

# Zara fast fashion: executive summary assignment

[Business](#), [Marketing](#)



Executive summary Quick response of Zara leads it to be successful in the fashion clothing industry. Zara adopts an international strategy for its operation. With vertical integration, it benefits Zara in cost aspect, however, it involves some risks. Due to our analysis on Zara's operations, some of the recommendations are made to facilitate its further improvements.

Macro-environment Macro-environments are changing in different aspects which influence Zara's operation. Demographic: Age structure Age structure changes nowadays. Most countries have majority of adults who age from 15 to 64, which the number of elderly (65 or above) is increasing. However, the birth rate is decreasing because many of the women do not have any babies. Take an example of Spain (germ\_e/pdf), the number of baby per women is only 1.4, which means that each women have about one baby only. It indicates why the birth rate is low which the population is become aging.

The majority of the population (15-64) generally have higher income, more stable and higher ability to have spending on goods. Demographic: Sociocultural Increasing no. of women workforce all over the world There is a trend of increasing women workforce in the world nowadays. Based on higher education, economics reforms, status of women were being raised. More women, even the one with babies and families, still kept on working. Women become no longer just a housewife; they have ability to make consumption too. Women's market is a market that should never be ignored nowadays.

Greater concerns on appearances Recent years, not only women, but men also started aware of their appearances. They believe that one's clothing and

accessories could represent one's taste and status. Nowadays, people are willing to spend money on their quality clothing or skin care products to make them become more attractive. It can be seen from Fig 1 (refer to appendix) that the apparel expenditure contributes to quite a large proportion of their overall expenditures, which indicates that the importance of apparel has increased.

**Political/Legal** From the TDC Trade website, it indicates that European Union (EU) has imposed quotas on 10 categories of Chinese textile products and it's still valid in 2007. Also, by the work of WTO, the tariffs being imposed have been canceled so that the input cost of the manufacturers can be decreased. ([www.tdctrade.com](http://www.tdctrade.com)) **Technological: Importance of Internet** Internet's importance is increasing dramatically these days. Internet could transmit messages to any places in a rapid way, both effective and efficient for consumers and companies.

Many companies use Internet as a medium to communicate with their consumers, providing information for them and get feedback and opinions from them too. Also, many of the big companies will have Online purchase systems; this can provide customers another choice instead of shopping in stores. This saves their time and they can have more information search before purchases. Word-of-mouth, or buzz on Internet is one of the major concerns of the company because a bad message of the company could reach thousands of people through Internet in a few minutes.

Usage of Internet could be convenient if used by companies properly with good effectiveness. **Economic: Unemployment rate and GDP** The

unemployment rate are seems to be dropped during these years. It may due the better off of the economics situation. In addition, the GDP's trend is upward as well; it indicates a potential better business environment in Europe. Refer to Fig 2. Global: Increasing global trade More companies cooperate with companies in other countries to enter new markets and reach new potential customers. This provides a win-win situation for both companies because it can raise both companies' awareness.

Also, by successful cooperation, mostly their companies' profits and reputation would both increase. This can be seen from Fig 3 that the export and import during 2005 and 2006 have significantly increased and it is foreseen that the future global trend would be increasing. Also, in order to lower the production costs, lots of international companies will transfer part of work in some countries with lower labor and material costs. This kind of out-sourcing activity enhances the global cooperation as well. Porter five forces model: | Force | | 1 | 2 | 3 | 4 | 5 | | Rivalry among competitors | | \* | [pic] | | Threat of Substitutes | | | \* | | Barriers to Entry | | | \* | | Power of Suppliers | | | \* | | Power of Buyers | | | \* | | |(Strong) | | |(Weak) | Threat of new entrants Zara is an international firm (present in 68 countries with a network of 1. 103 stores in privileged locations of major cities). Zara is enjoying the economic of scale of the production and logistic system. The brand name effect among Zara and the main competitors developed a high entrance barrier because their well-developed strategy and image had dominant most of the developed market. High capital investment is required for further entrants.

Besides, potential for the idea of protectionism in this buyer-driven industry also raise the entrance barrier. However, to keep in mind that since apparel is a product with low switching cost. This may attract new entrant to enter the market. Bargaining power of buyer Bargaining power of buyer is Low. Since Zara is the retail seller of apparel industry, the customer is distributed around the world – 30 countries. It is no reason and impossible for them to unite in together to fight again to Zara. Besides, since customers are from all over the world and different countries varies with fashion standard, cost and consumption so it is difficult for the all customers to have full information.

Once and again, Zara has to keep track on its customer, as the switching of the customer is low, they may transfer to other competitor easily. Bargaining power from supplier By the vertical integration, Zara owns major portion of manufacturing from cloth, dye works to weaving in Europe. On the other hand, Zara searches the source from Asia through the source hunting firm in Hong Kong –Inditex Asia Ltd. Also, Zara outsource the short term contract with the non-owned factory for the high risk product; Long term & well establish relation with the factory of low risk product. By the method mentioned above, Zara constructed a low bargaining power from supplier.

Threat of substitute (Products with similar function limit the prices firm can charge) Zara's products cover the whole range of apparel, from child to adult, from clothing to accessory. Fashion is imitation of a given example and satisfies the demand for social adaptation. Rivalry among existing competitors Major competitors are Gap (based in San Francisco), H (based in Sweden) and Benetton (based in Italy). However, when taking a closer look

Zara is having a product differentiation strategy: Zara has a clear position in the fashionable apparel market, it focuses on the most trendy in fresh and reasonable price, which is very different from the competitors.

New issue can be distributed to the branches in 45 countries through Zara's state of art logistic system. From the process of planning to issuing, Zara can finish it within 2 weeks. Fast issue with accuracy of trendy apparel can provide more profit margins for the right goods with full price and fewer discounts. However, since the switching cost of the apparel is low for the consumer, force of rivalry is still under going at the back. Gap - Extensive collections of T-shirts and jeans as well as " smart casual" H&M- The closest Zara competitor, lower price than Zara, still operating very different business model than Zara— outsourced all its production. The lead time is longer than Zara.

Benetton- Emphasized brightly colored knitwear and sold its production mainly through licensees (with small outlet that solely sell company products) The Value-chain Analysis The Supporting Activities Human Resources Management: Under Zara Holding were the country operations, which exercised managerial control. Country management teams typically consisted of a country general manager, a real estate manager, a human resources manager, a commercial manager, and an administrative and financial manager. Country managers each received four to six months of training at headquarters. The country managers in key European markets were all locals, but some in the Americas were expatriates.

Zara promote 90% of its store manager's turnover from within and had generally experienced low store manager turnover. Technology

Development: Starting in 1990, significant investments had been made in installing a just in time system in these factories in cooperation with Toyota- one of the first experiments of its kind in Europe. The Primary Activities

Outbound Activities: Zara has a centralized distribution system. All of Zara's merchandise, from internal and external suppliers, passes through the distribution centre in Arterixo. Zara has a mobile tracking system that docked hanging garments per hour. When there is an order received from stores.

Usually, there will be twice a week during regular period, thrice weekly during sales season. After the order had been approved in the distribution centre, the warehouse will issue the list for deliveries. Marketing and sales: Zara used the same business system in all the countries. The first store opened in a major city played a particularly role in refining the marketing mix by affording detailed insights into local demand. The marketing mix was applied to other stores in the country as well. Marketing Mix Price Pricing was market-based. However, if the market is outside Spain, customer effectively bore the extra costs of supplying it from Spain.

Price were , on average, 40% higher in Northern European countries than in Spain, 10% higher in other European countries, 70% higher in the Americas, and 100% higher in Japan. The higher prices outside Spain did imply a somewhat different positioning for Zara overseas, particularly in emerging market. Place If Zara is designed to enter a specific market outside Spain,

the management unit will choose to open stores in highly visible locations, often including the premier shopping streets in local market and upscale shopping centre. Promotion Zara's promotion policies and product offerings varied less internationally than did its prices or positioning. Advertising and other promotional efforts were generally avoid world-wide. Product Zara did not develop products to meet just one country's requirements.

Management thought that the implementation of this relatively standardized strategy had become easier overtime as taste converged across national boundaries. Operation: Zara sourced fabric, other inputs, and finished products from external suppliers with the help of purchasing offices in Barcelona and Hong Kong, as well as the sourcing personnel at headquarter. Comeditel (100% owned subsidiary of Inditex) supplied finished fabric to external as well as in house manufacturers. It takes only a week to finish fabric. About 40 % of finished garments were manufactured internally, and all of were sources from Europe and North Africa and one-third from Asia. Internal manufacture was the primary responsibility of 20 fully owned factories, 18 of them located in and around Zara's headquarters in Arteixa.

Financial Performances 1. Compare with the past's performance: — Zara annual report 2004, 2006 • Net Sales 03-06 • (Sales contribute to group's sales 03-06) • ROCE Return on capital employed 03-06 • EBIT Earning before interest and tax 03-06 2. Compare with Competitor – H – H annual report 2006 • Net Sales 01-06 • ROCE 03-06 Financial and Accounting analysis Compare with the Zara past's performance: Net Sales 03-06 Refer to Fig 4 &5, In year 2006, Zara's net sales rose by 21% to 5, 352 million,



representing 65.3% of the Group's total compare to year 2005. The percentage growth of sales from year 2003-2005 are 19% and 16% respectively.

We can see that Zara is experiencing increasing sales growth in the past few years. It may also contribute to its expanding business as the numbers of stores opening for Zara in 2006 increased from 129 to 138 comparing to year 2005. ROCE 03-06 Refer to Fig 6 & 7. Returns on Capital Employed (ROE) of Zara from 2003 to 2006 are 33%, 38%, 41% and 40% respectively. The investment on Zara has a high increasing return in the previous years. EBIT 03-06 Refer to Fig 8 & 9. Zara profitability is contributing to develop strongly. Earning before interest and tax EBIT from year 2003-2005 are 476.1, 847.8 and 712 million dollar respectively. We can also see that the percentage growth of earning rose by 85% comparing to 2003.

It may contribute to the positive effect of business expansion (shop opening) and good management of Zara (cost control). Compare with Industry and Competitor - H&M 1) Sales growth: Refer to Fig 10 & 11. Zara sales growth is out perform H&M from the past few years. Although the growth decreased in year 2005, it increased more than 5% in 2006 while sales growth rate of H&M started to fall since 2005. (2) Profitability Ratio: Refer to Fig 12, 13 & 14. ROCE of H&M is higher than Zara throughout the past four years. It shows that Zara does not utilize its assets as efficient as H&M in generating profit. The difference even turned higher between year 2005- 2006. SWOT Analysis Strength: Quick changes in design and modification

Zara's designers team work quickly to meet the market changes. They can raise a new design within 4 to 5 weeks and ready for sell in stores, which is faster than their competitors' working schedules. Also, they have rapid turnover rate of the clothes too. The products sell in the shops will change twice a week to evoke a feeling of fresh. Customers may not be able to see the same clothes after several weeks. In this case, this causes some psychological intentions to "push" them to purchase it when you first see it. The rapid turnover, consequently, is based on the quick designing process. These two rapid turnovers definitely make Zara superior than other competitors.

Vertical integration: Another key success factor of Zara is vertical integration. It enables Zara to have a secure source of supply of raw material and a protection of control over valuable assets. Zara could ensure their quick turnover process be implemented on time. Production would be done in Zara central distribution centre and shipped to different stores in a short period of time. Also, they only produced in a small quantity in order to keep the inventory low and reduce losses. They aim to avoid some unexpected events that cause lower sales, in which they can reduce losses even the sales, are low. Also, reducing inventory would avoid using warehouses too, it saves costs.

Weakness: Centralized distribution Centralized distribution method may cause some weakness for Zara. As Zara has been expanding rapidly in recent years, number of stores are increasing too. Only distributed by the central centre may be cost ineffective because this causes high

transportation costs. This may lower Zara's profit. Though Zara has been opened another distribution centre in Madrid, the problem may not be able to solve fully. So Zara should consider to use centralized or decentralized method in order to save huge transportation costs. Also, as mentioned above, Zara produced each product in a small quantity to avoid the risk the increasing inventory.

However, this is diseconomies of scales. As producing in a larger quantity could spread the fixed costs to achieve economies of scales. However, like Zara, produce in a small quantity, is somehow an ineffective way of cost control. Opportunities: Refer to Fig 15, 16, 17 & 18. From the annual report of INDITEX in 2006, we can know the no. of shops of Zara throughout the world. We can find that there are some opportunities for Zara. As we can see that, the Asia and US markets are not fully developed. Especially for Asia market, only 50 Zara's shops are opened. This indicates that these 2 markets are potential to further expand based on its large population.

However, when entering the new markets, especially for China market, local adaptation must be done to meet their cultures value and special needs. As China is a very special market that unlike US market. China markets are somehow more tradition and have different views towards fashion. So, local adaptations are needed. For some larger geographical market such as China and US, Zara should be aware of the geographical diversity too. different area could have different demographics characteristics. China and US markets are definitely two potential markets for Zara. Threat: GAP, H & M, Mango, Adolfo Dominguez etc are major competitor of Zara which we've

talked about it above. Recommendations and implementations Corporate strategies: Related Diversification-Accessories

Zara highly concentrate on its fashionable clothing. However, it's not enough to compete with some strong competitors. We suggest Zara should diversify its production to produce accessories. All accessories including: necklaces, earrings, bracelet, scarf, headscarf, mantilla, headband, headdress and gloves etc. Like H, H produce a lot of clothing and accessories. H has many shelves for accessories in each store. It takes at least 20% of all shelves in each store. Zara can also produce high level, fashionable accessories that match Zara's own clothing. Also, Zara can keep it trendiest image by putting new accessories to the shelves each two weeks time as same as the clothes.

Producing accessories help Zara to leverage its core competence and better use of resources. The core competence of Zara is its new and trendy fashion. Nowadays, Fashion freak consider accessories as a very important part of their wearing. High standard and fashionable accessories can be a very good selling point of Zara. Retailing accessories can strengthen Zara's core competence. For the better use of resources, Zara had long term ties with many suppliers and strong internal manufacturing support. Zara can fully use these resources. On the other hand, it will not be too risky. It is because not a heavy sum of fund has to implement for producing accessories.

Related Diversification-Clothes for pets: Refer to Fig 19, 20& 21.

As the number of pets one household keep is increasing recent years, people are more concerning about their pets' appearances. Zara could expand its product line related to the pets clothing as well. By designing the clothes of

Zara as usual, the designers can also design for the pets also in the same series. Thus, the pets' owners may buy the same set of clothes for their pets. If they are Zara-lovers, they may want their pets to wear the clothes from their favorite brand too. So we think that Zara should add a product line of pets clothing to meet the increasing trends of having pets worldwide. According to the Pets Magazine, 75% of the respondents have at least one pet at their home, and most of them are dogs and cats.

And the magazine has estimated that the numbers of pets owned per household are expected to increase. From international strategy to more local adaptations Zara currently practices the international strategy which has a relatively lower pressure to lower cost (Offer high-priced product) and low pressure to local adaptation. This strategy adoption is due to our market centralization in Europe. For our company, in 2006 over 80% of our total sale revenue comes from European market and the top 5 revenue contribution are Spain which is our root market, Italy, United Kingdom, Germany, France Etc. Zara insists in maintain our present strategic advantages over main competitors (e, g, H).

However, in long run, we suggest to change international strategy into multidomestic strategy. This adjustment reflects Zara's determination to further expand market share into non-European market. Despite currently, Zara has established a stable markets in some non-European region such as Japan with our Tokyo Front, U. S with our New York Front etc, in 2006 the sales contribution from these markets did not exceed 15% of our total sales revenue which is Zara's most wanted proportion from the Non - European

countries in the next 10 years. In the next 10 years, emphasizing on “Multidomestic strategy” in that Non-European markets such as a focus market — Asia.

It is because those Non-European Countries’ style (Culture, Fashion etc) are very different from European Countries although among all the European countries, their style are also diverse from each other, but that difference is much small than the non-European countries’. We believe that local culture affect tastes and preference. The one-size fits all policy will not be adopted. As a result, differentiating products and services are determinate to adapt to local markets. The authority is more decentralized with an eye to support the local decision making. Besides, a fully multi-local value chain will have every function from research and development cost to distribution and service performed entirely at the local level in each countries. Business strategies

Zara is having cost leadership position now by its successful centralized activities and vertical integration. Zara is also differentiating itself with fast-fashion and high quality products. We think that the current unquie and successful cost and differentiation strategy are excellent. Thus, we think that retaining the current strategies are sufficient for Zara already. Functional strategies Marketing activity: Advertising cost should increase According to Zara, Zara only uses about 0. 3% of advertising, mostly in the seasonal sales, which mean in a low frequency. Promotion campaign should be done in order to increase awareness of Zara and strengthen their images in consumers’ minds.

According to the hierarchy of effect, awareness(knowledge(liking(preference(buying (Fig 22), promotion campaign can enhance the stages in hierarchy of effects in different aspects. Advertising can increase awareness of non-Zara users, which they may not even aware of the brand, Zara. TV ads, transit advertising may be useful to grab attention and lead them to search for more detail information. Also, if they know about Zara's brand, but without further knowledge, advertising could attack this problem. Ads in newspaper, fashion magazines or internet would give customers more time to read it themselves so that they can get detail information (self-paced information). Further, promotion can strength the frequent buyers' loyalty. This can be match with the VIP program.

By the VIP program, Zara would know who's the frequent buyers that tracks customers preferences. Once Zara got their information, E. g. E-mail address, some tailor-made promotion can be made. They can send frequent E-mail or newsletter to the VIP when there is some promotion period. This can enhance their preferences towards Zara because they may think that Zara serve them as a prestige customer. So the VIP program somehow can use to match with the promotion campaign. However, the content of the advertising should be focus on the whole corporate, as the turnover of the clothes are fast, there's ineffective to make advertisements on particular series of clothing. Thus, e suggest more advertisements have to be made on the corporate level to enhance its image. Slogan/Main Theme: We suggest Zara to have a slogan or main theme for the whole corporate. Like McDonald, their " I'm Lovin' it" theme is very clear and give people strong image of McDonald. People know it's McDonald when people heard of " I'm

lovin' it". It can enhance the brand image. Thus, Zara could create a main them to strengthen its brand image. Customer relationship management- Loyalty program Customer relationship management, which includes a lot of aspects, for example, listen to the customers' complaints, identify their needs and provide products or services that suit them and the like.

CRM's aim is to maintain long term relationship with customers and in returns, generate long term sales. And we suggest that Zara should adopt CRM to have further sales growth. Loyalty program should be implemented in Zara. Recently, Zara do not have any loyalty program. We suggest Zara to have a VIP membership program which customers who have purchased over an amount (e. g. \$1000) or frequently visit the shop (have made at least 8 purchases at Zara within a month) can be award the VIP membership. Those VIP members are privileged enjoying a discount for every purchase. Free gifts will also be presented to them when they join the membership and birthday. VIP days would be privileged to VIP members before seasonal sales start.

VIP cards would definitely increase their incentives to buy and have greater loyalty towards Zara. According to Vroom, Loyalty programs create an expectancy of positive outcomes associated with making a purchase (Vroom 1964). A research done by Liu, Yuping also found that loyalty program has positive effects on both purchase frequencies and transaction sizes. Thus, Zara should adopt the loyalty programs. Better customer services: We suggest Zara to retain the below competitive differentiation strategy and enhance it by further differentiate itself in the areas of product features and



customer services in order to achieve better brand image and customer loyalty Improve the customer services

Further development and implementation of services to satisfy the customer needs Extension of product range New features to provide a better service to customers Increasing of switching costs for the customers High value and brand image creation Product Features: Zara usually sell their products in just three sizes and three colours. However, the product which fit the European market may not fit the other markets. In order to adapt to different markets, we suggest Zara to alter their product size. For example, they can create two size systems for European and Asian market. Also, we suggest Zara to enrich the colour choices of their products which may increase their product attractiveness and sales.

As mentioned in the Corporate Strategy, we also suggest Zara to widen its product range. Continues updating and improving their product's design is also an important differentiation strategy for Zara. After-sale services Tailoring services will be provided in Zara's shops. Like G2000, customers can enjoy tailoring services for the products for lower part of body. Zara can set a tailoring services corner inside the shop and a sewist will be hired to provide the customers tailoring services. Customer can tailor their products immediately after purchase or guaranteed to get the tailored products 1 day after the purchasing day if they are not eager to wait.

Allowing Feedback We suggest Zara to provide a customer feedback channel for their customer by setting online feedback form in their website and placing feedback form in their shops. Currently, designers in Zara are in

regular contact with shop managers in Zara retail stores. By the feedback channel, Zara can hear the customers directly so that they can improve their services and design. These programmes will conduct throughout the year. The VIP days will available before big sales during Christmas to new year (December 1 to Jan 31). People seem to celebrate the Christmas and New Year and will consume more products during the period. It could be a chance for Zara to test the customer.

If the feedback is good, we will try this program in the other period like summer or continuous the program. HRM: increase types of designer and provide more training: Currently, the design input of Zara comes from three separate functions: the designers, market specialists and buyers who place orders on to suppliers. In expanding the global market, Zara must employ more design ideas. Whilst in implementing multi-domestic strategy, Zara has to localize their products to certain extent in different countries. Therefore, we suggest Zara to employ more designers, market specialists and buyers with different cultural background and design sense in different countries, in order to meet various market needs, customer taste and the expanding market demand.

At the same time, designers are provided with the training about different countries culture and customer tastes to facilitate better product design. Increase incentives: In order to increase the incentives of generating higher sales, Zara should let the managers in different shops feel like they are doing a small business. Each individual shop would serve as a small business and the shop is sole responsibility for its profits or losses. It means that each

shop should have its own system of the profit and loss. This system has been practiced in Cafe De Coral in HK, income of the staffs not only include basic salary, but also some bonus if the sales are good. It enables the shop managers to have higher flexibility to arrange the human resources, making decisions and control the costs.

This practice pushes the staffs to work harder to generate more sales so that they can get more bonuses. Their involvements in the shop and the company in a whole will increase as well. For Cafe De Carol in HK, it has practiced successfully that the sales increase. Thus, Zara could apply this self-finance responsible scheme to Zara retail shops as well to increase incentives, as a result, increase the sales in long term. Operation and delivery:

delivery/distribution centre should be added Zara has its own distribution centre to sort and distribute over 60,000 items per hour. 75 per cent of garments delivery is transported to different destinations by trucks all over Europe.

At the same time, about 25 per cent of garments are transported by air to more distant destinations. As Zara spreads out their selling locations all over the world and they are also planning to expand their market shares by opening more stores in countries, it will generate a huge delivery cost. We suggest Zara to set up another distribution centre outside Europe, for example, Hong Kong, as their second distribution centre in Asia. Garments after manufactured can deliver to the distribution centers according to their final destination. For example, for those garments which are going to

transfer to Asian countries can first deliver to Asian distribution centre, and then transfer to those countries by truck instead of by air delivery.

It would reduce the high delivery cost. Operation: Joint venture Another strategy could be joint venture cooperation with a big mail-order house like Zara did in 1999 with the “ Otto-Versand” in Germany. Zara clothing is sold by Otto via online shops and mail-order catalogue. The Otto catalogue is very famous in Germany and reaches every third household. The catalogue only sells mid to high quality goods and is therefore an image generation for Zara. The mail order process is extremely customer friendly especially for busy people with no time for excessive shopping under the week. That means that a lot of logistic effort and costs are transferred to the mail-order house.

Zara could have cooperation with them again and thus, lower the costs as the previous did. References Vroom, V. (1964), *Work and Motivation*. New York: John Wiley & Sons. Yuping Liu. (2007) The Long-Term Impact of Loyalty Programs on Consumer Purchase Behavior and Loyalty. *Journal of Marketing* . Vol71, 19-35. <http://www.businessworld.in/content/view/898/953/>  
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