

Zara strategy

Literature



The primary goal of strategy is to outline long term plans a company would undertake taking into consideration several factors which affect its business environment. It is in other words a broad-based formula for how a business is going to accomplish its mission, what its goals should be and what plans and policies will be needed to carry out those goals.

* E commerce The online environment is flooded with a lot of transactional activities. It is used by people (consumers) in search of a product or a service, businesses looking to sell to customers, or buy from other businesses as the case may be and even the government in its dealings with individuals and corporations. These multiple exchanges often involve financial transactions, usually in exchange for a good or service. This continual interaction on the web could be summed up under the term e commerce. It involves business activities over cyberspace. Background and History of Zara.

Zara is a much-admired fashion brand, and is a part of the ' Grupo Inditex' group of textile companies which Mintel (2007) recognized to be one of the " largest, fastest growing and successful" clothing retailers across Europe. The Inditex Group comprises a host of major high street brand names which are very popular all over Europe, America, and Asia where majority of the outlets are located. They include Zara, Pull and Bear, Bershka, Stradivarius, Massimo Dutti, Oysho, Zara Home and Uterque, boasting 5, 402 stores located in 78 countries across all continents .

Of this number, Zara alone has 1603 outlets, including 201 and 303 Zara Kids and Zara Home stores respectively. This places the brand at the very helm of the Inditex group of companies whose market share and annual <https://assignbuster.com/zara-strategy/>

figures are very reflective of Zara's performance as an individual in the lot. Zara started operations in North Western Spain, in A Coruna, Galicia, where its first store was opened. The founder of Zara, Armancio Ortega intended to offer very fashionable clothing at affordable prices which is usually difficult to achieve, especially in an industry where eccentricities are high-priced.

This approach to fashion proved successful as Zara started its expansion the following year, opening a store in every Spanish city with over 100000 inhabitants since it was well received by the Spanish public, and by 1984 Zara had expanded its network to several major cities in Spain. Armancio Ortega founded Inditex in 1985 as a holding company for Zara and spent the next few years devoting all his manufacturing output to Zara, and establishing the foundations of an effective distribution system that would support his plans of worldwide expansion in the long term.

In 1988, Zara's first international store was opened in the city of Oporto in Portugal. Spain and Portugal are quite similar in many aspects from culture to food and this soon proved to be true for fashion too. This was a somewhat cautious and strategic attempt by Inditex to gain sufficient market share at home, in the region with which it is familiar before venturing into the other fashion cities where there is higher competition (New York in 1989 and Paris in 1990). Zara's mission statement Zara's Mission Statement This is spelt out on the company website.

Through Zara's business model, their aim is to contribute to the sustainable development of society and that of the environment with which they interact. The company's commitment to the environment is included in Inditex Group's Corporate Responsibility Statement which says . Zara's goals <https://assignbuster.com/zara-strategy/>

and objectives Zara has established certain objectives which they have backed with actions in their stores and throughout the process of production. They have adopted an energy saving and eco friendly model for their stores which influences the design, lighting, layout and all else tailored to restrict energy consumption to 20%.

Also, there is a commitment to produce less waste and recycle all they produce. Zara has created awareness amongst its staff and emphasizes on this through awareness campaigns and training programs. With regards to their products, they use ecological fabrics, organic cotton and manufacture only PVC free footwear. They even include their transport facilities. Their fleet of lorries is fuelled with 5% biodiesel which cuts their CO2 emissions by 500 tons annually. Zara. com Zara's operated hitherto as a brick and mortar company, but soon ventured into the e commerce realm by opening zara. com.

However, its main purpose was to showcase its brand and its products and didn't offer any chances for online purchasing or trading of any form. The hesitation from launching out into e commerce was as a result of the high rates of product returns from unsatisfied customers. The average in the industry in around 2005 was 35% to 40%, compared to a much lower 8% to 11% for clothing bought in stores. Zara therefore preferred trading in the traditional way, with little exposure to the internet. Inditex to venture online in order to stay competitive and hope to overtake its major rivals, being H and M and Gap.

Zara's Performance. Current market situation The clothing sector is at present the second largest in the UK retail sector. The competition has
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tightened with supermarkets like Tesco launching their own value home brands. The market has recently been flooded with value fashion as Supermarkets for example launch their own brands. Bruce and Daly (2006: 330) view the entrance of supermarkets into the clothing market has “ increased competition and redefined how customers shop for clothing”; impacting the consumer appreciates the facility of being able to buy fashionable clothing affordably as part of their weekly shop.

This has resulted in specialists having to re-think their value proposition. There has been a major drive for efficiencies, but commentators regard further price cuts as not the answer. Consumers are now seen to be deviating away from the factor of low prices and are showing a far greater interest in shorter response time. In an industry where time is the main driver for gaining a competitive advantage, companies are striving to shorten response time, ensuring that consumers get what they want when they demand it.

The retail market traditionally endures both volatile and turbulent activity and as time progresses product lifecycles are becoming significantly shorter. Christopher (2000: 37) recognises “ the importance of time as a competitive weapon” indicating that by having the ability to provide when the fashion consumer demands, results in a sustainable advantage over competitors. The turbulence of the industry is a result of companies outsourcing their production to overseas nations in order to take advantage of cheaper labour costs.

With an industry struggling to remain profitable, competing on price alone is no longer suffice. Leading back to the notion of time, and the expectations <https://assignbuster.com/zara-strategy/>

from consumers who thrive on constant change and new products frequently reaching the high street shelves. Sourcing products from overseas poses problems for the industry where speed is a vital necessity. Zara's market position using the 5 forces model Zara's wide product range which caters for men, women, children, and even their Home line has proved to be very successful.

This could be considered their underlying success factor, considering that they can offer affordable and stylish apparel on a continually changing basis throughout the year. Moreover, Zara has a dynamic design team, and its street savvy has enabled it discover budding trends which they have quickly and at very affordable costs translated to the catwalks and reinforced on the high street. Their strength lies in the variety of their products and the relatively short time the product takes to get on the store shelves from the factory.

Zara currently launches about 11, 000 new products every year which they spread in all their stores. Finally, store location plays a pivotal role, as any marketing is left to store location rather than advertising. Opting for a strategy of minimal advertising provokes the consumer into having to visit their stores. Securing a foothold in as many markets as possible with the intended outcome of building brand awareness and an increased market share has resulted in Zara developing their brand, launching Zara Home.

Zara opened their first store in Spain in 1975 and have since expanded internationally, opening their first international store in Portugal in 1988, and later opening a further store in New York, US, in 1989. Today the Zara name is recognised throughout the entire world. Critical Literature Review The <https://assignbuster.com/zara-strategy/>

fashion retail industry is progressively becoming evermore turbulent and volatile, exhibiting characteristics such as low predictability and high impulse purchasing as a result of many variables mainly related to shorter product lifecycles and the responsiveness of today's consumer (Christopher et al, 2004).

The purpose of this literature review to uncover the dynamics that form the fashion retail industry and to relate these conditions to appropriate strategic models. On studying the literature related to the notion of fashion and its behaviour, there is a clear indication that it is a complex subject. The aim of this review is to establish key areas of both similarities and contrasts by discovering themes. The world fashion industry is dominated by major names such as Zara and H&M, and as a result of operating globally, Porter (1990) believes that global strategies essentially supplement the competitive advantage created in the home market.

It is advised that organizations should when globalizing retain their national strengths, or core competencies, however, Ohmae (1990) disagrees and disputes that organizations trading in the global market place should shake off their origins. When referring to the notion of globalization and the drivers that prompt it, Thompson and Martin (2005: 602) outline two key factors; "push (internal) and pull (external)". The main push factors for an organization to extend its operations across borders are if they are operating with excess capacity or alternatively being driven by the ambitions of the strategic leader.

On relating this to the fashion industry, Zara exercises a supply chain management system that " is so unique that no competitor has been able to

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completely imitate its superior production and delivery process" (Park and Sternquist, 2008: 288). This unique trait is perhaps something that similar organizations can strive to duplicate. This case is true as Hayes and Jones (2006) establish, stating that on Zara's entry to the UK market, they initially began directly competing with Topshop. In order for Topshop to be able to sustain a competitive advantage, they have since decreased their lead times from nine weeks to six.

Pull factors are implemented when there is already a saturated domestic market coupled with competitive pressures. Similarly, referring back to the retail market, the UK market is currently facing uncertainties linked with both global economic issues as well as intense competitive forces. Alternatively, Yip (1991) provides a framework focusing on globalization drivers in four main areas. Firstly, on looking at market drivers, Yip (1991) comments that a shortening lifecycle can act as a catalyst for globalization.

Referring back to the fashion industry, Christopher et al (2004) comments how typically there might be 20 separate seasons in a year, implying that product lifecycles are becoming shorter. Economic drivers focus on areas revolved around a push to achieve economies of scale and advances in transport and technology. The effect of advances in transport on the fashion retail industry is the development of logistics management resulting in the reduction in time taken from manufacture to the product actually meeting the consumer.

In the case of Zara, this has opened up the availability of goods not only being able to be distributed to other continents quickly, but also among their home market resulting in a further advantage amongst competitors. The <https://assignbuster.com/zara-strategy/>

literature establishes that an imperative part of fashion retailing is supply chain management and is often used by organizations to remain competitive against its competitors. As the current market for fashion products is already highly concentrated, high street stores are now moving towards developing their ability to increase speed to market.

Christopher et al (2004) argues that it is no longer suffice for organisations to operate using a forecasting strategy as these are deemed incapable of coping with the market in its current volatile state. In previous instances where the industry has competed on price, Richardson (1996) suggests that there is now a shift from price and quality to a deeper focus on time. As the notion of time becomes more apparent, the supply chain has had to develop also.

Hayes and Jones (2006: 284) follow on by establishing various strategies with the proposed outcome of time compression and fast fashion, including, “ location of manufacturing, technologies employed and supply chain relationships”. The earlier work of Christopher (2000: 37) signifies the importance of time also as a “ competitive weapon” and states that in today’s market place, the ability to meet demands of ever-shorter delivery times demanded by the consumer is now of critical importance.

As a result of this, the traditional supply chain has since evolved into the agile supply chain. Christopher (2000) depicts the key characteristics of an organization exercising an agile supply strategy is flexibility. Coupled with this also is the importance of market sensitivity and being able to respond to real demand, as opposed to the common mistake of traditionally forecasted demand. The studies of Aaker (1984) identifies external features as a key

part of the framework forming strategic management. Amongst this area, it is found that “ firms need to be sensitive to market conditions and particularly to the requirements of customers” (1984: 13).

Relating this back to the retail industry, organizations are now recognising the importance of an agile supply chain as a strategy for gaining advantage in the unpredictable marketplace. Bruce and Daly (2006) also observe the importance of retail organizations setting strategic objectives of getting clothing into store within the shortest time and impacts that this has had on the industry. A major impact that is discussed in the literature is the manufacturing of products.

Distance playing a significant role in the time taken for products to reach their destination has seen many organizations relocate their production from areas where cheap labour was once the main driver to areas closer to the market. Bruce and Daly (2006: 330) state “ goods from China can have a shipping time of twenty-two days, compared to five days from Turkey”. The strategic outcome of this is that retailers switching their production to areas that are more local will be able to react quicker to change in trends by sourcing from closer to home.

Christopher et al (2004) clarify the importance of being close to the customer as being vital in the retail industry. In order to maintain a competitive advantage using time as a strategic tool, it is not practical to source products from areas such as the Far East because of long-lead times. Hines (2001) identifies the hidden costs associated with overseas sourcing, namely transportation delays, costs and quality issues, all of which are often neglected as organizations enjoy cheaper direct costs such as labour.

Christopher et al (2004) echoes the work of Hines (2001) signalling that there is the opportunity to benefit from substantial cost savings from off-shoring production, however there are significantly longer lead times, and these effects can often be severe. Park and Sternquist (2008) deviate away from the previous authors mentioned by focusing on strategies related to individual retailers core competencies with the focus on differentiation.