Zara, fast fashion

Business, Industries

The global apparel market is a buyer-driven market. Along with theglobalizationandtechnologydevelopment, consumers are easier to access to fashion. As a result, the customers are changing and the companies are evolving to deliver customers satisfaction. Zara, the most profitable brand of Spain clothing retail group Inditex, has leveraged its unique strategy to achieve success and will be expected to maintain a sustainable growth in the fashion industry. Zara’s core competencies can be divided into four areas: process development, distribution, marketing and integrated business structure (referred to Appendix 1).

Zara’s unique process development allowed Zara to produce in a shorter cycle time and more quickly response to the customer’s needs than other competitors. When the fashion season started, Zara’s designers attended trade fairs and ready-to-wear fashion shows to translate the latest trend of fashion into their design. Zara’s product development staff, at the meanwhile, researched the market through different retail stores and university campuses to understand customer’s preferences.

Zara’s IT system, on the other hand, played a key role on the internal communications. This helped Zara’s managers constantly track the sales data and therefore capture the customer’s desire. Moreover, Zara’s centralized distribution facility gave the chain efficiency. Both internal and external products passed through the distribution center, and were inspected and shipped immediately. Then, to increase the delivery speed, Zara scheduled shipments by time zone. Products were shipped by truck or air and were usually delivered to worldwide stores within 24-48 hours.

In contrast to other companies' outsourcing activities, Zara's in-house manufacturing created a rapid product turnover since its products were limited and the inventories were strictly controlled. This rapid turnover created an opportunity to Zara's retail stores and a sense of scarcity that " buy now because you won't see this item later". This increased the frequency of the customer visit and also allowed Zara to sell more products at full price. Zara's business structure was very imperative to help the company develop its business strategy successfully.

Each business function under this structure could be narrowly defined and management teams could frequently communicate across the functional departments. In addition to provide training, Zara enhanced Managers' performance on store operations by the use of standardized reporting systems. This allowed Zara to work horizontally in an opencommunicationenvironment. Moreover, Zara's country managers were almost selected from locals. They transferred the information between top management at headquarters and store managers and thus making Zara adjust to the market quickly.

This, in turn, would deliver customer's satisfaction and boost the sales. Vertical integration, Zara's distinctive business system, provided Zara with the competitive edge in the fashion industry. Zara manufactured its most fashion-sensitive products internally. About 11, 000 distinct items were produced during the year, variations in color, fabric and sizes. This allowed the company to supply a broader product line into the market and to align with its business strategy. Furthermore, this vertical integration helped the company reduce the " bullwhip effect" in the chain.

Products took place in small batches, flowed into the central distribution center and were shipped directly from the central distribution center. This helped the company not only keep low inventories but also avoid the potential amplification of the final demand. More importantly, Zara's vertical integration shortened its cycle time of entire design to four to five weeks and two weeks for modifications, compared with traditional companies' up to six months and three months, respectively.

Such integration system provided Zara with the flexibility to constantly update its design and also reduced its working capital intensity, thereby maintaining a sustainable growth in the fast fashion market. Zara positioned its brand on the fashion-conscious market and offered fresh assortments of designer-style clothes and accessories with relatively low prices. Zara had a cost advantage over other competitors due to its low advertising costs. Zara spent only 0. 3% of revenue on the media advertising, compared with other retailers.

Zara promoted its brand by offering rapid changing product lines and creating customers' positive word of mouth that resulted. In addition, to target at the ages between 18 and 34 with middle to middle-high income, Zara mainly relied on its attractive stores which located in highly visible locations to project its image. Zara's frequent refurbishing of store, creative window display and varied staff uniforms also allowed Zara to position its image in the elegant, high-end and fashion-driven market. However, Zara implemented a different positioning strategy for Zara overseas.

In contrast to Spain, where all of Zara's stores were company-owned, Zara used three different methods to enter into the international markets:

company-owned stores for high-profile countries, joint ventures for important countries where there were barriers to direct entry, and franchises for small countries. This helped Zara reduce operational risks and gained a detailed insight into local demand. Although pricing was market-based, prices in other countries were higher than in Spain, for example, 70% higher in Americas and 100% higher in Japan. The higher retail prices implied a different positioning for different countries.

For example, while Zara targeted at 80% of Spanish citizens, it aimed at the upper and middle class in Mexico, and presented a high-end image in South America. It also implied that Zara promoted its image of " made in Spain" to emphasize the local produce, whereas built its image of " made in Europe" to emphasize its high-end and prestigious positioning. Although Zara had a successful business module in the fashion industry, its strategy also had some weaknesses to prevent its future growth. First of all, Zara's vertical integration couldn't create the economics of scale, which means, Zara couldn't supply a larger quantity of products.

This, in turn, would increase its production cost. Moreover, the higher pricing in oversea markets was a barrier for Zara to gain more market share. H&M, Zara's competitor, also focused on the fast fashion market and adopted a lower price strategy to the international market. In the end, Zara could not explore well in the U. S. and Asia markets. The U. S. is the key market to North America, which required a larger size on average and exhibited considerable internal variation. Therefore, the best way for Zara to maintain its sustainable competitive advantage is to re-position in the U. S. nd Asia markets. For the U. S. market, which was less fashion-forward than Europe, Zara can focus on the design that specifically caters to the American preferences, for example, emphasizing on the natural, casual style. In addition, Zara can seek the opportunities on the large emerging markets in Asia, like China and India. China has a large population and similar fashion preferences to Europe. Through opening flagship stores, Zara can build its image at the middle to upper class in Chinese big cities to create shopper traffic. Another way to expand its business is setting up internet retailing model.

More and more youngsters prefer to shop at home at anytime. Therefore, the form of direct retailing will help Zara to gain more customers and reach them faster. In conclusion, Zara's unique business model demonstrates a strong success in the fashion market. By expanding internationally and focusing on different geographical preferences, Zara will maintain a sustainable competitive advantage in future and enjoy its increasing profit margins from oversea retail markets. Appendix 1. VRIN Valuable| Rare| * Rapid product turnover * Relatively low price| * H&M| Inimitable| Non-substitutable| Fast response * Short cycle time of entire design * Unique organizationalculture(staff, communication, etc.)| * Process development (in-housing production, IT system, distribution, etc.) * Vertical integration| 2. Value Chain * Inbound logistics * Zara's designers attended trade fairs and global ready-to-wear fashion shows to translate the latest trend of fashion into their design; * Zara's purchasing offices connected store managers to understand customer preferences; * The 100%-owned subsidiary of Inditex Comditel managed the entire dyeing process and supplied to production in only one week. Operations * Most fashionable items were produced in small lots or under contract by suppliers located close by, and recorded if they sold well; * More price-sensitive items were likely to be outsourced to Asia; * Zara’s factories were heavily automated and focused on the capital-intensive parts of the production process, finishing and inspection; * Unique IT system allowed employees to quickly transfer information and track sales record; * Long term relations with about 450 workshops. Outbound logistics * Distributed garments by a dual-shift basis and featured a mobile tracking system; * Scheduled shipments by time zone to increase efficiency; * Products were shipped by truck or air, and typically delivered within 24-48 hours to worldwide stores; * Started to build a second distribution center with a 120, 000 square meters of warehouse space that had direct access to local airport, the railway and road network. * Marketing and sales Emphasized broad, rapidly changing product lines, relatively high fashion content and reasonable quality to be a quick fashion follower; * Spent limited revenue in advertising (0. 3%); * Created rapid product turnover and offered customers with limited products to create a sense of scarcity that “ buy now because you won’t see this item later” * Expanded internationally and opened the flagship stores in worldwide main cities. * Service * Located stores in highly visible locations; * Invested more heavily in store refurbishing to provide customers with superior shopping experiences.