

Zara supply chain analysis essay sample

[Business](#), [Management](#)



Supply Chain Management is the strategic management and coordination of all traditional business functions within the supply chain, with the goal of increasing long-term performance and striving for customer satisfaction at the end point of delivery. Supply Chain Management is a cross-function approach that includes managing the movement of raw materials into the organisation, internal processing of materials into finished products, and the movement of finished products out of the organisation and toward the end-consumer. Effective Supply Chain Management involves business process integration, which demands collaboration between buyers and suppliers, joint product development, a homogeneous infrastructure, and shared information (Wailgum, 2008). At a high level, the supply chain consists of three types of flows: the product flow, the information flow, and the finances flow.

The product flow is the movement of goods and products from suppliers to customers; the information flow involves the transmission and processing of orders and delivery status; and the finances flow entails processes such as payment processing and schedules, credit terms, and invoicing. The major activities encompassing the supply chain are design, planning, procurement, manufacturing, and fulfillment. The goal of Supply Chain Management is to make the flows as seamless as possible, reduce inventory, optimize transaction speed by exchanging data in real-time, and increase sales by implementing customer requirements more efficiently (iwarelogic. com, 2010). This essay will explore several key areas related to successful Supply Chain Management at Zara, a flagship chain store of Inditex Group based in A Coruña, Spain.

The Make-Buy decision

The make or buy decision entails choosing between manufacturing a product in-house or purchasing it from an external supplier. When making this decision, the two most important factors to consider are cost and availability of production capacity. A company may decide to purchase the product rather than manufacture it in-house if it is cheaper to buy than make or if they do not have sufficient production capacity to produce it in-house. The decision to make or buy at Zara is usually made by procurement and production planners, as they have the insight as to whether not the products can be manufactured quickly enough and with the right amount of expertise if outsourced, the cost-effectiveness of outsourcing, and the availability of sufficient capacity. Typically, Zara manufactures about 50% of their own products within their internal Spanish factory network. If buyers feel the internal network cannot meet their required terms, they can outsource to other manufacturers, in other countries if necessary. This being the case, Zara outsources about 80% of their products to Europe, and only about 20% to Asia. Zara prefers to keep production within close geographical proximity in order to ensure fast response times for orders (Ferdows et al, 2003).

sourcing strategies and supply chain configurations

At Zara, “fast fashion” is at the foundation of their sourcing strategy. Designs are conceived with the target market in mind – women and men between the ages of 16 and 35 who desire inexpensive, yet ahead-of-the-trend fashions. Zara’s design conceptualizations can go from design to production to delivery in fifteen days. Their sourcing strategy entails a mix of

60% external fabrics sourcing, 40% internal fabrics sourcing, 50% in-house manufacturing, and 50% external manufacturing. Distribution of new fashions takes place twice a week, and each shipment always includes new models; therefore stores are consistently presented with new merchandise and quantities are generally kept low. Rather than relying on forecasting methods, Zara produces limited quantities of the hottest fashions, and then quickly moves on to the next style. Customers know that if they want a new item, they must buy it quickly before it disappears off the shelves forever. This “fast fashion” system relies heavily on a constant exchange of information throughout every part of Zara’s supply chain.

Most companies are not able to leverage this type of vertically-integrated supply chain due to layers of bureaucracy and barriers that impede communication between departments. Zara is structured, both organizationally and geographically, in such a way as to foster information transfer. Zara has a single, centralized design and production center which is attached to Inditex (Zara’s parent company) headquarters in A Coruña. There are separate “halls” for each clothing line – women’s, men’s, and children’s, and these are treated as parallel, but operationally distinct, product families. Zara’s designers are centered right in the middle of the production process; the close proximity of the designers, market specialists, and procurement and production planners enables fast decision making and enhances the speed and quality of the design process.

This is the main reason why Zara is able to take a design from conceptualization to the store shelves in such a short amount of time

(hbswk.hbs.edu, 2005). Zara relies on selective and dedicated outsourcing for mainly their sewing operations to allow them to function as a vertically-integrated organisation. As a result, this allows them to realize reduced transportation costs, improved supply chain coordination, more means to differentiate their products, a reduced threat from suppliers, and a higher degree of control over the entire value chain.

Strategic supplier selection

Zara selects their suppliers based on strategic selection criteria. They use a “proximity model” to judge a supplier’s geographic placement, and also their ability to respond quickly to production orders. Only about 50% of Zara’s outsourced production meets the proximity threshold, and this comes mostly from suppliers in Spain, Portugal and Morocco. Although Zara does buy from suppliers in Asia, it accounts for only about 15-20% of their production due to their need for and reliance upon speedy production times. Furthermore, this 15-20% is typically focused on staple items, such as tee shirts or those basic items that offer a distinct competitive advantage to produce overseas. When it comes to fabric purchasing for the products they manufacture internally, Zara obtains about 40% of their fabric from another Inditex-owned subsidiary, Comditel.

These fabrics are typically purchased undyed to allow for mid-season changes in color, and fast response to changing consumer demand. Once in-house cutting has taken place, Zara uses local subcontractors to do their sewing; these subcontractors are in close proximity, and usually pick up their orders and required components at the factory, and once returned, they are

sent directly to the central distribution center where all incoming products are received. These subcontractors are dedicated resources for Zara and allow them to maintain tight control and monitoring over their operations (Ferdows et al, 2003).

Aligning supply with corporate strategy

A good Supply Chain Management strategy is one that is aligned with the overall corporate strategy. Zara's quick response communication strategy is effective due to its management and corporate culture. The founder of Inditex, Amancio Ortega, continues to effectively instill the values of his company in his employees. These values are freedom, perfectionism, responsibility, rapidness, flexibility, and respect for others. As a result, the corporate culture at Zara is very autonomous and flexible, which has in turn created a very open, horizontal organization where communication is quick and bi-directional, allowing decisions to be made on the fly. By relying on a consistent flow of information from the store managers back to designers, Zara is able to stay ahead of consumer trends, and produce items quickly and at lower prices than their competitors. In fact, Zara does not rely on any advertising to promote their products; word of mouth, customer feedback, and store manager feedback are the primary methods used to advertise products and obtain input into what designs to produce. At the heart of both the corporate and Supply Chain Management strategies is a quick response philosophy. This is what enables Zara to respond quickly to consumer demand by speeding the flow of information from the consumers directly to their designers (Dharmmesta, B. S., 2008).

References

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