Zara case study essay

Running Head: PROPOSAL TO IMPROVE THE IT/IS STRATEGY AT ZARA

Proposal to Improve the IT/IS Strategy at ZARA Be future ready!!! Oct. 3, 2011 Executive Summary To grow at the same pace in the fast changing fashion industry, Zara should use advanced IT/IS systems as an enabler to improve the overall business process. Zara is facing a challenge today by using obsolete technology. Also due to a number of internally developed applications, there is no clear picture of the entire sales or inventory at any instant.

In this report, it is recommended that Zara should upgrade their systems into a newer OS, replace existing POS terminals with ones which are compatible with the new OS and rollout an MIS system to integrate data across all departments. Case Synopsis Inditex is a multinational clothing retailer and manufacturer headquartered in La Coruna. It is a holding company atop a number of brands like Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius and Oysho. Zara is one of the largest international fashion companies producing and retailing trendy and fashionable clothing for men, women and kids.

Since its inception, Zara has tried to remain in line with the customers' demands and rapidly changing trends. Their short manufacturing lead times and effective design and production teams ensure launch of new design collections continuously throughout the year. This keeps them ahead of competition that launches new collections only at the start of fall or spring buying periods. The major issue facing Zara is obsolete hardware and software being used all across the organization. As per the current scenario,

Zara has a lot of processes which can be improved upon with the use of better IT/IS system in place.

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To iterate a few of them: 1. The current IT systems run on DOS which has not been supported by Microsoft for years now. Microsoft moved to Windows OS in 1985 and have revolutionized the whole computer industry with the user friendly OS since then. 2. The hardware vendor for POS terminals could upgrade their machines anytime and make their machines not compatible to DOS anymore. 3. Store managers cannot look up inventory balances accurately to better plan the sales of goods from their stock or nearby stores if required.

There is no automated system or method to calculate the existing inventory. The managers need to walk around the stores and talk to sales people to determine the selling garments. 4. A new design or garment designed by the product managers would be informed to the stores only in the night when the handheld computer is linked to IS at La Coruna via dial up modem. 5. Demand-supply management is manually done by the Commercials by looking at the " almost" accurate inventory figures received from the stores. 6.

POS networks were not connected to each other via any in-store network, so employees have to copy daily sales from each terminal into a floppy disk, and then carry these disks to one modem-equipped terminal to send the sales details to the La Coruna office. 7. There are a number of internally developed applications built to take care of different operations. They are not

integrated with each other, thus the management may not have the right picture of overall inventory, production, sales etc. at any point in time.

As of now, Zara is leading with all the above practices in place, but it won't be too late when the competition may take over and lead the industry. Zara needs to move ahead with the changing times and adapt to newer technologies – both in terms of hardware as well as software. Company's goals/strategies Zara believes in integrating retailing with manufacturing and distribution. Zara is a vertically integrated retailer. They control most of the steps in the supply chain by designing, manufacturing and distributing its products. Their target customers are young, fashion conscious city dwellers.

Their positioning is different from any regular apparel company. They design clothes with short life spans – " Clothes to be worn 10 times". Zara does not believe in producing " Classics" – something which will be in vogue for ever. Their goal is to respond quickly to market demands which are always changing. There is significant employee autonomy and most employee decisions are not reviewed by upper-management. The company's strategies in terms of Kotler's 4 Ps can be described as follows: Product: Zara produces and retails apparels and accessories. They have clothing lines for men, women and children.

These are further subdivided into product lines for example basic and sports. Accessories include shoes, cosmetics and complements. Price: Price is determined by product managers. Prices are established for the Spanish market, denominated in Euros, and noted on the tag affixed to the garment in La Coruna. Prices for other countries were set at a fixed percentage of this

baseline, taking into account distribution costs and market conditions. Promotion: Zara does not believe in advertising. This is one of the most unusual strategies adopted by Zara in the apparel industry.

Instead they spend heavily on new stores and their look and feel. Place: The first Zara store opened in La Coruna in 1975. By the year 2003, there were around 550 stores in 45 countries like Spain, France, Greece, Israel, Mexico, Japan, etc. Within a city, Zara stores are always located in prime retail district. Zara spent heavily on the look and feel of their stores and changed it every 4-5 years. Zara does not sell clothes over internet. They have a website but it only serves as a digital display window – showing a few typical garments at any time.

Some of the major strategies which Zara follows to differentiate with the competition are: 1. No advertising: Zara does not believe in advertising. They place ads only to promote the twice yearly sales and to announce opening of a new store. This results in a minimal marketing expenditure of 0. 3% as compared to the industry average of 3-4%. Word of mouth alone has helped Zara gain the image that it has. Women know that new stock is in stores on Tuesdays and Thursdays and off they go for guilt free shopping!! (Roux, 2002) 2.

Merchandising: Instead of promotions, Zara focuses more on better merchandising of its products. The Zara stores are always located in the city's prime retail district. They change the store layouts completely every 4-5 years with artwork, window displays and sales racks changed more frequently. 75% of the average store merchandise is changed in 3-4 weeks.

The store managers do not have freedom in deciding the look and feel of the store. If a style doesn't sell well in a week, it is withdrawn from the stores, further orders are cancelled and a new design is pursued.

No style stays on the store rack for more than 4 weeks which encourages the customers to visit the store more often. An average high street store in Spain expects fans to visit 3 times a year. That goes up to 17 times for Zara. (Roux, 2002) 3. Product design and conceptualization: A group of people called " Commercials" decide what clothes would be designed and produced. Collections are created, extended and modified over time by commercials dedicated to each section (men, women, children) and within that to specific collection (for example, basic or sports).

Another group of commercials, called the product managers travel extensively in different markets to study the trends by keeping their eyes open and talking to store managers on what's selling. 4. Speed: With an in-house design team based in La Coruna, Spain, and a tightly controlled factory and distribution network, the company says it can take a design from drawing board to store shelf in just two weeks. (Tipaldy) They control the designing, manufacturing and distribution of their products. Zara produces 50% of its products in-house. Another 46% is farmed out in ready to cut pieces to workshops around Iberian Peninsula. . Decision making: The senior management trusts the judgment and intelligence of their employees throughout the company, instead of relying on a small set of decision makers. Store managers for example are given a lot of responsibility in terms of deciding what to order for their store. They can order what they think would sell. Also the commercials decided what to design and produce.

6. Communication: Zara maintains an updated and innovative website which details essential facts about the company, product catalogue, store outlets, collection etc. 7.

IT strategy: The IT budget was set informally. Technology investments, projects, workforce etc were all decided by Salgado and his colleagues. All the applications to support ordering, fulfillment and manufacturing are developed internally. The IT people preferred writing their own piece of code for new applications instead of buying commercially available software. They did use several commercial applications for office productivity like word, email, etc. and even computer aided clothing design. The strategies used by Zara lead us to their SWOT analysis.

It describes the strengths, weaknesses, opportunities and threats for Zara in the apparel industry. Strengths 1. Short lead time to manufacture and distribute products – top class in fast fashion retailing 2. Decentralized decision making for product design and development 3. Vertically integrated value chain – Zara controls all levels of value chain from designing to manufacturing to distributing and even retailing. | Weaknesses 1. Inventory measure is not very accurate across the stores 2. One store cannot know the inventory of another nearby store 3.

Centralized distribution system 4. High manufacturing costs due to less outsourcing| Opportunities 1. Ample room for growth existed within the current markets. For example, Zara could open a few more stores in Italy where the shoppers were some of the most fashion conscious in Europe. 2. Expansion in Western European countries using the current production and

distribution networks 3. Online retailing can capture a huge untapped market of young people who have started using internet for their basic needs across the world. Threats 1. Obsolete IT hardware and software 2. Dependency on a single vendor to provide DOS enabled POS terminals for stores 3. Competition may leave Zara behind in terms of online retailing as this is a potential market for clothing and accessories in both developed and developing markets. | This SWOT analysis shows that Zara is doing very well currently. But with further growth of self and competition, they need to keep themselves abreast with the latest technology available in the market. Problems encountered

For better understanding of the problems encountered in business processes and operations by Zara, Michael Porter's value chain model can be used to break down the complex processes of company into small value-added activities. Firm based value chain model Summary The Value Chain model designed by Michael Porter is best used to find out where the company can create value for the customers – both internal (employees) as well as external (client). A set of activities an organization undertakes in creation, manufacturing, and distribution of the company's products and services forms a value chain.

These activities can be divided into primary and support activities. The primary activities include Inbound logistics, Operations, Outbound Logistics, Marketing and Sales, and Service which are related to company's core competencies of producing and delivering goods and services to its customer's. Secondary activities do not directly impact the final product, but help in improving the productivity and provide an edge over competition.

These are Support activities comprising of Infrastructure, HR Management, Technology development and Procurement. Both these activities help improve the profit margin of the rganization. Importance The Porter's firm-based value chain helps in better understanding of how different activities in an organization are connected and based on this the strategy formulators can: 1. Assess all activities; and determine how both primary and support activities can work together effectively and efficiently to help the organization gain a superior competitive advantage 2. Find out areas in the company's process which can be improved upon to increase margins 3. Determine areas where IS/IT can be implemented to improve operational excellence 4.

Identify non-value adding activities and try to reduce if not eliminate their impact 5. Optimize or " re-engineer" the firm by improving the value adding activities (Porter's Value Chain – Understanding How Value is Created Within Organizations.) Model Application An application of Porter's value chain model to Zara is shown in [Figure 1] in the Appendix 1. Primary Activities identified are: Ordering – Designing – Manufacturing (Production Planning) – Quality Testing – Pricing – Fulfillment (Distribution/Shipping) – Sales ; Service Secondary Activities identified are:

Procurement, Information Technology, Finance, Human Resources, Administration, Management, Expansion, Real Estate Zara's primary activities include placing of orders by stores to La Coruna twice a week for all sections of the store – Men, Women, and Children. Using the handhelds the offer form was filled up and sent back to La Coruna. A group of people at La

Coruna called " commercials" are responsible for designing, purchasing materials, placing production orders with the factories, and set prices.

Having vertically integrated manufacturing operations Zara was capable of constant introduction of new items with short lead times. All finished garments were sent to a Zara facility, where they were ironed, inspected, given a machine-readable tag, and sent to a DC. Using the network, Zara could move a new design from conception through production and into the DC in as little as three weeks. A group of commercials managed balancing of aggregated orders received from stores with the total supply of inventory in the DC at SKU level. They also worked with product managers in deciding roduction levels of each SKU. New garments for which demand need to be assessed were also provided to stores for sale. Zara manages its Sales ; services in a very different manner as compared to its competitors. Zara's stores were always located in a city's prime areas. Zara believed in decentralization of decision making and individual store managers were allowed to select items to stock. Store layout design was centralized in the head office; after layouts are determined, the stores are built according to the approved design.

Zara spent very little on marketing – an average of 0. 3% of revenue as compared to 3%-4% by its competitors. Currently, there is no well-defined process towards new IT initiatives and no formal justification for IT efforts. Implementation Opportunity Analysis As we have divided the complex business process of Zara into simple activities using Porter's firm-based value chain, [Table 1] below shows a breakdown of the functional

areas/business processes within Zara and need/opportunity for information system applications with the associated decision levels.

Table 1: Problem Identification Functional areas| Business processes Involved| Decision LevelsImpacted| Need/Opportunities for IS/IT Implementation| PRIMARY ACTIVITIES| Ordering| Order preparation ; its distribution| Operational Management| * Dependency on different applications which are not interlinked * POS terminals and PDA's cannot share information within or across stores * Obsolete hardware like floppy disks being used| | Receiving of orders ; its aggregation| | | Balancing of received order ; available inventory| | | | Allocation of products when demand exceed supply| | | Manufacturing (Production Planning)| Planning ; Scheduling| Operational Management| * Dependency on simple applications * Factory loading and job sequencing decisions are taken manually| Pricing| Determination of pricing for different markets| MiddleManagement| Automation of pricing calculation considering raw material cost, margin, sales ; distribution costs| Fulfillment (Distribution/Shipping)| Inventory tracking| MiddleManagement| * Exact inventory is not known at any point f time. * It is prone to human error in recording of shipments and sales, theft damage ; other losses. | Sales ; Service| Store's automation| Operational Management| Stores are not automated, POS terminals used are unchanged for well over a decade| | Stock Availability/ Localized Demand| Middle Management| POS terminals and PDA's do not share information across stores, unable to meet localized demand| SECONDARY ACTIVITIES|

Information Technology| IT Hardware | Operational Management| Obsolete technology like Floppy discs, Dial-up modem still used in stores| | IT

Software| | Still use DOS Operating system which is no longer supported by Microsoft| | Application Development| | Can buy commercially available software which are developed by service providers keeping in mind best practices on the industry| Management| Information/Data Availability| SeniorManagement| The POS terminals and PDA's are not always connected to Zara's headquarters. Accounting/Finance| Account receivable| Operational Management| | | Budgeting| MiddleManagement| Proper budget should be assigned to IT department. | | Profit Planning| SeniorManagement| Financial feasibility of Investments on new technologies should be considered on the basis of " Returns on Investment" on such projects | Human Resources| Training & Development| Operational Management| | | Compensation Analysis| MiddleManagement| | | Human resources planning| SeniorManagement| |

The case does not provide detailed list of legacy systems implemented for the support activities. However, the matrix shows that lot of opportunities exist to improve the efficiency of the primary activities & support processes also. Implementation Effectiveness Based on the analysis done above, It is evident that there are many opportunities available within Zara for using IT/IS to support its basic belief of making business processes quick and its approach of giving more authorizations to middle/lower management in decentralized decision making.

Based on the opportunities available for Zara, following initiatives are required to be carried out by Zara in order to sustain a competitive advantage: * Upgrade their systems into a newer OS, * Replace existing POS terminals with ones which are compatible with the new OS and * Rollout an

MIS system to integrate data across all departments. The systems need to be upgraded into a newer OS. DOS is an obsolete OS and not even supported by Microsoft.

The new OS will have many intangible benefits like provisions of using GUI interfaces which are much more user friendly for non-technical users and will provide value addition towards Zara's internal customers – its store manager's. Moreover, DOS does not have a multitasking capability. (Perry & Freeze, 2003) Zara should shift to new technology POS terminals which are compatible with the OS selected above. The upgrading of POS terminals is a necessity in order to avoid over dependency on the existing hardware vendor. This will also enable networking capability between stores.

Information sharing will be a possibility across stores. Store managers will be able to look at the inventory at other stores also and can share inventory in order to meet localized demand if DC cannot deliver in time. Up-gradation of hardware will lead to linking of POS terminals at all times with Zara's headquarters and will provide real time information to management which will help them in taking quick decisions. MIS implementation will lead to Integration of different applications into one. This will provide a seamless integration between all the primary activities across the supply chain.

This application will link all the stores with each other thus providing following benefits: * Data will be available from order preparation and distribution across all stores at different geographical locations * Manage balancing of received order & available inventory for each SKU * Provide support with intelligent inputs regarding allocation of products when demand

exceed supply and will remove human intervention currently involved where commercials' need to take such decisions * Tracking of exact inventory across the entire supply chain at any point of time.

Factors which might lead to incorrect inventory like human error in recording of shipments and sales, theft damage & other losses will be removed. * The IS applications will enable better efficiency in production planning by using sophisticated mathematics to generate optimal plans and schedules. This will generate planning for load on factories and decide jobs sequence also. This will lead to optimal utilization for both machinery as well as human capacity. * It can enable automation of pricing calculation which will be based on factors like raw material cost, margin, sales & distribution costs considering geographical location.

This will lead to calculation of more accurate pricing and will reduce manual dependency. Automatic tags will be printed for each finished product which can then be tagged on to each garment. * The consumer buying trends and behaviors can be predicted by the analysis of sales and revenue reports from each operating region of the company. (Pant & Hsu, 1995) There is a need to have more structured IT department in place. Financial feasibility of Investments on new technologies should be considered on the basis of " Returns on Investment" on such projects & Cost/benefit analyses should be conducted for a proposed IT project.

Conclusion There are a number of challenges which Zara is facing currently. For example, 1. POS terminals using obsolete DOS operating system 2. DOS not being supported by Microsoft anymore 3. A number of internally

developed applications which are not linked to each other and thus may have data discrepancy 4. Inventory levels at each store not available in a system – employees need to manually count the stock on the racks and this figure is then sent to La Coruna every night 5.

Management does not have an option to retrieve reports with figures of sales at a store or region or country level – thus hampering decision making Thus it is imperative that Zara should move with the times and implement advanced IT/IS systems. To integrate with the new systems, they will also have to do away with the existing POS terminals and invest in new terminals which are compatible with the new OS. This will definitely have cost implications, but in the long run will help Zara help sustain their growth and keep up with the competition.

The main goal of Zara is to link customer demand to manufacturing, and manufacturing to distribution. This can be further achieved and supported by the advanced MIS system which will give a clearer picture of inventory and sales at any instant. Recommendations for a solution: 1. Upgrade to a newer OS 2. Shift to new technology POS terminals which are compatible with the OS selected above 3. Invest in a good MIS system For a detailed cost and benefit analysis of this recommendation is attached in Appendix 2. Zara should consider upgrading its DOS based Point-of-Sale (POS) system to Intuit-HP Retail Solution, the industry-proven software.

The Intuit-HP Retail Solution comes complete with: HP's Point of Sale System, monitor, USB keyboard and mouse, Receipt Printer, Credit Card Reader, Cash Drawer, Barcode Scanner, and Intuit Point of Sale software. This solution is

more sophisticated than a cash register and more durable than a PC. In addition to being a cash register, the Intuit-HP Retail Solution could provide Zara a robust solution to also track customers, manage inventory, and get business insights. These are the missing capabilities of the current DOS POS that put Zara at a disadvantage compared to its competitors.

As Salgado had pointed out, the store managers are increasing requesting the ability to look up inventory balances in their stores and other stores. In addition to DOS not being supported by Microsoft, most of the current POS system was written by only Sanchez. Therefore, it puts Zara's business continuity at high risk making it dependent on Sanchez and his knowledge. Action plan: 1. Evaluate all available solutions in the market decide on the best one for the organization 2. Implement the new system and purchase new terminals for La Coruna as well as all stores worldwide.

To upgrade Zara's current POS system, Zara should keep the old POS system running until the new system is ready for cut-over. Also upgrade the network infrastructure from modem based to broadband based so as to ensure network connectivity at all stores at all times. 3. Train all employees on the use of new systems – this will take time as their will be resistance to change to something new. 4. Evaluate all available MIS systems and select on the best one which will require minimum modifications from the standard package 5.

Train the IT staff on the new package as well as hire new IT workforce for the same 6. Implement MIS package at La Coruna and let it stabilize first 7. Rollout this to all stores worldwide 8. Train all store managers on the new

technology and brief them about the advantages of this shift. Also provide user manuals for ease of the store managers and employees. 9. Modify the standard package with minor enhancements required for Zara specifically, if required. Appendix 1: Figure 1 Figure 1: Porter's Value Chain for Zara Appendix 2: Cost & Benefit Analysis Cost| Benefit| Tangible| 1. Total cost is mentioned in the table below| 1. Inventory figures can be accurately determined by all levels of management 2. Will enable automation of pricing 3. Better prediction of customer buying trends and behavior, thus further reducing the overall lead time | Intangible| 1. Loss of time in training 2. Resistance to change from employees as well as store managers| 1. The risk of obsolete POS terminals and the vendor withdrawing support will be eliminated 2. Better information flow across the organization 3.

Improved reporting for the management| Total Cost per suggested OS: Cost Head (All figures are in Euros)| Windows| Unix| Linux| One-time license cost| 140| 160| 0| Annual maintenance fee *| 30| 25| 100| Hardware per store| 25230| 25230| 25230| Connectivity *| 240| 240| 240| Programming Cost| 1125000| 1125000| 1125000| Installation Cost| 192000| 192000| 192000| | Total | 1342640| 1342655| 1342570| *The ones highlighted are annual costs which Zara will have to incur if they decide to go ahead with that OS. Windows is easy to use and widely accepted by a lot of people across the world.

It supports all MIS packages as well which Zara might decide to go ahead with in the future. Linux is difficult to understand, and thus IT staff will also have to be trained on this. This is more stable as compared to Windows, but the better user interface plays a big role in the favor of Windows. Appendix

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SWOT analysis of the company II. PORTER'S VALUE CHAIN MODEL – Zara's value chain model based on Michael Porter's value chain model to find out where the company can create value for the customers – both internal (employees) as well as external (client). D. Porter's general value chain

model 3. Definition. 4. Importance of Porter's value chain. E. Porter's model application on Zara 5. Implementation Opportunity Analysis 6. Implementation Effectiveness III. CONCLUSION – Recommendation of plan of action for Zara after the detailed analysis of the case.