# Analysis of zara

# 1. Financial results compare to competitors.

The four companies shown above have very different business models. Inditex owned much of the production and most of its stores. Inditex is thus a vertically integrated company. This made Inditex gain a competitive advantage, which is quick response to the market requirements. On the other hand, The Gap and H&M have a different business model. They owned most of the stores, but outsourced all the production. Benetton had a third business model. It invested heavily in the production, but licensees ran its stores.

The most interesting company to compare Inditex is The Gap. Although The Gap has much higher revenues than Inditex (almost five times Inditex), it incurred a net loss, as opposed to Inditex, which achieved a 23%, return in investment. This is due to the extremely high costs of good sold for The Gap. This could be caused -at least partially- by the complete outsourcing of the production. They do not have enough control over the production costs. Although The Gap has larger market share than Inditex and has equity almost double that of Inditex, Inditex is much more profitable.

2. How specifically do the distinctive features of Zara business model affect its operating economics? Specifically, compare Zara with an average retailer with similar posted prices.

Zara sources fabric, other inputs, and finished products from external suppliers. It has purchasing offices in Barcelona and Hong Kong. This gives Zara a competitive advantage towards the costs of goods sold, as it can purchase from both Europe and Asia according to prices. Buying more from China in the future might reduce even more the costs of goods sold.

Inditex fully owns Comditel that managed dyeing, patterning and finishing of grey fabric of Inditex’s chains, and supplied finished fabric to external as well as in-house manufacturers. This gave Zara further competitive advantage, in terms of both cost and control.

Inditex also fully owned 20 factories for internal manufacture. These factories apply just-in-time production (JIT). Again, this gave Zara further competitive advantage, in terms of both cost and control.

Zara’s business model makes it more profitable then any other retailer. We already know from marketing that the retailer gets almost half the price of the commodity sold. So by playing both the role of the manufacturer and the role of the retailer, Zara is definitely much more profitable than the average retailer with similar posted prices.

3. Can you graph the linkages among Zara’s choices about how to compete, particularly ones connected to its quick response capability and the ways in which they create competitive advantage? What does the exercise suggest about such capabilities as bases for competitive advantage?

Zara does not compete on price. The usual Zara customer is not very price sensitive. Zara rather competes on fashion they can only do that by having that quick response capability.

Comditel, Inditex’s subsidiary, took only one week to finish grey fabric. The 20 fully owned factories responsible for internal manufacture applied the JIT production system. All the production was fully under control of Inditex. Vertical integration helped reduce the bull whip effect: the tendency for fluctuations in final demand to get amplified as they were transmitted back up the supply chain. Zara could originate design and have finished goods within four to five weeks for entirely new designs and two weeks for restocking or modifying existing products vs. six months for other competitors.

Due to this impressive response capability, Zara was able to follow fashion instead of betting on it. The amount of required forecasting with all the accompanied risk was minimized to a level that no competitor would ever reach.

4. Why might Zara fail? How would you calibrate its competitive advantage as being relative to the kinds of advantages typically pursued by other apparel retailers?

The vast expansion plan of Zara on one hand and its standardized production line and strategy on the other hand could lead to the failure of Zara. This is basically due to the differences in the economic, cultural, social and political conditions in each of the regions/countries it is expanding into. Hence, such strategies and product lines should be customized on a country/region basis to be able to effectively attend to the local demand without incurring additional costs. For example, certain product lines will not meet success in the Middle East due to cultural norms; hence, it would have been better and feasible from the beginning if such lines would have been directed to other regions where it would meet heavy demand.

Zara’s competitive advantage mainly revolves around the high turnover of its products, low level of inventory, efficient distribution system, and commitment of its employees as well as meeting the consumer demands relating to fashionable clothes.

5. Was Galicia/Spain fertile ground for the emergence of an apparel retailing powerhouse?

No. Galicia/Spain was not a fertile ground for the emergence of an apparel retailing powerhouse. This is due to the fact that this region was considered the third poorest of Spain independent regions, with high unemployment rate, poor communication links in addition to the heavy reliance on agriculture and fishing.

Despite its famous history, as tailors for the aristocracy; Galicia lacked strong local demand for the apparel industry, technical institutes and universities that would help in the education and training of its citizens as well as the absence of an industry association that monitors such activities. The only advantage of this region was its geographical proximity to Europe, as it lies in the corner of Europe, hence reducing transportation costs.

6. How well does Zara’s advantage travel globally?

Until the writing of the case study, Zara’s advantage succeeded in traveling globally. However, with the upcoming expansion into additional countries and new markets, such advantages should be adopted to the special circumstances relevant to these areas. This would assist in decreasing additional expenses in addition to meeting the direct demand of the consumers; hence, achieving more success.

7. What do you think of Zara's past international strategy? Evaluate, in particular, its past strategy for (product) market selection, its mode of entry, and its standardization of its marketing approach.

Zara's international strategy was excellent because it adopted a balanced mixture of standardization and customization:

It followed standard procedures in selecting and entering a certain market, which made scaling operations easier (flagship store, market test for 4P, expanding into countries with similar culture-favorable micro and macro economic conditions, backward market-based pricing, reporting and ordering procedures).

The standard procedures left room for customization required by different cultures and countries (entry mode, freedom to order items suitable for market, brand positioning differed from one market to the other).

Zara did not withdraw from a single market, which reflected sound market selection decisions. It followed a systematic procedure to insure extensive market testing before expanding its operations (oil-stain method). Moreover, countries were initially selected in concentric groups to facilitate shipping problems evolving with the complexity introduced by a certain range of distance. Commercial teams carefully studied markets before making the entry decision. Zara would immediately expand into a favorable market to reach economies of scale after setting market-based prices.

Zara adopted 3 different modes of entry that depended on local factors (regulations, economic complexities, entry barriers). The company preferred company-managed stores even if the operation was a joint venture. Franchised operations were controlled by strict QA procedures and the company provided extensive free services to its partners (human resources-training-logistics). Zara always retained the right to open company-owned stores and the option to buy out its partners in case of problems.

Marketing decisions varied from one market to another thus reflecting the different parameters and challenges posed by the market forces. The flagship store in each market was used to verify data about market conditions while pricing differed according to shipping cost, taxes and tariffs. The brand positioning in each market differed from one market to the other based on purchasing power and taste. Products reflected local preferences and measurements.

8. What is the best way to grow the Zara chain? How, specifically, do you see prospects in the Italian market? And more broadly, what do you think about the strategy of focusing on Europe versus making a major commitment to a second region?

Zara is a highly internationalized company with a deep level of vertical integration. The operations are becoming more and more complex with multiple sources of production and assembly that goes to one centralized distribution system. At this stage, Zara is not equipped to increase complexity by expanding into new competitive markets like Asia and North

America. Many strategies and changes have to be considered: especially in production and logistics, before venturing into new markets.

Zara should expand right away into the Italian market then restructure its production and distribution system before attempting to expand into the Asian market as it is a huge market that would require abundant resources. The North American market is not a strategic priority for Zara at this stage because it is unattractive and highly competitive. Many retailers are competing there mainly on price and discounts, which is not exactly Zara’s favorite marketing strategy.

Italy is the most attractive option at this stage for the following reasons:

Zara has huge experience in Europe and is capable of entering this market without the need to make major changes or adjustments to its operations.

It is a very attractive market because Italians are very fashion conscious and shop more frequently than the average European.

Zara has reached a stage where its centralized distribution system is fast reaching a state of diseconomies of scale. Scaling the distribution system and shipping to new far-away markets with different needs is definitely the kiss of death to Zara’s success story.

Zara should exhaust all expansions opportunities within Europe before attempting a new foreign region.

9. What other strategic recommendations would you make to Inditex CEO Jose Maria Castellano?

Zara has expanded too fast while maintaining a highly centralized vertically integrated supply chain. Operations and distribution are becoming complex and are fast approaching a state of diseconomy of scale. Jose Maria Castellano should consider the following options to increase future scalability of the Zara system:

Decentralized production and setting-up facilities beside major clusters of countries (Western Europe, Eastern Europe, Asia, etc…). This would decrease the complexity of the system while catering for the fashion needs of each cluster.

Setting-up other major distribution centers to avoid the major bottleneck.

Stop expanding economies of scope i. e. do not acquire any additional chains and concentrate on expanding the current operations.