

# Zara fast fashion essay sample

[Design](#), [Fashion](#)



Inditex is the parent company of six different apparel retailing chains that includes Massimo Dutti, Pull and Bear, Bershka, Stradivarius, Oysho, and, most importantly, Zara. Zara has historically been the most profitable of the chains, operating 282 stores in 32 countries at the end of 2001 (Ghemawat & Nueno, 2006). The other five chains that are operated by Inditex have not matched the growth capabilities or revenue of Zara.

Zara's apparel offers a high level of fashion at a reasonable price, effectively appealing to the middle to middle-high class. It has grown into a successful company by providing fresh fashion with short lead times and a sense of scarcity for their products. Zara's whole business model depends on its ability to have a quick response to almost every aspect of the fashion world. For example, Zara employs many trend seekers who are required to keep their eyes on the fashionable young individuals in order to gain an understanding of the latest fashions. This information is communicated to the design team, who must produce new items as quickly as possible. Zara does most of its manufacturing internally, which allows the designs to come to fruition in a timely manner and make their way to the store shelves before the trend ends. Zara began its global expansion in Portugal in 1988, opening a store on the northern end of the country. Since then, Zara has employed an international strategy that strives to allow Inditex to become the sole or majority owner of its global stores. Zara especially wished to own stores in "key, high-profile countries with high growth prospects and low business risk" (Ghemawat & Nueno, 2006). While this certainly required more commitment and resources, it allowed Zara to keep its best prospects close to the vest.

Zara also employed the use of joint ventures in its international strategy. The company most commonly used joint ventures to enter large markets that held barriers to direct entry and especially those that created difficulty in buying quality retail space in the hub of the city centers. While the idea of split ownership created some complexity, Zara would also form the agreements to include a possible buyout of the partner in the future (Ghemawat & Nueno, 2006).

The last method that Zara used to gain entry in international markets was franchising. The company would primarily use this strategy in countries with small, risky, or held significant barriers to entry. Zara would still freely give its franchisees access to its resources, such as training and logistics, giving these individuals a chance to learn how to succeed in Zara's approach.

Central Problem:

One of the main issues facing Zara was what strategy to incorporate in regards to its non-Zara chains. The other chains had not been performing at the same level as Zara, yet were still taking valuable resources away from Zara. The key question here is, how much are the non-Zara chains taking away from the ever-expanding Zara chain?

Another question facing Inditex's top management team is in regard to future acquisitions. Would it be profitable for Inditex to start up some new chains in an effort to foster local competition? Would it make more sense to acquire existing chains?

Possibly the most pressing issue facing Inditex is the future of Zara's international expansion. The company was hoping to open 55 to 65 new stores with the majority of these stores opening outside of Spain's borders (Ghemawat & Nueno, 2006). The question is, where exactly are these stores going to be located? Spain has neared saturation and some of the best markets are too far away for Zara to effectively use their quick response methods with their current distribution center. Italy appears to be a viable option. The United States was also an interesting option, although it carried risk due to its lagging fashion culture. The company needed to find a way to expand their markets without sacrificing the short lead times that have led to its success. Finance:

According to Inditex's financial statements, it has enjoyed significant growth since 1996. Net income has consistently risen every year, as has its margins. While this growth is commendable, Inditex's top management is not satisfied with any plateauing. The corporate brass has set revenue growth rate requirements a twenty percent per annum, which will require a significant increase in selling space. This brings Inditex back to their original issues with international expansion and how to penetrate quality markets in order to reach its monetary goals. Country(ies) Implications for Case:

Before expanding into any new markets, it is important that Zara has sufficiently studied any variables that could pose as barriers to entry. For example, stores in the United States have often operated at higher costs due expenditures such as higher wages, as other international companies have found out the hard way. Also, countries such as Argentina have a history of

steep tariffs and advance tax requirements that have shut retailers out before. Overall, it is important for Zara to seek out any legal and political reasons that it should not attempt to enter a country, because it is sometimes simply not worth it. Cultural Aspects:

As with any company that desires to expand globally, Zara needed to look at market potential. In regards to its industry, market potential equates directly with a country's general sense of fashion. England, France, and Italy all rank in the top five of the world's most fashionable countries, which explains Zara's continued interest in expanding within these markets (Forbes, 2010). However, it also seems that fashion has become more widespread throughout the world, as the information age and social media has allowed the general population access to the latest trends and also the ability to order clothes from top designers.

While a country's attitude towards fashion is half the battle, the culture also dictates how much inhabitants are willing to spend on the latest clothing items. Italy has proven to spend a considerable amount of time and money on their clothes, as they had outstripped other countries by billions of dollars in regards to how much was spent on apparel. Italy spent 63 billion in 1999, Germany spent 61 billion, and the next closest contender was the UK at 55 billion. The only reason that Germany is even close is due to the fact they it has a few million more inhabitants than Italy (Ghemawat & Nueno, 2006). These are the types of cultural aspects that Zara needs to consider when looking for a market to enter. Solution:

While Inditex has enjoyed having multiple chains, it would be better served to focus their efforts on Zara, as this is the company that provides the most profit currently and the most potential in years to come. It is difficult to operate six different chains with six different business strategies without compromising the excellence of individual chains. Inditex has been spreading its resources too thin and would benefit from spending more time furthering Zara, as it is the chain that has proven to be the most successful. Also in regards to multiple chains, Inditex should avoid acquiring or starting new chains, as acquisition costs are extensive and result in a lack of profitability for an extended period of time.

The main question posed in this case is in regards to international expansion. In order to meet revenue growth goals, new markets need to be tapped. The top two markets appear to be Italy and the United States, as Italy is overall a fashion forward country and the United States is on its way to becoming so.

Italy is a great short term solution for international expansion. Italy is close to Spain (1, 377km) and has a very fashion forward culture. Not only do Italians appreciate good fashion, but they are also willing to spend a large amount of money on the latest trends. As stated above, Italy has outspent all of their competitors in the apparel sector, making it the obvious new market for Zara to enter.

The United States, on the other hand, will require a different strategy that will require Zara to think outside of the box. The United States has no shortage of potential, but needs to be approached the right way in order to avoid the defeats that Zara's competitors have endured. One way to test the

fashion waters in the United States is for Zara to offer an increased online presence. Brick and mortar facilities incur much higher costs and run the risk of becoming a much more damaging failure. Online sales would allow Zara to test the market and gather data in order to better understand the American sense of fashion. Inditex's founder, Amancio Ortega, has already proven that he believes that using information systems is a viable way to garner beneficial data, and this strategy completely aligns with his thought process.

One issue that Zara will have with an online store is the necessity of aggressive advertising. While Zara has previously been content to advertise at the start of the selling season and let word of mouth do the rest, a successful venture into the United States apparel market will rest on Zara's ability to market their products. In this age of information, Zara has endless possibilities of platforms on which to promote their items. For example, Facebook is constantly selling advertisements to run alongside their site. As the highest accessed social media site, Zara could benefit from the multitude of young adults clicking on their advertisements.

Another method for advertising would be through Google. When an individual types, for example, " designer clothes" into Google's search engine, Zara can spend a chunk of money to make sure that its site is one of the first options to pop up. I know for a fact that I will never look past two pages of Google results before I find what I need, and this is the type of attitude that Zara can take advantage of.

Provided that Zara is successful in their online venture into the United States, they will want to start formulating a strategy to create a physical

presence in the country. Unfortunately, Zara's distribution center is in Spain, which would cause lead times to lengthen significantly, effectively ruining Zara's reputation as a quick response company. Therefore, Zara would need to find a nearby location for a new distribution center that can cut down on lead times enough to maintain Zara's reputation.

The best location for Zara to construct a new distribution center would be Mexico. Minimum wage is usually under five dollars an hour in Mexico, which would allow Zara to keep costs low while staying in close proximity to the main cities of the United States. Los Angeles is one of the main fashion hubs of the United States, a mere 135 miles from the Mexican border. At this distance, lead times would be extremely minimal. New York City, the United States other fashion hub, is clear on the other side of the country, but air travel would allow Zara to keep their lead times within acceptable parameters.

Overall, the best way for Zara to enter into the American market is slowly and cautiously. Starting with an online store coupled with a surge in online advertising will allow Zara to obtain the cultural information it needs to develop a successful strategy. Once Zara adds stores within the United States, it would be best for it to start on the coasts where fashion is appreciated and gradually expand inland. While this would be a slow process, it would be necessary for entrance into a risky fashion market like the United States.

References:

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