Zappos core competencies

Business, Company

With Zara the vertical integration gives the retailer control over distribution and production which includes design and sales from a single base. The most valuable part of the value chain is the in-house production which gives the company quick turnover giving the company influence over supply and demand factors in the industry. The strategy is highly capital intensive rather than labor intensive and this value chain is what distinguishes Zara from its competitors diving it a strong merchandise potential and enables it to be flexible when it wants to be. Also playing a large role in the value chain is the way it handles information and being able to respond to the demand of consumers very quickly. Manufacturing is closely linked to product development which in turn feeds the retailers controlled by the sales people and managers. The designers are then able to use the information in the new season when turning over stock.

The Zara business model differs from that of its competitors as Zara may not have the economies of scale relying more on in house production it may not be able to compete with low cost retailers. Some of Zara's main competitors such as H; M and large European retailers have been able to expand internationally where in Zara's business model this has not been a priority, although in the article it is mentioned there were plans, it is noteworthy. Another aspect of the business model of Zara which may be of concern and differs to that of competitors is the idea cannibalization which is placing stores close together to become the dominant force in the area.

Typical sources of operating advantage in the global clothing industry usually come in the form of low cost outsourcing of production overseas, in the case of Zara this differs where the operating advantages include centralized distribution which reduces lag of their products to the retailer. They also have a distribution center close to their prime markets and inventory is always moving reducing costs. Another operating advantage is low advertising spend also reducing costs.

The linkage among Zara's choices to compete particularly to its quick response capability and its determination for competitive advantage are what separates Zara from traditional retailers. Some of the linkages include being able to respond to consumer demand efficiently , being flexible and cost savings. A negative linkage in the strategy is higher capital costs and constant turnover of inventory.

Is it possible for Zara to fail? Definitely, like any retailer Zara also has threats . One of the main threats is from retailers who outsource production to developing countries at low costs and cheaper products. The inability to expand is another threat, where Zara is exposed to an area where the growth is slow. The choice to expand in the region of Galicia was not a smart decision by Zara which should have diversified their options instead of focusing on this region. As mentioned cannabilization is another threat associated with the choice to localize in Galacia.

The past international strategy of Zara needs a shift in order to sustain growth. Although the model is unique there needs to be adaptation to trends such as lower costs and the IT boom. Opportunities include closing down stores that have slow sales and are cannabilizing and increasing its online retail capabilities. Zara can still maintain its competitive advantages this way and keep its vertically integreated structure as well as grow.