

# Operations management in the retail sector



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One of the pivotal examples of successful operations management in the retail sector is the operations management practices in ZARA. From just a single shop in La Coruna, Zara's retail chain has expanded to about 650 stores and it has its operations in more than 50 countries across the world. While major competitors across the world focus on bulk production in order to minimise cost, Zara focuses more on delivering fashion faster to its customer. The vertically integrated supply chain of Zara analyses and communicates the latest trends in fashion, and thereby designs, produces and delivers the fashion within fifteen days on the shelves. Zara has also effectively illustrated the practice of Six Sigma in order to mitigate the risks of their continuous innovation of fashion.

This study explores the operational strategies and quality approaches employed by Zara to achieve a sustainable competitive advantage over all other competitors in the fashion industry.

The study further broadens up to be competitive. It compares the operational strategies and quality control measures of Zara with that of one of its closest competitors, Benetton.

## 1. 2 INTRODUCTION:

Zara is a fashion brand from the house of Inditex SA, of Spain, which is one of the leading fashion retailers of the world. Zara started its retail operations for the in 1975, with its first store opened at La Coruna in Galicia, Spain. Presently this is the head office of Zara. Zara's retail operation now extends to about 650 stores operating in 50 different countries. Over the last five

years Zara's sales has increased at a steady rate of 25% and Zara as a brand contributes to about 80% of the company's total profits.

There are questions that pull forward the need for this research to be undertaken. Some of these questions would be that when most fashion retailers reported negative annual profits due to the global economic recession, how has Zara been able to continuously increase its profitability? What are the strategies employed by Zara? What are the quality control checks employed by Zara? How scalable is Zara's business model and finally what does Zara follow to maintain its high market share and at the same time compete with other fashion retailers?

Zara focuses on the apparel business more as a consumption market rather than being a commodity market. Hence Zara focuses on speed and thus looks at continuous reduction of response time.

Hence to achieve this Zara has an effective vertically integrated supply chain which is very closely integrated with the customers. It is from here that the latest trends in fashion are identified and the garments are produced accordingly and delivered to stores within a period of 2 weeks. .

### 1. 3 Competitive Priorities of Zara:

The identifiable competitive priorities on which Zara has built up its successful business model are as follows:

1. 3. 1 Fast speed of production: Zara has the ability to transform a fashion concept and place finish products in the stores within a period of 2 weeks.

Zara has dedicated teams at stores which allow the retailer to get designer influenced products at a very rapid pace within the stores.

1. 3. 2 Variation of Production: Zara's value chain comprises of members who dedicated work closely with customers in spotting new trends of demand in fashion. They have the ability to launch new trends, designs and variation of products.

1. 3. 3 Cost Leadership: Zara produces fashionable range of products at an affordable pricing. When compared to other competitors in the same strategic group, Zara's products are priced lower than GAP and Benetton.

The main reasons due to which Zara can achieve cost leadership is because they keep a very low level of inventory in stores. Their efficient distribution system allows them to get products in the store just in time. As a result of which Zara has a high annual inventory turnover.

1. 4 Applying Porter's Generic Strategy:

On application of Porter's generic strategy it has been observed that Zara looks at the broad scope of the market. Zara uses a combination of differentiation and overall cost leadership. The ability to produce different range of fashion at a fast pace is the differentiating factor of Zara that gives them a high sustainable competitive advantage.

Overall cost leadership is achieved through the vertically integrated supply chain that Zara possesses. Due to the efficient supply chain, Zara can achieve a high stock turnover and at the same time maintain a low level of inventory in stores.

## 1. 5 The practice of Total Quality management and its implementation in Zara's vertical supply chain:

1975-1995: Since its inception in 1975 till 1995 Zara has followed the method of inspection in order to keep a check on the quality of its products. Zara's designing team has worked closely with customers and have spend their time in spotting the latest trends in demand. An instant sketch of the design has been analysed and the accordingly produced. The quality control teams at Zara inspected the designs before placing them in stores.

1995 till date: After 1995 Zara has implemented the practice of Total Quality management. In this practice Zara's vertically integrated supply chain tries to achieve Continuous Improvement of their processes, which includes spotting of the fashion trends, designing, and procurement of their materials, the CAD technology they use for designing, their improved inventory management and finally their centralised logistics and distribution system. Each of the components of the supply chain process has been explained below.

From the aspect of employees, Zara invests a lot on the motivation of employees. They mainly hire young people who are creative and can understand the latest trends of fashion.

Collectively these two aspects are used to achieve high level of customer satisfaction.

## 1. 6 Supply Chain View of Zara:

According to McMillan and Mullen (Operations Management Volume 2: 2002), “ the purpose of SCM is to integrate all tasks associated with the bi-directional flow of materials, information and finance into organized, coherent, managed processes in order to provide end-to-end management and control.”

One of the pivotal examples that support this view is the Supply Chain Management in Zara.

1. 6. 1 Design and Production: Zara uses concurrent designing process which integrates members from the entire organisation structure in creating its designs for fashion. This includes members from the procurement team, designers, market specialists and finally feedbacks obtained from sales executives and store manager.

The average age of the designing team is 26 years. These designers spot the latest trends from different sources such as fashion shows, magazines and trade fairs. Then they make a sketch of the design and these designs are consulted upon by different members from the procurement and production departments. Only 25% of the total number of concepts are accepted and actually executed. Zara’s business processes are integrated and cross functional teams work across all processes. Due to this there is a rapid flow of information which reduces the decision making time and in turn the lead time.

1. 6. 2 Procurement: 60% of the products produced by Zara are by their own factories. Zara has about 25 factories across the world and most of the plants run on a single shift basis. Thus Zara has unutilised capacity which

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they use for quick response to increase in seasonal demand. As a result of this Zara can transform their products quickly to the stores even when the demand is high. Although the design and automated manufacturing is done by Zara in house, most of the labour intensive activities are outsourced to reduce overall cost.

1. 6. 3 Information Systems: Most of the designs developed are done using CAD. This is a major reason for making the manufacturing process rapid. Apart from this ZARA invests considerably on technology in order to aid in the flow of information. Zara store managers' possess hand held PDA which they use to send information such as sales figures, order placing and customer feedback to the head office in La Coruna. Based on this designing team confirms the design and sends them across to manufacturing units wherein CAD is used to manufacture the products.

1. 6. 4 Inventory Management: Zara replenishes its inventory from one of its 650 stores at least twice a week. However the stock quantities are limited so that they ensure not to carry excess inventory. On record Inditex has the least inventory as a percentage of annual sales as compared to Gap, which is its closest competitor.

1. 6. 5 Centralised Logistics and Distribution: Zara has a centralised distribution unit that operates from its head office in La Coruna. Zara uses all modes transportation for shipment namely trucks, trains and even planes in some cases. Trucks are loaded as per the specific order in the evening and they are dispatched at night at a specific time.

1. 7 Employees at Zara: Employees at Zara is one of the main reasons for the effective quick response system of Zara. The HR policies revolve around high level of employee motivation. Zara believes in hiring young and creative people. Employees at Zara are given holistic training across all skill sets and they are also given high incentives. These practices motivate employees to market the brand Zara effectively.

1. 8 Value Chain framework of Zara: Based on the above research a value chain framework of Zara is given below:

2. A comparative study of Zara with Benetton:

2. 1 Introduction to Benetton: The Benetton brand was established in the year 1966 by Luciano Benetton as an Italian fashion brand that produces a wide array of coloured clothes. The Benetton group has 150 million garments rolling out of their stores and they have a mammoth number of 6000 contemporary stores worldwide.

2. 2 Operational Control: Since its inception, until 2004 Benetton had a centralised production and distribution system. It also did inspection of its products and rapid quality checks from 1980 to the mid 2004. However in 2005 the control has become decentralized and Benetton now follows the Total Quality Management practices in its entire value chain.

2. 2. 1 Continuous Improvement in the Production Process: Benetton's production system had undergone a major transformation in the year 2005. It evolved from an organisation based on divisions such as wool and cotton, to a structure based on service units such as planning and quality control.



The new production system is flexible, and it integrates all the stake holders in the value chain. Thus it helps in reducing product delivery time and it also optimizes the quality and service levels.

In this process there are three teams that work in tandem to deliver greater value to customers. These are the Logistics unit, the quality checking unit and the customer service unit.

The customer service unit plays a major role in analyzing customer demands and level of satisfaction. This team has departments which keep a close track on the sales staffs and the store managers, whose inputs are taken into consideration during the production process.

The quality checking unit keeps a track of the level of confirmation of specification of each design. Tagging and labeling of the units of garments are also taken care by them.

The Logistics team is by far the most important team in the organisation. There is now a new Hong Kong hub that has become fully operational along with the European hub and the U. S hub. Benetton's logistic system has now transformed from a centralised system to being a satellite control system. This facilitates the individual hubs to concentrate on their particular regions of distribution and supply the appropriate number of units and the appropriate design at the right time. Since 2005 till date the stores have thus reported low levels of inventory and high stock turnover rate.

2. 2. 2 Customer Satisfaction perspective: Since 2005, Benetton has also rejuvenated the concept of shopping experience by providing a new range of

concept stores. Some of them are the “ Pentagram” concept for glamorous clothes and the “ Cool” concept for producing casual lines of clothing.

Aspects of visual merchandising are taken better care of in order to strengthen the shopping experience of customers and developing stronger relationships with them.

2. 2. 3 Employees: With the implementation of TQM in 2005 the organizational functioning and structure has also been majorly transformed. Benetton now looks at hiring young individuals who takes the challenge of a fast paced environment. In 2005 a new project called the “ Wanna Sell?” was introduced as a part of the training and development programme. In this project young and enthusiastic individuals were chosen and put into teams to attend sales workshops. During the 2008 economic meltdown Benetton continued to provide their staffs with incentives and thereby encouraging them to work with greater passion.

3. 1 The Comparative “ Quality” timeline:

4 SWOT Analysis of Zara:

4. 1 Strengths:

Vertically Integrated Supply Chain

Quick Response System

Integration of IT in the Information System

Efficient Distribution Facilities

## Presence of Brand Globally

### 4. 2 Weakness:

Overdependence of Inditex over Zara as only one brand

Lesser efficient supply chain management in U. S than Europe. (A negative effect of centralization)

Location of Shops: It is often seen that Zara has too many shops in the same geographic area, thus causing cannibalisation of its own sales.

### 4. 3 Opportunity:

Moving out to emerging markets such as Brazil and India where people are now more conscious of fashion.

### 4. 4 Threats:

Competitors such as H&M who are also rapid innovators of fashion.

In certain countries such as India, China and some of the Middle East nations there are companies that produce fashion at a high price but keeping a low cost.

## 5 Recommendations:

### 5. 1 Decentralisation:

Looking at the fact that Zara faces certain challenges logistically in markets such as United States and certain parts of Asia, Zara should now go for a decentralised structure in their distribution channel. As we have seen in the <https://assignbuster.com/operations-management-in-the-retail-sector/>

case of Benetton, due to the decentralised structure Benetton can efficiently manage their operation on such a large scale. For a company like Zara which is looking to penetrate the emerging markets, it should bring about a decentralised structure in the following ways:

Zara should build controlling units of Distribution and Production in every geographic region where it has its operations. In this way it would help Zara to concentrate on each and every region rather than controlling the entire business from their headquarters in La Coruna.

Zara should not bring about any change in the overall Supply Chain View which it now follows.

5. 2 Six Sigma Practices: Being a high innovator of fashion, Zara should consider Six Sigma practice in order to mitigate the risks of innovation.

It has been a proven track record that through Six Sigma companies have been able to reduce a high amount of their process costs, according to Six Sigma Academy companies save \$230, 000 per project by applying six sigma practices. Six Sigma practices help in improving ongoing processes of an organisation very effectively.

For an organisation like Zara, at the present situation the application of Six Sigma will complement their high level of innovation that they do in order to bring in new fashion to the market continuously.

Six Sigma practices can be implemented through in Zara through the application of DMAIC model.

The DMAIC model can be elaborated as Define, Measure, Analyse, Improve and Control of the processes in Zara.

**Define:** The new fashion that has to be developed should be defined properly according to the specifications, the technology to be used to manufacture and the budget required for carrying out the designing process. Also the defining process must include the tasks that individuals within the supply chain must undertake.

**Measure:** Measure the time taken to complete the entire manufacturing process for every product line (i. e. the new fashion that has been conceptualised). It is also important to measure the extent to which the measurements of the finished garments match with that of the defined plan.

**Analyse:** Analysis is to be made from the perspective of the product movement. The time taken to complete the entire process of shipment is to be monitored, and a continuous effort should be made in reducing the shipment time.

**Improve:** Areas of improvement in Zara comprises of “ confirmation of specification of measurement”, “ reduction in production time”, “ reduce in transportation or shipment time”, “ improve the quality of service at stores”, “ improve facilities at store and the store ambience” and “ reduce the time taken for checkouts at stores”.

**Control:** Control in the organisations processes are to be brought about through a balanced score card that is customised for Zara balancing the four stake holders’ perspective. These four stake holders include the learning and

innovation perspective comprising of Zara's ability to innovate new lines of fashion; the level of customer satisfaction; the financial performance of the company and the operational effectiveness of the supply chain system of Zara.