

# Zara is one of the largest international business essay



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The global apparel market is a consumer-driven industry. Also, globalization and new technologies have allowed consumers to have more access to fashion. As a result, consumers are changing, competition is fierce, and companies are evolving to meet these demands. Zara, a Spanish-based chain owned by Inditex, is a retailer who has taken a new approach in the industry. With their unique strategy, Zara has the competitive advantage to be sustainable. In order to maintain that advantage and growth they must confront certain challenges and face traditional retailers in the apparel industry. So, now our group will analysis the PESTLE of Zara Company. (Lopez & Fan, 2009)

## **Overview**

Zara is one of the largest international fashion companies and belongs to Inditex, which is one of the largest fashion retailers worldwide. Inditex operates in textile design, distribution and manufacturing. (Inditex, 2011 b)

Zara operates in 78 countries worldwide with 1557 stores in the world's largest cities. (Inditex, 2011 c)

The company is founded in 1975 by Amancio Ortega, located in Spain and had in 2010 a net sale of 8. 088 million of euro. (Inditex, 2011 a)

The have worldwide 1557 stores in 78 different countries. (Inditex, 2011 a)

Aim: democratize fashion, offering latest fashion, medium quality and moderate price (Lopez & Fan, 2009)

Structure: customer oriented, satisfaction of consumer needs (Mazaira, González, & Avendano, 2003)

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## **Business Environment**

Global textile and clothing industry (Lopez & Fan, 2009) with 900 billion Euros in 200 worldwide (Ghemawat & Nueno, 2006).

Main competitors: H&M, Gap and Benetton (Ghemawat & Nueno, 2006)

Dynamic and innovative sector (Nordas, 2005)

High quality fashion market vs. lower quality products (Nordas, 2005)

Production in Europe vs. Production in low cost (Nordas, 2005)

## **Political Factors**

Internationalisation:

The key pull factors that explain the internationalisation of Zara include Spain's entry into the European Union in 1986, the globalisation of the economy and thus potential economies of scale, the homogenisation of consumption patterns across countries - Zara's belief is that "national frontiers are no impediment to sharing a single fashion culture" - and the abolition of barriers to export as well as the development of information technology (Lopez & Fan, 2009).

Indian Market:

India provided open market for Zara as Indian government is willingly to provide foreign investment in their country, but Indian Govt. Has their own policy which are to be adhered by organizations as Zara formed joint venture with TATA (Shah, 2011).

## **Economic Factors**

Production NOT transferred to low cost locations

Zara resisted the industry-wide trend towards transferring fast fashion production to low cost countries like for example China. Zara states that this gives the greater control as it controls most of its steps on the Supply Chain, designing, manufacturing and distributing of products (CNN, 2001). In the UK 50% of the product Zara sells are manufactured in Spain, 26% in the rest of Europe and 24% in Asian and African countries. Clothes with longer shelf life like for example basic t-shirts are outsourced to low cost suppliers mainly in Asia and Turkey (Business Week, 2006).

Zero Advertising Policy

The most unusual company policy is its' no advertising policy. It is worth noticing that Zara competitors rely heavily on costly advertising campaigns. However, Zara prefers to invest money in opening new stores instead (CNN, 2001).

Producer of about 11 000 items annually

The product range of Zara Company is significant. It produces nearly 11 000 items annually whilst its competitors produce only about 2000 - 4000. Moreover, Zara changes its designs every 2 weeks which encourages customers to repeated visits and builds the brand loyalty. An average high street store in Spain expects customers to visit three times a year. It is 17 times for Zara. (The Guardian, 2002).

## Shortening Product Life Cycle

Additionally, Zara needs just 2 weeks to design a new product and get it to the stores whilst industry average is 6 months (Business Week, 2006).

To sum up, Zara breaks all the rules but this strategy proves to be successful as Zara is one of the biggest retailers in the industry.

## **Social Factors**

### Rising of income

With the rising of disposable personal income, people began to pursue a high quality and comfortable life. This tendency provides Zara quite wide market share. Personalized consumption becomes the mainstream of society. The strategy of ZARA, " a small amount, variety, cheap," is a major guarantor of its success.

### Fast fashion

Regarding the design strategy, an article in Business world magazine describes it as follows: " Zara was a fashion imitator. It focused its attention on understanding the fashion items that its customers wanted and then delivering them, rather than on promoting predicted season's trends via fashion shows and similar channels of influence, which the fashion industry traditionally used." There will be a 0. 7% depreciation of fashion products every day. A new product, from design to produce, logistics operation and the final sale, only need 2-3 weeks in Zara.

### Affordable fashion

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An increasing number of people pay more attention to fashion. But fashion is a masterpiece of top designers, only a few people can afford it. The designers of ZARA will follow these fashion elements and design their own product, which most consumers can afford it (Badu, 2010).

## **Technological Factors**

### R&D and Production

1. Fast production: Deliver within 6 weeks instead of 6 months which is the delivery time from Zara's competitors (Ghemawat & Nueno, 2006).
2. Zara has only 20 suppliers which accounted 70% of their products. The other companies have for example more than 200 different suppliers. Therefore it's easy for Zara to control their suppliers.

### Logistic

1. Own distribution centre with an order to delivery time of 24 hour for Europe and 48 hours to USA and Asia (Tokatli, 2007).
2. The shops receive two deliveries from distribution centre. That allows the shops to have low inventory and a high turnaround within the shop (Lopez & Fan, 2009) (Ghemawat & Nueno, 2006).

### Flexible Supply Chain

1. Vertical integrated and controls its entire production chain. One important effect of the control is to re reduce the bullwhip effect. (Ghemawat & Nueno, 2006)

2. Zara has very short lead times. The Agility of their supply chain enables Zara to deliver from product design to sale within 2 weeks for repeat or 5 weeks for new products (Mazaira, González, & Avendano, 2003).

## **Environmental Factors**

Zara wants to help the sustainable developments of the society and the environments with which it interacts. This commitment to the environment is a part of the Inditex group corporate social responsibility policy.

Objectives and Actions:

At the sores:

Zara saves energy and lot of care has been given to make the stores eco efficient. Development of efficient management models for their stores that proposes measures to be applied to all processes, from the design of the store itself, the lighting heating or cooling system equipment, to the possible recycling of furniture and decoration. Use of paper or biodegradable plastic bags 90% of the bags Zara gives out to customers are made of paper.

1. Reduction of waste and encourages recycling

Millions of hangers and security tags are processed each year additionally both the cardboard and plastic used are recycled.

2. Increasing awareness among the team members

Heighten employee's awareness of the need for sustainable practices such as trimming energy consumption, using sustainable transport or modifying habits.

With the product

1. Use of ecological fabrics, like organic cotton.

Zara Supports ecological agriculture and uses organic cotton in the production of selected items of clothing (100% cotton, completely free of pesticide, chemical agents and bleaches). With a distinctive label these products can be identified very easily at the stores.

2. Producing PVC -free footwear

No petroleum derivatives or non-biodegradable materials are used in producing the footwear.

In the transport

Zara's fleet of Lorries transport over 200 million items of clothing annually and uses 5% biodiesel fuel, reducing emission of CO2 into the atmosphere by more than 500 tones.

Animal welfare policy

All the animal products, including fur and leather sold at Zara come exclusively from animal reared in livestock form and never from animal sacrificed for skin sale. (Zara, 2010)



## **Legal Factors**

### Plagiarism

Plagiarism in the fashion industry has become a huge issue. Trends are often copied and cheaply as well as illegally sold in the street.

### Global expansion

As the European market has a well working trade and legal system facilitating business operations in member countries, other countries globally will not offer the same securities, especially in communistic countries the threat of losing a private run company to the local government is very real.

## **Conclusion**

ZARA was just a small Spanish dress shop, but now, the little-known brand has grown into a leader of the apparel market. Now the footprints of ZARA have around more than 60 countries. The big design group, unique strategy, environmental management idea and other operational strategies make ZARA success.