

Zara case

Business



Company Case: Zara: The Technology Giant of the Fashion World

Identification of the Problem/s or Issue/s Zara, a Spanish-based chain owned by Inditex, is a retailer who has taken a new approach in the industry.

By owning its in-house production, Zara is able to be flexible in the variety, amount, and frequency of the new styles they produce. With their unique strategy, Zara has the competitive advantage to be sustainable.

In order to maintain that advantage and growth they must confront certain challenges that face traditional retailers in the apparel industry such as Hennes and Mauritz (H&M) and The Gap, who differ from Zara because they outsource all of their production, spend more money on advertising, and is price-oriented. Although Zara has a successful business model that differs from that of traditional retailers, it also has problems that can affect its sustainable growth. Due to its centralized logistics model, Zara's weaknesses also differ from the traditional retailer.

Zara holds big percentages of Inditex's total international sales, which are a significantly high number for an organization. With that, Inditex is putting all of their eggs into one basket by sinking a great deal of capital into Zara.

Inditex has contributed their extensive international sales to Zara. If Zara fails in the future, Inditex will have to totally re-formulate their firm's strategies and may possibly face an internal meltdown. Situation Analysis

Zara is a highly internationalized company with a deep level of vertical integration.

The operations are becoming more and more complex with multiple sources of production and assembly that goes to one centralized distribution system.

<https://assignbuster.com/zara-case/>

But Zara has not invested in distribution facilities in the Americas, which is a threat to their U. S. selling abilities. They may not be able to supply more retail locations due to their centralized logistics model. At this stage, Zara is not equipped to increase complexity by expanding into new competitive markets in North America.

Zara's cuts in advertising investments reduce total expenses, which make the international expansion more economical.

However, Zara relies mainly on its stores to project their image. Vertical integration, a distinctive feature of Zara's business model, has allowed the company to successfully develop a strong merchandising strategy. This strategy has led Zara to create a climate of scarcity and opportunity as well as a fast-fashion system. Zara manufactures more than half of its own products. Meanwhile, traditional retailers lack this flexibility.

Traditional retailers are obligated to place production orders to manufacturers overseas at least six months in advance of the season.

However, Zara's strategy also creates some weaknesses. Their vertical integration often leads to the inability to acquire economies of scale, which means they cannot gain the advantages of producing large quantities of goods for a discounted rate. Zara's speedy and recurrent introduction of new products incurs increased costs as well. They have higher research and development costs.

They also have elevated costs due to the constant changeover of production techniques to create their different apparel lines.

It also means that employees must be trained in order to use the new manufacturing techniques, which again leads to increased costs. Zara's centralized distribution facility gives the chain a competitive advantage by minimizing the lead-time of their goods. Zara's internally or externally produced merchandise goes to the distribution center. Like traditional retailers, Zara has a threat of failure that can harm its sustainable growth.

Traditional retailers who outsource goods can benefit from greater access to less expensive manufacturing.

Zara will face the threat of its competition offering more inexpensive products. Zara's target market is very broad because they do not define their target by segmenting ages and lifestyles as traditional retailers do. Therefore, Zara's direct competition may be their largest threat, especially when expanding into new geographic territory. Almost any retailer can be a threat to Zara due to their wide range of merchandise categories. Zara offers clothing and accessories for men, women, maternity, children, and baby.

Many other retailers also offer goods to one or all of those merchandise groupings.

The Gap is one of these competitors because they are also international and sell the same range of merchandise with a less trendy style. H; M is probably Zara's most similar and threatening competitor. The threat to Zara is that H&M carries products that they have designed based on the melding of international apparel tastes. However, H&M offers trendy clothing styles at a cheaper rate than Zara.

A final threat to Zara is the issue of cannibalization. The vast expansion plan of Zara on one hand and its standardized production line and strategy on the other hand could lead to the failure of Zara. This is basically due to the differences in the economic, cultural, social and political conditions in each of the regions or countries it is expanding into. Most of the products that Zara offers globally are relative standardized fashionable products. Zara's extensive location strategy involves putting multiple Zara stores that carry the same merchandise in the same cities. Recommendations/Conclusion The best way for Zara to maintain their sustainable growth is to seek new opportunities in the apparel market.

Zara has the opportunity to be one of the trendiest or low priced retailers that America has seen recently. Zara should most likely develop a second central distribution center in the Americas to decrease logistics in order to deliver fashionable goods in a faster manner. Their second central distribution facility should be an expansion of one of their smaller distribution centers located in Argentina, Brazil or Mexico. The close proximity of the distribution center to the American market will allow them to effectively interpret the particular American fashion.

The distribution center will also allow them to have additional funds to spend in other areas of business such as advertisements: a necessary feature to penetrate the American market. Another market opportunity for Zara is to invest in Internet retailing especially directed toward the U.

S. market. Though Zara is wary of overexposure, Americans like to be able to purchase all goods including apparel from the comfort of their own homes at any time they chose. Therefore, since Zara is looking to expand in the U. S. market they could realize the potential for a direct Internet selling strategy.

That form of direct marketing will reach more consumers faster and easier. Zara has expanded too fast while maintaining a highly centralized vertically integrated supply chain. Operations and distributions are becoming complex and are fast approaching a state of diseconomy of scale. Decentralized production and setting-up facilities beside major clusters of countries (Western Europe, Eastern Europe, Asia, etc.

..) would decrease the complexity of the system while catering for the fashion needs of each cluster and avoid the major bottleneck. Zara sources fabric, other inputs, and finished products from external suppliers.

This gives Zara a competitive advantage towards the costs of goods sold, as it can purchase from both Europe and Asia according to prices. Buying more from China in the future might reduce even more the costs of goods sold.

A final recommendation for Zara is to offer specialized products for different geographic locations within the same city. Zara already does this to an extent for different international preferences but more specialization will increase consumer demand and will motivate them to visit more Zara locations within their own region.

Zara could differentiate its product from location to location to increase shopper traffic. In that way, Zara might decrease cannibalization for the <https://assignbuster.com/zara-case/>

chain. In conclusion, Zara has the potential for sustainable growth due to its competitive advantage and its ability to face the challenges of the apparel industry. The company keeps its operating income elevated, has a strong and unique business model, and has various opportunities for expansion in the retail industry.

To many Europeans, Zara is a familiar face with consistently trendy, well-priced new apparel every week. To Americans, it is a company that is just getting its new feet in the American market. Though, the Inditex branch is researching and developing new methods for expansion, the company must continue to re-invent and innovate themselves in order to stay fresh in the apparel industry. Today, many companies are looking to Zara as the new industry standard for how to run a retail business, which shows that Zara's business model is becoming the wave of the future.