

# Strategic analysis of zara

Business, Company



## Executive Summary

Zara is an international fashion retailer which has gained considerable acclaim, being one of the leaders of the high-street fashion industry, and regularly producing new products for the market, at a rate that is quicker than its competitors can achieve, due to the strong supply chain in place. Despite this, the organisation is facing continual challenges, both in terms of consumer demand and costs; therefore, a detailed strategic analysis needs to be undertaken, to look at broader forces that are upon the industry and identifying ways in which the company can then use its own strengths and opportunity to establish an even stronger position within the high street fashion industry. By focusing on what it does best, namely using an efficient supply chain, this will enable it to beat its competitors to the market and to produce new products, on a regular basis, thus allowing the company to gain a competitive advantage in the war which is emerging among these high-street brands.

## Introduction

The purpose of this report is to undertake a strategic review of Zara, based on the current position within the company. Over the years, Zara has become one of the largest and best known retail brands, on a global scale. Originating in Spain, back in 1963, the company has since become internationally recognised, with more than 2000 stores worldwide.

In order to create a presence within the fashion industry, Zara has managed to create a high level of differentiation and is seen as being a unique organisation which is able to provide customers with products that

competitors cannot readily imitate. This has been achieved with full recognition of the external environment and competitive pressures being faced by organisations of this nature, something that is particularly relevant during the difficult economic times, when consumers have less disposable income available in order to purchase fashion clothing items.

One of the key ways in which Zara has achieved a competitive advantage in the market is to bring the lead-time of new products down from approximately six months to just two months, which means customers are able to obtain the very best fashion designs at high street prices. This also works to the advantage of the company as it is able to continuously turn over new products and this places a sense of urgency on customers to purchase items, immediately, when they see them, for fear that they will not be available next week. This is reflected in the fact that the global average of visits per year per customer is 17 in Zara, as opposed to a general average of three, across other similar organisations (Bigelow, 1980).

This report will go on to analyse the external and internal environment within which the organisation operates, before going on to look at crises that have been faced by the company, and to produce a strategic analysis of the company, drawing on all of the above information. The report will also include suggestions for future strategy.

### Analysis of the External Environment

Looking specifically at the way in which Zara has managed itself into such a strong position within the industry, it is helpful to identify the external

environment within which the company operates. This information can then be used alongside the internal narratives to create the appropriate business strategy for the organisation, going forward. In order to do this, the PESTEL analysis will be used, which looks at the Political, Economic, Social, Technological, Environmental and Legal factors, as well as looking at Porter's Five Forces (Carter, 1999).

### **PESTLE Analysis**

Politically, there has been a general opening of the market, with textiles now being readily available and not subject to quotas. This has made the market, in general, much more competitive and has encouraged all organisations within the industry to look towards reducing costs and attracting a broader customer base. This deregulation of the textile industry, from a quota point of view, has encouraged greater price competition which has, to a large extent, permeated through the large organisations such as Zara, which are able to enjoy economies of scale, when it comes to large-scale production (Lopez and Fan, 2009).

Furthermore, there has been the legal removal of import quotas, which has enabled the Spanish retailer to gain greater access to international markets and can therefore generate more sales and enjoy even greater economies of scale (Acur and Bititci 2004).

Economically, there are huge impacts on the fashion industry, as the world is currently facing a global recession and, as such, consumers are facing difficult choices in terms of how they spend their disposable income. In this context, consumers are reducing the amount of expenditure on items such

as clothing and, in particular, fashion items, thus putting pressure on retailers to provide cutting edge fashion at a budget price, something which Zara has become particularly good at and is using this to gain success during difficult economic times.

There is no denying that when it comes to fashion and choices regarding fashion purchases, social factors play a huge role. Typically, individuals will prefer specific clothes that have a distinct image, when choosing fashion items. Having a strong brand identity that is widely recognised has enabled Zara to retain social popularity; therefore, while looking at economic drivers, it is also important to ensure that social acceptance of the brand is high and that the brand is seen as a desirable option (De Toni and Tonchia 2003).

Improvements in technology have also had an impact on the fashion industry, particularly during the difficult economic times where consumers are looking for the latest technologies for design. Furthermore, and of particular relevance to Zara, is the use of new technologies, in order to produce a more efficient supply chain and to ensure that products can be in the high street, at a much quicker rate than where technology is not being fully embraced.

Given the higher level of competition that is now being experienced within the fashion industry and when combined with greater legal protection, particularly where the protection of intellectual property is concerned, the individual designers are becoming very protective of their own ideas from the threat that the competition will seek to copy. Zara has overcome this threat by reducing the time frame within its supply chain. This means that it will always have a first mover advantage, where there are two or more

designers looking to create a similar product. Any additional legal requirements, in terms of intellectual property protection, will not only be beneficial to the original design protection but may have the opposite effect and may limit opportunities for new product developments, as imitation and development is often an inherent part of fashion design.

Finally, environmental factors are also relevant to anyone looking towards transporting textiles across the globe and the amount of energy that is likely to be consumed in doing so. This new approach to fast fashion also creates environmental concerns as cheap items are often viewed as disposable by the consumer and simply thrown away, rather than recycled or treated in an environmentally friendly manner. This places an additional burden on companies such as Zara which are looking towards making themselves more environmentally friendly, while still retaining the basic position within the market.

## **Porter's Five Forces**

Another approach to identifying the external factors which are relevant to the development of Zara is that of Porter's Five Forces, which argues that there are five forces all acting together to create a particular environment within a particular industry or market. The fashion industry in its entirety is highly competitive, with extensive sales, on an international basis, thus making Porter's Five Forces particularly relevant to the analysis, when identifying how companies such as Zara can set themselves apart and what types of forces the company can use to achieve a differentiation (Porter, 1979).

Firstly, when looking at the threat of entry, it can be seen that there are relatively no entry barriers for those looking to enter the industry. However, although it is not necessary, at a low level, to invest large amounts of capital, the issue of economies of scale is playing an increasingly important role, with consumers constantly demanding cheaper prices. This makes it hard for the smaller new entrant to compete, from a price point of view, but still allows them to offer unique designs, which may then give them access to a market that which would otherwise be closed. Substitution across the whole industry is extremely high, as individual consumers can choose alternative providers for their fashion needs. When looking at taking the mass-market competitive approach, substitution may simply be down to price issues, whereas designer boutiques may be able to offer a different type of product, which again will offer a competitive substitution for the consumer (Moran and Riesenberger 1994).

Linked to this point of substitution is the large power that buyers have within this industry. Customers now have wide access to a broad range of retailers, with internet purchases extending this even further. The recent price war has also increased availability of fashion items to the general public and this allows buyers to have a huge influence on the market, by selecting new products, on a regular basis. Buyers demand continuous change, particularly within the fashion industry; therefore, it is necessary to continuously provide new and innovative fashions, on an on-going basis. Failure to do so is likely to result in customers turning away from a particular brand, until they renew their product ranges.

At the other end of the scale is the fact that the power of the suppliers within the fashion industry is low, with many organisations outsourcing their production to developing countries, in order to keep costs at a critically low level. Organisations such as Zara have a substantial opportunity, when it comes to changing suppliers, and this enables the company to drive down costs. Although this offers opportunities for reducing costs, it can also potentially create difficulties where there are concerns over the ethical behaviours of these third party providers.

Drawing on the four forces above, it can be argued that, finally, there is a large amount of competitive rivalry within the industry (the fifth and final force). This suggests that the competitive rivalry is increasing rapidly within an organisation such as Zara need to look towards establishing themselves with a competitive advantage during these difficult times, with particular reference to the fact that the buyers have a large amount of power, yet costs are critical to the situation, as there are economic pressures on the industry, as a whole, in the wake of the global international crisis.

### Internal Analysis of Zara

Having identified the key issues which are impacting on the external fashion industry, the next step is to consider how these issues are impacting on the internal operations of the company. In order to do this, a SWOT (strengths, weaknesses, opportunities and threats) analysis will be undertaken, before going on to look at the value chain and the resource based view which has emerged within the company (Porter, 1980).



## **SWOT Analysis**

One of the key strengths that Zara has as an organisation is its highly developed supply chain, which enables it to get new products to the market, at a very rapid rate. It also has a large international presence, with more than 2000 stores across the globe, allowing it to build a very strongly recognised brand. Furthermore, it has been identified that the ability to bring new products to the market, on a regular basis, encourages greater consumer acceptance and willingness to purchase cutting-edge fashion design. Therefore, this reduced timeframe for bringing new designs onto the market is a real strength of the organisation and keeps the ideas fresh in its stores, to such an extent that consumers will be regularly revisiting and restocking their fashion items.

However, there are weaknesses associated with the internal operations of the company. Having established itself as a large international fashion company, Zara is now required to produce a large amount of products, on a regular basis, which has somewhat removed the opportunities for producing new and innovative design, at the top end of the market. Zara has become recognised as a high-street fashion brand; therefore, any items which are believed to be at the luxury end of the pricing range are unlikely to be accepted by the customer base. Moreover, with increasing competition emerging throughout the industry, buyers are looking for cheaper prices, continuously, and any attempt at raising the price is simply unlikely to retain the favour of the existing customer base. As a result, the organisation has to produce a relatively large number of products, in order to enjoy economies

of scale and therefore it simply cannot produce bespoke or unique items which would allow for a higher price tag (Kumar and Linguri, 2005).

Opportunities are continuously presenting themselves within the fashion industry. Consumers require regular updates, particularly at the high street end of fashion, where items are perceived to be somewhat disposable, in order to keep up with the latest trends. This means that an organisation such as Zara can retain a large customer base, by continuously improving its range and developing new products, on an ongoing basis. As noted in the case study, customers will tend to visit Zara stores considerably more frequently than competitor stores, due to the fact that new products are continuously being launched. This is a strong strategy and needs to be developed, as it offers substantial opportunities to gather greater customer support, on a regular basis (Mittal, 1988).

There are two particular threats being faced by organisations within the fashion industry, most notably from other large competitors that are able to reduce prices, such as Primark and H&M, as well as from unique fashion houses that are able to charge a higher price for producing new and bespoke products, at the high end of fashion. The other threats are the larger organisations and those that are able to reduce their prices below those which Zara can achieve.

## **Resource Based View and Value Chain**

Applying this in the context of the resource based view and the value chain, which Zara has established, it can be seen that the main reasons for this are its supply chain and ability to bring new products to market, on a regular

basis, with the product then being made available, on an international basis, at a very rapid rate. Zara not only has access to product designers that enable it to produce desirable high-street fashion, at low prices, but it also has a strong supply chain in place which enables it to bring new products to the shop floor, within a time frame which is four months quicker than its competitors can achieve.

Analysis of PR Crises

## **Environmental Concerns**

Although Zara has managed to retain itself as a well recognised, well-respected brand within the fashion industry, it has also suffered from PR difficulties, over the years. The most notable of these was the Expose undertaken by Greenpeace, which listed Zara as being one of the worst companies, in terms of the level of toxins which were found within their clothes. Concerns were also raised that the efficient supply chain which it had established was having a dramatically negative impact on the environment.

As a result of this report, the organisation has had to review its supply chain and look at methods of reducing the amount of toxins that are seen to be contained in its clothes. Manufacturing processes will also need to be reviewed, in order to gain the support of those who were lost, when this expose happened.

## **Human Rights' Concerns**

Another area of growing concern within the fashion industry, with Zara not escaping media attention in this respect, was that of human rights' concerns, such as the new staff sweatshops in developing countries used to produce products at a cheaper rate than would be possible within the more developed regions. Back in August 2011 a television programme in Brazil accused the organisation of using sweatshops in order to produce its products through outsourced services. Following this statement, Zara acted quickly to mitigate the damage that had been done in the public face, by stating that it viewed the use of sweatshops by its outsourced suppliers as being entirely unacceptable and put in place a variety of different procedures, to ensure that production was monitored much more carefully. Zara also works with various different government agencies, in order to ensure that this is happening.

Further difficulties emerged, in early 2012, when a journalist published a report looking at the treatment of shop staff, across the company, and found several instances of abuse. Again, Zara acted quickly to put in place an internal investigation and stated that abuse of this nature would not be tolerated. Although the company seems to be working with unions, in order to improve the position, the report clearly had an impact on the way in which the company was viewed, with concerns now being shown over the treatment of staff, as well as the treatment of individuals in developing countries who are producing the products, in the first place (Balchin 1994).

It is, however, noted that other organisations operating in a similar way to Zara have also suffered similar problems, with Primark being the main example of concerns over conditions for suppliers and the workers in the developing countries.

### Strategic Analysis

Pulling together both the external and internal factors impacting on Zara as an organisation, it is then possible to establish a strategic plan for the future, in order to ensure the ongoing success of this substantial fashion retailer.

### **Corporate Strategy**

The overall strategy for the company, referred to as the corporate strategy, looks at the general approach which the company should take, before going on to consider, in more detail, the business level strategy that can be used to achieve ongoing success (Doherty, 2004).

The corporate level strategies which Zara needs to focus on are doing what it does best, and where it has achieved the greatest efficiency, in recent years. One of the key reasons that Zara has managed to achieve this success is down to its efficient supply chain, which is critical to the current demands of the fashion industry at to meet consumers demand regular updates of products and new and innovative fashion, on a regular basis. Zara has managed to ensure that it has a first mover advantage by being able to bring the product to the market, within two months, and this unique selling point needs to be exploited further, if consumers are going to be prepared to pay

slightly more, in order to gain access to new products before others (Coyne and Sujit Balakrishnan 1996).

It is suggested that Zara needs to retain a cost base element, in terms of strategy, as it has gained a large amount of support from high street customers who are looking for fast fashion, at a disposable level. By maintaining this price position, the company can then encourage consumers to renew their fashion products, regularly, thus offering continuous revenue for the company.

## **Business Level**

Looking more specifically at the business level strategy, it is suggested that certain product lines need to be focused on, in order to keep the look within the high street stores fresh, as well as looking towards new opportunities for improving the supply chain, particularly given the recent PR crisis associated with its supply chain choices. It has been identified that one of the major advantages and strengths of the company is the fact that it can achieve a very rapid link to the market. Whilst it is currently the case that Zara has an unrivalled supply chain, it should not be accepted as the forever position and continuous efforts need to be made to improve the supply chain and to form alliances with appropriate third parties. Technology plays a huge role in this, and therefore having a strategic business unit which is entirely focused on technology and the use of technologies to create internal efficiencies, needs to be one of the primary business level strategies (Murphy, 1990).

A greater focus also needs to be placed on the team that is responsible for producing the designs which will ultimately make it onto the high street.

Zara has achieved a position within the market that encourages individuals to look towards the brand as a means of gaining cutting-edge fashion, at a low cost, and the design of these products is therefore critical, if this position is to be maintained. Continuous evolution within this area is a necessary part of retaining the position and also looking towards cutting costs, by altering product designs to take into account the cost of production (Finch 2004).

## **Future Strategies**

Several future strategies are now suggested for Zara, moving forwards. Economic pressures are likely to remain substantial, across the whole industry. Therefore, cost reduction needs to be critical and continuous, without potentially putting the company in a position where it may face questioning in relation to the ethics of third party suppliers, particularly when it looks towards outsourcing into the developing regions. Several other competitors within the market have suffered negative press, due to the use of suppliers associated with unethical practices. This presents Zara with a real opportunity to set itself apart from other low-cost retailers, by developing a specific ethical strategy that will enable it to retain a relatively low cost, but also allow it to sell itself as an ethical producer (Okumus 2003).

The company, therefore, needs to look towards other opportunities, for example, by changing the design of the product to reduce production costs, or looking at creating efficiencies in the supply chain, by transporting goods to a central warehouse that can then reduce the costs of transportation, overall.

A substantial focus needs to be placed on the design team and ensuring that it is continuously developing new products which are able to be produced at a relatively low cost. This will enable the company to retain its position for supplying fast fashion within the high street and continuing to attract customers into the store, on a regular basis.

## **Implementation and Evaluation**

Throughout the implementation of the business strategies, it is necessary to continuously evaluate whether or not certain avenues of activities are successful and whether alterations are necessary, in order to establish greater efficiencies. For example, the supply chain needs to be monitored, on an ongoing basis, in order to identify any losses, either in time or money, so that these can then be reduced or even removed (Grundy, 1993).

The decision in relation to which products to design and produce is very much customer driven; therefore, it is suggested that customer reviews are obtained, on a regular basis, so that, where the customer is not being provided with a product that they choose, or are unmotivated to revisit the store, these instances are captured and dealt with, in the future.

Finally, evaluation needs to look at the ethical issues which Zara is now tackling, in order to set itself apart from other low-cost fashion producers, with regular reviews and reports being undertaken, not only to ensure that ethical practices are being followed, but also to allow the public to see that Zara is taking its ethical responsibilities seriously (Johnson & Scholes, 2002).

Conclusions



Zara is in a particularly strong position within the fashion market, having established itself as a brand name that produces cutting-edge fashion ahead of its rivals, and at a low-cost. Despite this, it is important that the organisation recognises the forces that are impacting on the external market and uses its own internal strengths to ensure that it retains a competitive advantage, thus enabling it to maintain its position within the market, as one of the brand leaders. A particular emphasis should be placed on the strengths within the supply chain, as this enables the organisation to bring products to the market, at a particularly rapid rate. Furthermore, cost pressures are also being placed on the organisation, which requires the design team to become more efficient when creating designs that can be turned into garments, at the lowest possible cost, without sacrificing ethical standings.

Simply put, it is argued that Zara needs to continue to do what it is doing, currently; however, it needs to do it better, with greater emphasis being placed on ethical behaviour, meeting customer demands for new and innovative fashion, while at the same time retaining low-costs, across every aspect of its operation.

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