

Analyse reasons for zara's success in the fashion retailing business essay sample...

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



Several case studies mention that Zara is capable to produce on a lead time of less than 15 days compared to competitors like Gap which can operate in a lead time of about 3 to 9 months (Ghemawat and Nueno, 2006). Speed approaches that Zara follows like "from sheep to shop" makes the retailer nearly 12 times faster than Gap which at the same time just offers 10% compared to what Zara offers. (Heft, 2002) giving the company a competitive advantage within the industry.

Considering Coughlan et al., (2006) where mentions that a shopper in London visits Zara stores 17 times a year while other fashion retailers are only visited 4 times a year, we can confirm that the techniques that Zara is using are very effective and have strongly positioned the brand within the industry. Compared to other vertically integrated fashion retailers, Zara's main factors of success are short lead-times, acquisition of latest technology, manufacture of small batches,

Opposite to most competitors that concentrate on outsourcing, Zara produces over 50% of its products by itself. In house manufacturing also increase the company reputation as they are not as vulnerable to labour exploitation criticism as the companies that outsource from outside Europe. In addition, the expertise that the company has on design manufacturing and distribution allows each brand to have an advantage over the rest of the retailers.

A very effective capacity management is another point that helps Zara's success , by manufacturing small batches and even though the company raise output in their factories , the company's capacities are kept unused.

In 2010-2011 Zara went global by implementing its online-commerce approach, figures hasn't been released but by reading different articles the online store is said to be doing very well. As a matter of fact, the internet and social networks have become tools to measure customer satisfaction of all the brands in the Inditex Group. Zara's web site, has over a million daily visits.

On the other, Zara doesn't advertise as traditional retailers which in a certain way is beneficial as avoids any kind of errors from the company to the public as Benetton controversial advert of the pope kissing an imam which brought the company criticism and decrease of reputation.

one of the most important and most difficult to keep control of when expanding internationally is ethics and green issues when outsourcing. Zara has implemented successfully the majority of its projects to maintain its ethics throughout the supply chain with a few exceptions like Brazil in 2011 for that reason Zara had to success of a company; Zara needs to re-enforce the monitoring of suppliers and subcontractors carrying out 2300 audits on factories and workshops around world in 2011 (Guardian, 2011)

The company has to prepare itself for the day when its founder Ortega retires as it might bring the company a loss of equilibrium . As fast as the company is going up it can also head the opposite direction hence Inditex needs to keep working of its development and innovation to keep the sustainability of its supply chain and the successful position it has within the industry

Zara's value chain involves customers at the beginning and at the end of the process, designers find out from the streets what does the client want and get ideas for new styles. In addition, trend specialists travel around the world and browse online to sense the fresh and current trends as the company doesn't invent trend but it just follows Tungate (2005, pg 52).

Furthermore, managers from each Zara store are constantly reporting what sells and all feedback is sent to Zara's commercial group and design department in no time (Inditex, 2007). Opposite to competitors Zara only produce styles if there is a proof of customer demand for the product. For example if a customer request a certain colour or style, the store manager advises the company regarding the request which enters an appropriate data system called " Cassiopeia" used for placing orders where the marketing team straight away starts developing the request based on clothing availability, sales patterns together with a forecast of what would sell in each market then the materialization of the requests take place. Finally, the product could be delivered in less than 2 weeks (Prahalad and Ramaswamy 2004)

At the start of a season, Zara's design team develop drafts that will be used as a base for incoming models to be launched. After recognizing the new trends another team of designers adapt the draft models creating a 1000 styles per month 200 designers create about 30000 styles every year but only 11000 are chosen and distributed into 12-16 collections. Comparing this data to Gap or H&M that develop from 2000-4000 items per year we can confirm Zara uses a highly customer orientated approach. (Tokatli, 2008)

Afterwards, Zara manufactures samples that are tested in certain key stores and only the successful items are appointed for mass-production hence the companies percentage of failure is just 1% compared to an average 10% within industry (Ghemawat and Nueno, 2006). Zara approximately receives one half of the fabric undyed so the company can react quickly to new trends plus Zara has its own dyeing company which allows them to react last-minute changes even faster. Robots cut and dye the cloths in 23 greatly automated factories outside the distribution centre. Zara's fast reaction is a result of its highly vertical integration, Zara is able to manufacture 40 % of its own cloths and use its own subsidiaries as a supplier of most of its dyes.

Considering Gap which is one of Zara's competitors, they have a very different approach as each of their stores purchase the products independently so clients have a different choice between stores but Zara believes in the opposite. The real-time system that Zara uses to transfer information from the store to the commercial group is decisive for the first part of the companies supply chain as it eases the cooperation between customers, store managers and designers which allows Zara to be up to speed to face latest trends.

Zara's market based approach when pricing make the company differentiate from their competitors again as fashion retailers normally decide the prices depending on the cost to produce the item plus a target margin. In contrast, Zara's sales area determines a price according to marginal revenue to marginal costs of material, production and suppliers in each country separately. As an example we can mention that in Mexico which is a country

with an average annual income of \$14000 Zara is perceived as a sort of luxurious item that can be bought just by people with a good income whilst Zara in Spain has a different position compared to Latin American markets, about 80% of Spanish people can afford the brand. (Ghemawat and Nueno, 2006 p. 20). As a result of longer distribution channels, international markets tend to have higher prices, for instance, a T-Shirts in Spain could cost 20 euros but the same item could be priced 40 euros in USA (Ghemawat and Nueno, 2006)

Zara's production and logistics is one of the factors that make Zara successful within the industry. After cutting the cloths, the companies own trucks take them to outsourced workshops close to Inditex factories together with sewing instructions. Zara's hundreds of different workshops are mostly situated in Northern Portugal, Galicia and Morocco, very close to Inditex headquarters which allows the operations to be very closely monitored making sure the production schedule is met. (Ferdows et al., 2004). After the sewing process, the clothes are collected again and brought back to Zara's factory where the items are washed, ironed, packed and ticketed in a period of 10 to 15 days an about 7 to 8 days before sending the products to the various distribution centres in Spain (Ferdows et al, 2004). 63% of Inditex production is completed in European countries and Morocco, 35% carried out in Asia and the remaining 2 % in other regions (Inditex 2011). Zara and in general Inditex group hasn't been highly exposed to criticism due to most of its production is carried out in-house or in Europe which increases their levels of reputation in front of consumers eyes.

Logistics is carefully managed within Zara's supply chain as the company aim is to restock with new products several times a week and if any product is not successful then is removed from store to minimize loss. In South Europe managers place their orders by 3pm on Wednesdays and 6pm on Saturdays and the other shops around the world set their orders by 3pm on Tuesdays and 6pm on Fridays; tight schedules are relevant for Zara to supply new styles to stores at high speeds. Zara strategies allow them to gain competitive advantage as their clients know that the styles change regularly so they are stimulated to visit the store quite often plus the company want clients to understand that they need to buy it now as if they wait for another day it might not be in stock by then (Mazaira et al., 2003)

Customer Service is highly important for Zara hence they preferred to send the garments ironed, packed on hangers, set up with security and price tags and also put on shelves beforehand to save time. (Ferdows et al., 2004) Zara only produces small quantities which benefit the company in regards to marking down merchandise which is not as much as other retailers. (Tokalti, 2008)

Even though Zara prices are reasonable, the image that the company wants to reflect through the stores is of a luxury brand. (Tungate, 2005) The stores are large, the racks are dispersed within the store leaving plenty of space for customers; all of the above plus music, temperature, store and window layout, etc are checked on regular basis by mystery shoppers so the company can quickly adjust to the market demands (Monllor, 2011). Kumar and Steenkamp (2007, pg39) explained that Zara does not focus on

conventional advertising techniques as tv campaigns or magazines, instead their main marketing method are relied on their prime store locations, the store itself and store windows which are large, expressive and too keep it exciting and refreshed for customers eyes its changed every two weeks.

Rather than spending millions in advertising Zara believes in word of mouth so if the customer enjoys their experience at one of their store then they will tell their friends about it. H&M which is one Zara's biggest competitors spends about 3.5% of their profit in advertising when Zara only spends in average 0.3%, even though Zara does not have a formalized marketing department, in 2006 the company was included in the 50 companies with the best marketing strategies in the American Magazine Advertising Age. (Iglesias, 2008 pg 18)

Sources:

Christopher, 1998: 155-57; Burt, Dawson and Larke, 2003; Retail Week 21 Nov 2003: 16-17. Or Fernie, J and Sparks, L. 2004

Zara offers to customers a range of quality garments for women, men and kids, shoes, accessories, toiletries, and cosmetics at reasonable prices.