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How Zara clothes turned Galicia into retail hotspot

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By Sarah Morris SANTIAGO DE COMPOSTELA, Spain | Mon Oct 31, 2011 9:29pm IST

(Reuters) - The green, rainy region of Galicia in northwest Spain is best-known as the destination for pilgrims hiking the Camino de Santiago to pay tribute at the remains of apostle Saint James.

But a different kind of pilgrim also makes the journey here -- retail sector analysts visiting the headquarters of Spain's most successful modern export, Zara clothes, which has made the founder of Inditex one of the richest men in the world.

Amancio Ortega, 75, has helped turn the once-poor region's traditional textile business into an industry bellwether whose smaller new and fast-growing brands are getting noticed even as Spain's retailers suffer an unprecedented slump.

Ortega shuns photographers and interviews with the media, as do most of Inditex's directors and managers. That secrecy hasn't prevented know-how from the firm flowing into nearby businesses over the last three decades, however.

"A ton of opportunities have sprung up, a load of new ideas have come from Galicia," said Mikel Bilbao, partner of Spanish investment bank GBS Finanzas. "Some of that's because there's a cluster of technical, design and retail knowledge there."

Galician labels have the potential to attract private equity looking to invest in the middle market, companies with turnover ranging from 20 million to 300 million euros, and acquisitive multinational retailers could follow, Bilbao said.

Even as Zara expanded across the world, Ortega kept his centre of operations in a sprawling complex on an industrial estate a 20-minute drive from the city of A Coruna.

With eight brands and more than 5,200 shops in more than 70 countries, Inditex employs about 100,000 people, with more than 6,000 of them in Galicia.

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Highly skilled fashion and business professionals have flocked to the region and local workshops of seamstresses, a traditional business in the area, have had to become more modern and professional to meet the demands of the firm.

Jose Luis Nueno, marketing professor at IESE business school in Barcelona, estimates that Inditex probably subcontracts out about 500 million euros' worth of business in Galicia.

"(Rival retail) companies are able to recruit workers easily, whether they need sales people or pattern-cutters," he said.

SURVIVING AND THRIVING

Retailers have been battered during the global downturn by sluggish consumption in Europe and the United States, high cotton prices and rising labour costs in developing countries.

Yet despite a severe recession in Spain leaving one in five workers jobless, a few canny Galician fashion labels are enjoying success.

Children's brands Nanos and Pili Carrera have targeted high-spending Spaniards in a country where parents dress up their children for restaurants and even the park.

While many retailers have their clothes produced in emerging markets like India and China, Pili Carrera makes all its clothes in Spain at its Galicia site in Mos, Pontevedra.

"People sometimes say: 'It's a bit expensive', but we are paying for Spanish labour. Our profits might be less but we can produce clothes that are different and control the final garment better," said Natalia Brea Martinez, who supervises franchise operations.

At a Pili Carrera store in Santiago de Compostela -- the brand has stores from Mexico to Japan -- jumpsuits for babies cost about 50 euros and skirts for four-year-olds 75.

"There is a crisis now, but people don't cry over what they spend on their children. They want them to look nice," said Brea.

In Spain, the daughters of Crown Prince Felipe, the heir to the Spanish throne, wear the brand. Actress Gwyneth Paltrow also showcased the clothes on her blog [www.goop.com](#).

"The United States is our priority market at the moment (for expansion)," said managing director Salome Carrera in an e-mail to Reuters.

NICHE BRANDING

Another fast-growing label GBS Finanzas' Bilbao thinks could interest private equity is Bimba y Lola, which produces upmarket accessories and some women's wear.

Despite launching in 2006, ahead of the downturn, the privately owned brand has increased sales steadily and expanded to countries including France and Egypt.

With about 110 shops, roughly half of them franchises, it was forecasting sales last year of about 60 million euros, according to Galician newspaper La Voz de Galicia.

Run by the nieces of Adolfo Dominguez, the Galician designer whose eponymous fashion label listed on Spain's stock exchange in 1997, the young label has positioned itself well even within its difficult home market. Spanish retail sales fell for the 15th month in a row in September.

Ironically, as Maria and Uxia Dominguez's business has prospered, their uncle's has suffered and is now focused on expansion abroad to offset the slowdown at home.

Dominguez is known in Spain for heading a marketing push in the '80s and '90s that helped sell "Galician fashion" to the rest of Spain, a branding push that analysts say has little traction nowadays. Some consumers in Asia even think Zara is Italian, a misconception that doesn't affect sales.

IN BETWEEN LUXURY AND THE HIGH STREET

Several of the Galician players stand out for the way they are successfully tapping a niche somewhere between the Louis Vuitton and Dolce & Gabbanas of the fashion world, and High-Street leaders H&M and Zara.

A well-established company is Sociedad Textil Lonia, based in Ourense, which makes the collections of the semi-luxury brands Purificacion Garcia and Carolina Herrera. It said last year was the best year of its history with sales growing 10 percent to 235 million euros.

"Zara is good if you are a size 36, but if you are older, have greater spending power and don't want to look like everyone else, you are looking for something else," said Alberto Rocha Guisande, a consultant and general secretary of the Galician Confederation of Textile Industries COINTEGA.

"There are increasingly women looking for alternative brands and are prepared to pay a little more. The bet here is on that alternative niche."

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Guisande says Galicia's retailers are able to piggyback on the presence of Inditex by enjoying access to suppliers who provide the state-of-the-art machinery and distribution and logistics systems that helped make the retail giant world-famous for its innovation and efficiency.

In addition, added Rocha: "People who have worked for Inditex may want to move on and have all that know-how."

In her biography of Ortega, Covadonga O'Shea says the entrepreneur, who left school at 12, once told her it had been difficult bringing good professionals to the region, which is a trek from the financial centres of Madrid and Barcelona.

Ortega is extremely proud that his team today, particularly in the design department, is like a mini-United Nations in the wide variety of nationalities represented.

"Galicia can be the Silicon Valley of the fashion industry," said Rocha.

(Editing by Fiona Ortiz and Sonya Hepinstall)

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