

The global presence of zara commerce essay



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PESTLE Analysis is a type of situation analysis where we need before starting market decisions or business plans. It is extremely important to identify the external environment. The only way to accomplish our goal is through a PESTLE analysis which contains six factors that influence on a business: Political, Economic, Social, Technological, Environmental and Legal. Besides it is also very important for a company to be fully aware of the actions their competitors take. These kinds of factors change constantly.

It is no surprise why every time we talk about fashion the same name always comes up: Zara. The largest and the most famous Spanish clothing company in the world. There stores covers almost every continent in the world.

The Zara Company was established in 1975 by Amancio Ortega, Zara is the flagship of Inditex (Industria del Diseño Textil, S. A.), the company is located in Galicia, the north-west part of Spain. In a relatively short time frame Inditex has become one of the biggest clothing retailer in the world with 2,692 stores spread across 62 countries worldwide by the end of January 2006. In addition to Zara which accounted for 66 percent of the group's turnover in 2005, Inditex owns seven smaller store brands: Bershka (avantgarde clothing), Pull and Bear (youth casual clothes), Massimo Dutti (quality and conventional fashion), Oysho (undergarment chain), Stradivarius (trendy garments for young women), Kiddy's Class (children's fashion), and Zara Home (household textiles).

Political Factors

The government and political parties are accountable for evolving the political environment in a country. The chief silent factor in a business is

government; they can help an industry by using the form of policies. Zara has been present in Spain, and merely one more main distribution centre for Europe. In addition, the political help that is provided for expansion of the business in other countries must be assessed critically. Because European countries have predictable and safe economic environments, Zara has choices to expand its business around Europe.

And these are some of the most important pull factors that give a clear definition of the internationalisation of Zara include:

The 1986 admission of Spain in the EU;

The globalisation of the economy – potential economies of scale;

The homogenisation of consumption patterns across nations – Zara's believes that “ national frontiers are no impediment to sharing a single fashion culture”

The eradication of export obstructions and the growth of Information Technology. (Lopez & Fan, 2009).

As we know already Zara is a Spanish company so establishing a new branch in another country and all the terms which are related to taxation are political factors for Zara group. The political emphasize on the role of goverment and its effects on our company, and also extent of participation in a political situation. For example Indian government is willing to provide foreign investment in their nation; The Company Zara was provided an open market by India. However the government of India has its own policy which

is to be followed by companies as Zara which formed a joint venture with TATA (Shah, 2011)

Economic factors

Production not transferred to low cost locations:

Zara resisted the famous in industry trend to produce fashion cheaply in countries like China. Zara states that this offers more control as it controls most of its steps on the Supply Chain, the design, manufacture and the distribution of products (CNN, 2001). In the UK, half of what products Zara sells are made in Spain, a quarter in the rest of Europe and another quarter in countries in Africa and Asia. For example, longer shelf life clothing such as t-shirts is outsourced to cheap suppliers mostly in Asia and Turkey (Business Week, 2006).

Zero Advertising Policy:

The rarest company policy is the policy not to advertise. While Zara's competitors mostly rely on expensive advertising campaigns, Zara prefers to invest into opening new stores instead (CNN, 2001).

Producer of nearly 11, 000 items annually:

There is a large product range in the Zara Company. While the competitors of Zara produce about 2000-4000 items annually, Zara produces a whole 11 000 items. In addition brand loyalty is built and an increased number of customer visits as a result of Zara changing its designs every two weeks.

A customer visit in Spain on a high street in Zara is 17 times a year compared to 3 times in the average street stores. (The Guardian, 2002).

Shortening Product Life Cycle:

While the designing of a new product and getting it to the stores by industry takes 6 months, Zara needs just 2 weeks to do the same (Business Week, 2006).

To recap, Zara breaks all the guidelines, but it seems that using this strategy proves to be very successful, because Zara is considered to be one of the largest stores in industry.

Social Factors

Growing of income:

People began to look for a high quality and comfortable life when their disposable personal income rose. A wide market share is provided to Zara from this kind of trend. Personalized consumption turns into the mainstream of society. A major guarantor of Zara's success is " a small amount, variety, cheap."

Fast Fashion:

When talking about the strategy of design, an article in Business world Magazine defines it as follows: " Zara was a fashion imitator. It focused its attention on understanding the fashion items that its customers wanted and then delivering them, rather than on promoting predicted season's trends via fashion shows and similar channels of influence, which the fashion industry

traditionally used.” There will be a depreciation of 0.7% of fashion goods every single day. A new product, from its designing to manufacture, logistics operation and the final sale, needs only about 2 or 3 weeks in Zara.

Affordable Fashion:

Fashion has received attention by a growing number of people. However, only a small amount of people can afford it because fashion is a masterwork of top designers. By tracking these fashion elements, the designers of Zara design their own product in order to make it affordable to most consumers (Badu, 2010).

Technological Factors

R&D and Production

1. Fast production: Zara’s deliveries take up to 6 weeks instead of 6 months which is usual for their competitors.(Ghemawat & Nueno, 2006).
2. It is easy for Zara to control their suppliers since they amount to 20. These 20 suppliers account for 70% of Zara’s production. Other companies for example have 200 suppliers or even more.

Logistic

1. Zara have their own distribution centre with an order to delivery time of 24 hours for Europe and 48 hours for USA and Asia (Tokatli, 2007).
2. The shops receive two deliveries from Zara’s distribution centre. Which gives the shops the opportunity to have low inventory and a high turnaround within the shop (Lopez & Fan, 2009) (Ghemawat & Nueno, 2006).

Flexible Supply Chain

1. Zara is vertically integrated and controls its entire production chain. An effect of great importance of the control is the re-reducing the bullwhip effect. (Ghemawat & Nueno, 2006)
2. Zara has very short lead times. The Agility of their supply chain allows Zara to deliver from product design to the final customer within 2 weeks for repeat models or 5 weeks for new products (Mazaira, González, & Avendano, 2003).

Environmental Factors

Zara tries to help the sustainable growth of the society and the environments which it interplays with. This dedication to the environment is a fragment of the Inditex group corporate social responsibility policy.

Objectives and Actions:

At the sores:

Zara puts a lot of effort on eco efficiency at their shops. Energy saving is one of the key approaches to ecological preservation the company embraces. Another approach is the development of efficient management models for their stores that proposes some restrictions or changes to be carried into effect for all of the company's processes, from the design of the store itself, the lighting and heating or cooling system equipment, to the possible recycling of furniture and decoration. Zara stores offer only paper or biodegradable plastic bags. About 90% of the bags Zara gives out to customers are papermade.

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1. Waste reduction and urge to recycling

Every year Zara processes millions of hangers and security tags. In addition both the cardboard and plastics used are recycled.

2. Increasing awareness among the team members

Zara heightens all their employee's awareness of the need for sustainable practices such as trimming energy consumption, using sustainable transport or modifying habits.

With the product

1. The company uses mostly ecological fabrics, like organic cotton.

Zara Supports ecological agriculture and uses organic cotton in the manufacturing of selected clothing items(100% cotton, completely free of pesticides, chemicals and bleaches). Due to their distinctive label such products can be recognized very easily at the stores.

2. Producing PVC -free footwear

Zara does not use any petroleum derivatives or non-biodegradable fabrics for the production of their footwear.

In the transportation

Zara's fleet of Lorries ship over 200 million pieces of clothing per year and use 5% biodiesel fuel, which results in lowering the emission of CO2 into the atmosphere by over 500 tones

Animal welfare policy

All of the animal products, including fur and leather sold at Zara stores is supplied only from animals grown in livestock form and never from animals killed by poachers for skin sale. (Zara, 2010)

Legal Factors

Plagiarism

Plagiarism has become a huge problem in the fashion industry. Trends are very often imitated and cheaply as well as illegally sold in the street.

Global expansion

Since the European has a smoothly operating trade and legal system which facilitates business operations in member countries, other countries around the world do not provide the same reliabilities. In communistic countries loss of a private run business to the local government is highly probable.

Conclusion:

Zara has had a very successful history from the moment they opened their small Spanish dress shop, and as we can see now the little-known brand has grown into a leader of the apparel market in less than 30 years. Now the footprints of Zara is nearly everywhere. The big design group, unique strategy, environmental management idea and other operational strategies make Zara success. This PESTLE analysis seeks to improve our understanding of the firm. The research has examined the internationalisation process of the firm with a special focus on motives, entry options and international marketing strategies. The main drawback that

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arises in a single case study is that of limited validity and representativeness which constrains the potential for making generalisations (Creswell, 1998). Another limitation is that the study was based solely on secondary data. However, this case is deemed adequate to provide good insight, and establish the avenue for future studies.