

Zara and handm

[Business](#), [Company](#)



We have been given an assignment, where we have been divided into groups. In our group we have analyzed two companies, namely Zara and H&M. These two companies are both very big companies within clothing. The fashion business is very tough, and we will explain to you what we believe the two companies does well in this hard business, and why this is good. We have been giving time to solve the assignment in some of our classes with Gitte and Peter, the rest we have made at home. After we have analyzed the two companies we will compare their 4 P's and their value chain, likewise we also will make a five forces analysis.

Z A R A * Company profile - Zara Zara is a very big clothing chain from Spain. The chain was founded in 1975 by Mr. Ortega, and it now has more than 1. 000 stores in approximately 63 countries - so it is a very big chain. However Zara has its biggest market in Spain, where they have 364 stores in total. They sell fashion clothes of a fairly good quality to reasonable prices - this also means that they have a broad target group, which we believe to be from kids to adults younger than 50, both men and women. Over the years Zara has expanded their product line heavily, so now they also sell accessories, cosmetics, furniture and perfumes.

They have made a whole new store called Zara Home where they are selling furniture's; we will however focus on their clothing. The founder of Zara is naturally very wealthy, in fact he is the richest man in Spain, and the second richest within the business of fashion. Also Zara's stores are very big, most of them are between 800 and 1. 000 square meters - which makes room for a lot of fashion clothing. Inditex, the mother company of Zara has many stores under them, but it is worth mentioning that Zara stands for 77 % of

Inditex' overall sales, which is very impressive, and their plan for the future is to continue expanding and growing bigger and bigger. Zara clothing is sold worldwide, and not long ago the first store opened on Stroget in Copenhagen. * Generic strategies Generic strategies is a marketing tool invented by Michael Porter.

It is very popular and many companies use it. The generic strategy tells about the product(s) and its target group(s). Beneath you will see the generic strategies model. Low cost| Unique product / high cost| Broad target group| Overall costleadership| Differentiation| Narrow target group| Niche - Cost focus| Niche - Differentiation focus| As seen above we believe that Zara uses the overall cost leadership strategy. Zara's target group is very broad but their prices are also fairly low, this is why they use the overall cost leadership strategy. To a certain extent you could also say that Zara uses the differentiation strategy. This is because they have very beautiful products which are a bit more expensive than their closest competitors.

But also because they have so many different products - they have everything from clothes to furniture's. But mainly we are certain that they use the overall cost leadership strategy. * Growth strategies Ansoff's growth strategy is a well known tool within marketing. The strategy is used by marketers who have objectives for growth, and Ansoff's matrix offers different strategic choices to achieve the goals. The model is shown below this text: | Old product| New product| Old target group| Market penetration| Product development| New target group| Market development| Diversification| We believe that Zara uses two growth strategies, and we will

know explain why. The two strategies that Zara in our opinion uses is, market penetration and product development. If we have focus on their clothing line we believe that they have penetrated the market very much, naturally because they use the same products, clothing, and also because they aim for their existing target group.

If your growth strategy is market penetration it would be obvious choice to promote your products, but that is not what Zara is doing. They are relying on good store locations and loyal customers who will talk in nice words about Zara to their friends and family. As mentioned we also believe that Zara uses another strategy, namely product development. We base this on the fact that they have expanded their product line. Now they don't just sell clothing, now customers also have the opportunity to buy accessories, cosmetics and furniture in Zara stores. Even though Zara is introducing new products, they still rely on their existing target group. Inditex has expanded very heavily, and to put this in perspective we have some facts that show this.

In 1995 they had 500 stores worldwide, and in 2004, nine years later they had 2.250 stores. * PEST analysis The PEST analysis is a marketing tool in the macroenvironment who tells about the political, environmental, socio-cultural and technological forces that may have an influence on your company. These are uncontrollable forces which we do not have any influence on. Also, it is vital that a company considers its situation before beginning the marketing process. Political factors: Zara has stores in a lot of countries; therefore it is hard to get a good view over the political factors. But if we focus on some countries we know it is easier.

In Denmark we don't see any political obstacles for Zara - we have a stable political environment, and the only thing we see as a "threat" for Zara is new tax-laws, that could influence our buying possibilities, but on the other hand it could also go the other way around. One important global thing that could affect Zara could be new laws regarding the cheap "work power" in the east. New laws regarding this area could end up raising their costs.

Economic factors: We are right now in the middle of a global financial crisis, and many fear that we will have a recession. This will of course influence Zara. If the recession comes, customers of Zara will have less money to spend on their products than they used to. This can be very crucial for Zara, because we might fear that their customers will tend to buy products from their greatest competitor, namely H& M.

Hennes & Mauritz products are a bit cheaper than Zara's, and therefore we fear for Zara that they would lose customers during a recession. Socio-cultural factors: Some people are against the fact that big companies use cheap production in foreign countries, but in this situation Zara has an advantage over its competitors. They produce 80 % of their clothes in Europe which is a lot more than their closest competitors. This subject we will also talk about in the SWOT analysis. Teenagers are also spending a lot of money on clothes, and they often do this without influence from their parents. This creates "a golden group" for Zara who are willing to buy a lot of fashion clothes, so they can look nice. Technological factors: When we are in the clothing business technological factors does not have a very big influence compared to other businesses.

But there are things that are relevant for Zara. Because of all the technology we have today, Zara also has new opportunities to get in touch with their customers. The internet is in this case a brilliant example. Zara can promote on the internet, and they also have a homepage where you can learn more about them, and check their products. * The value chain A value chain is a chain of different activities which aims at creating value for the end user, and leaving the company with a positive margin. The activities culminate in the total value delivered by an organization. The value chain is divided into primary and support activities.

Upstream Downstream Research & Development | Inbound logistics | Production (outsourcing) | Outbound logistics | Sales and marketing | Service (After market) | It's very important for Zara to create as much value in the value chain as possible, because there is a tough competition within the market for relatively cheap, but still good quality clothes. Zara creates value in production. - Their production takes place in some of the countries with a low salary, which minimizes the production cost. But they also produce their products in Spain and Portugal, which we believe many customers will like. In outbound logistics we also believe that Zara creates a lot of value. This is the place where the products are sent to the stores - and at this point Zara creates very good and vital value. We know that Zara are very fast at getting their products sent out to the stores, likewise they also can call them back very easily compared to their competitors, and this of course creates value for Zara.

In the sales and marketing Zara does not gain much value. They don't advertise for their products, and we believe that this would be a good idea, especially in the countries where Zara still needs to get its big "break through", instead Zara depends on good store location. We believe that they should give advertising a chance. * SWOT analysis A SWOT analysis is another strategic method within marketing. It is used to evaluate a company's, strengths, weaknesses, opportunities and threats. Strength and weaknesses are internal factors, while opportunities and threats are external factors. We will start out with the strengths.

One of their great strengths is their fast production. When their clothes are designed for the first time, it can be bought in their stores around the world only 2-5 weeks later. This means that they have a very fast production and if something goes wrong or doesn't sell they can easily call the product back. At the same time they will also have new clothes with a great variety in the stores every second week. The fast production also gives a good control of your stock, which means that they "only" have 15-20 % unsold inventory each year and a good profit margin. In H& M, Zara's worst competitor, it takes 6-8 months before their designs are in the shops - therefore it is a great strength. Location of Zara stores is also one of their strengths.

They are placed where a lot of people walk by, and therefore a lot of people see the store, and they will go in, and eventually end up buying something. Because of their production, they also have a good reputation among their customers. Most of Zara's production takes place in Spain and Portugal. This is a good thing because many people don't like the thought of underpaid

workers. When you buy products from Zara you have a lot of different things to choose of, which is also a strength - and the products you buy are of a high quality and a reasonable price. A weakness for Zara we definitely mean to be their homepage. It is very confusing, and it is not easy to browse around.

When we looked at it, we were actually very disappointed, and we even got a little bit "frustrated" - because it is so confusing. We also think that despite their good quality and prices they are a bit unknown among the young generation in Scandinavia. Before this assignment we didn't know too much about Zara. We believe that H& M is more known than Zara in Scandinavia, and this is due to Zara's lack of advertising. Right now we have a global financial crisis, which influences the customers buying possibilities. This also affects Zara's customers, and they will think more carefully over the things they choose to buy. If the financial situation became more positive and we were facing a boom, Zara's customers would have more money to spend on their products - therefore a boom is a possibility for Zara.

Of course Zara has their competitors as a threat, especially H& M and Gap. The business which they operate in is very competitive - therefore it is vital to "be on the marks" at all times. Zara also has some production in Asia. Therefore new political laws about salaries and "working hours" is a threat for Zara, which could end up making their production more expensive. *

Price / quality grid The price/quality grid is a tool you can use to analyze a product and the company's strategy with the given product. First it is worth mentioning that a product is anything that can be offered to a market for

purchase or use, which might satisfy a want or need. A product consists of three levels, namely the core benefit, the tangible product and the augmented product.

Beneath we have shown the model and we will explain which strategy we believe Zara uses. High price| Low price| High quality| Premium strategy| Good value strategy| Low quality| Overcharging strategy| Economy strategy| In our opinion Zara uses the good value strategy. This is of course because they have a high quality, but also a fairly low price. When buying clothes from Zara the customer at least get the same quality as if buying from Armani, but buying clothes from Zara also gives you a low price. This tells us that the customer gets more than he pays for, when talking about the actual product. Others would say that the brand and status other products give them is more important. But when using a good value strategy, the company will get a lot of satisfied customers.

It is worth mentioning that Hennes & Mauritz in our opinion uses the same strategy, namely the good value strategy. Hennes & Mauritz * Company profile Hennes and Mauritz is a very big company, it was founded in Sweden, 1947. They started selling clothes to women and at that time their stores was called Hennes. -Later, in 1968, they founded a store that started selling clothes to men, and this store was called Mauritz, and Mauritz also started selling accessories. Later they changed the name to Hennes & Mauritz (H& M), which is the store we know today, who sells their products to both men and women. Since H& M was founded they have expanded heavily, and

today you can find them in 24 different countries, with more than 1.345 retailers worldwide.

Hennes & Mauritz has their biggest market in Scandinavia; likewise their target group is very broad. -They sell clothes to small children but also to adults, both men and woman. * Generic strategies Porter's generic strategies were made in the 1980's, and since then it has been a very popular marketing tool. Today it is still very used among companies worldwide. | Low cost| Unique product| Broad target group| Overall cost leadership| Differentiation| Narrow target group| Niche - Cost focus| Niche - Differentiation focus| The generic strategy is used to find the company's competitive advantage, so they will know what to focus on while they are maintaining their core competitive advantages. -H& M has a very broad target group, and their products are also at a relatively low price. Therefore they use the strategy which is called overall cost leadership.

They can sell their products at a low price because they produce them in countries such as China and other Asian countries. H& M has used this strategy with great success. * Growth strategies Ansoff's growth strategies were first published in 1957. Today it is still used by many marketers who have objectives for growth. This model offers different choices of how to achieve your goals. | Old product| New product| Old target group| Market penetration| Product development| New target group| Market development| Diversification| H& M operates uses the market penetration strategy, obviously. They have their existing products, mainly their clothes, which they sell to their existing target groups.

They have a good brand within clothing which they are trying to make stronger and stronger. You could say that they over the years also have used market development. Because in the beginning they only sold clothes to women, but now they also sell clothes to men. This is why their strategy for many years has been market penetration. * PEST analysis Before a company begins its marketing process it would be wise to consider its environment. This can be done with a PEST analysis. Political forces: In Denmark we don't believe that the political forces play any role, but in their production countries it can affect them.

New laws about salary and working hours can make production more expensive, which won't be good for H& M. Economic forces: Not long ago we had a boom period in Denmark, therefore people had "more" money to spend on clothing for example. But now we are slightly heading towards a recession. But actually we don't mean this has any negative influence on Hennes & Mauritz. People will still have the money to buy their products because they are cheap compared to others. So maybe they will even experience to get more customers, if the population does not feel that they so much money to spend on clothes. Socio-cultural forces: The trends are very important for H& M.

We believe that many girls like having clothing from H& M. This we believe to be their biggest target group also. They have lots of different products which can be bought at a good price, and they feel comfortable wearing clothes from H& M. Therefore it is important that H& M keeps them self updated on new trends. A more negative factor could be the fact that some people are

against cheap production in foreign countries. This will hurt their image among some people, because they have so much production in the east.

Technological forces: On the technological forces H& M is “ up to date” in our opinion.

They have cheap production, partly because of good technology. Also they have a very good homepage where you can see their collection, and also shop online. Furthermore you have the opportunity to read about the company and get the newsletter via their homepage. * The value chain
UpstreamDownstream Research & Development| Inbound logistics|
Production (outsourcing)| Outbound logistics| Sales and marketing| Service
(After market)| Above we have shown the value chain. Earlier we have mentioned the purpose therefore we will now start with the analysis. When we look at their production we know that many of their products are produced in China. This makes production cheap and therefore also the products that are sold to the end users.

This creates value for H& M. Also they have 700 independent suppliers, primarily in Asia and Europe. Hennes & Mauritz only produce 30 percent of their own clothes, the other clothing they get from firms such as L. O. G. G. , which they have a permanent contract with.

This way they don't spend too much money at their own production, while having lots of independent suppliers. And due to all the suppliers they will naturally get a good price, because they order a huge amount each time, but also because the suppliers would like to have their products in H& M stores. H& M has a “ top of mind status” when we think of cheap and fashionable

clothing. And this is very valuable. Not many company's has achieved to make the same brand and position as H& M, therefore they gain great value in sales and marketing. Many big designers has designed clothes for H& M such as Stella McCarthy and now also Madonna wants to design clothes for them. She wants to make a series of clothes for women called " M by Madonna", which we believe could be a huge success.

If Madonna designs clothe for H& M it will be good promotion and great value. * SWOT analysis Strengths| Weaknesses| Good reputation Loyal customers Good quality Reasonable prices| Slow production Some think of H& M as discount label Recall of products| Opportunities| Threats| Economy (recession, to a certain extent) Growth in the Asian retail sector| Rising salaries for the workers New political laws regarding production Competitors - intense competition| The purpose of a SWOT analysis we have already mentioned. We believe that their strongest strength is their quality and brand compared to their prices. In H& M you get something in return of your money. But as we see it they also have one very big weakness, especially compared to their strongest competitor, Zara. H& M has a very slow production compared to Zara and it takes up to 8 months before the new designs are available in the stores. If something goes wrong it won't be easy for them to call the products back, so at this point they have to improve.

Regarding the economy we believe that they are well prepared for both a boom and a recession. If we experience a boom people will buy even more clothes than they usually do, and if we experience a recession they will maybe get some new customers. The biggest threat we believe to be new

laws regarding their production, this would give them extra costs.

Comparison * The 4 P's The marketing mix, also known as the 4 P's, is probably the most famous marketing term. The marketing mix is very simple, and it tells us something about the product, place, price and promotion. We can also say that the marketing mix is the company's offer to its potential customers. We will start out with the most important P - the product.

Product: As we know both Zara and H& M primarily sells clothing. Their products are very similar; they both sell fashionable clothes, so at this point we don't see any big differences. But Zara has expanded their product line. They have made new stores where it is possible for their customers to buy furnitures, so at this point we see a difference. Also Zara offers cosmetics to their customers. Price: At the price there is a little difference, but again these two companies are very similar. H& M is a little bit cheaper then Zara and this is a result of their cheap production.

Zara is also fairly cheap, but H& M, their closest competitor is a bit cheaper.

Place: We believe that we roughly can divide their markets into two in Europe. Zara has their biggest market in the Southern Europe, while we believe that H& M has their biggest market in Northern Europe and Scandinavia. This is also naturally because of the firms " birthplaces". Furthermore they both operate worldwide in hard competition with each other. They sell their products worldwide, and they both have good locations - especially Zara. Promotion: Zara is against promotion, so they do not

advertise for themselves, instead they rely on good store locations and a good reputation among their customers.

The case is different for H& M, they advertise for their products, so that they can create attention upon their products. The 4 P's have been a very good way at comparing these two companies. Overall we can conclude that they look alike each other a lot, and they are in a very hard competition against each other. They both have strong sides which they will use, both they also have weak sides which they can improve. But one thing is certain - the competition is very tough. * Porter's 5 forces Five Forces Analysis helps the marketer to contrast a competitive environment. It has similarities with other tools for environmental audit, such as PEST analysis, but tends to focus on the single, stand alone, business or SBU (Strategic Business Unit) rather than a single product or range of products.

Five forces analysis looks at five key areas namely the threat of entry, the power of buyers, the power of suppliers, the threat of substitutes, and competitive rivalry. Analysis for Zara and H& M There will always be a threat of new comers on the market. In many cases these companies will not become a big threat, because there on the clothing market is such big competition, that they will be ousted within a relatively short period of time. The Power of buyers is if big buyers like Magasin choose how much they want from a certain company like e. . Bruuns Bazar. Then Magasin sets the standard, they can do this because of their good reputation, and because many costumers do their shopping in this mall every day.

Therefore they got a big buying power. The threat of Substitute Products will always be there, for example the walkman was substituted by the MP3 player, and the horse-wagon was substituted by the car. There will always be a development, and companies must be sure to be updated at all times.

Therefore it's extremely important to use a big sum of money in the Research and Development Department because that's the companies "future". The suppliers also have a certain power. -They are the ones providing the company with the raw-materials, so that they can produce the products. * The value chain In the value chain we believe that Zara and H& M gains value at different places.

Zara creates value in their production because some of it takes place in "good production countries", while some of it also takes place in Spain and Portugal which also creates value. But at this point they are similar, because also H& M creates value in the production chain. Most of their production takes place in foreign countries, and this makes their products cheap which will give them more customers. The place where there is a big difference is in the inbound logistics where Zara creates a lot of value, and H& M does not. As we have mentioned earlier Zara can send their new designs quickly to their stores, and also call them back again. H& M can also do this, naturally, but for them it takes much longer time. But then Hennes & Mauritz are good at creating value in Sales & Marketing, where Zara is not so good in our opinion.

H& M has huge stars like Madonna who wants to design clothes for them, this is very good promotion and it also creates a lot of attention. Zara, on the

other hand doesn't even promote their products - they are depending on good store locations as mentioned.[1]. http://www.marketingteacher.com/Lessons/lesson_fivefoces.htm