Zara case analysis essay

The market is thus lowly concentrated, if observed as a whole; but one could argue that given the diversity in business models, products sold, targeted customers and business strategies, the clothe retailing Industry should rather be analyzed as segmented different Industries -? which we will not do here. Internal rivalry is quite intense, opposing very different types of players.

Interestingly – and counter-intuitively-, we state that threats of entry are high. As new opportunities arose with the latest technological developments, the last decade has been Industry-shifting, seeing the emergence of many TV and online retail impasses.

However, we can assume that this trend will be progressively decreasing, most major actors responding to the threat by developing their own online retail channel. Moreover, important manufacturing economies of scale, slow learning curves and high labor costs In developed regions tend to prevent companies with minor Investments and unclear strategies to successfully enter the market (the 80% failure statistic previously mentioned highlights how a lot of new entrants are trying to find their place, but are having a hard time to sustain their business on the long run).

The threat of substitutes Is on the other hand high If we keep looking at the Industry as one: It Is Indeed difficult Imagining people substituting their clothes with another type of good (unless they have very particular and peculiar lifestyles).

The clothing retail industry has one major advantage: its potential customers are every one of us. Nevertheless, as a subset of the retail industry, apparel retailers are competing with all other types of retailers (wholesales, convenience stores…), and some of the biggest clothe retailers are general retailers (Wall-Mart).

Clothing retailers eave to ensure that customers want to spend their extra money on clothes rather than any other type of good. The drawback of this assertion Is that customers bargaining power Is very high. As the industry Is heavily dependent on Individuals’ spending, competitors have to provide them with the services, quality and prices which will optimize their will to buy clothes. The market being drastically segmented (by age, sex, location, income, season .

..), most competitors can’t target more than two or three groups.

A direct consequence of that Is that each target group Is accounting or a very large part of each retailer’ total sales, giving the customers an Interesting bargaining power. Moreover, economic downfalls tend to reinforce this bargaining 1 OFF clothing.

Finally, suppliers’ bargaining power is moderate: if retailers critically depend on them to ensure quick and quality delivering (to follow the ever-changing fashion trends), they also have a large number of low-cost suppliers from emerging countries at their disposal, giving retailers the edge when it comes to negotiating partnerships.

Overall, the industry appears moderately profitable, with an interesting pool of attention customers, but requiring a clearly defined and differentiated strategy to resist the expected retaliation from industry leaders. In this context, Sara's competitive advantage comes from several elements. First and most important is its capacity to articulate its whole operational system around its quick -response strategy. From its core competencies to its end products, everything is made not only to follow fashion trends, but even to impose new fashion cycles and create an atmosphere of scarcity around its products.

Its vertically integrated business model gathering specific design, Just-in-time manufacturing, centralized striation channels and low marketing provides it with more flexibility than its rivals.

Second, Ezra did not focus Just on operational effectiveness (I. E. Doing what the others already do, but better); it also searched for a different strategic positioning. In doing so, Ezra shifted the industry strategy by becoming much more capital intensive, but also flexible than others, and by increasing the buying frequency of its customers. Why hasn't any competitor reacted to this incredibly successful strategy by following it?

The quick-response system is very demanding: the whole structure of the many has to be oriented towards a simple idea: being time-consistent and following the market's trends.

This implies technologies, operational organization, a strong commitment from all the value chain activities and a special mindset of the management teams. Not only are these elements very hard to replicate if not initially integrated in a business model, but they are also very hard to understand and spot in a competitor's strategy, as they don't necessarily reflect on the final product.

This can explain why Sara's competitors don't have implemented this strategy before, nor after Sara's development in the industry. But we bet this won't be the situation for long. To successfully compete in the apparel business, Ezra implemented proceeds which together made an original answer to the B« Quick response B» solution.

Most of these proceeds are listed on the following graph. More fluctuating consumers' aspirations. So they adapted the four main phases of product cycle to make perpetual evolutions possible.

In the design phase, Ezra renounced to pay expensive maestros to guess or inspire future fashion standards. They preferred to constitute " flat" teams with some designers and product placement managers to create quite fashioned products at the beginning of each season and make these products evolve. Moreover, Ezra design teams work both on two seasons, perpetually modifying the current collection and choosing products which will base the future one.

In the sourcing and manufacturing phase, Ezra keeps a strong regard on production.

Regarding to the sector standards, a large part of it is internalized by Ezra, and, most often, Ezra or a direct Galilean subsidiary dye outsourced products and put garments on it. Long-run relationships with furnishers evolve. The distribution phase is based on the really performing Artesia centralized distribution facility, near the headquarters. This place in which managers Just want to " make the products moving", every outsourced and domestic production is receipted, and redirected to retailers.

No clothe spends more than three days in the warehouse.

The retailing phase is maybe the most important one. Without allowing much money to media advertising, Ezra created an ambiance by installing a " climate of scarcity and opportunity' in its stores. We could talk about " instantaneous fashion", customers know that a product may not stay more than two or three weeks on the shelves, and that if he/she likes it, it is necessary to buy it immediately.

To conclude, we see that Ezra created and maintained a competitive advantage by building an entire system to follow fashion evolutions, and to make its products quickly evolve, without any extra cost.

The combination of permanent design, sophisticated production proceeds, really efficient distribution systems, and fast-changing retailing allows Ezra to remain permanently fashion, and guarantees customers' interest. Growth and geographical expansion have created new working conditions for Ezra and involve several risks threatening its successful business model. First, as it is said in the case, the opening of new stores worldwide poses an issue to Sara's centralized logistics' and distribution system, composed of two warehouses situated in Spain.

Indeed the stock capacity and automated products' distribution, that have to maintain operational rapidity to back Sara's competitive advantage, risk not to match the firm's expansion and turnover, ultimately basis to discomposes of call as it grows.

Distribution facilities, a crucial element of Sara's value chain, are not able to meet retailers' requirements, creating additional costs and lowering margins. As Ezra enters international markets, it is submitted to new costs for shipment, logistics, tariff…

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The centralized system has to be transformed to adapt its new working conditions and not lose its competitive cost advantage: manufacturing and distribution activities should be moved to international important market positions. Second, there is a risk in the method chosen by Ezra to enter new markets: ended, going with franchising or Joint-ventures could damage Sara's image. The firm will have a smaller role in managing the local stores. If it is done badly or the store doesn't fit Sara's specific strategy and marketing positioning for that country, it could be dangerous for the brand.

Another risk Ezra faces in pursuing international expansion is associated to the important capital investments this implantation requires: indeed Ezra has to use its resources to train the management to lead their facilities according to Sara's peculiar business model, and to build the IT and logistics accessory to transfer information and data to the headquarters, as knowledge seems to be one of the most important element of the production's chain. Increased costs are likely to be passed on to the consumer, and we know Sara's competitive positioning goes with low to medium prices.

Thus it is the margins that will be threatened of shrinking. Additional risks are proper to the geographical locations Ezra is considering.

For example, Asian and US market are highly competitive and entry is difficult. The Americans are not as fashion oriented as the Europeans; implantation of Ezra and make the firm lose a lot of money. Nevertheless, Ezra can keep on sustaining its growth thanks to its current competitive advantage, and thus avoid these reefs. Indeed, as previously mentioned, its core competencies are not easily replicable, which gives Ezra a relative margin to benefit from them for some time.

The company keeps its operating income high, has a strong and unique business model, as well as various opportunities for expansion in the retail industry.

After a comparison of the financial statements of Ezra and its major challengers, we come to the conclusion that Ezra has a stronger financial Truckee than its competitors. Its profit margins are higher, therefore it will have more money to invest and cover expenses than other retailers. The competitors of Ezra, like H, lower their costs by outsourcing the production.

Ezra manufactures 60% of its own products.

It is outsourcing less and produces the most fashionable items that tend to be the riskiest internally. It will be very difficult, time- and money- consuming for other major players to shift their manufacturing process from an outsourced one to a fully integrated one. Vertical integration, a distinction of Sara’s equines model, has allowed the company to successfully develop its strategy. It led Ezra to implement a climate of scarcity and opportunity.

By owning its production, Ezra is able to be flexible in the variety and the quantity. The other competitors lack this flexibility, and remedy this situation would take a profound change of business model. Sara's target market is sensitive to fashion. Fashion has become more globally standardized and Ezra uses this to its advantage. 80- 85% of the products that Ezra offers globally are relatively standardized fashionable products. However, Ezra also as difficulty to penetrate the American market.

This is due to American tastes that differ from European preferences, but also maybe because of its European strategy that does not match with the American apparel market. In order for Ezra implement its differentiated strategy in the US, and to offer specialized products according to North American tastes, a good idea would be to create a second distribution centre in the US. This would enable Ezra to supply its shops more efficiently and focus more easily on its American strategy. To sum up, Sara's competitive advantages are sustainable compared to the other detail competitors.

Its core competencies are mainly the high turnover rate of products, good stock management, efficient distribution channel, quick adaptability to market needs, internal production, vertical integration, and quick response system.

Other apparel retailers found it difficult to imitate Sara's business model as it would need them to change their entire model and strategy. Ezra chose a quick-response system which is not easy to implement and doesn't guarantee the viability of the retail company, but proved to be one of the most successful in the industry.