

Strategic decision making case study: zara



Introduction

ZARA is the brand of the Spanish retail group, INDITEX SA. It's one of the well known performers in a retail market in recent years its stores can now be found in the most important shopping districts of more than 400 cities in Europe, the Americas, Asia and Africa. With year-on-year sales increasing at around 25% over the last 5 years, it has become one of the world's fastest growing retailers (Lopez, 2009).

Task 2

Strategic decision

A strategic decision is what is thought to be a long-term investment and which is helpful in changing the direction of business undergoing in any organization. Such a decision can be a lot risky as the market changes very rapidly but if it turns out to be successful it give a competitive advantage over its competitors. The decision will be made by the top level management in a company and the shareholders will be consulted for that (Harris, 1998).

Example

For taking an example of a strategic decision we can take a look at their working with a design driven strategy, they produce about 11000 styles per year which means that they produce about 1000 new styles every month which is managed by a team consist of experts in design and development fields of over 200 people. This means that every member of the team on average is producing around 60 styles a year. As a result of that in zara stores a customer can always find a customer can always find new and latest

products. This comes out to be a successful strategic decision in order to gain the competitive edge and higher profits in the market (Machuca, 2005).

Tactical decision

The second type of decision is called tactical decision making. Such a decision may be made by a group of managers but the shareholders are not involved in it as it is a medium term decision and have a lesser effect than a strategic decision. The result of such a decision can be seen within a period of less than a year or so and it has no contribution in changing the direction of the business. (McKinne)

Example

An example of such a decision is Zara's unique approach to advertising and marketing. It is an additional factor within their business model which adds a lot to their success. They spend 0.3% of total revenues on advertising and marketing. This percentage is very less as compared to the competitors in their markets as on average companies like GAP and H&M spend about 3-4% of their total revenue for the similar expense this shows that Zara is successfully maintain a cost advantage to their competitors in marketing activities. For competing with its peers successfully Zara uses different useful locations, store layouts and the life cycle of its products as an effective marketing tool. they open their stores in prime markets to get the maximum visibility. And as mentioned earlier their products are in stores for a very small period of time which provokes the customer to visit time and again and make a rapid decision about purchasing as they might not get that product again when they visit the store even next day. Zara also spend

heavily to the layout of their stores each store is remodeled after every five years to keep up with the current trends (Gallaugher, 2008)

Operational decisions

Operational decisions are those which are made on regular basis the effects of such decisions are often minimal and usually do not last for more than a week of so these decisions are mostly done by staff and do not require much of an attention by the top level management (Harris, 1998).

Example

The example of such a decisions at Zara is its Centralized Logistics and Distribution they have maintain a control and have optimized their supply chain very effectively at many different levels. Within a week there are two orders or prescribes specific days and hours with usually prepared overnight shipments in La Coruna. (Felipe et al., 2010)

There are specific times for trucks to leave and shipments to arrive at stores, the garments are pre-hung, already labeled and priced even those which are set by air. As a result of this clearly defined rhythm, not on the supply chain works smoothly but also the customers know the time and days to visit the stores to get the fresh arrivals and new designs. It is very interesting to know that where in industry a standard time of 6 months has to get the product from sketch to store Zara does this in a remarkable short time of just 2 weeks (Vitzthum, 2001)

Task 3: Information needed for decision making

Following is the explanation of the type of information required for strategic and tactical decision making. Human intelligence such as information from <https://assignbuster.com/strategic-decision-making-case-study-zara/>

store managers and market research and information technology such as PDA devices are being used in order to form a hybrid model for flow of information from where houses to stores. Manager present at Zara stores use hand handheld device to send the standardized information about the feedback by customers and ordering needs directly to in house designers. This not only support and helps in making strategic decisions along with the rapidly changing trends and customers demand but also make the company be aware about the merchandise which is less desirable. The competitors of Zara completely rely on information technology which the unique approach being used by Zara makes them manage their inventories well helps them create a link between demand and supply and also helps in controls the problems occurring due to obsolete merchandise.

For supporting the operational decisions Information from the distribution centers and from the production facilities, gives a better view to the manager of a certain store about the availability of garments at the stores this also helps in adjusting their orders and passing on information needed by the customer. (123HelpMe. com, 2010)

Task 4: Competitor's intelligence

The competitive intelligence is a process of monitoring the activities of rivals in market. It helps to know about competitor's plans and review the own strategies for taking successful decisions (Arik, 2010).

Main competitors of Zara are H&M and Gap. H&M OPENS its distribution centers in the region it has its stores in order to cut down the lead time and transportation cost. It also heavily investing in advertisement which helps

them cater large market size and capture attention of a lot of customers worldwide. Another risk which is reported to the Inditex group it works by reinvesting all its profits in opening new stores H&M is Sweden based retailer that spent heavily in advertising and is a close competitor of Zara. H&M opens its distribution center in the country of its operations so as to cut down on lead time and transportation cost. (Pankaj and Jose, 2006)

The process which is adopted by Zara of obtaining the market information is very different from its competitors. Many of them majorly rely on small elite design teams that plan all the needs of the business. Their stores have a very little autonomy in deciding which products they should put in display or which to go for sale because the quantities are planned and shipped according to the forecasts. Where the speed of Zara in product development is far better than anyone in the market (123HelpMe. com, 2010).

When it comes to Strategic Partnerships and Cost of Production Most of Zara's competitors have 100% outsourcing to cheap Asian countries. Zara does not use Asian outsourcing unlike its competitors such as Gap, Benetton, and H&M and 80% of Zara's materials are manufactured in Europe with 50% made in Zara controlled facilities in the Galicia region of Spain . The cost of production in Spain is 17-20% more expensive than Asia this gives a cost advantage to its competitors in regard to labor and expands their market worldwide (123HelpMe. com, 2010).

The information and communication technologies being used by the competitors of Zara are quite different the cost spent by Zara in this regard is less than 0.5% of its total revenue and the IT employees account for about

0. 5% of Zara's total workforce. And if we take a look at its competitors they spend on average 2% of their total revenue on it expenditures and have 2.5% of their total workforce devoted to it. Which certainly makes their working far better in these areas? This is the global age and these gimmicks are demand of the time so Zara should pay some more attention to it both financially and strategically (123HelpMe. com, 2010).

Task 5: Importance of Business-To-Business for Zara

Business to business commerce is a form of E-commerce involving business to business transactions, servicing customers, working with other businesses and the exchanging of products or services. B2B opens up a global market at little cost, reduces the costs of sales and promotions and can increase demand. This term specifically defines the electronic collaboration among different enterprisers. The B2B is a lot more important for Zara to promote its business activities at a bigger level and to cater a bigger market. It makes sure the world about the about the presence of variety of products available in its stores. Zara is even new to e-commerce as it launched it website in 2009 (Alisa, 2009).

As compared to its competitors Zara is offering cheaper rates and a good quality product that is why many dealers would want to make a purchase to save their expenditure on high prices designers clothes of same quality. This will also give the benefit of saving time and money because after taking the order the product may be delivered to the door step of the customer. And other e-commerce retailers who are involved with fashion will be looking carefully to what Zara's online store can bring to online shoppers. The pace of which your ordinary high street stores are moving online and developing <https://assignbuster.com/strategic-decision-making-case-study-zara/>

e-commerce solutions is set to lead to a more intensified competition for online sales, and more focused e-commerce marketing strategies.

(DeltaQuest, 2010)