

Zara fast fashion case essay sample

[Design](#), [Fashion](#)



This report analyzes the case Zara: Fast Fashion and the problems associated. The report covers the detailed study of Zara's: •Situational Analysis, which includes factors such as the environment, industry, SWOT analysis, and marketing strategies.

•Marketing problems faced by Zara and narrowed it to two primary issues:-1. Growth and product differentiation in the International markets.

2. High manufacturing and distribution costs.

Our team has designed the following strategies in order to aim to overcome the problems faced: 1. Product differentiation can be used as strategy to increase market penetration2. Different pricing strategy for each country3. Sourcing more goods from cheaper labor marketsThe above designed strategies target to improve Zara's current problems and resolve the issues.

2. 0 Situation AnalysisZara, an apparel chain owned at operated by the Inditex of Spain specializes in fast fashion and offers women's, men's and children's fashions at affordable prices. At the end of fiscal year 2001 Zara was operating 1, 284 stores world wide and had total revenue of €3, 250 million. Inditex's headquarters and its major assets are located in the Galicia region of Spain. Inditex also operates five other chains: Massimo Dutti, Pull and Bear, Bershka, Stradivarius and Oysho.

2. 1 EnvironmentThe following are the environmental (macro environment) factors that help us understand the opportunities and possible threats to the apparel chain industry due to external factors.

2. 1. 1 Demographic environment • Retail spending on clothing was approx €900 billion worldwide in 2000 and Europe made up 34% of the total market whereas US contributed to 29% and Asia to 23% of the total sales.

- Retailers played important role in shopping imports into developing countries and the concentration of retailers increase with time, by 1990's change accounted for about 85% of total apparel sales in United States, about 70% in western Europe, one third to one half in Latin America, East Asia and Eastern Europe and less than 10% in large but poor markets such as China and India.

2. 1. 2 Economic Conditions and trends • Spending on clothing reach €900 billion worldwide in the year 2001.

- Italian spent more than €1000 per capita versus €600 for Spaniards.

- Higher average income in Spain which is about \$14000 makes prices of Zara affordable for more than 80 % of population.

2. 1. 3 Social-Cultural environment • There was significant variation in Customers attributes and Preference, the study concluded that British Sought out Stores based on social affinity, the French focused on variety / quality and German were more price-sensitive.

- French and Italians were considered more fashion forward than the Germans or British.

2. 1. 4 Technological environment • Apparel production remained highly labor-intensive even for big manufacturers in spite of extensive investment in substituting capital.

- Using the computer 1976 in Zara Operation helped the management to collect data and information about the market.

- In 1990 Zara invest heavily in manufacturing logistics and IT and establishing of just-in-time manufacturing system more over connect headquarter, supply, production, and sales locations, retail, financial, merchandising by advanced telecommunication system.

- Research and development personnel played a key role in linking the designers and stores which result in reducing the failure rate of new product to 1 % compare to 10 % for the sector.

2. 1. 5 Political Legal environment • Since 1974 (MFA) Multi-Fiber Arrangement restricted import apparel and textiles to certain market as U. S. A, Canada, and Western Europe.

- In 2005 quota system is phased out plus further reduction in tariffs averaged 7% to 9 % in major market.

- In some areas where direct foreign ownership was forbidden Zara tended to use franchises as Zara consider these market as risky and subject to significant culture differences.

2. 1. 6 Natural environment • Zara depend on long-term tie with supplier outside Europe like Asia to resource the price-sensitive items since production in

Europe was 15%-20% more expensive while most fashionable items were produced locally under contract to reduce risk.

- Social strategy was implemented involving dialogue with employees, suppliers, subcontractors, nongovernmental organizations, and local community and lately joint the Global Compact headed by Kofi Annan in August 2001.

2. 1. 8 Environmental Opportunities Phase out of the MFA's quota system by 2005 .

High spending in clothing worldwide which reach to € 900 billion.. .

Historical joint venture in 2001 with Percassi (Italian group specialized in property and fashion) they plan to add 70 to 80 stores in Italy over the next 10 years.

2. 1. 9 Environmental Threats Restriction of legal issues in some areas which limited the expansion plans of the managements.

The high operation cost, weak demand, less fashion, exhibit internal variation of U. S market as it is one of the biggest regions.

Low percentage of market share of Zara in Spain which is only 4% compare to 10 % of Sweden manufacturer H&M.

2. 2 Industry 2. 2. 1. Suppliers Zara depends on external suppliers. Purchasing offices at Barcelona and Hongkong Established three companies in Hongkong

to purchase and spot the latest trends and import goods from Far East and China.

One-half of the fabric was “gray” to accommodate the season updates with ease and major quantity was dealt via Comditel, a subsidiary of the parent company Inditex; it also dealt with 200 suppliers of these gray fabrics. Comditel also looked after the dyeing and processing of the gray materials and supplied the processed form to the internal manufacturers.

40% of their finished garments are manufactured internally.

Approximately two-thirds of the items were sourced from Europe and North Africa and one-third from Asia. Around 20 suppliers resulted in 70% of external purchases.

Zara owned 20 manufacturing units out of which 18 were located around Zara’s headquarters.

Garments were manufactured in the factories, and the cut garments were shifted to the 450 workshops (located in Galicia, Northern Portugal) where sewing was performed.

The finished goods were sent back to the manufacturing units for final packaging and then distributed.

2. 2. 2 Consumers On a generally level there are clothes from all ranges, but according to the case study the ranges are for all ages from infants to 45 years of age group.

Clothes for children, men and women.

They have consumers belonging to all categories of fashion; clothes, accessories etc.

2. 2. 3 New Entrants The case does not mention anything about new

entrants
2. 2. 4 Competitors GAP
o American brand, based in San Francisco, one of the largest apparel retailers in the world
o Had strong competition with Zara but comparatively had lower net income and reduced market share over a period of time (Exhibit 6)
o According to Exhibit 5, its more expensive than Zara products and less fashion oriented.

o Market share and stock prices fell during 2001 putting the company in a major loss position.

Hennes and Mauritz (H&M)
o Sweden based brand considered a high performing retailer.

o One of Zara's closest competitors, they internationalized 10 years earlier than Zara with a more focused approach.

o They emphasized on Europe and build various distribution centers in each country.

o Their prices were slightly lower than that of Zara.

o Higher price earnings ratio but still had a declined profit by 17% in 2000.

Benetton Italian brand formed in 1965, was famous for sold its production via licensing stores but had heavy production. According to Exhibit 5 the price of Benetton products are higher than Zara and are less fashionable.

2. 2. 5 Substitute Products (Threat of Substitute products) The case does not mention anything about substitute product. 2. 2. 6 Industry Opportunities Zara can outsource more manufacturing jobs and try to get it done at lower costs.

Zara has the opportunity to conquer a larger market share as it provides clothes from all ranges and for all ages from infants to 45 years of age group.

Zara being an international and huge brand has the opportunity to target more international markets. 2. 2. 7 Industry Threats Zara had a centralized distribution center which led to increased distribution costs and in turn leading to expensive clothes compared to competitors. Zara has a threat from new entrants entering the fashion industry as fashion is a huge market.

2. 3 Organization Inditex, headquartered in Galicia region of Spain is one of the world's fastest growing clothing retailer that designs, produces and sells apparel and fashion accessories through 1, 284 stores around the world under brand names like Zara, Massimo Dutti, Pull&Bear, Bershka, Stradivarius and Oysho.

Since opening its first store in 1975, Zara has positioned itself as a store selling medium quality fashion clothing at affordable prices. Zara's philosophy of creativity and quality design together with a rapid response to market demands has resulted in rapid growth and excellent response to their

sales concept. Zara implemented a business model that incorporated the following three goals for operation: develop a system that requires short lead times, decrease quantities produced to decrease inventory risk, and increase the number of available styles and/or choice. Information technology has been successfully integrated into the business model and plays a very important role in exchange of information between various parts of the supply chain.

The employee count as of 2002 was 26,724, with an average age of 26 years and 78% women employees. The top corporate managers were all Spanish and organization structure was relatively flat. Inditex's corporate culture is characterized by teamwork, open communication and a high level of demand which aids in company's commitment to focus on customer satisfaction. Inditex offers its employees a dynamic and international environment that values their ideas. Inditex values job stability, training and internal promotion. Inditex has kept an open-doors policy for everyone: customers, institutions, shareholders, investors, suppliers, in other words its stakeholders.

2.3.1 Strengths Flat corporate structure which enables open communication amongst employees.

Young fashion conscious staff that provided information on latest trends and styles.

Fast delivery model for new products, design and trends.

Use of information technology to exchange information at various levels of the supply chain.

Efficient distribution system which enabled products to be delivered within 24-36 hours to stores located in Europe and 24-48 hrs to stores located outside Europe.

2. 3. 2 Weakness Centralized distribution system resulted in higher prices for shipping and delivering to countries outside the home base, Spain.

About 40% of the finished products were manufactured internally and another 40% were sourced from other European countries. This is not very cost effective.

2. 4 Marketing Strategy 2. 4. 1 Objectives • To achieve continuous growth in sales by 20% on annual basis.

- Increase the net profit margin to 13%.

- Increase the ROA (Return on Asset) to 15%.

- Increase the ROE (Return on Equity) to 30%.

- Increase the market share in Spain from 4% to 10% • Increase the market coverage in Italy, the most fashionable areas in Europe by increasing the number of outlets by 7 per year

2. 4. 2 Analysis of Sales, Profit and Market Share

Sales: • Inditex achieved Total Revenues €3, 250 Million in Fiscal Year 2001.

- Zara share of above sales figure is 54% which equal to €1, 755 million.

Profit: • Inditex achieved in 2001 Net Margin of €340. 4 million out of €3, 249. 8 million which give 10. 47% which consider the highest among key

competitors (GAP, H&M, Benetton)•ROA (Return on Asset) was 13. 07% and ROE (Return on Equal) was 22. 9% in 2001 also.

Market share:•As per data given in the case exhibit 7 & 17 on the year 1999, Inditex market share in Europe only 0. 66% and there is no data given about other key competitors.

- Market share of Zara in Spain only 4% compare to 10% of Sweden manufacturer of H&M.

2. 4. 3 Analysis of target market(s)•In 2000 retail spending on clothing reached €900 billion worldwide.

- Western Europe share 34% of the market, United States 29% and Asia 23%.

- Above share reflected the per capital spending and the population volume as well.

- As per exhibit 17 (Case Study) of European market 13% of sales were in France, 20% in Germany, 20% in Italy, 85 in Spain and 18% in United States which again reflect the population volume in that areas.

2. 4. 4 Analysis of Marketing Mix VariablesProduct: Zara’s product line includes designer-style garments and accessories like shoes, bags, jewelry and more recently toiletries and cosmetics for women, men and children. About 11, 000 distinct items were produced each year in various colors, fabric and sizes.

The products were medium quality and the clothes produced were to last 10 wears.

Zara's products were designed internally and two basic collections were created each year that were phased in through the fall/winter and summer/spring seasons.

Designs were influenced by ready-to-wear fashion shows in Paris, New York, London, and Milan, catalogs of luxury brand collections. Zara also studied the demands of customers in its stores and then tried to deliver an appropriate design at lightning speed.

Most garments come in five to six colors and five to seven sizes, Zara's system has to deal with something in the realm of 300, 000 new stock-keeping units (SKUs), on average, every year.

Products did not vary a lot by location. 10 to 15% of the products varied from country to country.

PriceZara aims to provide high fashion contents at low prices to attract mass fashion conscious customers.

Zara focuses more on market prices than its own cost in forecasting its prices in a particular market. Prices were fixed centrally for all of its stores.

The cost of supplying finished goods from Spain to a particular market if borne by the customer. Prices 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.

Zara estimated to generate 15 to 20% of the revenues at marked down prices compared to 30 to 40% for most of its European peers.

PlaceZara sold its products through its 507 stores worldwide. Zara had about 225 stores in Spain and operated 282 stores in 32 countries.

Of its international stores, 186 were located in Europe, 35 in North America, 29 in South America, 27 in the Middle East and 5 in Japan.

Zara stores are strategically placed in heavily trafficked, high-end retail areas where tastes for trends are high and wallets are wide open. Zara places great care in the presentation of the storefronts. That is how they project their image.

All the Zara stores in Spain were company owned and managed.

Internationally, Zara used three different modes of market entry: company owned stores, joint ventures and franchises. At the end of 2001, 231 stores in 18 countries outside Spain was company owned.

Zara had its own centralized distribution system and all merchandize from internal and external suppliers passed through the distribution center in Arteixo. Orders were received from the hand held computers in the stores and once the order has been approved, the distribution center arranges for the product to be shipped to the stores.

Shipments from the warehouse are made twice a week to each store. About 75% of the finished goods by weight are shipped by truck to stores in Spain

and other European countries. The remaining 25% was shipped mainly by air via KLM and DHL.

Promotion Zara spent only 0.3% of its revenue on media advertising, compared with 3%-4% for most specialty retailers. It shunned expensive glossy ad campaigns and celebrity endorsements. Its advertising was generally limited to the start of the sales period at the end of the season. Zara's drawing power reflected the freshness of its offerings, the creation of a sense of scarcity and an attractive ambience around them, and the positive word of mouth that resulted.

Zara also relied on significant centralization of store window displays and interior presentations in using the stores to promote its market image.

The number of sales assistants was dependant on sales volume and selling area.

2. 4. 5 Summary of Marketing strategy's strength and Weakness:

Strength • Offering of fresh Assortments of designer style garments and accessories.

- Low price with medium quality product offering compare to equivalent competitors
- Good selection of stores location
- Segmented of product lines into women's, men's and children aged from infant to 45 years.

- Rapid product turnover, which create climate of opportunity & scarcity
- Attraction store image outside & inside
- Positive word of mouth results from marketing policy.

Weakness • Low percentage of Extra Revenue in the market downs period which was 15% - 20% compare to 30% plus with key comparison in U. S. A. & Europe.

• Low percentage spent on media advertising of 0.3% compare to 3% - 4% for others specially retailers, didn't create too strong of Zara brand, "Zara women" or "Zara Girls" unlike "Mango Girls" of Spanish Mango.

3.0 Problems found in Situation analysis
3.1 Primary Problem
The primary problem is the growth and product differentiation in the International markets. Reasons were: 1. Zara was not considered affordable in some International markets. Prices were high in many countries outside Europe due added distribution costs.

2. "85%-90% of the basic designs sold in Zara stores tended to be common for all markets", thus lack of geographical product differentiation. The local preferences, styles and trends were not considered in the design. This led to decline of sales in many markets especially outside Europe.

3. They did not develop or design products to meet just one country's needs. This led to decline of sales of certain products in certain parts of the world, 3.

2 Secondary Problem
The secondary problem was high manufacturing and distribution costs.

Zara had a centralized distribution center located in Arteixo. There were other small distribution centers in Argentina, Brazil and Mexico as well. All of Zara's merchandise passed through the centralized distribution center and then forward to warehouses or retailers. This centralized system of

distribution and logistics system would apparently lead to “ diseconomies of scale”. This practice increased the costs of logistics and eventually affecting the pricing of the product. The management did try to resolve this issue by working on building another warehouse at Zaragoza, but again this was not enough. The business being diversified to various countries required much more efficient way of distribution and logistics.

About 40% of the finished goods were manufactured internally, mostly in Spain. One third or the remainder was sourced from Asia. This added to the manufacturing cost as labor was expensive in Spain (Europe). Asia being one of the cheapest sources was not being tapped to its fullest potential.

4. 0 Strategic Alternatives for Solving Problems4. 1 Description of Strategic

Alternative 1Product differentiation can be used as strategy to increase market penetration in International markets. Apparels and accessories are capable of high differentiation and the manufacturer is faces an abundance of design parameters which includes form, features, performance, conformance, durability, reliability, reparability and style1. Emphasis needs to be given to local preferences, trends and styles.

- Form: Shape, size and physical structure of the product can be differentiated. US market requires larger sized clothing than Japanese markets.

- Quality: Italians and French are quality oriented and Zara needs to look at the quality of raw materials to satisfy these needs. Germans and Asians are price sensitive and are willing to settle down for medium quality goods.

- Style: Each country has its own style statement. French and Italians are fashion forward while Middle Eastern consumers are considered conservative. Stylish and trendy clothes may not have enough market in USA, but would sell well in trendy Japanese markets.

Benefits/Advantages: By having heterogeneous product mix, Zara can compete with the local competitors and other departmental stores like H&M who have a broad assortment of merchandise.

Cost/Disadvantages Cost of setting up a bigger design team to study different markets to be able to incorporate the local preferences into the design and manufacturing of the apparel.

This would lead to higher turn around time to design and deliver finished goods to stores.

4. 2 Description of Strategic Alternative 2 Zara should use different pricing strategy for each country. Zara used going rate pricing strategy as the base to price its products. It then incorporated distance, tariff, tax and other costs in forecasting prices in a particular market. Market penetration pricing strategy should be used in countries where sales are low. Zara should look at price adaptation strategies based on demand, geography, market segment and other characteristics of the consumers. Some examples are: Germans are very price sensitive whereas as French and Italians are not. They were ready to pay a premium for highly fashionable products. Spanish consumers demanded low prices.

Prices in foreign markets were high due to distribution costs. Relative price level in Japan and USA was 231% and 209% compared to Spain. Zara should look at opening distribution centers in the Americas and Asia to cater to different markets.

Benefits/Advantages: Will be able to increase market share due to lower prices.

Will be able to command premium prices in some markets thus increasing margins.

Cost/Disadvantages Effort needs to be put in to carefully analyze the pricing strategy for each country Profit margin will not be the same for all countries.

Initial cost of setting up another distribution center is high.

4. 3 Description of Strategic Alternative 3 Secondary problem faced by Zara is high manufacturing and distribution costs. High manufacturing costs can be reduced by sourcing more goods from cheaper labor markets like Asia. Cost of manufacturing goods in Europe is typically 20 to 40% more compared to Asia. Zara should get into formal contracts with suppliers in Asia to get better rates for the supplies.

Distribution costs can be reduced by setting up distribution centers in the Americas and one in Asia to cater to the local markets. Zara has satellite centers in Argentina, Brazil and Mexico which can be developed into a centralized distribution center for the region.

Benefits/Advantages: Lower cost of manufacturing if goods are sourced from Asia in turn leading to higher margins.

Decentralization helps penetrate new markets in the region Helps reduce distribution process and cost.

Faster turn around of goods to stores from the distribution center.

Cost/Disadvantages Design to finished goods will take longer time if sourced from Asia.

Higher risk for more fashionable items.

Cost of setting up and maintaining distribution center is high.

5. 0 Selection of Strategic Alternative and Implementation 6. 0 Conclusion As seen above, our report included a detailed study of: • Situational Analysis, which includes factors such as the environment, industry, SWOT analysis, and marketing strategies.

- Marketing problems faced by Zara Out of the three strategies suggested, our team recommends the first solution, i. e.

- Product differentiation to increase market penetration in International markets

The reason of choosing this strategy is that by having heterogeneous product mix, Zara can compete with the local competitors and other departmental stores like H&M who have a broad assortment of merchandise and as compared to other suggestions this has a lower cost involved.

Hence by choosing the product differentiation strategy we aim to resolve Zara's primary problem of Growth and product differentiation in the International markets

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