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## Inditex Business Activity in Europe\*\*

### Abstract

*This research paper analyzes the internal dimensions of the EU in terms of the single market and the opportunities it offers to the business sector. Of the four freedoms, the free movement of goods – and its polices – are addressed and applied to the case of Inditex. The question at hand is: Has Inditex succeeded in Europe due to the single market, particularly the free movement of goods, or have other factors contributed to their success? To answer this question the first section is an analysis of the single market and its role in trade following the implications of the free movement of goods, particularly, the customs union. Then the case study of Inditex as a business in the EU is presented. It is followed by a discussion whether the free movement of goods has attributed to Inditex's business success. Articles 34 and 35 of the Treaty of the Functioning on The European Union are addressed in terms of Inditex's increased business activities in the EU. Following, the Purchasing Power Parity (PPP) of the EU is mentioned together with its role in the business sector. Lastly, a marketing plan aimed at increasing trade and business cooperation with the EU is presented.*

**Key words:** Four freedoms, free movement of goods, customs union, purchasing power parity, (PPP) and Treaty of the Functioning on The European Union (TFEU).

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## Introduction

The European Union was created after WWII in order to ensure peace and justice among EU member states. The idea behind promoting a free trade area was to integrate economic cooperation, reducing the risk of another conflict. The EU today is one of the most attractive areas for business; with over 20 million small and medium enterprises and 500 million consumers, the EU is a major hub of business activity (European Commission 2017a). This research paper analyzes the EU's single market and discussed whether the free movement of goods and related policies have helped the business sector. The question throughout this research paper is: Has Inditex succeeded in Europe due to the single market, particularly the free movement of goods, or have other factors contributed to their success?

## Research Method

This study used both primary and secondary research. The primary research is an analysis of information from Europa<sup>1</sup> and other online sources in order to make new conclusions. Additional online sources such as social media were used in collecting primary research. The secondary sources used in this study came from online sources such as Eurostat, the European Commission, the European Parliament, OECD and others. The information provided by these secondary sources formed the grounds for the discussion and conducting primary research.

### 1. The Single Market

The European single market aims to stimulate trade, competition, improve efficiency of trade activities, raise quality and facilitate price cuts of goods in EU member states (Eurostat 2017). Four freedoms were established under the single market strategy to achieve the following goals: the free movement of goods, services, capital and labor. The free movement of goods eliminates customs duties and

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<sup>1</sup> [https://europa.eu/european-union/index\\_en](https://europa.eu/european-union/index_en).

quantitative restrictions in order to increase trade among member states (European Parliament 2017). The free movement of services allows a company to establish themselves in another country and grants them freedom to receive or provide services in another member state. The free movement of capital allows one to open a bank account abroad, buy shares in a non-domestic country and buy real estate, among many other business transactions (European Commission 2017). Lastly, the free movement of labor allows EU citizens to move to another member state without a visa. All four freedoms have helped integrate the economies of member states; this is evident in the high intra-EU trade statistics. In 2006 intra-EU trade was valued at 3110 billion euros, 78% higher than exports going to non-EU countries (European Parliament 2017). Furthermore, intra-EU trade continues to have stable growth – especially over the past seven years where 2015–2016 saw a 1.5% increase in trade. Two key aspects of the free movement of goods are addressed below, together with their importance in business activity.

## 1.1. Customs Union

The European Commission defined a customs union as, “[an area] that members apply the same tariffs to goods imported into their territory from the rest of the world, and apply no tariffs internally among members” (European Commission 2014: 1). This means that once a product has cleared customs at any point of entry in the EU it can circulate freely. There are customs officers located at ports, airports and labor crossings within the EU area monitoring goods entering the EU. As of 2013 the import duties collected by customs accounted for 11% of the EU budget (15.3 billion euros) (European Commission 2014). In 2016, 313 million customs declarations went through more than 2000 EU customs offices (European Commission 2017); these numbers show that the customs union is key in determining the number of imported and exported products in the EU and is integrated in the overall economic well-being of EU member states.

The key document related to the management of the customs union is the “Union Customs Code” which is agreed upon by both the council and the European Parliament (European Commission 2014). Although the primary role of the customs union is collecting custom duties and indirect taxes, it also monitors safety and security regulations. Safety regulations make sure goods comply with EU standards – drugs, food and product’s safety are all inspected and are expected to follow the same

standard. Intellectual property is also protected by the customs union. Counterfeit fashion items are commonly detained, as well as other counterfeit products such as fake appliances and drugs (European Commission, 2013a). Two thirds of products violating intellectual property come from China – many of which are shipped by postal services (European Commission 2014).

A great benefit of the customs union is its harmonious procedures for customs in transit. Custom formalities can take place at the destination, avoiding a lengthy step by step process. There is a “temporary suspension of duties, taxes and commercial policies” at importation, so these are instead applied at the final destination (European Commission 2014: 9). Nonetheless, the customs union encourages business activity because there is only one customs tariff; the importing company does not have to pay for different tariffs in each country it crosses. Also, imported products are protected by the safety and security regulations of the customs union.

## 1.2. Removal of Quantitative Restrictions

Articles 34, 35 and 36 of the Treaty of the Functioning of The European Union (TFEU) are the main treaty provisions regulating the free movement of goods. It is important to note that these articles do not apply to products already covered by EU legislation (European Commission 2013a). Although it may seem obvious, the definition of goods is necessary in order to fully understand the articles. Goods are defined as “products which can be valued in money and which are capable, as such, of forming the subject of commercial transactions” (European Commission 2013a: 8). Article 34, under chapter title, “Prohibition of Quantitative Restrictions Between Member States” says that “Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States” (European Commission 2013a: 11). The purpose of article 34 is to encourage trade and the free flow of goods within the EU. An example of Article 34 is a band on quota systems among EU member states; this would mean there is no limit on the number of goods being imported between member states. However, it is important to note that article 34 refers to non-tariff quotas and that quantitative restrictions do apply to certain goods that have reached their import or export ceiling. Furthermore Article 34 has a “vertical direct effect” meaning that EU legislation can be used against a member state and therefore is binding to all members (European Commission 2017b: 4).

Article 35 is similar to article 34 except it deals with products coming from third world countries. It states that if imported products from the third world country have followed customs duties or charges of equivalent effect then they are allowed to circulate freely in states (Europa 2013a: 7). The main difference between article 34 and 35 is that article 34 handles goods moving from a EU state to another EU state while article 35 handles goods coming from third world countries. Both try to abolish discrimination towards trade of goods.

Article 34 and 35 had faced obstacles when certain national standards did not meet other members' national standards. The principle of mutual recognition was established in order to avoid such issues. This principle says that a country within the EU cannot forbid the sale of another EU product in their market, even if it does not meet the national requirements of that particular country; if the foreign product is lawfully marketed and sold then they are allowed to move freely to any country (European Commission 2013a, 15). The exceptions to this rule are in article 36.

The last article, article 36, lists the exceptions of article 34 and 35. Article 36 of the TFEU states that:

“The provisions of Articles 34 and 35 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States” (European Commission 2017b: 26).

Nonetheless, article 36 puts public health above the economic gains of the EU. It is a defense mechanism that any country can use to prohibit cross border trade (European Commission 2013a: 36). For instance, a member state could decline imports of clothing apparel that violated animal rights.

## 2. Inditex in the Single Market

Inditex is the leader of the fast fashion industry; their strategy is to create new clothing line collections every two weeks (Jarivs 2017). The clothing lines are imitations of other popular companies – which are seen at cat-walks in fashion shows. Forbes ranked Inditex third in Top World Apparel Companies, number one

being Dior, followed by Nike (Forbes 2017). Inditex was founded in 1963 by Amancio Ortega, currently the fourth richest man in the world (Forbes 2017). Most popularly known for their Zara brand, Inditex has seven other brands. These include Pull&Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Utersque (Inditex 2016). As of 2016 Inditex had 7,292 stores in 93 different markets, Europe being the region with most stores – 4,990 stores to be exact. Inditex has experienced a stable growth in sales on a yearly basis; in 2014 sales (in billions) were 18.117, 2015 sales were 20.900 and 2016 sales were 23.311 (Inditex 2016: 6). Of these sales Europe (excluding Spain) accounted for 43.9% of the total sales, following is Asia plus the rest of the world, Spain and America. Something important to notice is that Spain had its own category because this country alone contributed to 16.9% of the 2016 sales (Inditex 2016: 6). Also, Inditex is a supporter of humanitarian events and has had a major contribution to international employment levels, particularly in Spain – 30% of the company's staff is located there while the rest of Europe accounts for 46% of the workforce (Inditex 2016, 36) with 76% of their employees being women and 60% of them under the age of 30 (both men and women). Inditex has a total of 1805 suppliers and 6959 factories, with the European Union being number one in terms of both suppliers and factories (Inditex 2016).

Inditex uses supply clusters that provide sustainable and productive environments located in geographic areas that are of benefit to the Inditex business model; the supplier clusters include: Spain Portugal, Morocco Turkey, India, Bangladesh, Vietnam, China, Cambodia, Brazil, Argentina and Pakistan (Inditex 2016: 58). The main production sites are in Spain, Portugal, Morocco and Turkey – this may be confusing with the above statistics regarding the numbers of suppliers and factories but they do not represent percentage of production. Something important to note is that the EU has trade agreements with non-EU countries, particularly the ones that are part of the supplier clusters. The “EU – Bangladesh Cooperation Agreement” lists a broad scope for “cooperation, extending to trade and economic development, human rights, good governance and the environment” (Europa 2017a, par. 1). Another benefit the EU provides for Bangladesh is the “Least Developed Country” agreement. Under the EU's generalized “Scheme of Preferences”, Bangladesh – including other developing countries – is entitled to “Free quota, free access to the EU. for exports of all products except arms and ammunition” (Europa 2017a, par. 4). Nonetheless, the EU has strategic trade agreements with countries that play a vital role in Inditex's supply chain. These policies make it easier for Inditex to have a smoother and more profitable business. Morocco is critical to the trading industry of the EU, Morocco being their largest trading partner and accounting for 55.7% of their trade in 2015

(Europa 2017b, par. 2). The Association Agreement between the two parties created a free trade area, liberalizing two-way trade of goods. The Free Trade Area entails the tariff free zone, general right to establish businesses and services within the other area, current payments/capital movements and common rules on intellectual property and competition (Europa 2017b, par. 4). Additionally, Morocco is a partner of the Euro- Mediterranean partnership (Euromed); this partnership encourages economic integration in the Mediterranean region through privileged relationships and building a commitment to common values (Europa 2017a, par. 7).

## **2.1. EU Polices Supporting Business Activity**

The three articles of the TFEU have promoted business activity within the EU, also in the case of Inditex. All three articles support the free movement of goods. This freedom is key to economic integration within the EU because it allows cross-border trade among member states. Thus, businesses are likely to develop and survive within the EU due to these favorable policies.

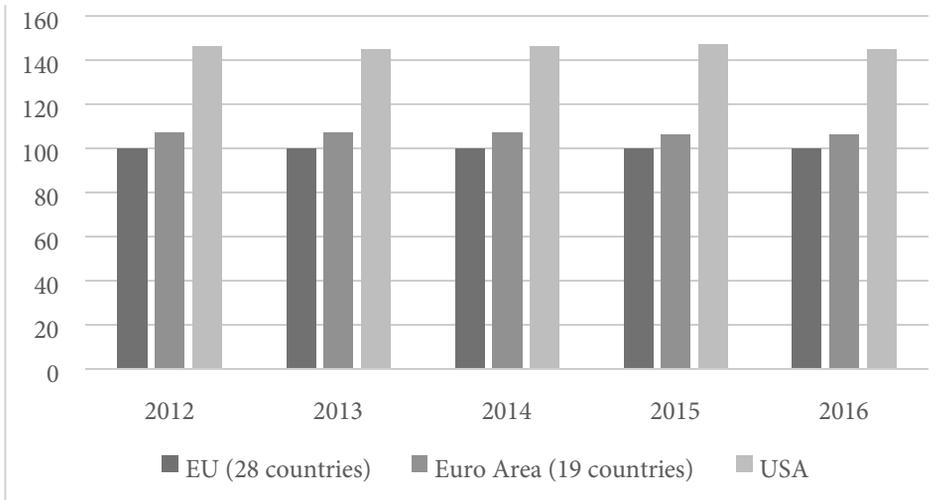
Article 34 benefits Inditex because their suppliers do not have quantitative restrictions on imported goods. Thus, they do not have a restriction, that is one that does not exceed the import limit, on the number of textiles they import – as mentioned earlier most of Inditex’s supplier are not part of the European union. Article 35 also works in favor of Inditex, as many of their suppliers are from third world countries. Therefore, the EU does not favor imports from certain countries, giving third world countries a chance to compete on the global scale. For instance, Morocco and Bangladesh are considered third world countries; however the EU has not discriminated against them, a reason why Morocco is the EU’s number one trading partner. Also, article 36 of the TFEU ensures member states and other countries that the EU has high safety standards. This builds trust of Inditex customers, as they know their products have followed strict EU regulations.

## **3. Purchasing Power Parity**

Although the free movement of goods in the single market has allowed Inditex to perform well in the EU, there are other factors that also need to be considered.

For instance, the Purchasing Power Parity (PPP) of the EU The OECD defined PPP as “the rates of currency conversion that equalize the purchasing power of different currencies by eliminating the difference in price levels in different countries” (OECD 2017, par. 1). In other words, currencies of country A and B are compared through a product of a same price in order to determine the price of the currency. The Purchasing Power Standard (PPS) is an artificial currency unit derived from the PPP of a nation; PPPs can be described as the exchange rate of the PPS against the euro (Europa 2017b). Below is a graph of GDP per capita in PPS. The EU average is set equal to one hundred, meaning that if the index of a country is higher than 100 then their GDP per capita is greater than the EU average (Europa 2017b).

**Figure 1: GDP per capita in PPS**



Source: (Europa, 2017a).

These findings show that the U.S. is doing better than the Euro Area in terms of GDP per capita in PPS (Europa 2017b). For example, in 2016 the Euro area had 106 while the U.S. had 145 GDP per capita in PPS. This means that both the Euro area and the U.S. GDP per capita is greater than the EU average, however the U.S. has more purchasing power per person (Europa 2017b). Therefore, the PPP of the Euro Area may have been a factor of Inditex’s success, as the PPS of the Euro Area is higher than the EU However, the main factor that contributed to their business’s success was the free movement of goods in the EU, and favorable agreements with third parties; the PPP while aiding in this success definitely did not drive it.

## 4. Marketing Plan for European Entrepreneurs

The EU's four freedoms are something many EU citizens do not realize they have; European companies, both small and large, could establish themselves in neighboring countries much easier than they think. The issue is, many European citizens are not informed of what the four freedoms are, what they entail. Neither do they know of other Acts the EU has created in order to encourage entrepreneurship. The Small Business Act for Europe (SBA) is a great example of a tool the EU provides for businesses. The act, "aims to improve the approach to entrepreneurship in Europe, simplify the regulatory and policy environment for SMEs and remove the remaining barriers to their development" (European Commission 2018, par. 1). The main priorities of SBA are to promote entrepreneurship, reduce regulatory burdens, increase access to finances as well as increase access to markets and internationalism. This act and the benefits of the four freedoms should be popularized with a marketing campaign to inform entrepreneurs of the available opportunities.

European citizens mostly use television as their source of news for political matters. Following is the radio (31%) and then the Internet (29%). Although the Internet is third in terms of media sources, it is important to note the current trends. Television has seen a 6 – point decline and radio has seen a 3 – point decline as a media source. In contrast, the Internet has seen a 3 – point rise as a media source (European Commission 2013a). These numbers are not surprising, as we are currently undergoing the Fourth Industrial Revolution and millennials are born into a society in which the Internet is ingrained and it is not something they need to learn. Therefore, in order to increase awareness of the four freedoms and the SBA, the marketing plan should mostly target Millennials' digital outlets, such as social media and e-news, which are the main source of news for most millennials (64%), whereas those aged 45–54 mostly use television as their news source of choice (45%) (Dunn 2017). Since we know where to promote SBA and the four freedoms, the strategy to the marketing campaign is key.

Lately, the World Economic Forum presented data from the social media strategist Vincenzo Cosenza regarding social media usage. Facebook is still Europe's number one source of social media, with 323 million users, second are Instagram and Twitter; Instagram being second for most of Eastern Europe and Twitter for Western Europe (Vincos 2018). The best days of the week to post on Facebook are Thursday and Friday, followed by Monday and Wednesday. The best times to post are from 1–3 pm and also

after 5 pm, as this is when most people get off work (Brennan 2017). According to my research, the best time to post on Instagram is on Monday and the second-best day is Sunday. In line with the information presented above, social media campaigns promoting the SBA and the four freedoms during the recommended dates and times would be extremely effective in informing European Millennials of the business opportunities available. As Facebook is more content driven, short articles with key facts could be posted on the EU's Facebook page. Below is a list of key facts about the SBA that would be very beneficial to include both on Facebook and Instagram.

- “Businesses with a turnover of less than EUR 2 million may benefit from an optional cash accounting scheme which makes it possible for them to delay accounting for VAT until they receive payment from their customers”.
- “On average, each SME that is granted a guaranteed loan in the EU creates 1.2 jobs”.
- “When it comes to public procurement a recent Commission survey suggests that SMEs now experience fewer administrative burdens when accessing public procurement and have better opportunities for joint bidding”.
- “The European SME Week continued to provide a pan-European platform with more than 1,500 events and 3 million participants”.
- “The average time and cost to start up a private limited company in 2010 was 7 days (12 days in 2007) at a cost of EUR 399” (European Commission 2011: 3–5).

All these facts are easy to understand, short and encouraging for young entrepreneurs. Through using them in posts on Facebook and Instagram, the interest of Europeans will be heightened and therefore more of them would be inclined to visit links in each post. Instagram is more picture orientated, therefore the European Union could post pictures of entrepreneurial success stories. The title of the Instagram page could be “Think Small First” the underlying theme of the SBA. Also, being that these pictures would be from everyday Europeans, viewers will respond more positively because they can relate to them on a personal level.

## Conclusions

To sum up, the free movement of goods has helped the business sector tremendously. Articles 34, 35 and 36 of the TFEU specifically describe various aspects of the free movement of goods and their limitations. By having no quantitative restrictions and no bias towards third world countries, Inditex benefited tremendously – as mentioned earlier numerous of their suppliers came from third world countries; however the EU did not treat them in a less favorable manner. In contrast, the EU has agreements with countries like Morocco, a major supplier of Inditex. Both Morocco and the EU have benefited from the free trade agreements implemented; Morocco has been able to increase production and sales of textiles to the EU, becoming the EU's number one trading partner, while the high demand for textiles from EU businesses is being met (i.e. Inditex). Another favorable aspect of the free movement of goods is that once imports pass customs, a company does not have to pay tariffs for each country the products passes through. However, there are other factors active within the EU that have led to the success of Inditex; namely the PPP of the EU. Although the GDP per capita in PPS in the Euro Area and U.S. was higher than the EU, the U.S. still had a much higher ranking (Figure 1). The PPP of the euro area did help the success of Inditex however it was not the driving factor. Nonetheless, various policies of the single market, particularly the free movement of goods, have facilitated business success of Inditex in the EU. Other factories also contributed, such as trade agreements with third parties and the PPP of the EU.

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## Appendix

**Table 1: Most Popular Days to Post on Instagram**

The data presented below displays which days of the week are most popular in terms of level of interaction between the photo posted and the viewer. This data has come from my personal Instagram account.



**Table 2: Most Popular Time to Post on Instagram**

The data presented below shows the best times to post on Instagram in term of interactions between the photo and followers. This data has come from research on my personal Instagram account.



Source: Tsinonis 2018b.