

# The inditex-zara case



## **INTRODUCTION**

In today's highly competitive and global marketplace, the pressure on organizations to find new ways to create and deliver value to the customers grows even stronger. Market development combined with new sources of global competition has led to over-capacity in many industries. Putting an incredible pressure on price, as often is the critical competitive variable. This leads to the need of more effectiveness and efficiency inside a business.

It is against these new conditions that the use of supply chain management has moved to the centre stage over the last two decades (Christopher, 2004). To manage the supply chain better, is to serve the customers more effectively and yet reduce the cost of providing that service. There has been a growing recognition that it is through this kind of management that it can be achieved a twin goal of cost reduction and service improvement. Even if the concept of integration within the business and between businesses is not new, the acceptance of its validity by managers is.

According to Chris Zook managing the supply chain is not an easy task (Zook, 2001). Most companies do not manage to achieve their intended goals. Nevertheless, those which are doing well today have on average low odds to be doing so in the next five to ten years. An important key to do well is to understand why some companies succeed and others do not. This to avoid common pitfalls and instead of spending time recovering from previous mistakes, the company can focus on the future.

With this in mind, this coursework will look into how businesses manage their supply chain. This by looking into the supply chain of the fastest growing

clothing brand in Europe and the world today, Zara, and highlight the main characteristics of the supply chain management as well as its application (market chain). If the chances are small to succeed, what do successful companies do right that others do wrong?

### **COMPANY PROFILE**

Zara is the flagship chain store of Inditex group owned by Spanish tycoon Amancio Ortega. Zara is the most internationalized of Inditex's chains. The group is headquartered in A Coruña, Spain, where the first Zara store opened in 1975. Now Inditex, the holding group that includes the Zara brand, has over 1300 stores in 39 countries with sales of over €3 billion. (Zara 2009)

The Zara brand accounts for over 75 per cent of the group's total retail sales, and is still based in northwest Spain. By 2003 it had become the world's fastest-growing volume garment retailer. The Inditex group also has several other branded chains, including Pull and Bear, and Massimo Dutti. In total it employs almost 40, 000 people in a business that is known for a high degree of vertical integration compared with most fast fashion companies. (Cowe, et. al. 2008: 271)

It is claimed that Zara needs just two weeks to develop a new product and get it to the stores, compared with a six month industry average, and launches around 40, 000 new designs each year. Zara has resisted the industry-wide trend towards transferring fast fashion production to low-cost countries. While it spent little on ads, it spent heavily on stores.

Zara is a vertically integrated retailer. Unlike similar apparel retailers, Zara controls most of the steps on the supply-chain: It designs, produces and

distributes itself. The business system that had resulted was particularly distinctive in that Zara manufactured its most fashion-sensitive products internally. Zara did not produce "classics", clothes that would always be in style. In fact, the company intended its clothes to have fairly short life spans, both within stores and in customers' closets.

## **LITERATURE REVIEW**

### **Value Chain**

The idea of the value chain is based on the process view of organizations, the idea of seeing a manufacturing (or service) organization as a system, made up of subsystems each with inputs, transformation processes and outputs. Inputs, transformation processes, and outputs involve the acquisition and consumption of resources—money, labor, materials, equipment, buildings, land, administration and management. How value chain activities are carried out determines costs and affects profits. Most organizations engage in hundreds, even thousands, of activities in the process of converting inputs to outputs. These activities can be classified generally as either primary or support activities that all businesses must undertake in some form. (Cowe et al. 2008: 81). The outlined process of Porter's value chains is presented in see Figure 1.

According to Porter (1985), the primary activities are:

1. Inbound Logistics: involve relationships with suppliers and include all the activities required to receive, store, and disseminate inputs.
2. Operations: are all the activities required to transform inputs into outputs (products and services).

3. Outbound Logistics: include all the activities required to collect, store, and distribute the output.
4. Marketing and Sales: activities inform buyers about products and services, induce buyers to purchase them, and facilitate their purchase.
5. Service: includes all the activities required to keep the product or service working effectively for the buyer after it is sold and delivered.

Support activities are:

1. Procurement: is the acquisition of inputs, or resources, for the firm.
2. Human Resource management: consists of all activities involved in recruiting, hiring, training, developing, compensating and (if necessary) dismissing or laying off personnel.
3. Technological Development: pertains to the equipment, hardware, software, procedures and technical knowledge brought to bear in the firm's transformation of inputs into outputs.
4. Infrastructure: serves the company's needs and ties its various parts together, it consists of functions or departments such as accounting, legal, finance, planning, public affairs.

### **Supply Chain Management**

Supply Chain Management (SCM) is the management of the relationships and flows between the "string" of operations and processes that produce value in the form of products and services to the ultimate consumer. It is a holistic approach to managing across the boundaries of companies and of processes. Technically, supply chains are different from supply networks. A supply network is all the operations that linked together so as to provide

goods and services through to end customers. In large supply network there can be many hundreds of supply chains of linked operations passing through a single operations. Internal supply network, and supply chain, management concerns flow between processes or departments. Confusingly, the terms supply network and supply chain management are often used interchangeably. (Cowe, et. al. 2008: 244)

It is worth emphasizing again that the supply chain concept applies to internal process networks as well as external supply networks. Many of the ideas discussed in the context of the " operation-to-operation" supply chain also apply to the " process-to-process" internal supply chain. It is also worth noting that the flows in supply chains are not restricted to the downstream flow products and services from suppliers through to the customers. Although the most obvious failure in supply chain management occurs when downstream flow fails to meet customer requirements, the root cause may be a failure in the upstream flow of information. Modern supply chain management is as much concerned with managing information flows (upstream and downstream) as it is with managing the flow of products and services. (See Figure 2)

### **Information System Management**

In the current competition of the modern world, information relating to inputs, the transformation process and outputs is the vital resource organization owns to add value. An information system management is a planned system of the collecting, processing, storing and disseminating data in the form of information needed to carry out the functions of management. (Kotler 2006)

The development of an ISM is nowadays greatly facilitated by the increasing sophistication and affordability of powerful personal computers and various other aspects of information technology (IT). Thus, technology is improving the speed and reliability with which information is passed not only around the individual organization but also around the globe, and 'dramatic reductions in the cost of obtaining, processing and transmitting information are changing the way we do business' (Porter and Millar, 1991).

Porter's value chain (Porter, 1980, 1985) was developed as a method for analyzing the sources of competitive advantage available to a firm. IS assumes that competitive advantage results from a combination of the many different activities a firm pursues during the course of its business, rather than coming from one individual source.

## **CASE STUDY ZARA**

### **Operation Management**

Different organisations have to target customers in order to offer some services or product that someone is willing to pay for it. Operation management is pretty much involved with making this possible. Operation management is the activity of managing the resources and processes that produce goods and services and more specifically operation management examines how the "operations function" of a business produces products and services for external customers. (Cowe, et. al. 2008: 204). The general transformation process model (Figure 4) shows an arrangement of resources that transforms inputs into outputs that satisfy customer needs.

In the case of Zara (Figure 5) the inputs of the organization are comprised of the raw materials, such as the fabrics that after design and manufacturing-

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retailing will produce the garments, information such as products protocol, human resources such as the designers that has the skills and knowledge to produce the garments. The transformation process consists of the manufacturing and services operations that are necessary to transform input into output, which are spitted into three basic product divisions: men's and women's and kids apparel, such as lower garment, upper garment, shoes, boots, bags, cosmetique and complements.

All processes differ in some way, so, to some extent all processes need to be managed differently. In addition processes also differ in terms of the nature of their demand that is why we have to take into account those next four characteristics, which indicate how process need to be managed: Volume, variety, variation and visibility. In the case of Zara the operations process is unique and envied throughout the world:

- Volume: In terms of volume Zara is high. Although there is a high degree of systemization of the process to produce garments, due to the turnover in each shop is replaced every two weeks is a unique case.
- Variety: In terms of variety Zara is as high as the volume is. It has a wide range of products for men, women and children such as cosmetiques, suits and sport clothes respectively for each one.
- Variation: The variation in demand is quite high; because the demand is unpredictable and cannot be planned in advanced, extra resources will have to be designed into the process to provide a mechanism which can absorb unexpected demand. Zara will have to cope with the



general seasonality of the garment market together with the uncertainty of whether particular styles may or may not prove popular.

- **Visibility:** In terms of visibility of the process to the customer is low as they are simply presented with the final product to try on and finally purchase. All the above are summarized in Figure 6.

Due to the high volume and variety involved in the process the key process choice is the batch process. A high volume of identical items are produced together hence the flow is intermittent as each batch although requiring the same basic skills requires different variety and expertise in detail. The layout type is undoubtedly the product layout type. Once the goods have been produced on the factory floor they are moved to store houses and quickly shipped to the high streets. Hence we can say the fit between the layout and the process type is correct as product based processes are used for high volume processes in general.

### **Supply Chain Management**

Supply chain management is the management of the interconnection of organizations that relate to each other through upstream and downstream linkages between the processes that produce value to the ultimate consumer in the form of products and services.' (MacKerron, G. (2009) Lectures slides for MBA)

Zara operates using a vertical supply chain, which is a unique strategy in the fashion industry. Vertically integrated business undertakes a variety of activities from designing, manufacturing, sourcing, and distribution to retail stores around the world. They choose to handle design, production, and distribution in-house and concentrate the whole production close to their

headquarters in Spain. By integrating the entire process, Zara can react much faster than its competitors do to both the ephemeral trends in the world of fashion and the capricious tastes of its customers. At the end of every working day the manager of a Zara store reports exactly what has been sold to headquarters. This information is quickly relayed to the design department where product lines can be altered, supplanted or created in a matter of days. This gives the company total business management. (See Figure 7)

In an interview with CNN, Jose Maria Castellano, chief executive at Inditex, talked about Zara's supply chain and indicated its unusual structure by saying:

" Investment banks used to say that this model did not work, but we have shown that it gives us more flexibility in production, sales and stock management," (Zara Who we are, 2001)

The Zara ´supply chain management operation leads to customer visit the store over four times more frequently than other stores. Spontaneous design, just-in time production and rapid turnover of merchandise lead to a higher level of fashionable clothes. Even though the labor cost in Europe is higher, the efficiency of this system allows Zara to keep costs down by spending less cost on transportation and keeping inventories low refer. (Figure 7)

- Design
- Zara emphasize the importance of design in this market, its design functions are organized in a different way from those of most similar

companies. Conventionally, the design input come from three separate functions: the designers themselves, market specialists, and buyers who place orders on to suppliers. At Zara the design stage is split into three product areas: women's, men's and children's garments. In each area, designers, market specialists, and buyers are co-located in designs halls that also contain small workshops for trying out prototype designs. The market specialists in all three design halls are in regular contact with Zara retail stores, discussing customer reaction to new designs. In this way, the retail stores are not the end of the whole supply chain but the beginning of the design stage of the chain. Zara's around 300 designers, whose average age is 26, produce approximately 40, 000 items per year of which about 10, 000 go into production.

The retailer company has moved away from the traditional industry practice of offering two collections a year, for Spring/Summer and Autumn/Winter. Their "seasonless cycle" involves the continual introduction of new products on a rolling basis throughout the year. This allows designers to learn from customers reactions to their new products and incorporate them quickly into more new products. In the case of Zara the garment is designed; a batch is manufactured and pulsed through the supply chain. Often the design is never repeated; it may be modified and another batch produced, but there is no design as such. (Cowe, et. al. 2008: 271)

- Manufacturing

- In the fickle world of fashion, even seemingly well-targeted designs could go out of favor in the months it takes to get plans to contract manufacturers, tool up production, then ship items to warehouses and eventually to retail locations. But getting locally targeted designs quickly onto store shelves is where Zara really excels. The average time for a Zara concept to go from idea to appearance in store is 15 days vs. rivals who receive new styles once or twice a season. Smaller tweaks arrive even faster. If enough customers come in and ask for, say a round neck instead of a " v" neck, a new version can be in stores with in just 10 days (Tagliabue, 2003). To put that in perspective, Zara is twelve times faster than Gap (its direct competitor), despite offering roughly ten times more unique products. (Helft, 2002)

Nearly 60% of Zara's merchandise is produced in-house, with an eye on leveraging technology in those areas that speed up complex tasks, lower cycle time, and reduce error. Profits from this clothing retailer come from blending math with its data-driven fashion sense. Inventory optimization models help the firm determine how many of which items in which sizes should be delivered to stores during twice-a-week shipments, ensuring stores are stocked with just what they need(Gentry, 2007). Outside the distribution center in La Coruña, fabric is cut and dyed by robots in 23 highly automated factories. Zara is so vertically integrated, the firm makes 40 percent of its own fabric and purchases most of its dyes from its own subsidiary. Most Zara factories and their sub-contrators work on a single-shift system to retain some voume flexibility. (Tokatli, 2007)

- Distribution
- Zara has invested in highly automated warehouses, close to their main production centres that store, pack and assemble individual orders for their retail networks. These automated warehouses represent a major investment for both companies. In 2001, Zara caused some press comment by announcing that it would open a second automated warehouse even though, by its own calculations, it was only using about half its existing warehouse capacity. Zara is able to deliver the new design apparel from the drawing board to the stores in one or two weeks and therefore can respond very quickly to fast-changing tastes of their young urban customers (Walker et al., 2000).
- Retail
- All Zara stores (average size, 800 square metres) are owned and run solely by Inditex. Perhaps the most remarkable characteristic of Zara stores is that garments rarely stay for longer than two weeks. Because product designs are often not repeated and are produced in relatively small batches, the range of garments displayed in the store can change radically every two or three weeks. This encourages customers to avoid delaying a purchase and to revisit the store frequently.

Below is a diagram that shows the cycle how a product is made. The company's success is because of the total control in every aspect of the business, from designing, to production, and to distribution. By having total control of the entire process, the company can quickly react to the fast changing fashion trend and customer taste, this provides the company an idea of the latest fashion trend. Having total

control in all business activities allows Zara to produce and release new design in a short span of time.

### **Key success factors of Zara SCM**

Zara concentrates the perfect success formula pretty much based on:

- Short Lead Time = More fashionable clothes
- Lower quantities = Scarce supply
- More styles = More choice, and more chances of hitting it

Firstly, by focusing on shorter response times, the company ensures that its stores are able to carry clothes that the consumers want at that time. Zara can move from identifying a trend to having clothes in its stores within 30 days, this means that Zara can quickly identify and catch a winning fashion trend, while its competitors are struggling to catch up. Catching fashion while it is hot is a clear recipe for better margins with more sales happening at full prices and fewer discounts. In comparison, most retailers of comparable size or even smaller, work on timelines that stretch into 4-12 months. Thus, most retailers try to forecast what and how much its customers might buy many months in the future, while Zara moves in step with its customers. Trend identification comes through constant research not just traditional consumer market research, but a daily stream of emails and phone calls from the stores to head office. Unlike other retailers, Zara's machinery can react to the report immediately and produce a response in terms of a new style or a modification within 2-4 weeks. Many other retailers have such long supply chain lead times that for them it would seem a lost cause for them to even try and respond to a sales report.

Secondly, by reducing the quantity manufactured in each style, Zara not only reduces its exposure to any single product but also creates an artificial scarcity. As with all things fashionable, the less its availability, the more desirable the object becomes. The added benefit of lower quantities is that if a style does not work well, there is not much to be disposed during the season-end sale. The result of this is that Zara discounts only about 18 percent of its production, roughly half the levels of competitors.

Thirdly, instead of more quantities per style, Zara produces more styles, roughly 12, 000 a year. Thus, even if a style sells out very quickly, there are new styles already waiting to take up the space. Zara can offer more choices in more current fashions than many of its competitors. It delivers merchandise to its stores twice a week, and since re-orders are rare the stores look fresh every 3-4 days. Fresh produce, moving in step with the fashion trend and updated frequently the ingredients are just right to create the sweet smell of success. Now, the question is how does Zara achieve its three key success factors which would be a nightmare for most other retailers to achieve in such short time spans? So, let us look at the mechanisms that enable Zara to deliver on these parameters as well as some unique aspects of the retailer's business model on figure 7

### **Supply Chain Objectives**

The objective of an effective supply chain management is to meet the requirements of end customers by supplying appropriate products and services when they are needed, at a competitive cost. Doing this requires the supply chain to achieve appropriate levels of the five operations

performance objectives: quality, speed, dependability, flexibility and cost.

(Cowe, et. al. 2008: 249)

The quality objective: Zara brand name is synonymous with quality and the right price. Stores are located on emblematic streets like Oxford Street and 5th avenue; the highest standards of products are demanded in these areas. 65% of products sold in Europe are produced in European plants where quality controls are higher and easier to manage. Flawed clothing items would erode the brand name eventually.

The speed objective: hectic changes in fashion and high street tastes imply a need for logistic speed. Goods can be designed and delivered to the shelf within 6 weeks. In fact items spend so little time in the warehouse that they are already sold before they have to be paid for to their suppliers.

The flexibility objective: demand for different types of clothing will change and Zara must react accordingly. Sizes, color, quality and quality will change continuously. The customer has an active role from the start of the chain and is the drive for its business model. Customer requests are considered by the commercial and design team.

The dependability objective: delivering on time to stores is a must.

Customers have come to expect new items on a weekly basis on the shelves.

The cost objective: affordability is vital to Zara's strategy however only 35% of goods are produced in Asia. This implies that operations management must be at its leanest as they operate within Europe where the cost structure is much higher.



Zara's senior managers seem to comprehend intuitively the nonlinear relationship between capacity utilization, demand variability, and responsiveness. This relationship is well demonstrated by queuing theory which explains that as capacity utilization begins to increase from low levels, waiting times increase gradually. But at some point, as the systems uses more of the available capacity, waiting times accelerates rapidly. As demand becomes ever more variable, this acceleration starts at lower and lower levels of capacity utilization. (Figure )

### **Information System Management of Zara**

Information and communications technology is at the heart of Zara's business. Zara is careful about the way it deploys the latest information technology tools to facilitate these informal exchanges. The company undertake different devices in order to increase the speed which basically gives them the competitive advantage over its competitors. The information system management of Zara are the followings:

Collecting information on consumer needs; customized handheld computers support the connection between the retail stores and La Coruña. These PDA's supplement regular, often weekly, phone conversations between the store managers and the market specialists assigned to them. Through the PDA's and telephone conversations, stores transmit all kinds of information to La Coruña, such hard data as orders and sales trends and such soft data as customer reactions and the "buzz" around a new style. While any company can use PDA's to communicate, Zara's flat organization ensures that important conversations do not fall through the bureaucratic cracks. PDAs are also linked to the store's point-of-sale (POS) system, showing how

garments rank by sales. In less than an hour, managers can send updates that combine the hard data captured at the cash register combined with insights on what customers would like to see. All of this valuable data allows the firm to plan styles and issue re-buy orders based on feedback rather than hunches and guesswork. The goal is to improve the frequency and quality of 'sense making' for the design & planning teams. In this way, Zara avoids costly overproduction and the subsequent sales and discounting prevalent in the industry. (Rohwedder and Johnson, 2008)

Standardization of product information different or incomplete specifications and varying product information availability typically add several weeks to a typical retailer's product design and approval process, but Zara "warehouses" the product information with common definitions, allowing it to quickly and accurately prepare designs, with clear cut manufacturing instructions.

Product information and inventory management being able to manage thousands of fabric and trim specifications, design specifications as well as their physical inventory, gives Zara's team the capability to design a garment with available stocks, rather than having to order and wait for the material to come in. Distribution management: its State-of-the-art distribution facility functions with minimal human intervention.

Approximately 200 kilometers of underground tracks move merchandise from Zara's manufacturing plants to the 400 chutes that ensure each order reaches its right destination. Optical reading devices sort out and distribute more than 60, 000 items of clothing an hour. Zara's merchandise does not waste time waiting for human sorting.

## **CONCLUSION**

Zara has an unordinary supply chain, which gives them a highly competitive advantage. In a time of globalisation and a constant search for lower cost, Zara is a notable exception. They choose to handle design, production, and distribution in-house and concentrate the whole production close to their headquarters in Spain. By integrating the entire process, Zara can react much faster than its competitors do to both the ephemeral trends in the world of fashion and the capricious tastes of its customers. At the end of every working day the manager of a Zara store reports exactly what has been sold to headquarters. This information is quickly relayed to the design department where product lines can be altered, supplanted or created in a matter of days.

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