

Zara fast fashion case assignment

[Business](#), [Marketing](#)



2nd Assignment _ ZARA: Fast Fashion Though Inditex (a global specialty retailer), Zara manufactures and sells apparel for women, men and children. But what has made Zara the prosperous company that is nowadays? In an extremely dynamic environment where the consumer's tastes are changing, the competitors are fighting fiercely, and the globalization and new technologies are changing the traditional market rules... Zara has developed a unique strategy that has allowed it to maintain a competitive advantage.

Zara faces certain challenges to maintain these advantages: • Vertical Integration[1] (This is an original strategy of Zara. It is the only competitor in the market that has had “ the idea of combining distribution with manufacturer”. This way, Zara has been able to implement a successful merchandising strategy, which allows them to build up a powerful and prestigious brand image. By owning its own production Zara is also able to reduce costs and provide its customers updated fashion in the amount demanded by the market.

That makes Zara one of the most flexible apparel retailers in this business. But this up/downstream strategy might be a double-edged sword. By following this strategy Zara is not able to reach economies of scale, so that makes ZARA's costs higher than their competitors costs. Looking at Zara and H&M's [Zara's main competitor] revenues on exhibit 5, it can be seen that Inditex generates less revenues than H&M but, if we calculate its operating margin profit we obtain that while H&M's operating margin is 13. %, Zara's operating profit margin is 21. 6%.... So that means that Zara is more efficient generating profits, and it is able to challenge this drawback by saving money in, for example, advertising campaigns. So according to all this, direct

competition will be Zara's largest threat. • Unique quick response system (Apparel market is extremely dynamic, and being updated with all its clothes collections and as fast as Zara does it, is one of its most important competitive advantages that this company has. Centralized distribution center (Even though, centralizing its distribution allows Zara to reach an important advantage minimizing lead-time costs, it also represents a cause of failure. If they continue with its expanding planes, and having shops worldwide, their shipping costs would increase a lot and would make of Zara a weak competitor in foreign countries such as America (more specifically on the United States). Moreover, by building up another distribution center in America, Zara could be able to understand better the USA apparel market and try to penetrate the American Market challenging Gap. Another threat that Zara has to face is the cannibalization (Zara by its extensive location strategy has decided to establish too many stores on the same city. By doing this, Zara is trying to sell the same products to the same people who live in the same places. Just to end with this analysis, it is also really important to mention two environment issues that could affect to Zara's success on its low-cost strategy. The first one is adoption of the euro by European countries, and the second one is the quota elimination on the World Trade Organization agreement in 2005.

The first issue could make Zara's costs of production increase and the second one might allow their competence [traditional manufactures] to offer more inexpensive products. To conclude just mention that Zara has many threats to face, but this company has also the potential to keep growing due to the competitive advantages that it has, and, this way, challenge all the

changes that are appearing on the apparel industry. [pic] ————— [1]

The words in black are the ZARA's competitive advantages.