ZARA Case Study Solution

1. Introduction

Zara, a well known reputed fashion designing and manufacturing company has been declared most efficient and market responding enterprise in UK's fashion industry. Mr. Amancio Ortega, the creator and initial organizer of Inditex is appreciated for his strategic decisions as well as his market competition winning strategies have been accepted and followed by his competitors now.

Zara, one of the brands of Inditex, founded in 1975, is the most renowned and famous fashion icon. It is not only generating the highest profit margins for organization but also is the most famous and recognized by customers in market (Murphy, 2008). The majority of captured market by Inditex is for Zara. An estimated share of Zara in total revenue of group is 80% (Brand Watch Zara, 2004, p.2). It's a Spanish based company, and has successfully proven itself as a leading company which is successful in positively providing service to their customers. It is the fashion icon which is serving industry since decades and still its customers are so satisfied that it is going to be even better in future. Management has taken decisions that were entrepreneurial at that time and still most of the companies in industry are not deciding on same fronts. Such decisions that lead to success are possible after a deep thoughtful process that requires environmental analysis (both at macro and micro level), external and internal analysis and a rational logical decision making process provides plans and objectives. Zara has already reached its objectives and is a leading company and now further expansion of company is under consideration (Sull and Turconi, 2008). In this document, we are going to analyze the market environment and making some achievable plans for future. This process would be critical and

crucial because it leads to decisions that are basis for future actions and these critical decisions for future flow of activities will decide future of company in industry, i.e. a success or failure. Decisions taken hastily may leads to great losses as we may observe in Sainsbury's case. They have changed supply chain and gone through a series of problems that takes the company years back. Zara has already used technology in its manufacturing plants, where complex process are required to be simplified but such decisions that to which extent we may incorporate technology in process and tools are to be taken after concise measurements and analyzing. There are existing domains where the company may progress and we are going to explore such opportunities in environment.

2. Present Objectives and Mission

Inditex group has clear and definite concept and plans for future. In their mission statement they have described their priorities and general processes that are selected for organization. The founder has chosen a set of strategies that ensures a long lasting, promising successful career. The group's mission statement for Zara, under the head of 'Environmental Policies' says; "Through Zara's business model, we aim to contribute to the sustainable development of society and that of the environment with which we interacts". At every store level, the mission has been defined as, "At the store

- We save energy.
- *The eco-friendly shop.*
- We produce less waste, and recycle.
- Our commitment extends to all our staff.
- An environmentally aware team."

For features and formation of products, the mission is as follows, "With the product

- We use ecological fabrics.
- Organic cotton.
- We manufacture PVC-free footwear."

Distribution channel, i.e. after formation the transportation of finished products from point of production to point of sale has been defined to be environmental friendly as "*In transport, we use biodiesel fuel*". (http://www.zara.com/webapp/wcs/stores/servlet/category/uk/en/zara-/OurMissioStatement)

A business vision for specifically Zara, a fashion based products offering company is, "ZARA is committed to satisfying the desires of our customers. As a result we pledge to continuously innovate our business to improve your experience. We promise to provide new designs made from quality materials that are affordable". (zara.com)

So far, the company has satisfying progress towards completion of defined goals. Inditex as a group has been recognized more co-friendly than competitors and now has gained a repute of being sensitive and rational towards the community and environment welfare issues.

Zara is offering products (clothes, shoes and furniture) in 68 countries. A range launched in a country is followed in all the stores and same culture of rapid sale and removal of older inventory is followed. A general concept followed by Zara so far is to offer variety of clothes in a short quantity and for a shorter time period, customers being aware of this flow of items in stores, choose and buy the items right away rather than waiting for some 'sale'. Products offered by Zara are not very highly priced and a common acceptance for prices and quality of items has been observed. As Folpe (2000), a market observer said that fashions introduced by Zara are more like "Banana Republic" and prices are like "Old Navy". Men, Women and children section have duly served for and targeted the potential customers. Its products are capable of satisfying

shoppers' needs. Demand management is done by supplying directly from Zara, Spain. A fast and responsive system for shipments have been developed that is satisfying current needs. Currently Zara is working on its environment friendly program and launching stores with technology that supports its approach. At recent annual general meeting, deputy chairman of group has said that "Environmental issues are a key component of Inditex's global strategy", moreover he mentioned that this would be the strategic target for 2020, to be implemented in all new stores launches.

3. Situational Analysis

Zara has satisfied the customers and has implemented strategies that made it possible to become dominant in fashion industry. Zara has been in market since two decades and has developed its brand image in shoppers. All the 68 countries are following same concepts that are associated with the original brand. Zara has an efficient and continuous communication system with its customers and thus changes in markets and streets flow directly to the designers and this information is depicted to be used in next range of designs. This continuous steady market communication has enabled Zara to get know and respond to its customers and ultimately meeting their expectations cause the success. Such demand management was lacking in Mark & Spenser and to some extent with Sainsbury in 1990s, they did not match their products with customers' expectations and this caused problems (Gluyas, 2004). Sudden supply changes may cause wastage of resources, as done by Sainsbury. There should be an optimal combination of demand management and supply chain management to cope with market trends and to earn advantage over competitors (D. Walters, 2006).

For retailers, the main objective is to ensure delivery of product to end-user at reasonable prices and providing consumer satisfaction, this is done by value chain emphasis and controlling

the flow of products. Zara has managed this by supplying the products from Spain directly and reduce the intervention of third parties. Zara has always emphasized on customer and end-user satisfaction based marketing i.e. word of mouth it has never used intensive marketing campaigns to influence sales. As Waller (1998) suggests that "customer driven" logistics are current dimension for businesses to be successful, "...as businesses begin to understand that their future existence depends upon the loyalty of the end-users of their products".

Conventional marketing trends are never followed by Zara. Strongly attractive windows displays are the only marketing and promotional tactic used by Zara at stores. Regular customers, visiting 17 times a Zara store in a year, are habitual of such displays and potential customers can know current trends about fashion in market just by looking at these displays.

3.1 Environmental Analysis

Zara is working dominantly in Spain till now. The working environment, industry surroundings, competitive pressures and other effective factors will be discussed now. This section will analyze the existing choices i.e. opportunities and potential risks prevailing in environment.

3.1.1 Industrial Analysis

Successful organizations conduct a deep assessment of environment before expansion and making decisions or setting goals for future. So is for Zara, we are going to discuss on PESTLE analysis for Zara.

3.1.2 Political Factor

Government and political parties in a country are responsible for developing political environment. Government is the major and silent factor in a business; in form of policies they may support an industry. Zara has been in Spain till now and only one more major distribution

centre for Europe. For expansion of business in more countries, political support provided should be evaluated critically. Zara has options to expand its business in European countries because of their safe and predicable economic circumstances.

3.1.3 Economical Factor

Zara has been dealing in a single currency since its origin. The economical conditions of overall world have been fluctuating in last few years but Zara is successful in getting market share and has not been affected by the recession. The main reason behind was that Zara is not currently dealing in dollars and is using a relatively safer currency for its dealings. Before entering new markets, the currency rates and the economical condition of that country is evaluated. Spain has a stable market and predictable demands in market.

3.1.4 Social Environmental Factor

Zara is currently operating in a single county and that's why faced a social influence that was already coped by Inditex group for its other brands. Zara luckily got a country based on independent cultural roots. Spain has a long history, with fabulous contributions in artistic and designing domain. This country has a calm social environment, attracting tourists on large scales, having lots of bright cultural events. Strong tourism exchanges enables retailers like Zara to get obtain customers and then retaining of customers is done by quality satisfying customers' needs. Zara's strategy of higher turnover encourages sale of items in a single visit and thus tourists become customers. Fashion at lower prices makes it easy to purchase for shoppers.

3.1.5 Technological Input

Spanish retailing companies have often gone through technological improvements. Many of the competitors of Zara have brought new technological concepts in market in sales point atmosphere and manufacturing processes. Zara has launched its technological growth in form of

eco friendly stores openings. Moreover, manufacturing processes have been made easy and simple by breaking process into simpler tasks and then done by machines and final assembly is done by workers.

3.1.6 Legal Factor

Spanish government has rules that support and promote industrial development in country. Logistics of country provide generic supportive and productive rules for safer business transactions.

3.1.7 Environmental Issues

Business environment is a combination of customers, competitors and internal corporate factors. Overall business growth is favorable for new businesses but for Zara it's time to invent new domains and to cross boundaries.

3.2 Internal Analysis

Here, we will discuss the strategic implementations of Zara under the context of Porter's three generic strategies. As the generic strategies have three parts i.e. segmentation strategy, cost leadership and differentiation strategy. Zara has followed an optimal combination of all these. Products have been characterized into three major parts i.e. male, female and children but extensive distribution of products is avoided, e.g. clothes of young girls have not been separated from that of 40+. Product has got differentiation on base of fast fashioning concept, a high turnover rate i.e. 10,000 single products in a year. Moreover products are manufactured on day to day varying trends in market. Zara has offered products at lower prices in market and has developed skills to produce items at lower prices as well yet it is has not got leadership in cost management, a minor operating capital has been gained.

4. Current Situational Analysis

A SWOT analysis of Zara has shown that organization has motivated and satisfied with organizational structure staff and achievable objective settings and vertically integrated structure are the major strengths. All the success attained by organization, over competitors and a getting a leading market position has been made possible by rationale decision making. Current weaknesses may be lack of communication of products i.e. less stress on promotional activities which is necessary to attract more customers and Euro-centric model approach.

Opportunities are welcoming Zara to enter new markets geographically and dividing product line into new more segments offering specialized and more customer oriented products. Another prevailing opportunity is to get advantage of low cost labor but this need management of workforce and corporate identity. US have a potential for Zara to grow and expand its business as it has its customers and communication in US. Threats identified include, potential oversaturation of competitors in current markets, exchange rates may fluctuate and cause a major setback, and any natural disaster may physically affect the only manufacturing plant.

5. Strategic Options and Choices

Manufacturing tasks i.e. major assembly of components are done at a centre in Spain and concept of cheap outsourcing is denied by Zara. This is a good approach towards owned working force and not to get involved in activities that may lead to unethical concerns. Organization has developed a smooth image for quality management process implications in industry and now it is time to unleash new domains for organization. It is not recommended that company should start activities in outsourcing that may led to questions and confusions in current quality management and employee relationship management, but a healthy process that leads to internationalization should be considered.

Another option that has been followed by management in last years is to become eco friendly and development of such sales points. The Inditex group has achieved eco-efficient and friendly certificates; a major one is LEED (Leadership in Energy and Environmental design). LEED is a famous and one of the acknowledged certificate and Inditex had got it for Zara Barcelona. Inditex management has mentioned this in its mission statement and following this objective will create a competitive advantage. Competitors are in process of getting this milestone and the group has to make new plans and create more benchmarks in this eco friendship race.

Zara has spread a common concept of fast fashion. New style ranges are frequently introduced in market and thus Zara is moving parallel to market trends. Sales persons at stores with PDAs communicate and inform "The Cube" so fast that enables Zara to respond market in two weeks. Team of designers, including 300 stylists take the information and feedback from stores directly, analyze and propose new designs, which take less than ten days to reach market and customers see their realisation of their ideas in a practical form. Ideas are not present in sketches before three weeks of their production (Surowiecki, 2000). Such rapid and fast paced response has created competitive advantage and other companies that take six months to take a design from idea to realization form are now moving towards this continuous and consistent communication with market. The basic concept behind this strategy was to stay in contact with the customers, the real target of a company, taking their feedback and then changing the products according to the demands. Zara is successful in creating an edge for itself and dominating its competitors as no other firm can reach this level of fast delivery of inventory in store. Zara has focused customers with short term needs and the reason behind was to minimize the operating capital. Now, it is time to think of introducing long-lasting and ongoing styles in market. Such items have not yet tried by the company and are a domain where customers are still willing to pay. There is a market segment that needs stylish fashionable clothes over a longer period of time. That is same style, with a brand name and renowned design of that particular brand. So, introducing some designs that change over a period of a year or six months and that remain available throughout the year can open a new dimension for business.

Becoming international brand is an aim that has been satisfied by the company but this has been done to the extent of opening store in different countries. Now the expanding markets, people with different high rated skills and countries offering favourable terms to invest should be considered. All activities from design till shipment of consignments are performed at single plant in La Coruña. Management should take into account the increasing risks of survival and security and business should be partly divided among other favourable countries as well. This will cause HR issues and other policy making issues. This will lead to new ideas and introduction on new designs in products. New cultures and new responses from different markets will led to development of new innovative ideas that will cause progress and knowledge development of employees as well. This will increase the targeted market and designs may flow form a domain of countries to another. Customers from different countries have different preferences and hence a design not appreciated in one country may get a welcoming response by customers from another company.

Strengthening corporate identity of brand in market is another option that can be implemented to get better market response. Corporate identity has been defined by van Rekom (1997) as "the set of meanings by which an object allows itself to be known and through which it allows people to describe, remember and relate to it". Thus a better image in market ensures sustainability and survival in market. The establishment of a consistent identity of retailing

organization is helpful in getting competitive differentiation (Burghausen and Fan, 2002; Kennedy, 1977). Corporate identity, well established and well communcated, makes emotional ties with organization and produce more loyal and trusting customers (Balmer and Gray, 2003). Thus a strong corporate image should be emphasised and marketing is an option to get the desired results, as Zara is going to be much more expanded in coming years.

6. Implementation Issues

Opportunities identified and discussed above are not easily achievable. Zara needs strong management and leadership skilled individuals in management team. The founder of group has already taken the best possible decisions and has implemented them successfully. Now it is time to enter new expanded world markets and target new potential customers.

Strong human resource management team will be required if Zara enters in new markets for making lower cost products. A continuous and consistent representation of company's perspective in market will be required to balance the image in market. Workforce diversity if not handled properly may eventually lead to wastage of resources and company's image.

Entering new markets for increasing captured market will cause supply management issues as Zara has not developed many distribution centres. Quality management of both products and processes will be difficult and eco friendly sale points' development may increase costs incredibly.

7. Conclusion and Suggestions

Zara is currently enjoying competitive leadership in fast fashions. It has made its founder, the richest man in Spain. So far, strategies implemented by Zara provided a firm base to organization. The changing or introducing change in strategies is a difficult process to conduct, but to excel in business and cope with current expanding markets Zara has to introduce some

new objectives and strategies. No single strategy can serve the purpose. Like before, Zara has to decide an implementable combination for future. It is recommended that, not to implement all the decisions in a single step, rather act and wait for response and then decide for further actions to be taken. Detailed assessment of scenarios is to be done before finalizing any decision because fashion market changes frequently that rough estimates may lead to undesired results.

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