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Zara:
Fast Fashion – Prevailing Passion

Introduction:

Zara, a brand specializing in women's, men's and children's apparel, was founded in 1975 in Galicia, Spain. Zara sells clothing, accessories as well as shoes allowing customers to do "one-stop shopping" for all their needs. The company's primary target market includes upper middle-class, trendy, women ages 16-35, who enjoy exquisite and unique designs (Global Logistics & Supply Chain Strategies).

After its success in Spain and large fashion hubs in Europe, Inditex, Zara's parent company decided to expand to other countries and regions. Currently, there are over 1,100 stores in 68 countries; the same approach is used in all stores regardless of country or region (Global Logistics & Supply Chain Strategies). Zara focuses on consumer tastes in a distinctive manner providing short lead and quick turnaround times for all designs while utilizing a unique marketing approach. The company has also established an initiative called "fast fashion," which is based on catering to clients' desires and providing them with a large selection of items on a daily basis. These strategies allow Zara to differentiate itself while sustaining a competitive advantage over its major competitors H&M, Benetton and Gap.

Currently, Zara is the leading global clothing retailer in the market (Guardian). Jesús Vega, Director of Zara's Human Resources, attributes the success of the Zara's brand to its internal values. He states that "Freedom, perfectionism, responsibility, [the ability] to respond quickly, to be flexible … and to be consistent when acting with this freedom" is the reason why the brand is thriving (Zara: Fast Fashion Video).

Competitive Advantages:

Zara's vital resources and capabilities have enabled it to gain an advantage over its competitors and become the leading global clothing retailer. Among these resources and capabilities, Zara's most valued competitive advantages include its "fast fashion" business model, original management style and unique client-oriented stores. An analysis of these competitive advantages and other important aspects are found below:

Resources

- *Client-Oriented Store Organization:*
    - *Fresh Ideas*: New products are shipped twice a week allowing constant changes in style selection. Customers enjoy coming to Zara because each time they shop, they find new clothes, shoes and accessories. This intrigues them and, as a result, prompts them to visit Zara's stores more often than its competitors'. By constantly introducing new, low-price items, Zara entices new and existing clients to return to Zara regardless of sales. Such a business model increases customer satisfaction as well as company profits.
    - *Store Layout*: The stores are created in a way that is attractive to customers. Unlike most of their competitors, Zara recreates their older stores every three or four years to adhere to demand and maintain customer interest. Moreover, three-quarters of the display merchandise is changed every three to four weeks. This is done to capture the interest and meet the needs of Zara's repeat clients since research determined that existing shoppers visited the stores

about 17 times a year. In addition, word of mouth advertising creates a positive pre-emptive vision of Zara stores.

- *Management Style & Information Transfer:*
  - *Flat Hierarchy*: Top directors choose to treat each store as its own business and as a result, there are very specific reporting requirements and targets set for each store. By requiring individual stores to monitor trends, store managers take an active role in determining which merchandise to restock or discontinue as well as provide insight about demand for new products. "For those who want to adapt to our business model, they will have to…change the method of applying human resources, which is most costly. This is where Inditex's competitive advantage lies" (Zara: Fast Fashion Video).
  - *Open Lines of Communication:* Most companies have much bureaucracy associated with the way valuable information about trends and behaviors is transmitted within the company, but Zara has a fast solution in which lines of communication are wide open. "… Zara's organization, operational procedures, performance measures, and even its office layouts [are] all designed to make information transfer easy" (Ferdows).
- *State-of-the-Art IT Systems:*
  - *Advanced Just-in-Time Manufacturing System:* The "advanced telecommunications systems [connects] headquarters and supply, production and sales locations" (Zara 9). Highly developed systems facilitate the tracking of customer preferences, company trends, fashion fads etc.

- *Personal Digital Assistants:* PDAs are also used throughout the company to enhance and allow for more effective and efficient communication methods. "Through the PDAs and telephone conversations, stores transmit all kinds of information to La Caruña such hard data as orders and sales trends and such soft data as customer reactions and the 'buzz' around a new style" (Ferdows).
- *Production Schedule*: Zara's fast production schedule demands precision within technological systems. "The central creative function relies on computer-aided design technology to refine prototypes. But the designers can also send specifications directly to cutting machines and other equipment in the production process" (Computer Weekly).

- <u>*Ideal Store Locations:*</u> Zara stores are found in highly visible locations such as the Champs Elysees in Paris, Regent Street in London and 5th Avenue in New York. The company considered these locations valuable assets amounting more than 400 million Euros. Diego Copado, leader of Zara's corporate communications team, agreed saying, "We have the best creative energy in the world - our real estate department" (Zara: Fast Fashion Video).
- <u>*Limited Products:*</u>
    - *Created Scarcity*: By producing lower quantities of clothing and having limited amounts of merchandise in stores, Zara has been able to artificially increase demand for clothing, accessories and shoes. "The emphasis on fast turnaround motivates consumers to purchase items on the spot. Unlike in many clothing stores, where seasonal lines remain on the shelves for weeks or months, a particular style in a Zara store can disappear within a week" (Global

Logistics & Supply Chain Strategies). This creates a sense of "scarcity and opportunity" and facilitates immediate revenue.

- *Low Risk for Failure:* Because there are small quantities of merchandise, there is virtually no possibility of large design failures that would dissatisfy clients and decrease overall profits. Limited quantities of poor performance items are sold quickly and easily during sales. In fact, in 2003, Zara's failure rates on new products were 9 percent lower than its competitors' (Zara 10).

Capabilities

- *"Fast Fashion" Model:* This unique strategy develops a continuous production based on market research, employee observations and consumer demand. The fashion forward strategy enables Zara to exceed customer expectations.
- *Quick Response:* The quick response strategy is a "set of policies and practices targeted at improving coordination between retailing and manufacturing so as to increase the speed and flexibility of responses to market shifts" (Zara 3).
- *Low Cost and Low Outsourcing of Production:* Zara designs, creates and sells clothing at low costs allowing it to increase overall revenues. By outsourcing less than its competitors, Zara has more control over its product lines. "Inditex brings more than 10,000 new items to market every year, dwarfing the likes of nearest rival Hennes & Mauritz (H&M), with half the output. Essentially, production batches are deliberately kept small to control supply and create demand" (Computer Weekly). Furthermore, while most stores ship new items only a few times a season, Zara ships new products twice a week.

- *Production Cycle:* Zara is able to create new designs and deliver them to stores within four to five weeks for restocking purposes while designs with minor modifications could be sent to stores within two weeks. This is an incredibly short turnaround time since most brands take up to six months to design and at least three months to manufacture. Additionally, as previously mentioned, the design organization is flat, which allows for equal opportunity and autonomy in the workplace. Zara is able to gain insight from all individuals within the organization regardless of status.
- *Lower Lead Time than Major Competitors:* Vertical integration plays a key role in Zara's success. All internal and external production flows into Zara's central distribution center. As a result, large inventory and warehouses are eliminated and products are shipped directly from the central distribution center to company stores twice a week. Centralized manufacturing decreases lead time enabling Zara to react quickly to fashion fads and trends. Deputy Chairman and CEO, José Maria Castellano explained that Zara is the leader because of its internal production. "Because we organize production here in Spain, we compete effectively in terms of response times. Our competition in terms of costs corresponds to the products we don't produce internally," he said (Zara: Fast Fashion Video).
- *Three Channel Operation System*- There are separate design, sales, procurement and production-planned units for each line (men's, women's and children's). Although it is more expensive to operate in such a manner, the supply chain is much more direct. Furthermore, the three groups work in close proximity enhancing the communication, and allowing for faster design, development and implantation. The designers also frequently interact with market specialists, who communicate often with store

managers and provide recommendations as well as feedback about designs and prices. Procurement and production planners assist as well by providing financial estimates. "The cross-functional teams examine prototypes in the hall, choose a design, and commit resources for its production and introduction in a few hours, if necessary" (Ferdows).

- *Unique Approach to Marketing:* In 2003, Zara only spent 0.3 percent of its profits on advertising. The brand does not focus on creating an image for women, men or children through media advertising. Zara, on the other hand, chooses to utilize only word-of-mouth advertising to promote its products. This allows Zara to remain a sophisticated, sought- after name instead of becoming another irritating retail brand name that consumers see daily. "The subsequent word-of-mouth, every time you open a store, the trajectory of your growth is improved and the awareness of your product increases" explained Diego Copado, a specialist at Zara's Corporate Communications (Zara: Fast Fashion Video). Zara chooses not to advertise, focusing on brand loyalty and customer satisfaction from their existing shoppers to encourage new customers. Deciding not to advertise differentiates the brand and decreases overall costs. Essentially, "the high traffic in the stores circumvents the need for advertising" (Ferdows).

Financial Results and Operating Economics:

Inditex's financial results at the end of 2001 proved to be contingent upon the distinctive business model and competitive advantages of Zara. The May 2001 initial public offering was largely based on the future success of Zara. Inditex's 2001 financial results showed the strengths of the company; the Zara brand contributed much to its success. Fundamentally, Inditex had high operating expenses because of its “fast-fashion” model, a constant production of clothes and accessories.

At the close of the first quarter for the fiscal year of 2008, Inditex’s revenue grew 9 percent to 2.2 billion Euros, approximately $3.46 billion (Portfolio). With the increase in oil prices and, as a result, consumer goods, many companies have seen a significant decrease in sales. For example, Gap's sales dropped 10 percent to $3.38 billion during the first quarter of 2008. In contrast to Gap, Zara’s unique production model has enabled it to remain successful even with a downturn in the economy. “The ability to offer inexpensive and trendy looks to consumers is still relatively new, and is changing the game for anyone looking to get a share of a young woman's wallet” (Portfolio). An increase in revenue for Zara contrasted by a decrease in revenue for a close competitor, Gap, explains the difference between the business model of the Zara brand and that of its competitors. This difference is reflected in its financial statements and has prevented the company from losing revenue in a decreased consumer spending economy.

Furthermore, Zara has expanded so largely and so successfully that it has become the world’s largest clothing retailer in the world, replacing its strongest US competitor, Gap. This is the first time the Spanish brand has surpassed Gap; much of this success can be attributed to the buying power of the Euro. Though in recent weeks the Euro has shown a slight decline, Zara’s strong presence in Europe and abroad enabled it to succeed across boarders. Three years prior, Zara declared victory over H&M becoming the most successful European brand. In fact, in 2007, Inditex’s profits grew 25 percent to 1.25 billion Euros. Two thirds of Inditex’s revenue is attributed to Zara’s success. 2007 revenue for Inditex amounted to 9.43 billion Euros with 6.26 billion Euros from sales from Zara (Guardian).

As one of 2007's "Business Week's Top 100 Global Brands," the Zara brand is said to be valued at $5.165 million, an increase of 22 percent from 2006 (BusinessWeek). Zara's unique strategy has set it apart from its competitors and has enabled it to be the number one clothing retailer. Key features of this strategy explain the variety of positions in its financial results. Contrary to popular belief, Zara's business model is not solely based on financial results but on customer demand. Borja de la Clerva, Finance and Management Control expert explained, "We think the company has never been run accordingly to financial parameters nor has it been governed by financiers, and therefore, it should never be governed by financial investors such as stock market investors" (Zara: Fast Fashion Video). Focusing on its customers rather than only on its investors has facilitated Zara to remain a leader in the retail market.

An analysis of its financial statement at the close of 2001 has explained the various positions of Zara with regards to its competitors.

- *Small Number of Current Assets*: Because Zara has developed and perfected the "fast-fashion" model, it does not have extensive resources such as textiles, excess clothing in stock or warehouses. In 2001, Inditex had the least amount of current assets. The closest competitor was H&M with 1,468 million Euros in current assets (Zara 24).
- *Many Store Locations in Home Country:* Inditex had the largest percentage of stores located in its home country of Spain in comparison to its European competitors. With 60 percent of its stores located within Spain, Inditex was able to continue its business model by transporting clothing and accessories to its national locations. Italian based Benetton was the closest competitor with 40 percent (Zara 24).
- *Great Operating Profits*: Inditex had the strongest earning power amongst its competitors. With 704 million Euros, Inditex's operating profits were far greater than

even its closest competitors'. H&M had 589 million Euros. Zara's strong operating profits could have been attributed to its focus on employee training and store ambiance (Zara 24).

- *Significant Market Value change:* In 2001, Inditex's initial public offering greatly increased its market value. The IPO was mostly based upon the success of the Zara brand. In fact, 76 percent of the equity value was based upon the future success of Zara. It increased its market value by 47 percent in one year. The only competitor to have had an increased change is H&M with a mere 8 percent increase (Zara 24).
- *Large Number of Employees:* At the end of 2001, Inditex had 26,724 employees, a number larger than all of Zara's European competitors. With 80 percent of Zara's employees engaged in retail sales in stores, the success of the company brand was portrayed through the equity in its human capital (Zara 6).
- *Major Expansion:* Capital expenditures increased for Inditex based on the strong growth strategy of Zara. Once a Zara store was established in a country and had proved to be successful, multiple stores were introduced in the region and continued to develop. Approximately 80 percent of capital expenditures were focused on new store openings, 10 percent on refurbishing, and 10 percent on logistics/maintenance (Zara 6).
- *Key Investments in Property, Plant and Equipment:* As previously mentioned Zara heavily invested in its store locations. By introducing its stores in the most popular shopping locations, Zara hoped to attract more customers and create stronger brand awareness. Intidex had 1,228 million Euros worth of property, plant and equipment

while Benetton had almost less than half at 720 million Euros and H&M had only 661 million Euros (Zara 24).

- *Large Operating Expenses:* Though Inditex's operating expenses were not the greatest amongst its competitors, the operating expenses were relatively high based on continued production throughout the season. With 982 million Euros in operating expenses, at the close of 2001, Inditex still had a net income of 340 million Euros, second to H&M with 410 million Euros. Benetton, conversely, had a substantially lower net income of 148 million Euros while Gap finished with negative 9 million Euros (Zara 24).

Competitor Analysis and Potential Failure:

Gap and H&M, Zara's main competitors, are the two largest apparel retailers in the world. Gap focuses on selling more casual clothes like T-Shirts and jeans as well as "smart casual" work clothes. However, unlike Zara, 90 percent of the production is outsourced from outside the US, while its store operations remained "US-centric." In actuality, outsourcing reduces operating costs without the loss of knowledge or strengths of its U.S. home base.

Swedish rival H&M is considered Inditex's most fierce competitor. Although its lead times are significantly longer than Zara's, they are considered fine by industry standards. H&M has also been expanding much quicker internationally than Zara; it was able to acquire more than half of its sales outside of Sweden by 1990, ten years before Inditex. The approach is centered on entering one country at a time and building a distribution center in each. Though H&M markets differently to various customer segments, it operates on a single format.

H&M is a ferocious rival because the target markets are similar yet the strategies are completely different. A quarter of H&M's merchandise includes "fast-fashion" items that are designed within the company and outsourced to independent factories; however, H&M also sells large amounts of basics creates in cheap, Asian factories.

Generally, the company offers lower prices and does extensive advertising to engage its audience. It also employs fewer designers and renovates its stores less frequently allowing for higher annual profits. Finally, H&M invests in acquiring H&M exclusive lines from main designers such as "Stella McCartney and Karl Lagerfeld to create limited, one-time collections, which generally sell out within days" (Tiplady).

Benetton, an Italian brand and another Zara competitor, has a very different strategy. Benetton invests in production but runs its stores through licensees. It outsources to subcontractors anything that was labor-intensive or scale-insensitive. Benetton sells production through licensees often choosing entrepreneurs with no more than $100,000 to invest in a small outset that only allows Benetton products to be sold. Besides having a different business model, Benetton also has very controversial advertising, which raises brand awareness. The company has a strong advantage because it had the first mover advantage in terms of dyeing.

Clearly, the strategies of H&M, Gap and Benetton are very different but they are all successful. As Zara continues its expansion and opens more stores in key locations, it is at risk of failure because the company may have difficulty maintaining its business model and production strategies. The centralized logistics model will be very difficult to maintain once a plethora of new stores open. Customers may get disappointed when Zara fails to deliver constant new clothing at the same low prices.

Another possible reason for failure is the risk associated with high expectations of future growth. In truth, "76 percent of the equity value implicit in Inditex's stock price is based on these expectations, higher than 69 percent for Wall-Mart or, for that matter, other highperforming retailers" (Zara 1). Inditex lacks a proper hedge against the risk of failure of the Zara brand. Because its other chains are far less successful, a failure in the Zara brand could deplete the entire company.

Galicia Analysis:

Advantages:

Spanish consumers demanded lower prices but were not as fashion-conscious or brand loyal as Italian clients. Though in most recent years there has been a dramatic change in this regard, Spaniards are, to this day, more willing to sacrifice brands for low prices. On the supply side, Spain was productive in apparel manufacturing based on European standards but lacked Italy's successful vertical chain, high quality fabrics and international fashion image. Though Italian fashion companies developed more quickly and efficiently, Spain continued in its steady path and moved across borders in the 1990s proving to be consistent and successful.

Disadvantages:

Galicia, a city on the northwestern tip of Spain, is the third poorest of Spain's 17 autonomous regions. In 2001, it had an unemployment rate of 17 percent while the national average was 14 percent. It also had poor communication links with the rest of Spain and had always been reliant on agriculture and fishing.

In addition, since the Renaissance, the region "lacked a strong base upstream in textiles, sophisticated local demand, technical institutes and universities to facilitate specialized initiatives and training, and an industry association to underpin these or other potentially cooperative activities" (Zara 6)

Global Advantages:

Figure 1 analyzes the internal and external aspects of Zara's strategy and the potential growth for the future.

Figure 1. SWOT Analysis for Zara

STRENGTHS	WEAKNESSES
- Strong Brand Name/Reputation - Unique Word of Mouth Advertising - Favorable Access to Suppliers (EU) - Strong IT System for Distribution	- Lack of Print Advertising - Universal Product Line - Lack of Access to Key Suppliers (US)

Internal

OPPORTUNITIES	THREATS
- Foreign Direct Investment - Strategic Locations - Focus on Customer Wants and Needs	- Currency Risk - Change in Fashion Trends/Substitutes - Weak Market Conditions

External

<u>INTERNAL</u>

Strengths:

- *<u>Strong Brand Name/ Reputation</u>* – Zara has high brand recognition. In fact, existing customers often memorize delivery schedules to ensure that they are able to buy the newest items.
- *<u>Word of Mouth Advertising</u>* – Zara spends significantly less capital on advertising than its competitors. Word of mouth has sparked customer demands and interests.
- *<u>Favorable Access to Suppliers</u>* – Zara utilizes a limited number of suppliers. Because of this fact, it is able to build and maintain successful relationships over a long period of time.

- *Strong IT System for Distribution* – Zara invested in high-tech technology long before its competitors. Focusing on just-in-time manufacturing, it has mastered its production strategy and eliminated much of its risk exposure to failed fashion designs.

Weaknesses:

- *Lack of Print Advertising* – Though Zara has depended on word of mouth advertising, it could have potentially restricted its brand recognition with lack of print advertising. Its competitors, who focus strongly on advertising, are often more recognizable and well-known in the industry.
- *Universal Product Line* – Because Zara's design styles are consistent from country to country, the brand is limited in culturally diverse markets. H&M, for instance, focuses on appealing to the many cultural differences its customers provide, and consequently, provides different product lines in different countries.
- *Lack of Access to Key Suppliers* – Zara continues to keep a limited number of suppliers to develop strong relationships. However, as Zara continues to expand, it should develop new relationships in other areas to reduce costs and find greater access channels.

EXTERNAL

Opportunities:

- *Foreign Direct Investment* – As Zara continues its global expansion, strategic business agreements will enable Zara to find greater presence abroad. Zara can provide opportunities for foreign investors and enable greater communications and relationships with foreign markets. As other companies recognize the success of the "fast fashion" model, they may be more apt to adopt the practice offering potential partnership or acquisitions for Zara.

- *Strategic Locations* – Finding ideal locations in new countries provides the opportunity to gain valuable real estate. By introducing stores in the most fashion-forward locations, Zara may be able to increase its assets.
- *Meeting Unfulfilled Customer Needs* – Zara must continue its market research to provide the products that its customers want and need in the most fruitful locations.

Threats:

- *Currency Risk* – Expanding globally introduces the risk of a devaluation of a currency. As Zara expands to less developed countries, exchange rates and economic shifts will need to be hedged.
- *Change in Fashion Trends/Substitutes* – As mega stores continue to gain popularity, Zara is at risk of competing with cheap, bulk producing stores such as Target or Wal-Mart.

Zara's Past International Strategy:

One of the strategies that Zara used is often referred to as the "oil stain" strategy in which Zara began by opening a flagship store in a major city and after developing some experience of operating locally, added stores in nearby regions (Zara 15). Because Zara saw benefit in slowly entering a market until it had ensured success, its other competitors had expanded into these areas more quickly with a less analytical model.

Major expansion, however, was quite different for Zara than for its competitors. Zara found that it was cheaper to deliver to sixty-seven shops than to one store. As a result, large expansion meant greater customer awareness and fewer costs since Zara did not promote the brand through advertising and had no local warehouses. The only cost they incurred was headquarters' costs which allowed for higher revenues.

Another strategy was intensive research. In order to find optimal locations for its stores, Zara searches for markets that were similar to their basic Spanish markets. The company also conducted macro and micro analysis looking for similar economic development patterns as Spain's focusing on local demand, channels, available store locations and competitors. To make the transition smoother, it was also vital to consider the local country's political and legal matters such as taxes, tariffs, legal costs, property rent, salaries etc.

When entering into another country, Zara used three strategic modes of expansion: company owned stores, joint ventures and franchises.

a. Zara utilized company managed stores in key, high profile countries with high growth prospect and lower risk. This was not appropriate for all countries because company-owned stores required the greatest allocation of resources including management time (Zara 16).

b. Franchising was used in small, risky countries with cultural differences or administrative barriers that encouraged participation. Examples included Andorra, Iceland, Poland, and countries in the Middle East (Zara 16-17).

c. Joint Ventures were used in larger, more important markets where there were barriers for direct entry such as the difficulty of obtaining prime retail space in city centers. Examples included Germany and Japan (Zara 17).

It appeared that Zara's model of expansion hindered it from other opportunities of growth. For example, Zara chose not to acquire foreign chains that were conflicting with their business model and overlapping store networks with physical and cultural barriers. H&M had found acclaim for its accurate reflection of the given culture in each market it entered. If Zara had acquired companies in markets challenging to enter due to cultural barriers, it could have adjusted its business model to not only respond to demand for its current products, but those yet to be created by Zara with strong demand in the respective areas.

It was also important to examine the marketing changes across national borders. First, local pricing demands and levels were studied, creating a market-based pricing strategy. Customer prices were on average 40 percent higher in Northern Europe than in Spain, 10 percent higher in other European countries, 70 percent higher in the Americas and finally 100 percent higher in Japan (Zara 17).

Second, there were many variations in positioning that were presented to the public. For example, in South America, Zara positioned itself in a more sophisticated, high-end manner than in other countries. It also emphasized that the items are “made in Europe” not “made in Spain” as to eliminate the possibility of alienating any markets (Zara 18).

Although Zara adhered to cultural, physical and climate differences by allowing each store to apply its own management style, promotional tactics and manufacturing strategies were not altered. In fact, 85-90 percent of the basic designs did not vary from country to country (Zara 18). This was successful because Zara realized that tastes did not vary significantly from place to place.

Sustainability

In order for Zara to continue its success, it must focus on adapting its distinctive competency and core competency to reflect on a larger, more global scale. Zara finds its distinctive advantage in the “fast fashion” business model. Unlike its competitors, Zara has created and perfected a more customer focused strategy, which its clients have been receptive to.

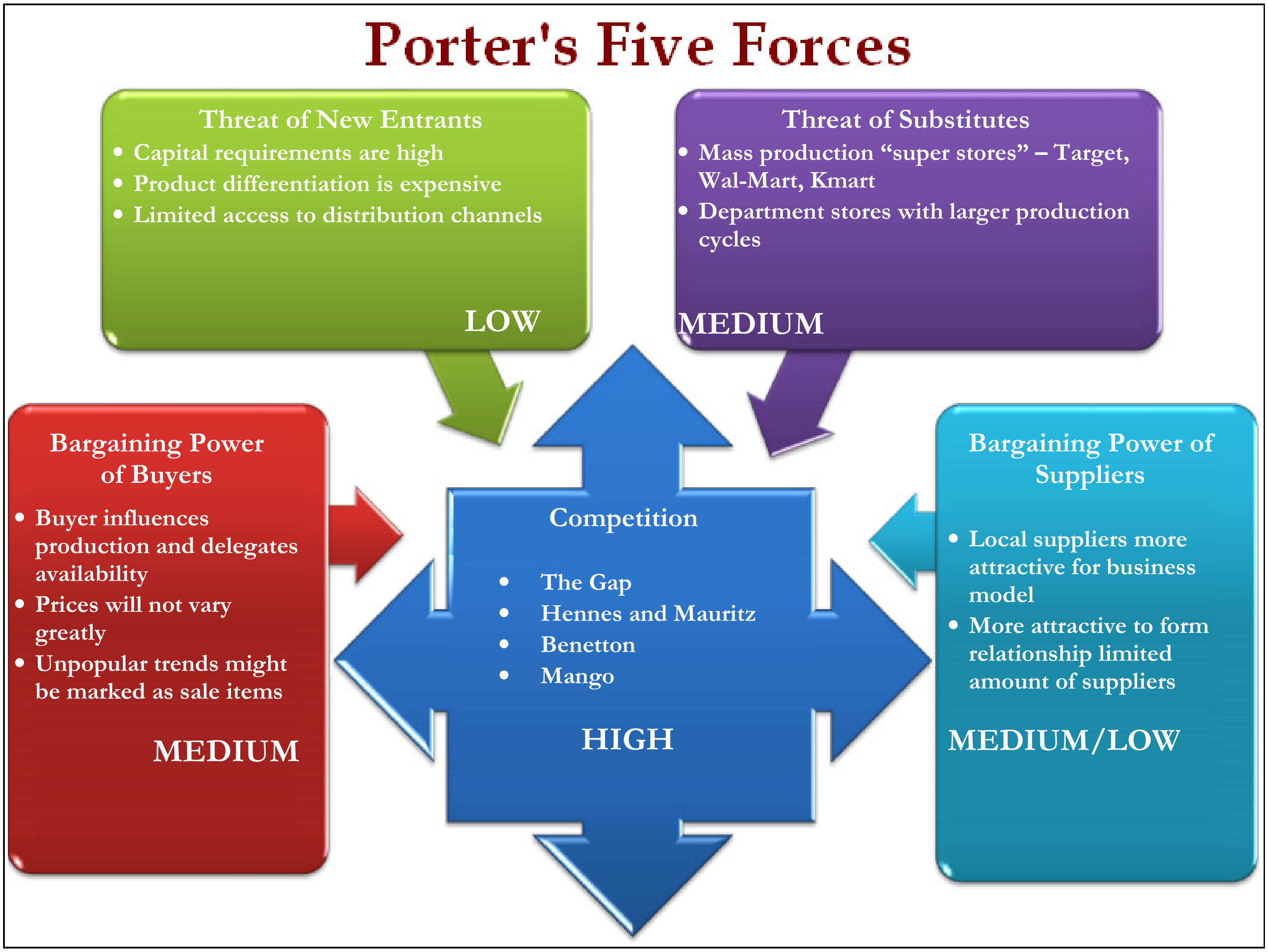
Its clear dominance in the retail market can only remain so if it continues to respond to each individual demand. Ramón Reñón, Director of Expansion explained, "What we have is a business template, which we follow because the actions of one country can impact other countries" (Zara: Fast Fashion Video). This business template enables Zara to enter new markets with a fresh look and recognized experience.

Zara's core competency lies within its human capital. Among its talents, Zara's employees, regardless of rank, are innovators. Juan Carlos R. Cebrián agreed**,** "…when the competition gets to where we are, we will have invented something new" (Zara: Fast Fashion Video). Zara's business model is sustainable because it breeds innovation. The model calls for constant environmental adaptation and employee freedom.

With the more recent economic turn, Zara's business model has become even more triumphant. Bulk producers have felt the burden of the overwhelming decrease in consumer spending. Zara has been able to reflect these economic patterns in order to hedge against this extreme risk and remain successful over its competitors. Deputy Chairman and CEO, José Maria Castellano, remarked, "We're in contact with our investors. We pay attention to the additional information they give us which is important to analyze just as the information we get from our customers, from analysts, mass media, the professionals and universities. We are not limited by capital markets" (Zara: Fast Fashion Video). Without the constant pressure from solely adhering to investors' wants and needs, Zara has offered the best services to its customers worldwide.

Best Opportunities for Growth:

The current strategy can transcend to a more rapid expansion of growth if it accurately adheres to the environmental factors that affect its business. Porter explains that the intensity of competition within an industry is correlated to profit and long-term return on invested capital. The analysis of Zara within the global apparel industry is examined below.



- *Rivalry is High:* Competition in this market includes other apparel chains with similar offerings. Major competitors include The Gap, Hennes and Mauritz and Benetton. Mango could also be considered as a rival.
- *Threat of Potential New Entrants is Low:* Acquiring entrance into this market is difficult. Capital requirements such as store locations, production costs and product

differentiation are incredibly expensive. Access to distribution channels may be limited.

- *Threat of Substitutes is Medium:* This ready-to-wear apparel industry largely depends on price variations. As a result, if prices became too high, demand would decrease and consumers would look for substitutes such as stores with larger production quantities for lower priced items. Substitutes include "super- stores" such as Target, Wall-Mart and Kmart as well as department stores.
- *Bargaining Power of Buyers is Medium*: The reaction of the buyer leads Zara's business model. Buyers' practices change production quantities and schedules and depict many sales. However, customers cannot ultimately declare a price for desired items.
- *Bargaining Power of Suppliers is Medium- Low:* Though there are many suppliers to this industry, Zara chooses not to outsource as greatly as its competitors. Zara maintains relationships with a limited amount of suppliers. In fact, Zara utilizes about 20 suppliers for all its external purchases (Zara 11).

Recommendations:

- *Increase Store Locations in US Cities:* In order to become an irreplaceable brand within North America, it is important to create brand awareness in US cities. Currently, there are only 16 U.S. urban stores (www.zara.com). If compared to Paris, France, which has 22 stores, Los Angeles looks like unexplored territory, housing only one Zara store. It seems rapid urban expansion is necessary to increase brand awareness. Because H&M and Gap can be found in most strip malls and shopping malls in suburban areas, they are not viewed as "sophisticated urban chic" while Zara has acquired such a reputation among young individuals. By only selling to the urban market, Zara will maintain its upscale appeal while differentiating itself and expanding in the United States. Though the US dollar is weak compared to the Euro, US consumers tend to have high spending practices. However, in the more recent weeks, the US dollar has increased; a fact that will continue to attract consumer spending.

- *More Advertising*: Although the brand is successful without major advertising expenses, Zara should introduce a marketing initiative with a unique concept. Clients remember the brand names that are constantly present in their lives. Examples include retail advertisements in magazines, billboards and even in the metro. It is vital that the name "Zara" remains in shoppers' minds as the "hot, new place to go for trendy yet inexpensive clothes." Unlike Zara, H&M, Gap and Benetton invest heavily in advertising. As a result, it would be wise to captivate potential customers via unique advertisements.
- *Expand business acquisitions*: Though Zara has historically declined the acquisition of other smaller brands, this could offer a unique entrance to more challenging markets. As Zara's global expansion continues to show a rapid increase, with strategic acquisitions and joint ventures, Zara will dominate markets that its competitors have battled for entrance.
- *Invest in Automated Inventory Systems:* It is clear that Zara is a leader in response time to its customers; however, this process is incredibly time consuming for its managers. Investment in IT systems could speed up the process of reporting successes and failures to headquarters and allow for an even faster production cycle (Computer Weekly).
- *Focus more strongly in the Zara Men's Line:* In the past year, men's clothing sales have increased while women's sales have decreased. According to CNN.com, "…solid sales

> gains in menswear and a deepening funk in the far larger women's clothing business -- is creating a rare sales disparity that hasn't been seen in years. Zara, a retailer more popular in its women's line, could find success in focusing on sparking demand for the men's line.

Managing Director, Juan Carlos R. Cebrián summed up the success of the Zara business model with one word: **"**innovation. The company is in a state of constant innovation" (Zara: Fast Fashion Video). This constant innovation, marked by refreshing financial increases over the years, has placed Zara at the top of the retailing field.

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