretionary spending).
Social	<ul style="list-style-type: none"> • Growing consumer concern for sustainability, ethical sourcing. • Shifts in fashion trends, demand for faster cycles; preferences for more responsible products. • Increased demand for omnichannel shopping (“experience” in stores + online).
Technological	<ul style="list-style-type: none"> • Digital transformation: integrating online + store operations; data analytics for demand forecasting; automation in logistics. • Innovation in materials (recycled, regenerative, new fibres). • More efficient supply chain tech, traceability, perhaps circular economy technologies.
Legal	<ul style="list-style-type: none"> • Laws on labour, minimum wages; workers’ rights in supply chain. • Environmental regulation (chemicals, emissions, waste). • Transparency/disclosure requirements (ESG reporting; supply chain traceability).
Environmental	<ul style="list-style-type: none"> • Pressure to reduce carbon emissions; climate risk (energy costs, regulatory carbon pricing). • Waste, water use, chemical usage under scrutiny. • Need for circularity: recycling, sustainable fibres.

PORTER’S FIVE FORCES

Competitive Rivalry	Very high. Inditex competes with fast-fashion peers (H&M, Uniqlo, Shein), local retailers, online-only players. Price, speed, design trends matter heavily. Also, growth is slowing in many markets.
Threat of New Entrants	Moderate to low. Barriers: brand recognition, scale, supply chain & logistics infrastructure. But online platforms make entry easier; niche / local / sustainable brands are rising.
Bargaining Power of Suppliers	Moderate. Inditex has strong supply chain control and many suppliers. But risks: rising labour costs; rare / specialised sustainable materials may have few suppliers; raw materials price volatility.
Bargaining Power of Customers	High. Consumers have many alternatives; price sensitivity; switching costs are low. Also, customers increasingly care about ethics and sustainability.
Threat of Substitutes	Increasing. Substitutes include second-hand clothing, rental, peer-to-peer resale, generic fast-fashion, more sustainable fashion choices. Also digital / streaming experiences compete for consumer spend.

SWOT Analysis

S STRENGTHS

INTERNAL

- **Highly agile supply chain:** vertical integration allows ultra-fast response to trends.
- **Omnichannel leadership:** seamless store + online integration across 200+ markets.
- **Strong financial performance:** high margins, consistent profitability, low debt.
- **Diversified brand portfolio:** Zara (mainstream premium), Bershka & Pull & Bear (youth), Massimo Dutti (premium), Lefties (budget), Oysho (athleisure), Zara Home.
- **Global logistics infrastructure:** central distribution hubs enable real-time inventory management.
- **ESG positioning:** ambitious sustainability goals (net zero 2040).

W WEAKNESSES

INTERNAL

- **Dependency on fast-fashion model:** increasing scrutiny from regulators & sustainability advocates.
- **Limited penetration in ultra-low-cost online space** (Shein, Temu competitors).
- **Lag in digital innovation** vs pure online players.
- **Brand overlap:** some cannibalization between Zara, Bershka, and Stradivarius.

O OPPORTUNITIES

EXTERNAL

- **Sustainability-driven innovation:** recycled / bio-based materials, circular fashion (resale, repair, rental).
- AI & predictive analytics for demand planning and personalization.
- **Emerging market growth:** Asia, Africa, LATAM middle-class expansion.
- **New retail formats:** experiential stores, digital showrooms.
- **Strategic collaborations:** with tech, design, and materials startups.
- Expanding low-cost digital brand (Lefties) to counter Shein.

T THREATS

EXTERNAL

- **Intense competition:** H&M, Uniqlo, Shein, Temu, Boohoo, etc.
- **Regulatory tightening:** EU “Green Claims” directive, carbon reporting.
- **Shifting consumer attitudes:** slow fashion & resale models threaten fast-fashion demand.
- **Economic volatility:** inflation, geopolitical tensions, logistics disruptions.
- Rising labor and material costs.
- Cybersecurity & digital disruption risks.

TOWS Strategic Actions

SO STRENGTH + OPPORTUNITY

- Expand digital omnichannel platforms in emerging markets
- Localize collections for Asia, Africa, and LATAM leveraging Zara (premium) and Bershka (youth).
- Expand “near-shoring” automation (robotic sorting, AI forecasting) to shorten replenishment even further.

WO WEAKNESS + OPPORTUNITY

- Create resale and repair platforms under Zara Preowned
- Acquire or partner with textile recycling innovators or digital resale platforms.
- Reduce dependence on fast fashion via sustainable design and slow-fashion capsules.
- **Clarify brand roles across the Inditex portfolio by positioning Zara as the flagship circular leader while differentiating Bershka, Pull and Bear, and Stradivarius to avoid overlap and ensure each brand supports Zara+ without internal cannibalisation.**

ST STRENGTH + THREAT

- Enhance brand transparency. Expand transparency reports, supplier traceability, and public ESG dashboards.
- Launch a public digital supply chain map showing factories, tier-1 and tier-2 suppliers, and compliance scores
- Create interactive content on brand websites showing sustainability milestones, partnerships, and community initiatives.

WT WEAKNESS + THREAT

- Rationalize overlapping brands to improve efficiency. Merge or streamline underperforming labels to focus on high-value segments.
- Address brand overlap by clarifying market positioning and strengthening differentiation. Redefine brand identities

Game Theory

SHEIN'S GAME: THE EQUILIBRIUM THEY'RE TRYING TO LOCK IN CORE EQUILIBRIUM SHEIN WANTS

- **A global, asset-light, ultra-low-price fashion platform where:**
 - Typical basket: \$5–15 per item
 - 7–10 day delivery is seen as “good enough”
 - Fashion discovery happens via social commerce (TikTok, influencers, UGC), not stores
 - Production is a fragmented, highly flexible supplier network (mainly China-based)

- **Competitive basis shifts from**

- *Brand, Stores, ESG, and Experience. To price, variety, novelty, and algorithmic curation*

(Qu, 2024; Liu, 2022)



WHY THIS FITS SHEIN'S CAPABILITIES

- **Asset-light, low-cost structure:** No global store leases, minimal Western retail overhead. (Liu, 2022; Qu, 2024)
- **Data-driven SKU churn:** Huge SKU volume; test-and-scale model based on real-time demand. (Pavlidou & Tsami, 2025)
- **Social commerce muscle:** Deep integration with influencers and gamified app behaviour.
- **Regulatory arbitrage:** Cross-border shipping and weaker enforcement in supplier markets.
- **Low ESG & durability emphasis:** Resources concentrated on price + novelty, not traceability or longevity.

IMPLICATION FOR INDITEX

- If Zara accepts this game, its “best response” is:
 - Cut prices, cut ESG, push online-only
 - This would erode its own core advantages (omnichannel, brand, ESG, ROIC)
- Shein's strategy is to anchor the market where its low-cost, asset-light model is structurally superior.

(Huang, 2024; Pavlidou & Tsami, 2025)

HOW SHEIN RESPONDS TO ZARA, AND WHAT THEY WILL NOT DO RESPONSE PREDICTION TO ZARA'S MOVES

- **If Zara cuts prices by 20%**
 - Selective price-matching on hero SKUs and viral styles, not full assortment.
 - More promos and gamified discounts rather than structural price cuts.
 - Double down on assortment breadth and variety to keep “cheaper alternative to Zara” perception
- **If Zara invests \$500M in sustainability positioning**
 - Cosmetic ESG response: “eco” capsules, CSR campaigns, partial audits.
 - Narrative pivot: “Premium sustainable fashion vs affordable fashion for everyone.”
 - Avoid deep transparency that would raise costs and slow supplier onboarding.
- **If Zara expands aggressively in Asia**
 - Improve local logistics just enough (regional hubs, shipping times).
 - Intensify local influencer programs and in-app community features.
 - Possible pop-ups, but no large, permanent global store network.

(Qu, 2024; Liu, 2022)

SHEIN'S RATIONAL MOVES (WITHIN THEIR GAME)

- More powerful trend detection and SKU testing.
- Tighter supplier economics and ultra-flexible capacity.
- Incremental logistics improvements to keep 7–10 days acceptable.
- Stronger social + app ecosystem to lock in traffic.

MOVES THAT WOULD DESTROY SHEIN'S POSITION

- Building a large brick-and-mortar network
 - Kills asset-light advantage.
- Pivoting to high-durability, premium quality at scale
 - Breaks low-price, high-churn logic.
- Full, verifiable ESG and traceability across the supply base
 - Major cost and complexity jump.
- Pursuing Amazon-like 24–48 hour delivery worldwide
 - Capex-heavy, margin-destroying.
- Broad price increases that erode “cheapest option” perception.

Game Theory continued

DON'T PLAY SHEIN'S GAME: BUILD A DIFFERENT ONE

TARGET EQUILIBRIUM FOR INDITEX/ZARA

Trusted, moderately priced, high-speed and sustainable omnichannel ecosystem (Zara+) with circular services and superior experience.

Strategic Pillars (Where Inditex Has Structural Advantage)

- **Omnichannel & Logistics**
 - Stores as experience + logistics nodes (click & collect in hours, instant returns).
 - AI-driven local assortments leveraging Inditex's supply-chain and data scale.
- **ESG & Circularity as Competitive Weapons**
 - Zara+ / Inditex Circular: resale, repair, rental, recycling inside one platform.
 - QR-based traceability, product-level impact scores, public ESG dashboards.
 - Proactively shape EU regulations (EPR, digital passports) to raise the minimum standard.
- **Brand, Quality, and Reliability**
 - Position on cost-per-wear, fit reliability, and lower return rates.
 - Keep Zara firmly in mid-market pricing to fund service + ESG, not in ultra-low-cost chasing.



HOW THIS "CHANGES THE GAME" VS SHEIN

- Competes on dimensions Shein cannot follow without breaking its model:
 - Physical network, high ESG transparency, circular infrastructure, nearshoring.
- Uses regulation and circularity to tilt the payoff matrix:
 - The more ESG and take-back requirements tighten, the worse Shein's economics become.
- Preserves Inditex's 31% ROE and high ROIC by:
 - Avoiding destructive price war.
 - Using stores, data, and circular services to increase CLV and inventory efficiency.

PORTFOLIO & POSITIONING TACTICS

- If a low-price response is needed, use Lefties / digital sub-brands, not Zara, to avoid brand dilution.
- Keep Zara as the flagship circular leader; youth brands (Bershka, Pull&Bear) as feeders into the Zara+ ecosystem.



Strategy and Value Proposition

CURRENT STRATEGY:

- **Omnichannel & Digital Acceleration:** Inditex is pushing hard into online and digital retail.
- **Logistics, Supply Chain & Speed:** A major investment area is the logistics backbone. Inditex is building / expanding large distribution centres equipped with automation and aimed at faster replenishment, lower inventory, and more agile response to fashion trends.
- **Geographic & Brand-Expansion:** The company has growth plans in new markets and further store openings (EFE, 2025)
- **Sustainability & Circularity:** Inditex is integrating environmental/social (ESG) strategies as a strategic pillar: aiming for 100% use of “lower-impact” textile fibres by 2030 (Inditex, 2025a)
- **Store Experience & Brand Positioning:** The strategy includes refining the in-store experience: flagship stores with novel formats (Hall, 2025)

VALUE PROPOSITION:

Inditex delivers up-to-the-minute fashion, quickly and affordably, to a global customer base through a flexible, integrated omni-channel model, while making increasing commitments to sustainability and responsible operations.



STRATEGIC POSITIONING (PORTER)

Sustainability as Competitive Differentiation:

- Inditex can position themselves as ecofriendly fast fashion by leveraging their existing infrastructure ecosystem. Recycling clothing into products in their other brand offerings.

Digital Ecosystem Reinvention

- Consolidate fragmented brand ecosystems (Zara, Lefties, Bershka) into seamless omnichannel platform with personalised recommendations and cross-brand discovery, Zara+.

Eliminating Cannibalisation Through Strategic Segmentation:

- Overlapping brand positioning across Zara, Bershka, Pull&Bear, and Stradivarius creates internal competition and market confusion. Clear segmentation unlocks synergy and strengthens competitive positioning.

BLUE OCEAN STRATEGY

Introduce a Fashion Subscription and Wardrobe-as-a-Service model: monthly curated boxes customers can rent, swap, or buy, subscribing to Inditex's brands like Zara, Bershka, or Oysho.

A Tinder-style “swipe your style” feature personalises selections and gamifies discovery, blending sustainability with convenience. This new model creates recurring revenue, higher customer lifetime value, and a differentiated, data-driven fashion experience.

2025

- 100% lower-impact linen and polyester
- Reducing our water consumption in our supply chain by 25%
- Reaching three million people in our supply chain with our Workers in the Centre strategy

2030

- Protecting, restoring, regenerating or otherwise improving biodiversity across 5 million hectares
- Reducing our emissions by over 50% (own operations and our value chain).
- Using lower-impact textile fibres only

2040: Achieve zero net emissions by reducing our carbon footprint by at least 90% by comparison with 2018

(Inditex, 2023b)

Innovation & ESG Integration



Innovation Strategy

Digital-Physical Integration:

- Unified inventory, click-and-collect, instant returns, and AI-powered styling that personalises the customer journey and onboarding process.

Smart Operations:

- Expand use of AI in warehouse automation, demand forecasting, and dynamic routing to enhance efficiency whilst cutting waste.

Predictive Design:

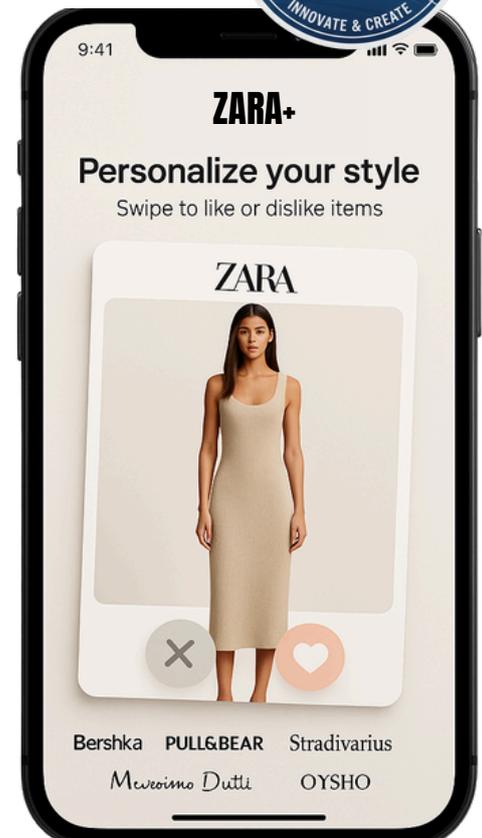
- Advanced analytics and trend forecasting algorithms to design collections aligned with local demand and reduce overproduction.

Retail Experience Innovations:

- Create smart stores with AR fitting rooms and seamless omnichannel engagement.

Textile Innovation:

- Strategic investment in textile-recycling facilities to drive progress towards full circularity



Evidence-based ESG Strategy

ENVIRONMENTAL

- **Deliver on existing green initiative targets whilst designing and operating for circularity across the value chain**
 - Provide AI automated public dashboards tracking circular progress to link ESG metrics to consumer trust and investor KPIs
- **Scale the "Inditex Circular" program:**
 - Develop a single ecosystem linking Resale, Repair, Repair, and Recycling initiatives across brands to drive network effects and data-driven optimisation.
- **Eliminate use of virgin polyester in garments**
 - Replace virgin polyester with recycled or next-generation fibres in partnership with innovators such as Circ or Renewcell.
- **Consumer Incentive Programs:**
 - Introduce "Circular Credits" (Digital tokens or loyalty points) for returns, repairs and resales

(Circ, 2025; Huynh, 2022; Iyer & Kashyap, 2007; Li, Yang, Sun, & Wang, 2021; Renewcell, 2025).

SOCIAL

- **Responsible Supply Chain:**
 - Strengthen the Inditex Code of Conduct for Manufacturers and Suppliers, embedding human-rights due diligence, fair-wage frameworks, and regular third-party audits across all sourcing regions.
- **Diversity, Equity & Inclusion (DEI):**
 - Launch a cross-brand DEI Council to promote gender balance and multicultural leadership pipelines. Integrate DEI metrics into executive performance KPIs.
- **Consumer transparency:**
 - Empower consumers through QR-code product traceability to display origin, materials, environmental impact and production journey
 - Publish sustainability performance dashboards for all brands.
- **Empowered Workforce:**
 - Extend training and capacity-building programmes for workers in supplier countries, focusing on digital up-skilling, health and safety, and equal-opportunity advancement.

(Esteves-Miranda, 2021; Nguyen & Nguyen, 2025; Sychenko, 2023)

GOVERNANCE

- **Stakeholder Engagement:**
 - Foster collaboration, open dialogue with investors, employees, suppliers, NGOs, and communities to align sustainability actions with stakeholder expectations.
- **Climate Risk Oversight**
 - Conduct regular climate and transaction-risk assessments under frameworks, integrating findings into board-level strategic planning and financial disclosures.

(Barko, Cremers, & Renneboog, 2022)

Proposed OKR's

25%

of collected garments recycled into new fibers by 2028

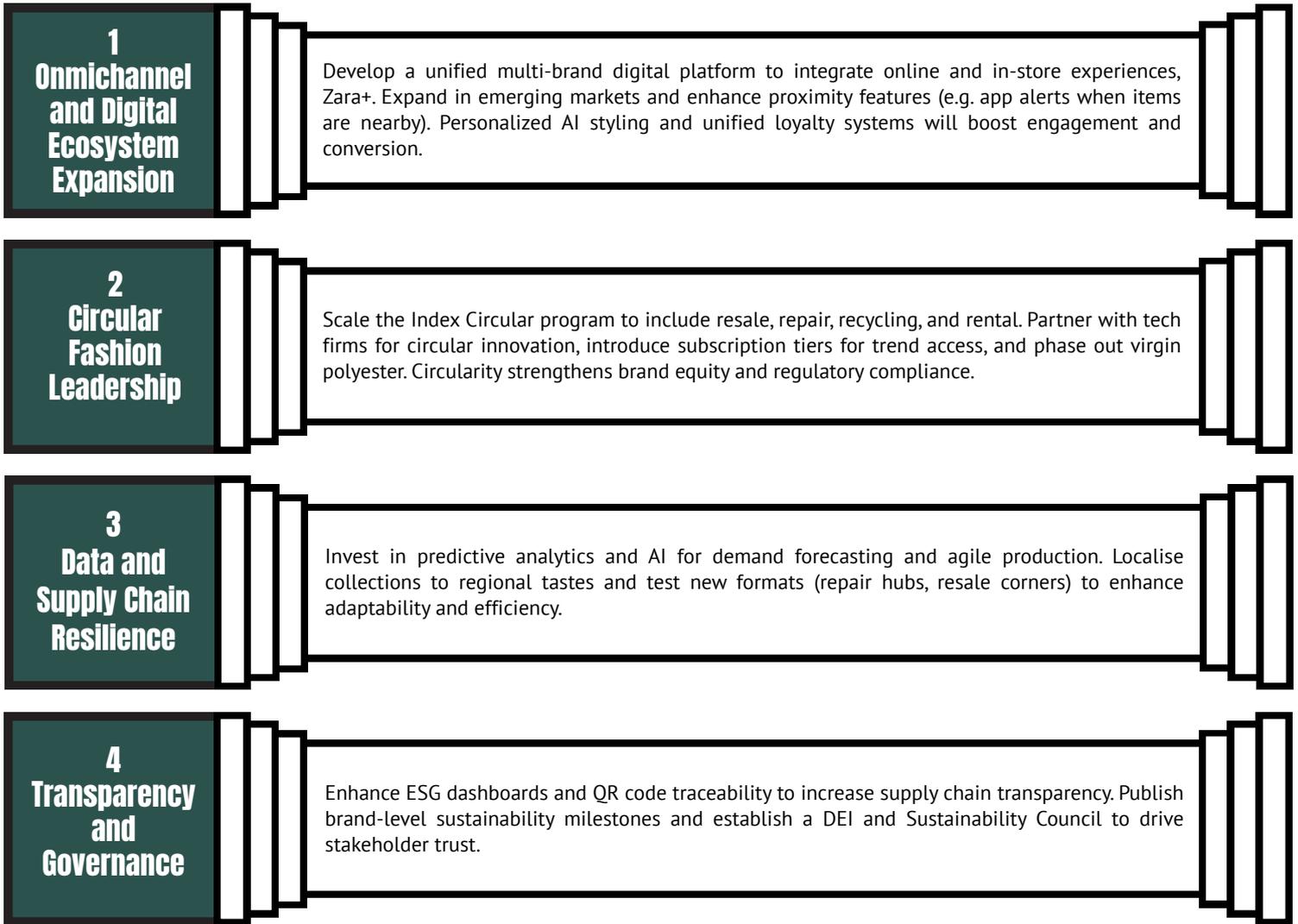
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Partner with at least 5 circular textile technology companies by Q4 2026.

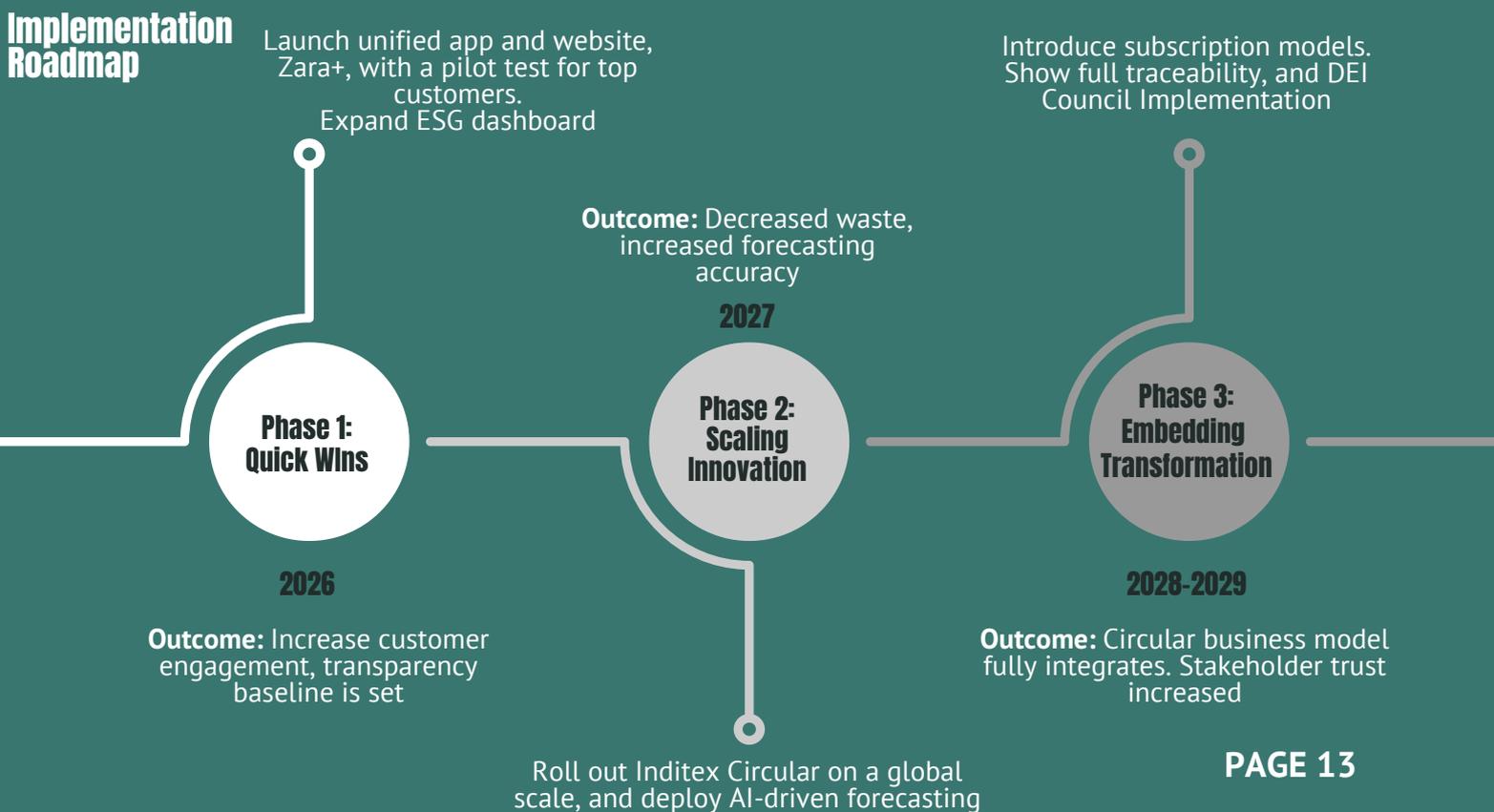
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Launch 3 textile recycling facilities by end of 2027.

Strategic Recommendations



Implementation Roadmap



Kotter's 8-step change process

Phase 1 (2025–2026) – Mobilise & Modernise

KOTTER STEPS 1–3: CREATE URGENCY, BUILD COALITION, DEVELOP VISION

- **Objectives**
 - Establish urgency around regulatory shifts (EU CSRD, Circular Economy Package) and consumer expectations.
 - Form the Transformation Council (CEO, CIO, Chief Sustainability Officer, Brand Directors, HR, Supply-Chain Heads).
 - Define the 2030 vision: 100 % low-impact fibres, circular operations, digital integration across brands.
 - **Key Actions**
 - Global “Future Fabric 2025” campaign communicating why change is business-critical.
 - ESG & digital baseline audits across all Inditex brands.
 - Launch cross-functional taskforces for Digital Platform Integration (Zara+, unified data architecture).
- Expected Outcomes**
- Clear roadmap endorsed by leadership.
 - Company-wide awareness and engagement.
 - Measurable initial KPIs (10 % logistics automation increase, ESG governance score +15 %).

1-3

Phase 2 (2026–2027) – Empower & Execute

KOTTER STEPS 4–5: COMMUNICATE VISION, EMPOWER ACTION

- **Objectives**
 - Embed transformation into daily work systems and decision-making.
 - Empower mid-management and store leaders as local change agents.
- **Key Actions**
 - Launch “ESG Champions” and “Digital Ambassadors” programs in each brand.
 - Simplify internal bureaucracy; upgrade IT to enable rapid data-driven decisions.
 - Introduce gamified digital-skills and sustainability training modules for 150 000 employees.
- **Quick Wins**
 - Zara Style Swipe App live globally (5 M users).
 - Circular Credits loyalty system operational in 10 markets.
 - 30 % reduction in virgin polyester consumption; 25 % energy from renewables.

4-5

Phase 3 (2027–2028) – Scale & Innovate

KOTTER STEP 6: GENERATE SHORT-TERM WINS → CONSOLIDATE GAINS

- **Objectives**
 - Scale successful pilots group-wide and expand innovation portfolio.
 - Establish Inditex as a sustainability technology leader.
- **Key Actions**
 - Roll out AI-based inventory forecasting across all supply chains.
 - Expand resale/repair hubs from 2 → 50 flagship stores worldwide.
 - Integrate supplier ESG dashboards for transparency (real-time traceability).
 - Partner with textile-tech innovators (Circ, Renewcell) for closed-loop fibres.
- **KPIs**
 - 50 % of all fabrics “next-gen” or recycled.
 - Digital sales > 40 % of total revenue.
 - ESG rating upgraded to AAA (MSCI).

6

Phase 4 (2028–2029) – Institutionalise & Influence

KOTTER STEP 7: CONSOLIDATE GAINS AND PRODUCE MORE CHANGE

- **Objectives**
 - Institutionalise best practices into governance, policies, and brand storytelling.
 - Influence global fashion sustainability standards.
- **Key Actions**
 - Establish Inditex Circular Lab (R&D and innovation accelerator).
 - Co-create industry ESG reporting frameworks with EU policymakers.
 - Align all leadership bonuses to digital & sustainability KPIs.
 - Expand omnichannel ecosystem – integrate physical stores as logistics nodes (“Store-as-Platform”).
- **Outcomes**
 - Cultural alignment: ESG & digital embedded in identity.
 - Reduced resistance; unified group purpose.
 - Recognition as a global benchmark in sustainable fast fashion.

7

Phase 5 (2029–2030) – Anchor & Lead

KOTTER STEP 8: ANCHOR NEW APPROACHES IN CULTURE

- **Objectives**
 - Sustain transformation momentum and prevent regression.
 - Position Inditex as a global reference for ethical, digital fashion ecosystems.
- **Key Actions**
 - Annual Inditex Future Forum showcasing innovation and sustainability results.
 - Update core values and induction programs to include “Circular by Design.”
 - Continuous leadership development: data literacy, ESG governance, inclusive leadership.
 - Publish an integrated Digital + ESG Impact Report linking sustainability performance to profitability.
- **KPIs (2030 Targets)**
 - 100 % lower-impact fibres achieved.
 - Net-zero operations across global supply chain.
 - 70 % of revenue from omnichannel digital ecosystem.
 - Employee engagement > 90 %, ESG trust index +25 %.

8

Organizational Design for Execution

Effective execution does not depend solely on strategic clarity but on whether the organization possesses the structural, leadership and talent capabilities to deliver it. Inditex's shift towards a circular, platform-based model introduces new coordination demands, cross-brand interdependencies, and digital-operational complexity that the current divisional structure was not designed to absorb. Without a deliberate organizational redesign, Horizon 2 and 3 innovations risk being slowed, diluted, or blocked by legacy decision rights, capability gaps, and conflicted brand priorities. Therefore, aligning structure leadership behaviours, and critical talent roles with the strategic intent of Zara+ and the circular roadmap is essential. Organizational design becomes the mechanism through which Inditex preserves its Horizon 1 speed advantage while enabling scalable circular models, ensuring that strategic recommendations translate into operational reality rather than remaining aspirational.

Current State Analysis

Inditex currently operates a decentralised, divisional structure, where each brand (Zara, Bershka, Pull&Bear, Stradivarius, Oysho, Massimo Dutti) has autonomy across product, merchandising, store operations, and customer experience. Although central logistics, sustainability, and some digital capabilities are shared, decision-making largely resides within brand-specific verticals.

Key Characteristics of the Current Structure

- **Divisional Model:** Brands operate as quasi-independent units.
- **Speed-Based Coordination:** Supply chain, design, and merchandising work in tightly integrated cycles, enabling rapid restocking.
- **Centralised Logistics but Decentralised Demand Generation:** Logistics is centralised in Arteixo, but marketing, assortment and customer journeys differ per brand.
- **Limited Cross-Brand Governance:** Collaboration mechanisms exist but are informal and ad-hoc. There is no platform-level governance structure that manages shared digital or circular initiatives.
- **Digital Function Not Fully Platformised:** E-commerce and app teams sit within each brand, creating duplication and limiting synergies.

Implications of Current Strategy Execution

This model optimises speed and brand identity but reduces the ability to scale circular services, which require:

- shared reverse logistics
- unified customer journeys
- common digital infrastructure
- consistent repair/refurbishment standards
- cross-brand material recovery & traceability systems

The current structure cannot easily support a platform-based, ecosystem model such as Zara+.

Proposed Future Structure: Zara+ Venture Model (Dual Operating System)

To execute circularity and digital ecosystem ambitions, Inditex should adopt a dual operating system by creating a separate Zara+ venture with cross-brand authority for circular and digital capabilities while leaving the core fast-fashion engine intact.

Key Elements of the Proposed Structure

Zara+ Venture (Horizontal Platform Unit)

- Owns the digital ecosystem, personalisation engine, resale/rental/repair modules.
- Manages reverse logistics and circular infrastructure.
- Develops platform-wide data systems, traceability tools, and AI capabilities.
- Reports to a new Chief Platform & Circularity Officer (CPCO).

Core Brands (Vertical Units)

- Maintain autonomy for assortment, design, merchandising, and in-store experience.
- Integrate Zara+ features into brand apps and store operations.
- Adopt circular practices but do not design infrastructure themselves.

Shared Services Expansion

- Circular Operations Hub (textile sorting, repair, refurbishment).
- Digital Experience Studio (Zara+ UI/UX, personalisation, AR/VR try-on).
- Material Science & Fibre Innovation Unit.

Dual Operating System Logic

- Horizon 1 work (speed, assortment, store excellence) stays with brands.
- Horizon 2–3 work (circularity, resale, fibre recovery, digital ecosystem) moves to Zara+.

This protects fast-fashion speed while enabling new circular models to scale.

Organizational Design continued

Decision Rights Matrix

To maintain speed across brands while scaling a cross-brand circular and digital platform, Inditex requires clear and efficient decision ownership. The DACI framework is used because it assigns responsibility with precision to clarify who **Decides**, who **Approves**, who must be **Consulted**, and who should be **Informed**. This prevents ambiguity and coordination delays in a dual operating system where Zara+ acts horizontally across autonomous brand units.

Key:

D = Decide | A = Approve | C = Consult | I = Inform

Decision Area	Zara+ Venture	Brand Units	Shared Services	C-Suite
Digital platform features (Zara+)	D	I	C	A
Circular operations (repair, rental, resale)	D	C	A (Ops)	I
Product assortment & design	I	D	C	I
Reverse logistics investments	D	I	C	A
Material science / fibre innovation	D	I	D/A	I
Circular customer experience standards	D	C	A	I
Sustainability & regulatory compliance	C	I	D	A
Data governance & AI standards	D	I	C	A
Financial targets & capital allocation	C	I	I	D/A

Conflict Points, Escalation & Trade-Off Resolution

Where Conflicts Arise:

Conflict naturally occurs where platform standardisation intersects with brand autonomy, particularly around customer experience standards, reverse logistics prioritisation, digital feature sequencing, and CapEx allocation. These tensions arise from differing strategic horizons: Horizon 1 brand speed vs. Horizon 2 +3 circular scale.

Decisions Requiring Escalation:

Cross-brand decisions, major CapEx, or strategic initiatives with long-term implications are escalated to the **CFO + Chief Platform & Circularity Officer**, and to the **CEO/Executive Committee** when enterprise risk is involved (e.g., platform architecture, textile recovery R&D, regulatory compliance).

Trade-Off Resolution Principles:

- Protect Horizon 1 Speed:** Brand units prevail where decisions risk slowing design-to-store cycles or store execution.
- Prioritise Platform Synergy:** Zara+ leads when decisions affect the circular model, reverse logistics, or data and platform standards.
- Resolve via Shared KPIs:** When decision ownership overlaps, trade-offs are settled using enterprise-wide metrics (ROIC contribution, circular adoption, CO₂ reduction, digital NPS, to avoid silo-driven outcomes.

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Friction Points and Mitigation

Even with a clear Zara+ venture structure and the DACI framework, several predictable organisational frictions emerge. These must be managed carefully to maintain Inditex's speed advantage while building circular and digital capabilities.

Friction 1: Brand Autonomy and Platform Standardisation

- Use co-design sessions with brand leaders.
- Create shared performance indicators such as digital NPS and circular adoption.
- Hold quarterly alignment meetings between the platform and brand teams.

Friction 2: Competition for Investment

- Create a dedicated investment pool for circular and digital priorities.
- Use a transparent scoring model based on return on investment, carbon reduction, and market potential.
- Place investment decisions under the joint leadership of the Chief Financial Officer and the Chief Platform and Circularity Officer.

Friction 3: Operational Pressure on Reverse Logistics

- Create a specialised Circular Operations Hub.
- Use phased rollouts beginning with Zara followed by the remaining brands.
- Introduce digital tracking to manage volume and reduce bottlenecks.

Friction 4: Gaps in Digital and Circular Talent

- Create a Circular Talent Academy to build these capabilities internally.
- Recruit specialists from relevant industries.
- Use a coaching leadership style to accelerate capability growth inside brand and platform teams.

Friction 5: Coordination Speed Risk

- Keep all speed-critical decisions such as assortment choices, replenishment, and store execution inside the brand units.
- Place circular and digital complexity inside Zara+.
- Maintain clear escalation pathways for any unresolved issues.

Strategic Rationale

The proposed organisational design allows Inditex to expand circular and digital capabilities without weakening the fast fashion speed that underpins Horizon One. Creating a separate Zara+ venture establishes a horizontal platform that manages digital infrastructure, reverse logistics, personalisation technology, and circular services. This avoids duplication across brands and enables capabilities that no single brand could build at scale.

Brand autonomy is preserved in design, merchandising, and store execution, which protects the rapid design-to-store cycle. At the same time, Zara+ absorbs the complexity of Horizon Two and Horizon Three initiatives, so these do not disrupt the core speed engine.

The decision rights structure creates clarity in ownership and prevents delays in cross-brand work. Leadership expectations support coordination and capability building. Overall, the design aligns structure, talent, and leadership with strategy and ensures that circular transformation is deliverable at scale.

Leadership Capability Requirements for Multi-Brand, High Speed Execution

Top 3 Emotional Intelligence (EQ) components needed for ecosystem coordination

Multi-brand execution (Zara+) requires cross-brand orchestration, alignment, and influence without centralised command. The most critical EQ components are:

Social Skills - Cross-Brand Coordination and Influence

- Required to align multiple brand leaders behind Zara+ and circular initiatives.
- Enables relationship-building across merchandising, design, logistics, and digital.
- Critical to negotiate trade-offs and coordinate decision rights without slowing speed.

Empathy - Managing Cultural Differences Across Brands & Functions

- Helps leaders understand diverse brand identities and customer segments.
- Essential during organisational change (new platform, new circular flows).
- Supports psychological safety during shifts to new capabilities (digital, repair, resale).

Self-Regulation - Maintaining Speed Under Ambiguity

- Circular and digital transitions introduce uncertainty, volatile economics, and new risks.
- Leaders must remain calm, disciplined, and able to make evidence-based decisions.
- Prevents reactive decision-making that could damage the velocity model.

Leadership Styles Needed to Maintain Speed While Scaling Circularity

Given Inditex's strategic goal of preserving speed while adding cross-brand coordination, two leadership styles are most effective:

Authoritative “Come with me” - Vision + Alignment Across Brands

- Sets a clear, compelling vision for Zara+ and circular transformation.
- Mobilises diverse brand teams toward shared outcomes without micromanaging.
- Provides strategic direction while allowing each brand to retain its identity.

Affiliative “People come first” - Culture Building During Change

- Builds trust during shifts toward digital and circular models.
- Helps integrate new talent (data, repair specialists, material scientists).
- Reduces friction and conflict across brand teams and shared services.

Coaching - Building Digital & Circular Capability

- Strengthens talent bench in new disciplines (AI, circular design, reverse logistics).
- Supports long-term capability-building needed in Horizon 2 and Horizon 3.
- Aligns with the capability-development focus of the implementation roadmap.

Linking Organisational Design to Leadership Requirements

Why the separate venture model requires these EQ + Leadership Styles

- Zara+ sits horizontally across brands, acting as a coordinating platform.
- Brand leaders retain autonomy. Leadership must influence, not command.
- Authoritative leadership sets direction for all brands; affiliative leadership builds trust across them.
- Coaching leadership grows the talent pipeline needed for repair, resale, and digital personalisation.
- High Social Skills + Empathy enable conflict resolution between brand priorities and platform needs.

Structural Insight

A separate venture increases coordination complexity, therefore requiring a higher EQ

Leadership Capability Requirements for Multi-Brand, High Speed Execution continued

Maintaining Competitive Speed While Implementing Organisational Change

Inditex's core competitive advantage is speed, so organisational change must NEVER slow down design-to-store cycles

How Leadership + Structure + Talent Maintain Speed

Structure

- Zara+ venture absorbs complexity (reverse logistics, platform R&D)
- Brand teams stay focused on speed so that there is no drag on Horizon 1 operations

Leadership

- Authoritative style prevents misalignment that slows execution
- Self-regulation prevents overreaction during pilot failures or transition friction

Talent

- New hires in circular operations + digital product roles ensure efficiency
- Experts placed in critical roles prevent bottlenecks

Incentives

- KPIs tied to both speed and circular adoption
- Ensures brands don't 'sandbag' circularity to protect short-term speed metrics

Key Principle

Speed is preserved by isolating complexity within Zara+ and aligning leadership behaviour with cross-brand coordination.

Leadership Challenges Created by the Growth Strategy

Dual Priorities Tension

Fast-fashion speed vs. circular expansion requires leaders who can balance competing KPIs

Multi-Brand Alignment Tension

Brands have different cultures, customers, and agendas that require EQ-heavy leadership capable of coordinating rather than commanding.

Capability-Building Tension

Circularity requires skills Inditex historically did not need, which requires coaching leaders who prioritize long-term talent development

Closing Rationale

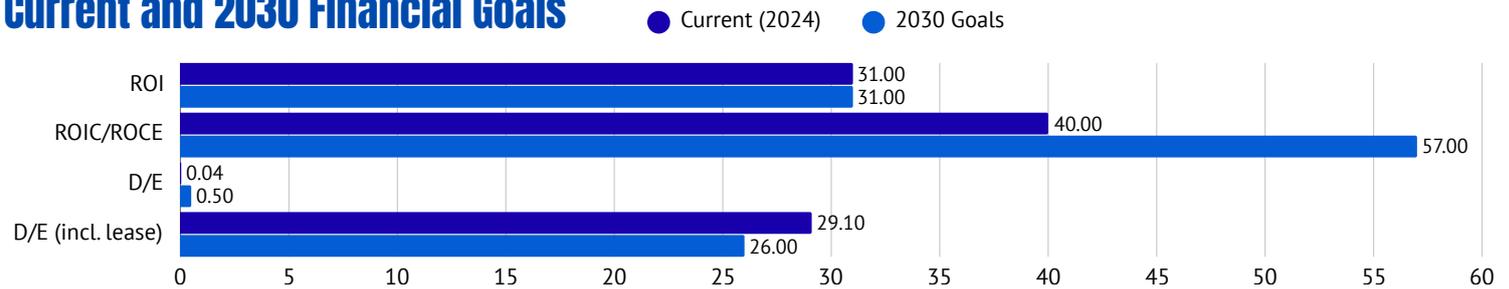
“Structure enables execution, leadership activates it”

The shift towards a Zara+ venture requires leaders with strong social skills, empathy, and self-regulation, using authoritative, affiliative, and coaching styles to align brands, preserve speed, and build capabilities for circularity. Combined with clear incentives and high-skill talent in critical roles, this leadership architecture ensures Inditex can execute Horizon 2 and 3 innovations without compromising Horizon 1 performance.

Financial Projections

Inditex's current financial position reveals a company that generates exceptional returns through operational excellence rather than financial leverage. The financial projections outline how the firm can support rapid scaling of the Zara+ platform while maintaining financial resilience.

Current and 2030 Financial Goals



Strategic Logic

ROE: Maintain 31%

- Inditex's core speed based model continues to generate strong cash returns.
- Zara+ increases customer retention and purchase frequency.
- Selective use of debt raises return on equity without increasing risk because Inditex is under leveraged.
- Circular models support loyalty which protects long term earnings.

ROIC: Increase from 40% to 57%

- Digital personalisation reduces returns which improves asset efficiency.
- Better forecasting lowers waste and markdowns.
- Circular operations increase garment life which improves capital productivity.
- ROIC is already far above the cost of capital which means digital investment strengthens returns rather than diluting them.

Debt to Equity Ratio: Increase from 0.04% to 0.5%

- Inditex currently operates with extremely low leverage and has significant unused borrowing capacity.
- A modest increase provides safe capital to accelerate Zara+ and circular infrastructure.
- Even with added leverage, Inditex remains less indebted than competitors.

Debt to Equity Ratio including leasing: Decrease from 29.1% to 26%

- Inditex can lower lease related commitments by using its existing store network more efficiently and by shifting more activity into digital and circular channels.
- A lower ratio improves flexibility because fewer long term lease obligations reduce fixed cost pressure.
- Even with this reduction, Inditex maintains a strong global presence while freeing capacity to invest in Zara+ and circular operations.

Margins (Gross, Operating): Remain stable despite circular expansion

- Digital tools reduce return rates and protect margin.
- Circular services become margin neutral as scale improves logistics efficiency.
- Subscription revenue provides predictable cash flow that offsets lower resale margins.
- Garment durability reduces replacement and waste costs.

Closing Rationale

Inditex's financial strength comes from operational excellence rather than leverage. This allows the company to support digital and circular investment while preserving strong returns. The financial goals are achievable because each target is supported by improvements in asset efficiency, customer retention, digital engagement, and focused use of low risk capital.

KPI Dashboard

The Balanced Scorecard links Inditex's strategic priorities (circular transformation, digital ecosystem expansion (Zara+), and protection of core financial performance) to a coherent set of performance indicators across four perspectives. This ensures the company does not optimise one dimension (e.g. financial returns) at the expense of customer loyalty, operational resilience, or long-term circular capability. The Balanced Scorecard acts as a strategic governance system, translating the Three-Horizon Portfolio into measurable objectives that safeguard ROE while enabling circular growth.

Financial Perspective

Objective: Sustain industry-leading returns while scaling circular and digital business models.

KPI	Baseline	Target	Timeline	Rationale
ROE	31%	≥31%	2030	Maintain economic resilience during transformation.
ROIC/ROCE	40%	57%	2030	High return requirement to support circular investment.
Debt-to-Equity Ratio	0.04 →	0.5%	2027	Supports strategic investment while remaining under-leveraged.
Debt-to-Equity Including Leases	29.1%	26%	2027	Improved balance sheet efficiency.
Profit Margin per Sector	New: 100% / Circular: 0%	New: 50% / Resale: 30%	2028	Shift to blended margin model.
Return on Circular Infrastructure Investment	N/A	≥20%	2030	Ensures circular CapEx generates value

Leading Indicators

- Forecast accuracy
- Zara+ digital conversion rate
- Circular participation (resale/repair uptake)

Lagging Indicators

- ROE
- ROIC
- Net margin stability

Customer Perspective

Objective: Increase loyalty, circular participation, and digital ecosystem engagement.

KPI	Baseline	Target	Timeline	Rationale
NPS	+16	+35	Q4 2026	Strengthen brand loyalty relative to key competitors (e.g., Uniqlo).
Zara+ Subscription Adoption	0	Track paid vs. trial cancellations	Monthly	Measures early platform-market fit and retention.
Zara+ Subscriber Retention	N/A	≥78%	2027	Indicates ecosystem stickiness and sustained engagement.
Circular Model Engagement	~5%	≥40%	2027	Proof of behavioural adoption of circular modes.
Customer Lifetime Value (CLV)	Baseline	+20% for circular users	2028	Demonstrates attractiveness of circular customers as a high-value cohort.

Leading Indicators

- Zara+ daily active users
- Rental/resale browsing behaviour
- Customer intent (wishlist, repair requests, return avoidance)

Lagging Indicators

- Customer Lifetime Value (CLV) growth
- Subscription renewal rates
- Resale Gros Merchandise Value (GMV) and repair throughput

KPI Dashboard continued

Internal process Perspective

Objective: Build operational capabilities that enable circular scale without compromising fast-fashion agility.

KPI	Baseline	Target	Timeline	Rationale
Supply Chain Agility	High	Maintain	Ongoing	Ensures digital and circular expansion does not reduce speed.
Platform Availability (Zara+)	N/A	99.9% uptime	2026	Ensures platform reliability under scaling demand.
Repair Turnaround Time	Initial pilots	<48 hours	2027	Critical for customer satisfaction in circular services.
Garment Durability	Unknown	≥20 wears before first repair	2027	Supports rental, resale, and long-term value capture.

Leading Indicators

- Reverse logistics precision
- Repair quality scores
- Material traceability completeness

Lagging Indicators

- CO₂ reduction
- Reduced returns
- Waste diversion rate

Learning and Growth Perspective

Objective: Develop digital, circular, and leadership capabilities that competitors cannot easily replicate.

KPI	Baseline	Target	Timeline	Rationale
Circular Engagement (Employee ESG Knowledge)	Low	≥50% engagement	2026	Builds organisational awareness of sustainability strategy.
eNPS (Employee Engagement)	+28	+40	2027	High engagement supports innovation adoption.
Sustainability Capability Index	Low	90% certified in circular operations	2028	Builds defensible organisational capabilities.

Leading Indicators

- Circular training completion
- Digital learning hours
- Number of employee-led innovation proposals

Lagging Indicators

- Innovation adoption rates
- Transformation readiness
- Leadership alignment

KPI Governance Mechanisms

To ensure accountability and cross-functional alignment:

- **Monthly Performance Reviews** (CDO, COO, CFO)
 - Monitor leading indicators: adoption, platform performance, unit economics.
- **Quarterly Strategic Alignment Meetings**
 - Evaluate lagging indicators (ROE, ROIC, circular uplift).
- **Annual Strategy Calibration**
 - Adjust targets based on regulatory changes, competitive landscape, and innovation outcomes.
- **Performance-Linked Incentives**
 - Leadership bonuses tied to circular engagement, digital adoption, and capability build. Not just financial results.

Closing Rationale

This Balanced Scorecard ensures Inditex does not optimise financial outcomes while inadvertently undermining customer experience, operational agility, or future innovation capacity. By aligning KPIs across all four dimensions, the organisation preserves Horizon 1 performance while accelerating Horizon 2 and 3 growth, enabling a financially responsible transition toward a scalable circular model.

Inditex's innovation approach centres on three strategically critical phases: **Screening**, **Prototyping** and **Scaling**. These represent the high-leverage portion of the broader five-stage innovation lifecycle. While the full model (ideation, then screening, then prototyping, then scaling, then integration) provides a conceptual map of how ideas mature into operational capabilities, this three-phase design focuses on the decisive decision-making moments that determine commercial viability. By formalising these stages, Inditex ensures that emerging circular and digital innovations advance through rigorous evaluation, low-risk testing and evidence-based scaling, allowing Horizons two and three to grow without jeopardising Horizon one performance or financial resilience.

Screening Criteria: Strategic Filters for Idea Advancement

Before committing resources, innovations undergo a structured evaluation using both quantitative and qualitative criteria to ensure strategic fit and financial coherence.

Qualitative Screening Criteria

Strategic Fit: Alignment with Inditex's circularity roadmap and brand identity.

Feasibility: Technical readiness, operational capacity, and regulatory compliance.

Brand Impact: Must enhance or maintain customer trust and product quality perceptions.

Risk Profile: Low reputational risk; manageable operational/technology risk.

Quantitative Screening Criteria

ROI Threshold: $\geq 12\%$ for H2 innovations; $\geq 7\%$ acceptable for early-stage H3 initiatives.

Market Size (TAM): $\geq \text{€}500\text{M}$ for resale opportunities; $\geq \text{€}50\text{M}$ for repair/refurbishment.

CO₂ Reduction: Minimum 20% improvement per unit compared to baseline manufacturing.

Unit Economics: Clear path to breakeven within 24 months.

Customer Adoption Potential: Expected 10–15% adoption in initial pilot markets.



Outcome: Only concepts demonstrating both strategic relevance and commercial promise progress to the MVP stage.

Prototyping Approach: Low-Risk, High-Learning MVP Experiments

Prototyping involves running controlled, resource-light market tests to validate desirability, feasibility, and viability.

Zara Pre-Owned MVP:

- Limited rollout in Spain and France.
- Authentication workflow, pricing model, and logistics partnership testing.
- Integrated directly into Zara+ to assess customer experience and conversion.
- Repair & Refurbishment MVP:
- In-store repair stations partnered with an external refurbishment hub.
- Tests throughput, turnaround time, quality consistency, and willingness-to-pay.
- Circular Fibre Recovery MVP:
- Fibre-to-fibre recycling trials with partners (e.g., Circ, Renewcell).
- Evaluates material quality, cost/kg, and scalability potential.

Success Metrics

- Adoption rate $\geq 10\text{--}15\%$ of eligible customer base
- NPS uplift (target +10 compared to baseline)
- Cost per transaction trending toward margin-neutral economics
- Operational stability (low defect and rework rate)
- Iterative improvement every 4–6 weeks

Timeline

- 60–90 days for prototype build
- 90–180 days live pilot phase
- Rapid learning cycles with iterative redesign



Outcome: MVPs progress only when they demonstrate clear customer traction, technical feasibility, and improving financial performance.

Scaling Plan: Evidence-Based Decisions for Commercial Deployment

Once validated, innovations undergo scaling based on robust evidence across customer, financial, and operational dimensions.

Go/No-Go Criteria

- **Customer Adoption:** Sustained $\geq 15\text{--}20\%$ utilisation in pilot markets.
- **Financial Viability:**
 - Established or near-breakeven unit economics
 - Projected ROI $> 12\%$
- **Operational Readiness:**
 - Reliable reverse logistics and quality control
 - Technology stability (Zara+ integration, RFID, tracking infrastructure)
- **Regulatory Alignment:** Supports EU circularity mandates (EPR, Digital Product Passport).
- **Brand Enhancement:** Demonstrated improvement in ESG reputation and customer trust.

Resource Commitments for Scaling

- Expansion of reverse logistics infrastructure (collection hubs, textile sorting, refurbishment centres).
- Increased platform development within Zara+ to host resale, rental, and repair services.
- Additional staffing for repair/refurbishment operations.
- Strengthened partnerships with material science innovators.

Scaling Outcomes

Validated innovations transition into formal, cross-brand business units managed by a Circular Innovation Office, enabling consistent standards, shared capabilities, and measurable contribution to Horizon 2 and 3 targets.

Three-Horizon Innovation Portfolio

The Three-Horizon Framework provides a structured approach for balancing short-term operational excellence with medium-term business model expansion and long-term transformational innovation. It allows firms to protect the financial engine (Horizon 1) while systematically developing the capabilities and circular models (Horizons 2 and 3) required for future competitiveness. For Inditex, this ensures that circularity can scale without eroding ROE or weakening the core fast-fashion advantage.

Strategic Objective: Protect Inditex's 31% ROE while transitioning toward the 2030 target of 57% ROIC, ensuring the company can progress towards circularity without compromising financial resilience.

Strategic Tension: Circular business models typically compress margins, therefore Horizons 2 and 3 must evolve towards margin-neutral economics to avoid a diluted ROE.

Rationale for Allocation: The 70/20/10 distribution ensures today's cash engine remains strong (Horizon 1), while sufficient investment is directed towards scaling circular models (Horizon 2) and exploring long-term breakthroughs (Horizon 3), in line with strategic best practice.

Horizon

1

Focus: *Optimising the existing fast-fashion operating model to maximise cash generation and fund future investments.*

- Acceleration of design-to-store cycle (from 3 weeks to 2 weeks)
- AI-driven forecasting, replenishment, and inventory optimisation
- RFID-enabled stock/ inventory visibility and improved omnichannel flow
- Incremental sustainability enhancements (organic cotton, recycled polyester blends)
- Automation across logistics and distribution centres

Financial Alignment: Protects the ROE through margin stability, reduced stock-outs, and 20% lower excess inventory.
Competitive Advantage: Reinforces Inditex's long-standing velocity-based moat (speed, agility, and proximity sourcing).

Key KPIs: Lead time, forecast accuracy %, sell-through rate, stock-out rate, returns %, sales/m²

RISK

Over-optimisation may reduce creative flexibility and responsiveness.

ENABLERS

Data engineering capability, AI modelling, RFID infrastructure, supply-chain automation talent.

Horizon

2

Focus: *Building circular and platform-based business models that operate alongside the core fast-fashion engine.*

- Zara Pre-Owned resale ecosystem (authenticated peer-to-peer resale)
- Rental, repair, and refurbishment services (store-based and logistics-based)
- Reverse logistics infrastructure (collection points, sorting hubs, textile recovery flows)
- Sustainable materials at scale (recycled fibres, bio-based alternatives)
- **Zara+:** Digital platform enabling personalised discovery, circular services integration, and customer lock-in

Financial Alignment: Target margin-neutral unit economics while validating new revenue pools and customer behaviours.

Competitive Advantage: Early-mover position in the EU circularity regulatory zone and strengthened behavioural stickiness.

Key KPIs: Resale GMV, rental utilisation rate, repair throughput, % recycled materials, circular retention rate.

RISK

Potential cannibalisation of full-price retail and operational complexity in reverse flows.

ENABLERS

Platform engineering, reverse logistics talent, service design capability, supply-chain reconfiguration.

Horizon

3

Focus: *Reinventing fashion for a fully circular and digitally integrated future (5–7 year horizon).*

- Closed-loop, fibre-to-fibre circular supply chains
- Digital fashion assets and virtual try-ons (reducing returns and physical production volume)
- On-demand microfactories for near-zero inventory and hyper-local manufacturing
- Next-generation recyclable fibres enabling near-infinite material recovery
- Advanced recycling technologies and ecosystem partnerships (e.g., Circ, Renewcell)

Financial Alignment: High R&D intensity but long-term potential to eliminate waste, reduce returns, and significantly lower cost-to-serve.

Competitive Advantage: Develops a hard-to-replicate sustainability and technology moat aligned with EU regulatory trajectories.

Key KPIs: Circularity %, CO₂ per garment, virtual try-on adoption, fibre recovery cost/kg, recovery efficiency %.

RISK

High uncertainty, extended payback horizons, dependency on technological breakthroughs and external partners

ENABLERS

Material science R&D labs, academic/industry partnerships, innovation ecosystems, strategic recycling alliances.

International Platform Expansion: Italy

This section evaluates Italy as the next priority market for Zara+ and Inditex circular services using the CAGE framework, market attractiveness, resource needs, timing factors, entry mode scoring, and risk mitigation. International expansion requires a structured assessment of distance, competition, and operational readiness because circular flows, reverse logistics, and digital integration rely on high precision execution. Selecting the right market and entry mode is critical. A misaligned choice would slow adoption, increase regulatory exposure, and weaken the financial outcomes expected from Zara+. This analysis ensures that Zara+ enters a market where the proposition fits customer expectations, the operating model can function at scale, and the investment supports long term strategic and financial value.

Market Attractiveness

Market Size

- **Italian Apparel Market:** €67.60 billion
- **Projected forecast:** €103.62 billion by 2033
- **Fast-fashion market:** €3.47 billion in 2024, forecasted to €8.94 billion by 2033
- **YoY growth:** 16% in the fashion and apparel e-commerce market, highlighting digital channel importance

Growth Trajectory

- Overall **apparel market** expected to grow at a 4.5% Compound Annual Growth Rate (CAGR) from 2025 to 2033.
- Digital and e-commerce channels are expanding at a faster rate which strengthens the case for an online centred circular model.

Profit Margin Potential

- Italy records a 57.8% **gross margin** and €7.6 billion **Earnings and Interest before Tax (EBIT)** in 2024.
- Margins are expected to remain stable as Inditex benefits from scale, design to store speed, and efficient supply chain operations.

Competitive Intensity

- Italian fashion and apparel retail market is considered **slightly fragmented**.
- Fast fashion **competition is high** with Benetton, OVS, Max Mara, Mango, and H&M all competing on speed, design, and omnichannel experience.
- Inditex benefits from global scale, supply chain agility, and strong brand recognition, which provides favourable positioning in a crowded market.
- Zara+ will differentiate through AI personalisation and circular services, which other competitors do not fully offer.

Strategic Fit

- Italian consumers place high value on quality design, strong aesthetics, and trend forward fashion which aligns with the Zara brand.
- Growing interest in sustainable and EU compliant products supports adoption of Zara+ repairs, resale, and refurbished items.
- Inditex already has a significant store presence in major Italian cities, creating an immediate physical base for circular flows such as drop offs, pick ups, and repairs.
- Italy's alignment with EU sustainability regulations simplifies the rollout of digital product passports and textile recovery initiatives.
- Zara+ offers a differentiated proposition for Italy through AI driven personalisation, durability standards, and circular services.

Resource Requirements

- Micro fulfillment centers to support faster delivery and efficient two way flows for repairs and returns.
- Carrier partnerships with GLS, BRT, SDA, and DHL for national coverage.
- Fast lane returns and automated sorting to reduce processing time.
- Repair and refurbishment capability for circular collections.
- Local digital and compliance teams for platform integration, GDPR, and EU sustainability rules.
- Data and cloud infrastructure to support Zara+ personalisation and tracking.

Timing Factors

- Best launch periods are March and September.
- Avoid August, Black Friday, and Christmas due to logistics pressure.
- Platform build and testing require twelve to eighteen months.
- Logistics setup takes six to nine months and store integration requires four to six months.
- Local marketing and influencer campaigns need two to three months.
- Complete GDPR and payment compliance before launch and avoid clashes with major competitor events.

Risk Assessment

- Overall risk level is **low to medium**, driven mainly by economic conditions and evolving regulatory obligations.
- Italy is a stable and culturally aligned market which reduces market entry uncertainty.
- Regulatory risk is tied to the EU Circular Economy Package and expected requirements for textile take back, minimum recycling percentages, and extended producer responsibility fees. Zara+ circularity helps Inditex stay ahead of these rules.
- Build a local compliance function and integrate Italian specific regulations into repair, resale, and textile recovery workflows.
- Economic volatility may cause uneven demand across regions. Start in Milan and Rome before broader expansion and use flexible pricing and inventory planning.

International Expansion continued

CAGE Distance Evaluation (Total: 6.0 / 20)

The CAGE framework is a tool that measures Cultural, Administrative, Geographic, and Economic distance between two markets. It helps firms understand how differences across these dimensions affect customer behaviour, regulatory demands, operating costs, and the difficulty of transferring a business model across borders. Using CAGE in this strategic analysis is important because Zara+ depends on precise execution in digital integration, circular logistics, and customer experience. A market with low CAGE distance reduces adaptation needs, lowers risk, and increases the likelihood that the Zara+ circular model can scale effectively. Italy's CAGE profile shows strong alignment with Spain which supports a high control entry mode and rapid deployment of circular services.

Cultural Distance: 1.5 / 5

Rationale

- Shared norms and fashion centred lifestyles.
- Similar tastes in fashion.
- Limited language barriers due to Romance language similarities.
- Comparable retail expectations and store behaviours.

Implication

- Minimal cultural adaptation required and strong brand fit.

Geographic Distance: 1 / 5

Rationale

- Short physical distance with a two hour flight.
- Integrated EU transport and logistics corridors.
- Efficient cross border shipping from Arteixo into Italy.

Implication

- Easy supply chain integration with low cost replenishment.
- Strong support for reverse logistics.

Entry Mode Scoring

Entry mode scoring helps compare how different market entry options perform on control, risk, investment needs, speed, and strategic fit. Zara+ requires unified digital standards, consistent repair and resale quality, and integrated reverse logistics. High control modes therefore score better for this strategy.

Recommended Entry Mode: Greenfield Investment

- **High Market Knowledge:** Inditex has a strong understanding of Italian consumer behaviour with 325 stores present in Italy and operates in a low CAGE environment which increases predictability and reduces adaptation needs.
- **Strong Resource Base:** Inditex can fund and build micro fulfilment centres, repair hubs, and returns systems that Zara+ depends on.
- **High Control Requirement:** Zara+ needs unified data, accurate repair tracking, consistent resale quality, and integrated reverse logistics which Greenfield fully enables.
- **Acceptable speed trade off:** Greenfield is slower but delivers the operational depth required for circular services rather than a light-touch entry.
- **Favourable Risk Profile:** Inditex has the financial strength to support initial investment and Italy provides stable regulatory and economic conditions.

Administrative Distance: 1 / 5

Rationale

- The same EU regulations for trade, labor, sustainability, product standards, and consumer protection.
- Free movement of goods with no tariffs.
- High institutional similarity and no political friction.

Implication

- Compliance frameworks can be applied consistently.
- Circular model aligns with the EU Circular Economy Package.

Economic Distance: 1.5 / 5

Rationale

- Similar GDP per capita and fashion spending patterns.
- Strong urban concentration aligns with format store strategy.
- Mature retail infrastructure in malls and high street zones.

Implication

- Minimal economic adaptation required and strong potential for Zara+ adoption.

Entry Mode	Market Knowledge	Resources	Speed	Control	Risk Tolerance	Total
Greenfield	5	5	2	5	4	21
Exporting	5	3	5	4	3	20
Licensing	3	5	4	2	5	19
Acquisition	4	4	3	4	2	17
Joint Venture	4	4	2	3	3	16

Top Two Risks and Mitigation Strategies

Regulatory and Compliance Risk

Zara must meet EU sustainability rules, textile recovery obligations, reparability standards, and GDPR.

→ Mitigation

- Create a local compliance team, embed EU requirements into digital and repair workflows, coordinate early with Italian regulators.

Operational Complexity Risk

Greenfield requires new logistics, repair, and reverse flow capacity which may create delays.

→ Mitigation

Use phased rollout in Milan and Rome, prioritise micro fulfilment for stability, and automate returns and repair processes.

If CAGE distance doubled

- Greenfield would become less suitable due to higher uncertainty and adaptation needs.
- A Joint Venture would be chosen because it provides local insight and shared investment in a higher distance environment.

AI Roadmap for Zara+

AI Roadmap for Zara+

The AI roadmap defines how Inditex will deploy artificial intelligence to strengthen the Zara+ ecosystem, support international expansion beginning with Italy and build capabilities that competitors cannot easily replicate. The roadmap is structured around three priority initiatives that reinforce customer relevance, operational precision and innovation speed.

Strategic Purpose of AI

AI is not positioned as a generic efficiency tool. It is a strategic enabler that strengthens three core elements of the Zara+ model.

Precision and speed in decision making

AI strengthens demand prediction, trend identification and assortment planning which improves financial performance and reduces markdowns.

Customer personalisation and lifetime value growth

AI creates tailored journeys that increase conversion, subscription uptake and circular engagement within Zara Plus.

Scalable international expansion

AI supports consistent global execution while allowing country level adaptation. Italy serves as the initial pilot market that produces the data needed for future EU scaling.

Foundation: Data Architecture and Governance

The roadmap builds on Inditex proprietary data assets that act as a competitive moat.

Unified product and customer data structure

A common data layer across all Inditex brands ensures Zara+ can recognise products, condition, usage and customer interactions at SKU level.

Data security and governance

A clear governance model is needed to ensure GDPR compliance and to prevent data fragmentation across brands and markets.

Experimentation and model monitoring

A controlled experimentation environment allows rapid testing of new algorithms and continuous monitoring of model accuracy, bias and stability.

Real time operational data capture

Sales, returns, product lifecycle data and user behaviour signals must be collected with high frequency to support forecasting and trend models.

AI Initiative Portfolio

The roadmap includes three priority initiatives linked directly to Zara+ strategic objectives and financial targets. Each initiative includes value logic, data needs, capability requirements and timeline.

Initiative 1. Store Level Micro Inventory Forecasting

Classification: Competitive Advantage

Strategic value: Enables precise stock allocation for new products and circular flows. Reduces markdowns and improves availability for Zara+ members in Italy and future markets.

Value logic

- Higher sell through and lower excess inventory
- Lower environmental impact per garment
- Improved ROE through reduced capital tied up in stock
- Better visibility of circular returns and resale volumes

Data requirements

Store level real time sales, historical demand patterns, return rates, Zara Plus rental and resale flows, weather, events and micro geographic patterns.

Capability requirements

Forecasting models, automated replenishment triggers, decision rules for stock allocation into new, resale, or rental channels.

Implementation horizon

Pilot within Milan and Rome in year one. Scale across Italy in year two. Roll out to France and Germany in year three.

Initiative 2. AI Personalisation for Zara+ Customers

Classification: Competitive Advantage

Strategic value: Creates personalised journeys across browsing, trial, purchase, rental and resale. This increases conversion and customer lifetime value while supporting sustainable choices.

Value logic

- Higher digital conversion rates through personalised content
- Higher subscription adoption and retention of Zara+ subscription
- Switching costs for customers due to personalised wardrobe and sustainability profiles

Data requirements

Customer browsing history, size profiles, purchase history, circular behaviour, fabric information and environmental impact scores.

Capability requirements

Recommendation engines, dynamic content systems, privacy by design framework, experimentation tools.

Implementation horizon

Initial version delivered within nine months. Full journey personalisation delivered in two years across all EU markets.

Initiative 3. AI Trend Detection and Assortment Intelligence

Classification: Competitive Advantage

Strategic value: Trend detection strengthens Inditex core identity as a fast fashion innovator. AI monitors social signals, search behaviour, micro cultural patterns and early sales indicators to identify emerging trends. This shortens design cycles, aligns assortments to local tastes and enables Zara Plus to launch targeted capsules for the Italian market.

Value logic

- More accurate and timely assortment decisions
- Higher sell through and reduced end of season markdowns
- Improved alignment of design and demand at city level
- Faster localisation for international expansion

Data requirements

Social media signals, search trends, web interactions, early sales velocity, returns data indicating product fit or acceptance, influencer activity and cultural events.

Capability requirements

natural language processing models, computer vision tools for image based trend recognition, early signal detection models for sales velocity shifts, integration mechanisms that connect AI outputs to design and assortment planning systems and cross functional workflows that enable designers and planners to act on trend insights.

Implementation horizon

Initial models deployed within six months. Full integration into assortment planning and Zara+ capsules within 18 months.

Enabling Capabilities

Ethical AI governance

- Includes model risk assessment, bias monitoring and privacy controls embedded in the development lifecycle.

Workforce readiness

- Training for designers, data teams, planners and digital product managers to interpret AI outputs accurately.

Financial Impact

Margin enhancement

- Better forecasting and trend alignment reduce markdowns and improve EBITDA margin

Working capital efficiency

- Inventory optimisation reduces capital tied up in stock and supports ROE targets

CLV and digital revenue growth

- Personalisation increases the share revenue captured through Zara+ and improves subscription retention

Reduced assortment risk

- Trend detection reduces the financial cost of misaligned designs and unsuccessful capsules

Governance and Risks

Oversight Risk

- Coordinates technology, brand, sustainability and legal functions

Model monitoring

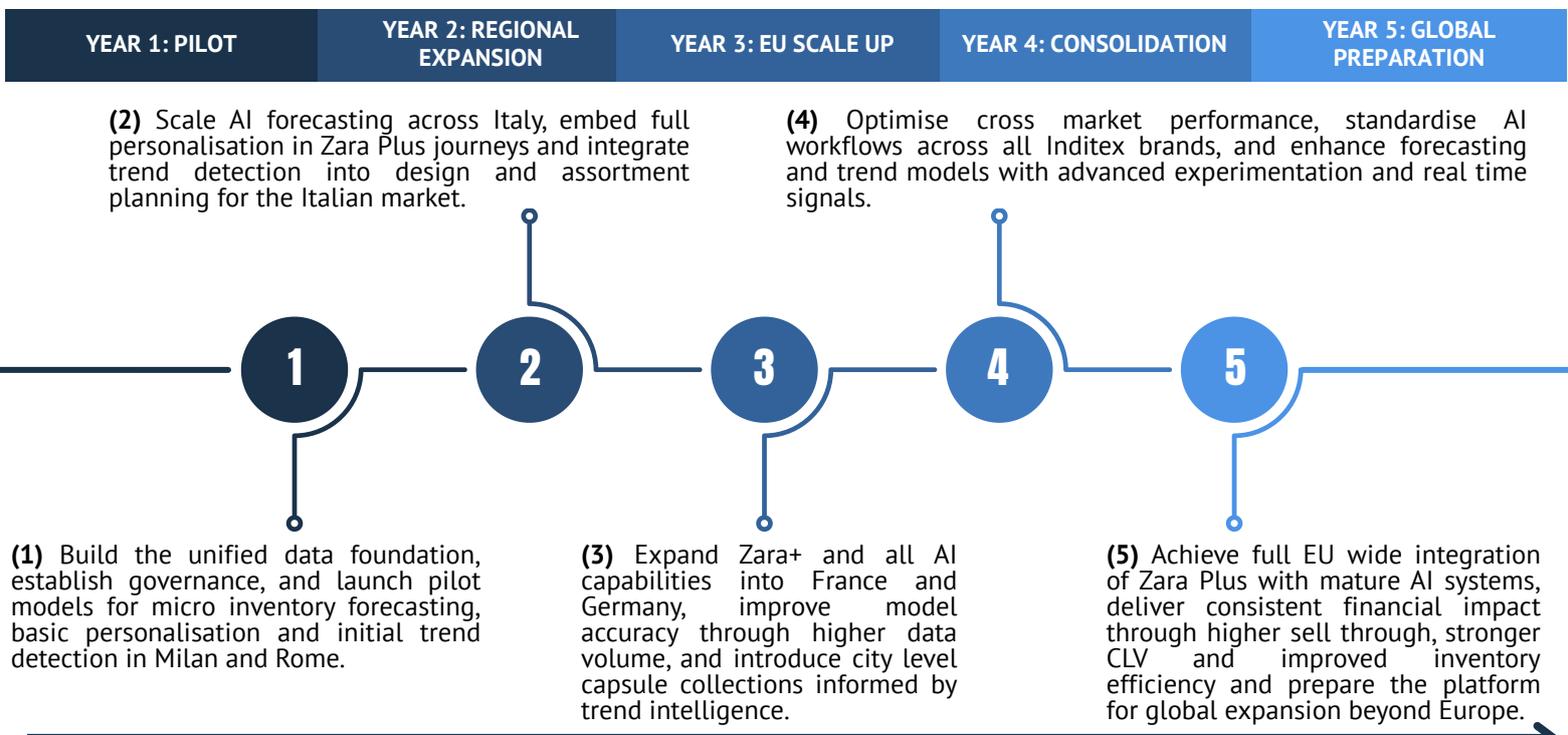
- Continuous evaluation of accuracy, drift, bias and operational stability

Regulatory compliance

- GDPR controls ensure cross market data flows meet legal requirements

Change management

- Ensures planners and designers adopt AI supported decision making



ESG Integration

How ESG and AI reinforce Inditex's strategic positioning

EESG and AI operate as mutually reinforcing capabilities that strengthen Inditex strategic positioning and support the Zara+ circular model. They create sustainable competitive advantages because the benefits depend on proprietary data, credible sustainability performance and disciplined governance. When combined, they reinforce the Zara+ value proposition and create differentiation that competing fast fashion firms struggle to replicate.

AI improves environmental performance by reducing overproduction, optimising resource use and increasing adoption of circular models. Research shows that the fashion sector contributes between 2% and 8% of global carbon emissions (UNEP, 2018) and roughly 30% of clothing produced is never sold (Balchandani et al. 2025). Micro inventory forecasting can reduce overproduction by 15% to 25% (Nguyen, 2025), which directly lowers emissions and material waste. AI driven trend detection ensures that assortments reflect real demand which prevents unnecessary capsule launches and limits raw material consumption. AI personalisation encourages customers to choose rental and resale which reduces the carbon intensity of Zara+ transactions and supports Inditex environmental targets for 2030.

AI strengthens social responsibility by improving visibility and fairness across the supply chain and workforce. More than 50% of labour violations occur in lower tier suppliers where transparency is limited (Ripley, 2020). AI supported supplier risk detection predicts which suppliers are likely to breach standards which allows early intervention. AI analytics can also identify patterns of unconscious bias in recruitment and career progression which supports Inditex diversity and inclusion objectives for 2030. These improvements also increase Inditex ability to attract technical and AI talent because engineers increasingly prefer to work for purpose driven organisations.

AI enhances governance by improving the accuracy and reliability of sustainability data. Companies with automated ESG reporting systems reduce data errors by up to 50% (Deloitte, 2025). AI validated environmental and social datasets reduce the burden of manual reporting and strengthen compliance with EU sustainability disclosure requirements (European Commission, 2025). Improved data quality also supports internal decision making by ensuring that leaders have real time visibility of carbon, waste and labour risk metrics across Zara+ operations.

ESG improves AI capability because strong sustainability commitments attract high calibre engineers and data specialists who develop better forecasting, personalisation and trend models. ESG data systems provide high quality inputs for AI training which increases model accuracy. Customer trust increases when responsible AI is deployed by a brand with credible sustainability practices which raises adoption of Zara+ digital journeys and supports subscription growth.

Inditex links its ESG objectives for 2030 directly to the AI roadmap to reinforce strategic positioning.

AI integrated ESG Goals

Pillar	2030 Goal	How AI Enables It	Impact
Environmental	40% lower carbon per garment	Micro inventory forecasting reduces overproduction	Lower emissions and less waste
Environmental	20% circular return rate in Zara+	Personalisation promotes rental and resale	Higher circular adoption and circular GMV
Environmental	Reduced deadstock across markets	Trend detection aligns design to real demand	Fewer markdowns and reduced disposal volumes

Closing Rationale

The integration of ESG goals with the AI roadmap strengthens Zara+ strategic positioning by linking environmental performance to core competitive capabilities. Micro inventory forecasting, AI personalisation and trend detection each deliver measurable sustainability outcomes that improve efficiency and reduce resource use. These outcomes reinforce Inditex commitments for 2030 and increase customer trust in Zara+ as a credible circular platform. ESG alignment also strengthens regulatory readiness and supports international expansion because circular performance and transparency are central to the European market. The combined effect is a defensible competitive advantage that competitors cannot easily replicate because it depends on proprietary operational data, credible sustainability performance and disciplined AI execution.

Conclusion

The strategic focus of Inditex revolves around enhancing omnichannel presence, driving sustainability efforts, and leveraging innovation to maintain a competitive edge. By integrating ESG goals with business strategies, Inditex is poised to meet future consumer demands while addressing regulatory pressures. The emphasis is on aligning operations with sustainable practices across sourcing, production, and distribution, aiming for a more transparent and resilient business model.



Inditex's Path to Sustainable Growth in Fast Fashion

Inditex aims to cement its position as a leader in fast fashion by fortifying its sustainable practices, expanding digital integration, and continuing growth across new markets. Through these comprehensive strategies, Inditex will cater to evolving consumer values, maintain operational efficiency, and foster continued global expansion.

Inditex's Expansion and Digital Strategy Focus

The expansion into emerging markets and the enhancement of digital and omnichannel strategies are crucial in maintaining Inditex's agile supply chain and robust market presence. This approach ensures that the company remains a leader in rapidly adapting to changing trends and technological advancements in the fashion industry.

Inditex's Commitment to Sustainability and Competitive Resilience

Inditex's strategic emphasis on integrating sustainability across all aspects of its operations reflects a commitment to long-term resilience and competitiveness. By adopting circular economy practices and enhancing ESG reporting, the company not only complies with regulatory changes but also aligns with shifting consumer preferences towards more responsible fashion consumption.

Inditex Enhances Efficiency with AI Innovation

Inditex's investment in innovation, particularly in AI and predictive analytics, positions the company to better forecast demand and reduce overproduction, thereby improving operational efficiency and customer satisfaction. These strategic initiatives are vital for navigating the challenges posed by economic volatility and competitive pressures within the fast-fashion sector.

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