

Zara case analysis

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Albert Sedaghatpour Individual Case Analysis-Zara7/24/09 Introduction Zara is the flagship chain store of Inditex Group owned by Spanish tycoon Amancio Ortega. The group is located in Spain, where the first Zara store was opened.

Zara has opposed the industry-wide trend towards turning fast fashion production to low-cost countries. Possibly its most atypical strategy is its policy of zero advertising; the firm opted to invest a portion of revenues in opening new stores instead. At the end of 2001, it ran 507 stores around the world.

While its share of the group's total sales were anticipated to fall by two or three percentage points each year, it would proceed to be the primary driver of the group's growth for some time to come, and to play the lead role in increasing the share of Inditex's revenues. Problem Statement The primary problem with Zara is its future geographic focus, and how it would expand and grow in other countries.

The growth options for the company within its domestic market of Spain seem somewhat limited. SWOT Analysis

Strengths: Ordinarily the retail industry takes approximately three to five months to come up with a new seasonal collection. Zara takes a counter-intuitive tactic made achievable by their speed. As opposed to guessing on the fashion they ask and observe what the consumer desires and is capable of allocating the product within two weeks to the customers. It pursues trends that are thriving with other retailers and provides an imitation. All of

the Zara employees have a PDA which is utilized to collect consumer thoughts regarding its products and what they desire to see in the store.

This type of information is extensively collected everyday and sent straight to headquarters. Then recent graduates from fashion institutions are hired to design the clothes that the customers want. These designs are produced and shipped out to the retail stores in as little as ten days. All of this occurs in Spain, with no outsourced manufacturing. By ignoring outsourcing, the manufacturing time is lowered by a great amount. A Point of Sales system is also utilized by all Zara stores.

The point of sales system permits the cash register to confirm what is selling and what is not, letting better known products to appear in the store during the season in which its revenues are up. This system means that solely those items which are in great demand will appear in stores, so there are more sales. These two techniques lead to most of the clothing to sell out within a week by maintaining low inventory. Another benefit Zara displays is the vertical integration within the firm. Rather than having suppliers around the world, they do nearly everything in Spain, permitting delivery to go out to stores twice a week.

They design, manufacture, produce, and ship right from Spain, saving time. Zara saves money on promoting because they spend less than a third of a percent of their sales on promoting and focus on locating their stores in high traffic premier locations. Clothes are tagged at the manufacturing site, which permits the employees in stores to be five percent more efficient in other areas of the store. Zara also takes advantage of the rarity in their clothing,

which translates to more sales because differentiability interprets to more bargaining power for Zara.

They have very low inventory for each product which suggests it lasts for a small period of time at the store.

It is said, that one never sees the same product twice at Zara. This implies more sales since write offs and mark downs are absent. Another benefit of low inventory is that Zara does not risk significant losses if one product line fails because they have hundreds more in the pipeline currently to be shipped out on command. The most significant advantage is probably how difficult it is to imitate their business model.

To stay competitive in a business, one must at all times have an advantage over the rivals and having a model that is impossible to duplicate makes this advantage possible. Zara is the sole clothing retailer with a single manufacturing location, and the only one that pursues customer trends rather than generating them.

Weaknesses: A disadvantage of Zara is its euro-centric model. There is an anticipated over saturation of Zara stores in Europe by 2013, which would indicate that running the stores would in fact cost more money than their sales.

In addition, the euro-centric model joined with one of the strongest currency in the world is forcing prices of the clothing to increase in locations such as the United States. The identical piece of clothing can be up to 50 percent more in the US than in Spain. Opportunities: Zara presently is still in the

process of infiltrating the market in the United States. At this time, the majority of their revenues come from Europe and entering the United States could give them the push required to avoid Gap as the top clothing retailer.

Since they have only entered one region of the world completely, probability of expansion is without bounds. Additionally, since Italy has the highest spending market for clothing, Zara intends on opening more and more stores there, on a yearly basis, which could increase Zara's sales. However, the most significant source of expansion in the near future will likely come from India, where they will develop joint ventures with particular firms to form allocation centers to the public. India has been one of the primary retail investment markets for the last three years and Zara plans to take advantage.

In the coming decade, Zara expects the retail market to grow twenty-fold.

Threats: The greatest threat that Zara has is that it only has a single manufacturing and allocation center in the world. It is both a gift and a curse. Although it assists them in pursuing the counter-intuitive method to apparel, there are significant risks associated with a single center. If there is a power shortage, strike or even a natural disaster in the area it will be sure to influence Zara tremendously, because the entire business depends on one geographic region.

If a natural disaster has an effect on Zara in any way, sales could decrease immediately. Value Chain Zara's inbound logistics include the IT-enabled Just-In-Time strategy that results in inventory being obtained when needed.

The majority of dyes are bought from its own subsidiaries to better corroborate JIT strategy and lower expenses. Its operations consist of information systems support decisions about the fabric, cut, and price points. Cloth is ironed and products are packed on hangers so they don't require ironing when they get to the stores.

Price tags are already on the items. Zara creates 60 percent of its products in-house. Fabric is cut and dyed by robots in 23 highly automated Spanish factories.

For Zara's outbound logistics, clothes move on miles of automated conveyor belts at allocation centers and reach stores within two days. In terms of marketing and sales, Zara has limited inventory that permits low percentage of unsold inventory; point of sale at stores connected to headquarters to monitor how products are selling. Consumers ask or what they desire and this information is conveyed everyday from stores to designers over handheld computers. For support activities, the organization uses IT that corroborates tightly-knit collaboration among designers, store managers, market specialists, production managers, and production planners.

Technology is combined to support all primary activities. Zara's IT employees work with retailers to create an automated conveyor to support allocation activities.

With regards to purchasing, the firm utilizes vertical integration to lower the amount of purchasing required.

Recommendations The optimal method for Zara to keep their sustainable growth is to look for new opportunities in the apparel market. With varying
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customer behaviors as a consequence of globalization, and US department stores in distress, there are existing expansion opportunities for specialty retailers like Zara. Zara has the chance to be one of the trendiest and low priced retailers that America has seen as of late. Zara should probably create a second central allocation center in the Americas to reduce logistics with the intention of delivering fashionable products in a quicker way.

Their second central allocation center should be an extension of one of their smaller allocation centers found in Argentina, Brazil, or Mexico.

The propinquity of the allocation center to the American market will permit them to efficiently translate the certain American fashion. The allocation center will also permit them to have more funds to spend in other areas of the business like advertisements: a needed aspect to enter the American market. Another market opportunity for Zara is to invest in Internet retailing particularly aimed toward the US market.

Even though Zara is suspicious of overexposure, Americans want to be able to buy all products like clothing from the comfort of their own homes at any time they desire. In essence, since Zara wants to grow in the US market they could grasp the potential for a direct Internet selling strategy. That type of direct marketing will reach more customers quicker and more efficiently.

Although it may be hard to show all of Zara's ever-changing fashions online, it may prove lucrative for consumers to buy a reasonable variety of trendy Zara pieces in addition to some of their staple basics.

The last recommendation for Zara is to provide specialized items for different geographic locations within the same city. Zara currently does this to some point for a variety of international inclinations but more specialization will raise customer demand and will inspire them to visit more Zara locations within their own region. In some cities the firm is probably undergoing cannibalization since there are too many Zara stores that supply the identical item within one city. Zara could distinguish its item from store to store to raise consumer traffic.

This would work because customers would hear about new and different items that another Zara store is transporting across the city and they would be interested to pay a visit.

That way revenue wouldn't be pilfered from their own Zara stores, reducing cannibalization for the chain. All in all, Zara has the potential for sustainable growth because of its competitive advantage and its capability to take on the challenges of the retail industry. The firm maintains a high operating income, has a powerful and different business model, and has numerous opportunities for growth in the apparel industry.

To many Europeans, Zara is a familiar face with consistently trendy, well-priced new apparel every week. To Americans, it is a firm that is just getting its feet wet in the American market.

Although, the Inditex branch is researching and developing new ways for growth, the firm must resume reinventing and innovating themselves to keep fresh in the retail industry. Today, many firms are looking to Zara as the new industry standard for how to run a retail business, which

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demonstrates that Zara’s business model is becoming the wave of the future.