# Threat of new entrants business essay

The porters analysis through its five forces model is an illustrious tool to get an insight of both the fashion apparel industry as a whole and more importantly Zara's role with various major factors affecting the company itself. We will now take a look at this analytical tool as given below:

Threat of New Entrants: The major features involved while determining this aspect of the model are the cost of entry, restrictions through laws of any government and sustainability to name a few. While the cost of entry may not be huge with regard to capital and product cost, the cost ends up being high due to economies of scale. As existing brands competing within the same market that have already acquired a reasonable amount of brand resonance, it is difficult for the new entrant to gallop immediately on the market share (Flandez, 2009). Due to suppressed demand, economies of scale cannot be achieved and the entrant usually faces losses in the beginning. Hence, while capital and technology might be easily available, market experience, product differentiation and brand establishment do act as barriers to entry against new entrants. Even though H&M's and Zara's brand values of $12 billion and $9 billion respectively may seem extremely high, we also have to take into account the experience and expertise that have given them those valuations today (Interbrand, 2012).

In addition, another major threat that Zara faces is a growth of a new entrant through copying the same business model as that of Zara. However, Zara's style of operations is so unique that " the Inditex (Zara's parent company) way is an all-or-nothing proposition that has to be fully embraced to yield results" (Capell, 2008). Despite this reason, new apparel chains are trying to develop this model such as the US based Chico's which even taps on a trademark Zara strength of Fast Fashion with the slogan , “ You will always find something new every day at Chico’s” (Tiplady, 2006).

Threat of Existing Competitors: An interesting situation about this industry is that even if the competition is extremely high there are not many fast fashion brands like Zara. While H&M, Mango, Forever 21 would be considered as main competitors for Zara, it operates on a whole new business model of fast fashion which provides Zara with a major competitive edge (Hall, 2008). It is able to move designs from sketch pad to their stores throughout their world in 2 weeks or less even. Vertical integration including majority of production, in house designers, centralized inventories are some of the main reasons why Zara is comfortably ahead of its competition. Analyzing from another point of view, despite Zara offering over 33, 000 item varieties in a year compared to industry average of 3000 items, it is twelve times faster than Gap and at least six months ahead of H&M which is its closest competitor (Economist, 2005). Hence, differentiation and key value drivers helps Zara put itself ahead in the industry.

Zara also produces its items in small batches creating a level of exclusivity not seen amongst competitors. In this way while other retail chains often slash prices by 50 percent to move mass quantities out of stock, Zara does the same but only by 15 percent (Surowiecki, 2000). In addition, Zara is a fashion follower where its designs are based on current trends and fashion shows. The benefit of this is summarized by Jose Luis Neuno, professor at IESE Business School, Barcelona where he states “ If you produce what the street is already wearing, you minimize fashion risk” (Capell, 2008).

Bargaining Power of Suppliers: Intriguingly, the power of suppliers is low from one view point and high from the other. This is because Zara's 60 percent production is done in-house which negates the dependency on suppliers and manufacturers to whom production is to be out-sourced. This when compared to the 900 factories H&M outsources its production too, Zara is in a comfortable position vis-à-vis its competition in relation to suppliers (Folpe, 2000).

However, due to the fast fashion business model of Zara, it has to geographically align the outsourcing of production and other suppliers very close to its warehouse and headquarters in Spain such as Morocco and Turkey. This is important especially to reduce the transit time and cost whereby Zara is able to re-stock the shelves with latest designs in enviable time but these countries don't necessarily provide the cheapest labor or efficiencies but limited by geography. Thus, while companies usually play a major role in changing the geography of jobs, in the case of Zara, " the geographies of competencies and jobs has changed Zara" (Tokatli, 2008). Nevertheless, with Zara's emphasis and leveraging growth on fast fashion, they select speed over the cost and put a margin buffer (Dunn, 2006).

Bargaining Power of Buyers: This factor usually has an inverse relationship with the retail sector as a whole as the switching cost is very low unlike in the case of suppliers. It is worthwhile to note here that " customers are notoriously strange creatures and habit can be short lived as described by the ever changing trends especially in the fashion field" (Ipswich, 2005). Nonetheless, as per professor Neuno, constant change in design and inventory of Zara followed by an air of exclusivity keeps the " turnover of key items so high that consumers are in pressure to buy as there is always the feeling that you will lose opportunity if you don't buy now" (By, 2001).

The marketing research done in-house by the sales staff by studying the buyers is also valuable informing Zara about the drawbacks and improvement required in the products (Gallaugher, 2008). This allows Zara to be the best fashion follower as data is churned out more easily and designs are updated as per latest trends reducing buyer's power. This is why " the average Zara customer visits the store 17 times a year compared to just 3 visits" for its competitors (Gallaugher, 2008).

Buyer's power relative to its competitors can also be compared through its advertising expenses where higher expense would mean higher power to buyers. While many fashion retailers spend a sum close of 3. 5% of revenue, the ad spending of Zara is only 0. 3% (CNN, 2007).

Threat of Substitutes: In general, substitutes can be competitive when the switching cost is low and there is less differentiation between products. The fashion industry is unpredictable as the competitors come up with new range of products regularly. Zara is different from other competitors because it is known for its innovation in clothing and new trends in fashion. This helps Zara to overcome substitutes. However, the fashion industry is prone to competition and substitution is quite high. Threat of product-for-product substitution on this market is very high. It comes from other apparel retailers, designer clothes and tailor houses. Substitution by need is unlikely while department stores could also prove to be strong substitutes (Liu & Rajani, 2010).