The international growth of zara marketing essay

\n[toc title="Table of Contents"]\n

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1. ZARA – BACKGROUND \n \t
2. Business Model \n \t
3. INTERNATIONAL GROWTH OF ZARA \n \t
4. Market Selection \n \t
5. Market Entry \n \t
6. Marketing Approach \n \t
7. CONCLUSION \n

\n[/toc]\n \n

The emergence of global fashion has transformed the way fashion is perceived in the contemporary world (Nobukaza & John 2003). In the recent years, there has been a surge of global fashion brands; triggered by the intensive involvement of internationalisation processes in the fashion industry. Large retailers in search of sustained growth increasingly decide to expand overseas, responding and contributing to the globalisation process (Mollá-Descals, Frasquet-Deltoro & Ruiz-Molina 2011).

Operating internationally is an increasingly common option for organisational growth. The process becomes a necessity when the domestic market shows increasing levels of competition and commercial saturation. For instance, this is prominent in the European Union mature markets of highly developed economies such as Germany, France and United Kingdom (Carmen & Ying 2009). Incidentally, there are increasing numbers of born-global companies

deciding to internationalize their businesses from the beginning of their activities, regardless of the domestic market situations.

The desire to benefit from the exposure of exclusive brands to foreign markets was one of the key motive for internationalisation (ZavrÅ¡nik 2007). Notwithstanding, internationalisation strategies differ across retailers and also their results. Evident from research, failure in international retailing is not that uncommon, some resulting in a subsequent shutdown of operations in that particular market (Burt, Dawson & Sparks 2003).

During the initiation of an internationalisation strategy, fashion retailers should reflect upon the congruence of their product ranges and brand images within the context of the prevalent cultural and trading conditions of the foreign markets (Wigley, Moore & Birtwistle 2005). The Spanish fashion retail chain ZARA is one of the most prominent international Spanish brands and one of the most successful amongst fashion retailers, thus is a prime representation of global expansion. This paper will examine the international strategy for expansion of ZARA.

ZARA – BACKGROUND

Founded in 1975, ZARA, a Spanish clothing and accessories retailer was originally the brainchild of the Inditex Group owned by Amancio Ortega. Headquartered in A Coruña, Galicia, Spain, Inditex is the world's largest fashion retailer with ZARA as its international flagship chain store (Kenna & Baigorri 2011). Beginning with the single store in Spain to the recent launch into Australia, ZARA currently has over 1, 700 stores in 78 countries providing exclusive fashion worldwide. ZARA, alone accounted for 64. 6% of

the Inditex group turnover in 2010. Over time, it has become one of the notable leaders amongst the fashion brands. ZARA was described by Louis Vuitton fashion director, Daniel Piette as " possibly the most innovative and devastating retailer in the world" and CNN described the brand as a " Spanish's success story" (CNN 2001).

The secret of ZARA's success is in its speed (four weeks for a new fashion idea to hit the retail stores and two weeks for modification of current models) and the feedbacks obtained by store managers are presented to head office, thus enabling it to fine-tune its ideas. There is also firm control from Spain; the sole logistics hub (Economist 2005). While 34% of Inditex's manufacturing is outsourced to Asia, and 14% to parts of Europe including Turkey, those tend to be the more basic items. The high-fashion items which accounts for 49% of what it retails, is cut and finished in Spain though some sewing is done elsewhere.

Few competitors come close. Hennes & Mauritz (H&M) of Sweden is closest. Its creative processes and marketing programs are time consuming, and thus are not as fast to market with new styles; taking months rather than weeks (Economist 2011). But where it has caught on, especially in Germany, the Netherlands and Austria, its market penetration is higher. It has distribution centres dotted around Europe. Some 65% of its product is made in lower-cost countries in Asia. That means its cost base is lower than Inditex's, but it is more vulnerable to disruptions.

Business Model

The core concept of ZARA’s business model is to provide medium quality fashion clothing to the masses at affordable prices. The key to this is vertical integration and quick response.

ZARA’s business model is characterised by a high degree of vertical integration. Time was the main critical factor for consideration, beyond production costs (Palladino 2010). The vertically integrated structure allowed ZARA to achieve great flexibility and shorten turnaround times; reducing stock to minimum and diminishing fashion risk. Furthermore, vertical integration helped reduce the “ bullwhip effect”, the tendency for fluctuations in final demand to get amplified as they were transmitted back up the supply chain (Ghemawat, Nueno & Dailey 2006).

The business system covers all phases of the fashion process; designing, sourcing and manufacturing, distribution, and retailing (Inditex 2010). It has a flexible structure and a strong customer focus in all aspects of its business areas.

Design – ZARA manufactured its most fashion-sensitive products internally. Designers continuously track customer preferences and place orders with internal and external suppliers. Every year, about 11, 000 distinct items are produced compared with 2, 000 to 4, 000 for key competitors. Production took place in small batches, with vertical integration into the manufacture of the most time-sensitive items. Predictable styles are outsourced to Asia for manufacturing. ZARA is able to design and have finished goods in stores

within four to five weeks, and two weeks for modifications or restocking of existing items.

Sourcing & Manufacturing – Comditel, a Inditex subsidiary does the purchasing of fabric for ZARA. Around half of the fabric purchased was " gray", undyed to facilitate in-season updating with flexibility in manufacturing a variety of colours and patterns. This process cycle took one week for fabric to be completed. ZARA manufacture its most fashion-sensitive products internally and produce in small batches for the most time-sensitive ones.

Distribution – ZARA has a centralized distribution system that minimises the lead-time of their goods. Products are received at either the central facility in Arteixo, Spain, or through satellite sites located in Argentina, Brazil and Mexico; where they are distributed simultaneously to all the stores worldwide on a highly frequent and constant basis; Shipped directly from the central distribution centre to retail stores twice a week, eliminating the need for warehouses and keeping inventories low.

Retail – the store is not the end of the process but rather its restart, as the stores act as market information gathering terminals, providing feedback to the design teams and reporting the trends demanded by customers. Additionally, ZARA provides very limited volumes of new items in the most fashionable of ZARA's stores and then uses the results of those sales to decide whether the items should also be sold in other locations. The limited volume and short available time successfully created a sense of ' scarcity' in consumer's perception.

INTERNATIONAL GROWTH OF ZARA

After opening its first store in La Coruña in 1975, ZARA expanded within the domestic market during the 1980s. International expansion started with the opening of a store in Oporto, Portugal in 1988 (Carmen & Ying 2009). Currently, ZARA is already operating over the five continents with over 1, 700 stores. International sales accounted close to 70% of its total turnover, with Europe being its largest market by far.

ZARA has been identified as a trans-national retailer (Alexander & Myers 2000). On the surface, this may appear as a peculiar classification since they appear committed to a highly standardised operating formula which provides little opportunity for market responsiveness. Analysis of ZARA's internationalisation strategy would indicate otherwise (Bruce, Moore & Birtwistle 2004). While the brand image is highly standardised, its product development and merchandising strategy are very flexible and allows for the integration of pan-national fashion trends as soon as it emerges. This is evident by its approach to trading in the British market. ZARA recognises the appeal that their Spanish origin provided for its brand and clearly understood the distinctive positioning they had within the United Kingdom as a fashion forward retailer. The company therefore focused upon the more fashionable lines within their British stores. Pricing policy within the United Kingdom has been more upscale than their home market in order to exploit their advantages within the British market.

The ' oil stain' strategy as described by its management is the pattern of ZARA's international expansion. It begins with the opening of a flagship store in a major city. After developing and gaining experience to operate locally in

the country, they then proceed to have stores in adjoining areas. An example is the flagship store in Paris anchoring a patterning of regional and then national expansion to encompass 67 stores in France by 2002.

Market Selection

One of the key decisions in the internationalisation of a firm is the selection of a right country market. Then again, the attitudes of the management can decide where it chooses to expand (Evans, Treadgold & Mavondo 2000). The concept of psychic distance, after much revision has been defined as the subjectively perceived distance to a given foreign country (Håkanson & Ambos 2010). Many factors affect this concept which includes ' language, business practices, political and legal systems, education, economic development, marketing infrastructure, industry structure, and culture' (Dow & Karunaratna 2006). These factors form the basis of uncertainty of the management have with foreign markets.

The degree of uncertainty about foreign markets or psychic distance has been proved to be a critical aspect in deciding the direction of its international expansion (ZavrÅ¡nik 2007). Consequently, psychic distance can be a significant deterrent, particularly to the early stages of overseas expansion. As firms become more internationally active, the influence of psychic distance on its market selection decisions diminish; overcoming the psychological barrier (Johanson & Vahlne 2009). This can be seen in the case of ZARA's international expansion.

To come to a decision for the selection of markets, ZARA sends a team from headquarters to conduct both macro and micro analysis of the new market

to analyse new market opportunities (Palladino 2010). Macro analysis focusing on the local macroeconomics variables and the likely future evolution, in terms of how it would affect the prospects for their stores; such as property prices, salaries, legal costs, taxes and tariffs. Where else micro analysis focusing on industry specific information concerning local demand, competitors, channels, and store locations availability. The competitive information gathered included data on levels of concentration, the formats that would compete most directly with ZARA, and their potential political or legal ability to resist its entry, as well as local pricing levels.

As mentioned earlier, psychic distance discourages the foreign expansion of firms. This spreading pattern, based on the concept of psychic distance, mirrors the stages approach to internationalisation proposed by Treadgold (1990). He proposed a three stage model of expansion in geographical presence over time. Retailers passed through stages of reluctance, caution and ambition, as they became more pro-active in their response to international market opportunities and experience curve effects influenced managerial perceptions of risk.

This is seen in ZARA's international expansion, as it clearly divides into the three stages.

Reluctance – 1975 to 1988 it focused expansion in its domestic market. The maturity of the market in Spain led ZARA to look for opportunities through foreign market for corporate growth.

Cautious – Between 1988 and 1997 they had a more cautious approach, entering about one country per year. In this early stage new to the

international environment, ZARA enters geographically and culturally close markets that resembled the Spanish market. For instance in 1990, ZARA started operation in France, Paris a geographically contiguous country and a fashion capital. Further in 1992, Mexico was added; though geographically distant, but is culturally close to Spain.

Ambition – Experiential learning encouraged the retailer to become more ambitious in their international aspirations. As ZARA gain more international experience, overcoming the psychological barrier; they took an aggressive and rapid global expansion from 1998. This was regardless of cultural or geographical proximity. For example, stores were opened in 16 countries from 1998 to 1999. These countries include Canada, Great Britain, Middle East, Japan, and many more, which differs greatly in practices and culture.

Market Entry

Foreign entry-mode choice is one of a firm’s most important strategic choices (Mitra & Golder 2002). It influences the firm’s degree of control, resource commitment, investment risks, and share of profits (Baena 2009). Choosing greenfield and acquisition entry mode would entail for a full control and ownership, whereas a joint venture provides a shared control and ownership. These full-equity entry modes are more susceptible to environmental uncertainties and involve greater exposure to economic and political risk. Furthermore, it requires a greater resource commitment with full-control entry modes with exception to management service contracts. It demands the deployment of assets that cannot be easily redeployed without incurring sunk costs (Herrmann & Datta 2002).

On the other hand, the use of shared-control entry modes would gain access to knowledge which local partners have of competitors, markets, and governmental policies (Baena 2009). Joint venture characterized by a relatively lower investment and hence provides risk, return, and control commensurate with the extent of the investment firm's equity participation. It not only entails ownership and control sharing but minimises country risk. This however may raise issues of managing a partner whose interests may diverge over time. Lastly, in non-equity modes, such as franchising, the foreign firm serves the host market thorough arm's-length contractual agreements (Blomstermo, Sharma & Sallis 2006).

ZARA's business model requires a great control and flexibility, and hence has always tried to keep the maximum control over its operations; wholly owned subsidiaries. The rest of the strategies are carried out when the legal policies or political situation of the country or another intrinsic attributes of the market does not allow them this option. Mainly three different strategies are used for its international expansion, entering into new markets (Carmen & Ying 2009). They adopted different entry modes for different countries, depending on the situation of the target country (Ghemawat, Nueno & Dailey 2006).

Greenfields – this is the mostly used and preferred choice of entry by ZARA. Chief advantage of this mode is the total control over the business; the flexibility is high and its adaptation power increases, and flexibility is one ZARA's key factor of success. It however requires a high level of resources and high degree of commitment, causing a higher level of risk in the case of

exiting the market. They adopted this mode in key, high-profile countries with high growth prospects and low business risk.

Franchising – This mode of entry is typically used in countries where FDI is not viable. They are usually markets that are small, risky, or culturally distant or subject to administrative barriers which encouraged this mode of market participation. Examples are Andorra, Iceland, Poland and Middle Eastern countries where restrictions on foreign ownership ruled out direct entry (Ghemawat, Nueno & Dailey 2006). Franchisees were generally well established and financially strong players. They are given exclusive, countrywide franchises that encompass other Inditex chains; then again ZARA always retained the right to open company-owned stores as well.

Joint Ventures – joint ventures agreements are adopted in larger, more competitive markets where there were barriers to direct entry; mostly related to difficulty of obtaining prime retail space in city centers. For instance, ZARA formed joint ventures in Germany and Japan, with firm Otto Versand and Bigi respectively. Otto Versand is the largest German catalog-based retailer and importantly a major mall owner. Bigi a Japanese textile distributor with its knowledge of the local property market encouraged ZARA to sign the agreement to enter Japan in 1998. Bigi's knowledge was a particularly critical factor in Japan where wide spaces are limited and expensive assets. Nevertheless due to ZARA's business model, which was difficult to be imposed in such an entry strategy, especially in situations where they have to unify its criteria with their partner in terms of strategy and control; ZARA bought back remaining shares sometime after to dissolve the joint ventures.

Marketing Approach

In the early years of international expansion, ZARA took a very ethnocentric approach with their subsidiaries as replicas of the stores operating in Spain (Bonache & Cerviño 1997). Reasoning given was that if ZARA's international segment and product mix were the same, and store management system in Spain had established good results, it would be logical to transplant the same systems.

Conversely, ethnocentric approach stumbles upon unexpected problems, due to the diverse cultural idiosyncrasies of the different countries. This led ZARA to move in the direction of a geocentric orientation, allowing the company to adopt in some cases local solutions rather than merely a replication of their home market. Be that as it may, ZARA still sells mostly homogeneous product for a global market with some adjustments in its marketing mix. For instance, the difference in customer's size in Asian countries; laws issued in Buenos Aires, Argentina that require the availability of garments for youths in all sizes (Ghemawat, Nueno & Dailey 2006); cultural differences in countries such as Arab where some garments cannot be sold; and the seasonal differences in the southern hemisphere. Stores worldwide gather information to guide the design department on garment decisions that finally will be produced that can be sold in all markets where ZARA operates. Furthermore, each store manager would decide on specific garments that will be displayed in store to meet the customer's taste in that area.

The ethnocentric approach encountered some managerial issues as well, with similar reason due to cultural differences in different parts of the world

(Bonache & Cerviño 1997). For example, when the company established the first store in France, Spanish executives quickly discovered that apparently small differences in French and Spanish managerial style became significant aspects for the management of the operation. Thus, the personal relations between the store manager and the employees had to be reviewed and adapted to French idiosyncrasies. Whereas in Spanish stores, the communication flow and personal interactions between managers and employees were based on informal relationships, this did not work well with French employees who expected a formal and hierarchical relationship. The geocentric approach would allow the subsidiary to reach local sensibility without impeding the exploitation and utilisation of its core competence.

Pricing was market-based. However, customers effectively bore the costs of supplying the product from Spain. For instance, prices on average as compared to Spain are 40% higher in Northern European countries 10% higher in other European countries, 70% higher in the Americas, and 100% higher in Japan. The higher prices imply a different positioning for ZARA in the international market, in particular to emerging markets. For example in Mexico where they have a lower average income, the targeted customers are from the middle to upper class. The difference in positioning affected stores in a way that ZARA's overall image had to be presented as high-end rather than a mid-market image.

Product offerings and promotion policies varied minimally internationally. Promotional and advertising efforts were generally avoided worldwide except the biannual sales periods, in line with Western European norms. 85% to 90% of basic designs sold in stores tend to be common throughout the world.

While the rest differed due to catering to physical, climate, or cultural differences, for example the smaller sizes in Japan, different seasonality in Southern hemisphere, and special women's clothes in Arab countries. As tastes converge across national boundaries, the implementation of a rather standardised strategy had become easier over time. Residual differences permitted products that did not sell well in one market to be sold in others.

CONCLUSION

ZARA is a successful international retailer which, in less than 30 years, has transformed itself from a Spanish local brand into a truly global brand. Though its domestic market in Spain still accounted for close to 30% of sales, the retailer plans to accelerate expansion of its stores abroad to reduce its reliance on Spain. ZARA has been opening over hundred numbers of stores yearly and more to be expected as they accelerate expansion (Kenna & Baigorri 2011). It will be targeting particularly the emerging markets in China and India to maintain their growth. South Africa and Australia will also play host to their first ZARA stores in this year.

ZARA has a unique business system that gives the company its competitive advantage. One of these advantages is the economies of scale that ZARA is able to utilize and the company has been successful in scaling up its distribution system (Palladino 2010). However, with the continued growth of the company, especially due to the expansion in the international markets, there are concerns in regards to ZARA's centralised logistics model. Some argue that a centralised logistics model might suffer from diseconomies of scale. This system may work well with the existing number of stores because majority of which are centralised in Europe. However, ZARA will not be

benefiting from short lead times and low operational cost with a single central distribution center model as they branch off into other countries. The competitive advantage achieved by ZARA's vertical integration appears to be eroding (Kumar & Linguri 2006). As it opens stores in increasingly distant markets, ZARA's ability to retain its flexibility in adjusting production to accommodate differences in local trends still remains a question.

Last but not least, the ZARA model seems to work better in markets where customers have a desire for fashion such as countries like France, Italy, Japan and the United Kingdom. In other markets like Germany and the United States where consumers are less fashion focused, ZARA seems relatively less successful. Amongst the key questions ZARA must now face are whether it would be better served in the long run by increasing penetration in these fashion sensitive markets. Or should it further extend its global influence by entering more new markets.