

# [Zara in korea market](https://assignbuster.com/zara-in-korea-market/)

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### Introduction

In 2008 when Taeho-one of our team members- ended his military service, SPA brands were very unfamiliar with Koreans. Now in 2013 half of his clothes are SPA brands and every our team member has severer items of SPA brands. Concept of SPA brands has been well penetrated to Korea especially to 20’s. Talking about SPA brands we found that performance of ZARA in Korea is not successful unlike success in worldwide. We wanted to figure out what is the matter with ZARA in consumer’s perspective. By checking out criteria which influence purchasing decisions and ZARA’s perspective position, we would suggest ZARA’s strategy.

### Background

The term SPA means Specialty retailer of Private label Apparel. GAP was first to use this concept in 1986. SPA brands-such as ZARA, UNIQLO, H&M- design, manufacture and distribute their apparels on their own. They usually change their clothes very quickly at a low price through mass production and shortening its lead-time. Through that SPA brands pursue Trendy & Fashionable.

These SPA brands are showing rapid growth in Korea. Market Size has been skyrocketed and expected to reach 3500 billion won in 2013. There are three major players in Korean SPA market. Those are ZARA, UNIQLO, H&M. They have, of course, their own distinguished features. ZARA is a Spanish brand and it established first Korean store in 2008. In 2012, its sales in Korea was ? 203, 875 million and has 35 stores. It specializes in fashionable design. On the other hand, UNIQLO, is a Japanese brand and it entered Korean market in 2006. Its sales in Korea was ? 504, 908 million from 68 stores in 2012. UNIQLO can be characterized by 'Low price, High quality'. Meanwhile, in 2010, Swedish fashion brand, H&M opened its first store in Korea. Despite the fact that H&M is the No1. Fashion brand worldwide, its sales in Korea was ? 89, 982 million from 7 stores in 2012, below the sales of UNIQLO & ZARA. However, H&M is growing the fastest among all brands. 'Appropriate price ; Fashionable design' can define a brand of 'H; M' . On top of these global brands, domestic SPA brands such as SPAO, MIXXO, 8 Seconds also have been launched in Korea. Therefore, it is no exaggeration to say that Korean fashion market is the one of the most competitive markets in the world.

#### 1. Problems of ZARA

The problem of ZARA is simple; 'ZARA’s growth rate was dampened.' Although ZARA is second player in Korean SPA market, growth rate is lower than its competitors such as UNIQLO, H&M. As seen a graph left, UNIQLO grew 53% in overall, H&M did 42% but ZARA grew only 21% in 2012. With this tendency, it can be easily expected that ZARA would be caught up by H&M. At the same time, gap between UNIQLO would increase dramatically.

Read about H&M Sustainability Competitive Advantage

Plan for investigate ZARA’s problems consists of three following three steps. First, we conducted Focus GroupInterviewin qualitative sense. We interviewed total 12 people selected in Convenience Sample. They were asked to answer 'basic questions related to SPA brands and their perception'. Then, in order to substantiate results of FGI, Survey, the second step, was conducted. We made online survey with 118 people selected in Convenience Sample. Based on the survey results, we made Multi-Attribute Model to draw Positioning Map as the third of our steps.

### A. FGI

FGI provided some clues to figure out the cause of ZARA’s relatively poor performance. We interviewed people mainly with three subjects-Preference of SPA, Elements to consider, perception of ZARA. Each member interviewed 2 people with 10 to 30 minutes and made memo. From 12 interviewees, 5 were males and 7 were females. Below are comments from focus group interview. Preference of SPA was different from person. 6 people (3 males, 3 females) liked SPA. Their main reasons for buying SPA were trendy fashion and reasonable price. One of our interviewees said, “ I usually buy clothes from SPA brands. They’re affordable.” But others (2 males, 4 females) did not like SPA mainly because of design. One of them said, “ I don’t like to buy SPA. They have the same items.” Another interview said, “ It is hard to find
just right items for my own.”

Elements to consider were design, price and performance to price. Most of people agreed with those elements and there were some minor elements such as ease of washing.

Perception of ZARA was different from person. 4 people (2 males, 2 females) liked ZARA mainly because of design. There were comments such as, “ I think ZARA has really trendy clothes.” 8 people (3 males, 5 females) did not like ZARA. Reasons were diverse but main reasons were relatively high price and low quality. They said, “ It’s TOO EXPENSIVE for a SPA brand!!”, “ ZARA has TERRIBLE quality.”

We analyzed the interview and discussed about that. According to our FGI, people consider design, price. And combination of design and price is important to customers. However ZARA did not meet price and quality aspect. Through focus group interview and discussion we assumed that ZARA has a positioning problem.

### B. Survey

Survey was conducted to statistically prove Zara’s problem predicted through FGI. We made MAM based Questionnaires. We asked consumer’s perception of each SPA brand and frequency of purchasing SPA. And other questions were about importance of each decision criteria (rating 1 to 7). After those we asked each brand’s performance of each decision criteria (rating 1 to 7). For last average budget for buying clothes, sex and age were asked.

We made online survey from 2013-05-23 to 2013-05-28. Objects of our survey were selected in convenience sample. 118 people participated and gender ratio was exactly half and a half (59 males, 59 females). Most of them were 20’s (113) and there were 10’s (1) and 30’s (4). Because SPA’s target generation is 20’s, we thought age bias is not problem.

Through survey we found meaningful results. At first, important criteria
were defined as Design and Price. We asked to choose the most important criteria. Result shows design is the most important criteria: Design 67 (56. 8%), Price 33 (28. 0%), Quality 11 (9. 3%), Functionality 6 (5. 1%) and Brand name 1 (0. 8%).

1 We also asked level of importance about each criteria (ranking 1 to 7). We compared average of each criteria and figured out that design was most important (6. 07) and price was second (5. 69).

2 Secondly, we figured out perceived value of ZARA was low. We asked performance of ZARA, UNIQLO and H&M about price, design, quality and functionality.

People perceived ZARA (5. 31) has higher Price than UNIQLO (4. 06) and H&M (4. 23). And ZARA’s level of design(4. 61) was perceived similar to H&M (4. 50). At Quality and Functionality people perceived that ZARA (4. 12/ 3. 57) is lower than UNIQLO (4. 53/ 4. 61).

3 In customers’ perspective, ZARA made not impressive performance in Design. And disappointing performance in Quality and Functionality. However Price was a lot expensive. Furthermore we found that importance of criteria is very similar between male and female.

4 And perceived performance of ZARA, UNIQLO and H&M about price, design, quality and functionality were also very similar.

5 C. MAM model & Positioning Map

Based on the survey results, we made Multi-Attribute Model. At price criteria people were asked to answer “ SPA brand’s perceived expensiveness”. We reversed the ranking point and figured out “ SPA brand’s perceived cheap” to calculate MAM. In terms of total score ZARA (79. 21) is lower than UNQLO (86. 92), and H&M (83. 50)

6 We made SPA Positioning Map according to our MAM and sales of each brand (size of round). We choose Design and Price as main dimensions because those are the major criteria of consumers. “ Design” was determined by average perception score about design for brands. “ Price” was determined by average perception score about price for each brand.

ZARA’s problem is that its perceived design in Korea is lower than it is intended. With this level of design ZARA cannot justify its high price. Difference in design perception is not that much between ZARA (28. 00) and H&M (27. 34). There is huge Price gap between ZARA (15. 04) and its Competitors (UNIQLO: 22. 13, H&M: 21. 17). And UNIQLO is competing in Quality and Functionality dimensions. ZARA needs to develop a strategy to overcome this situation.

#### 2. Suggestions

There are three possible solutions that Zara could take: lowering the price; increasing design perception; and increasing quality perception. First, lowering the price would not require much effort and contribute to increasing the market share, but it would lower Zara’s profitability and make the corporate strategy less focused. Second, increasing design perception would align with the corporate strategy and also does not require any change in the business process. It only requires some creative marketing efforts. Third, increasing quality perception would place Zara in the niche segment with differentiated features, but it would necessitate severe changes in supply chain and entail high risk. Considering the pros and cons of each possibility and whether it matches with Zara’s competency and ensures sustainable profitability, the second solution would be the best move for Zara.

#1. Lowering the Price
#2. Enhancing Design Perception
#3. Enhancing Quality Perception
Pros
It does not need further efforts
ZARA can expect increased market share
Aligned to original Corp. Strategy
It does not require change for business process
It is aimed at niche segment
It can achieve differentiated features
Cons
It would dampen profitability
It does not match Corp. Strategy
It needs creative marketing efforts

It requires severe changes in supply chain
Existing competitor in new segment
High Risk

#### 3. Implementation

A. Collaboration with designers

To change consumers’ perception of design, one suggestion for Zara is to collaborate with famous fashion designers. And add stronger emphasis on how competitive Zara is in terms of design

The reason behind this suggestion is that first, as can be observed from the survey result, people consider design the most important when purchasing clothes from SPA brands. 67 people of total of 118 respondents answered that design is the most important factor when making a purchase. The second reason is that perceived fashion of consumers and intended fashion by Zara do not coincide. People do not perceive Zara as much fashionable despite Zara’s continuous effort in developing design as their key success factor. Zara, in fact, is focusing on growing their competence in design by designing their business model in a way that could reflect customers’ tastes and provide customers with as many designs as possible. Zara’s attempt to position themselves as a fashionable brand has made their lead-time incredibly short compared to their competing fast-fashion brands.

For instance, Zara has a lead-time of 6 weeks for new garments and 2 weeks to restock, whereas H&M has a lead-time of 6 months. It is clear that Zara is definitely placing their competitiveness in design. However, according to our survey result on how fashionable clothes from each of SPA brands are, respondents evaluated the designs of Zara (4. 61) and H&M (4. 50) almost equally. Fortunately though, Zara ranked the first in the design evaluation criteria, and thus, Zara simply needs strategies that could highlight their
superiority in design and appeal it to consumers.

For these aforementioned reasons, we suggest that Zara collaborate with famous fashion designers to improve consumers’ perception of Zara’s design. By collaborating with designers, Zara could attract consumers’ attention on their design and ultimately promote a more positive evaluation of their products’ design.

B. Provision of coordination service

One other suggestion for Zara is to provide coordination service through the Internet and mobile application to make the product appear more attractive and enhance consumers’ perception of design.

From the focus group interview results, we found that the items offered at Zara are too fashionable for consumers, while people that visit SPA fashion brands mostly expect basic items that are easy to match with other items that they have. Number of interviewees expressed difficulty matching clothes from Zara because of their much fashionable design.

To deal with this issue, we suggest ZARA introduce coordination service that gives a guideline on how items could be matched by presenting an example of fully dressed figure in Zara’s clothes. Provision of such service would enable Zara to narrow the distance that consumers’ feel from the brand due to design, and it is also expected that the service would contribute to making the products seem more attractive, as set of items shown together are deemed more attractive than one single item.

#### C. Verification

#### C. i. FGI

To test whether the two suggestions are valid in reality, we have conducted another focus group interview, asking more detailed questions about the suggestions. For the first suggestion, which is to collaborate with famous
fashion designers, participants were asked to express their opinions on the idea and decide whether they would actually make a purchase or not. They answered that as far as the items are reasonably priced, they would certainly buy them. They also commented that the strategy matches well with Zara’s current brand image, which is ‘ fashionable.’ About the second suggestion, which is to provide coordination service of products, people answered that they would prefer Zara the most if such service were available. Overall, consumers evaluated both of suggestions positively. Read also about Zara corporate socialresponsibilityissues

#### C. ii. Experiment

To further study the effectiveness of the second suggestion and prove that it could improve perception of design, one experiment was performed. 7 Hypothesis was people would perceive design better and purchase more when they offered coordination. Objects were divided into two groups, group A and group B, each consisting of 18 people. Group A was shown a picture of one single item from Zara and was asked to rate the design and how much they intend to purchase by the scale of 1 to 7. Group B, on the other hand, was shown a picture of coordinated set of items including the item shown to group A. This group was also asked to evaluate the design and their intention to purchase the item by the scale of 1 to 7. The higher the number, the more people dislike the design and unwilling to make a purchase.

The result showed that the coordination service suggested is strategically viable in improving consumers’ perception of design. Group A rated the design and their intention to purchase 2. 61 and 1. 94 respectively, whereas group B rated each 4. 17 and 2. 59 respectively, showing higher number than that obtained from group A. 8 From the result, it is evident that the coordination service would enhance consumers’ perception of Zara’s design.

#### 4. Conclusion

By implementing the two suggestions above, it is expected that Zara would achieve improved MAM (Multi-Attribute Model) score, clearly position themselves as fashionable and design-oriented brand, and justify their
relatively high price by adding more value to their design. Zara then could overcome the problems that they are facing in Korean SPA market.

Yet, there are several more challenges that they still need to confront. Korean SPA market is becoming more and more intense due to growing competition and the advent of domestic brands such as MIXXO, SPAO and 8 Seconds are making it even more severe. Zara, therefore, should continuously contemplate on ways how they could survive in the highly competitiveenvironmentwithout failing.