Inditex recovery under way in Q1, latest quarter starts strongly

By Sandra Halliday - 9 June 2021

Inditex bounced back with a vengeance in Q1 with the Spanish fashion retail giant reporting higher profits and saying its sales grew 50% year-on-year. Sales reached €4.9 billion in the first three months of its financial year and online sales in local currencies were up 67%.

Admittedly, the comparison with 2020 is fairly easy as Q1 last year was the height of the pandemic’s first wave. But compared to the same quarter of 2019, in local currencies, revenue was just 11.5% down. That’s even though 24% of trading hours were unavailable due to lockdowns and restrictions in the three months from February. Some 16% of the group’s stores remained closed at the end of the quarter.

Importantly though, sales in recent weeks have been running above 2019 levels. In fact, combined store and online sales since Q2 started on May 1 up to June 6 are up 102% compared to a year ago and are also 5% higher than the same 37 days in 2019. That’s despite 10% of trading hours being unavailable due to store closures and business restrictions. As of this week, 98% of its stores are open.

Looking back at Q1, the strong sales weren’t simply achieved at any cost as the firm’s gross margin expanded to “a robust 59.9%, thanks to the implementation of the business model and the efficiencies unlocked by the digital transformation strategy”. That margin was above the the 58.4% of a year earlier and 47 basis points above that of Q1 2019.

It meant gross profit was €2.96 billion, up from €1.93 billion a year earlier, and EBITDA rose to €1.235 billion from €484 million. It returned to net profit too, with net income of €421 million after a €409 million loss in the previous Q1.

DIGITAL PROGRESS
Executive chairman, Pablo Isla, stressed how “our differentiation and strategic transformation towards a fully integrated, digital and sustainable model continues to bear results”.

The company said the “integration of the business model has allowed the effects of the store absorption programme announced in June 2020 to have already been fully recovered in store and online sales in May 2021”. And the integrated stock management system (SINT), which allows an online order to be fulfilled from any store, “has been pivotal”.

Q1 sales were higher in all geographies and for every brand, helped by that digital acceleration. Inditex said the versatility of its digital architecture “makes it easy to create and integrate new services for users and professionals in each of the steps of the company’s activity, besides improving our customers’ experience”.

And it continues to advance its tech capabilities, having set aside another €1.7 billion of capex for platform integration between 2020 and 2022.

In Spain, Japan and the UK, for instance, Zara has completed the rollout of its Store Mode app feature, which allows customers to browse items in the store of their choice through their mobile app to know which items are in store before they arrive. It also enables customers to buy these items in advance for collection in half an hour, in-store fitting room booking, and location of items they’ve seen online in-store. ‘Store Mode’ functionality is also operational in 30 stores each in Germany and Italy, in 10 stores in France and is being gradually introduced in markets such as Russia, Poland and the US.

Zara also continues to roll out in-store Customer Experience areas, with new convenience services and spaces such as fitting room waiting areas and showroom areas. Dedicated exchange and returns areas, online order pick-up and clothes collection points, and recycling points have also been added.

But its new developments aren’t only about tech as it has added the new Zara Beauty collection in its stores in all European markets, the US, Canada, China, South Korea, Japan, Mexico, Australia and New Zealand. Customers can also discover the entire collection by means of an exclusive immersion experience receiving personalised beauty tips, a service on offer in 22 stores across the world’s most important shopping capitals.
Twenty two stores may sound a lot but the company has 6,758 stores in 96 markets, opened 53 during the period and has many more to come. These new openings are bigger and higher-tech stores that can make the most of the digital developments. It continues to open major stores and said that Zara, together with Stradivarius and Zara Home, has just announced an agreement to open in one of the biggest real estate developments in Europe, in Madrid’s Plaza de España.

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