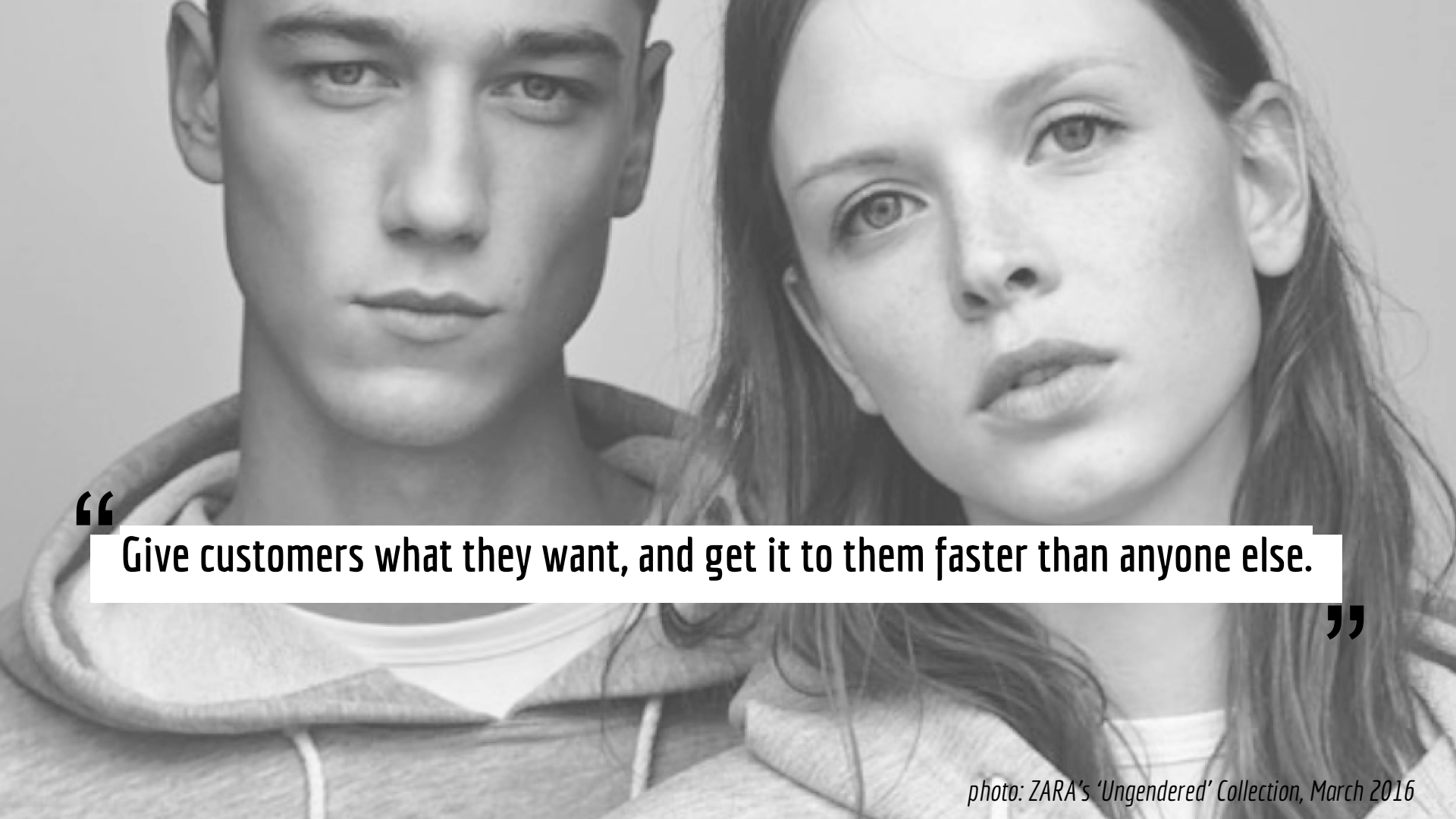




ZARA's Business Strategy

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“

Give customers what they want, and get it to them faster than anyone else.

”

photo: ZARA's 'Ungendered' Collection, March 2016

In a preview

- ZARA's main characteristics
- The Fast Fashion Industry
- External Analysis
- Internal Analysis
- Financials
- Expansion Performance
- Recommendations

Amancio Ortega started a small company in Spain that manufactured women's pajamas and lingerie products for garment wholesalers.

The first overseas Zara store opened in Porto, Portugal, followed shortly by New York City in 1989 and Paris in 1990.

Zara launched online stores in the US and Asia.

1963

1975

1988-1990

1990-2000

2011

2016

The first Zara retail shop in the centre of La Coruña, Spain. 6 more stores until 1979.






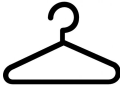








Inditex entered 29 countries in Europe, the Americas and Asia.

Inditex is in 88 markets in all five continents, with upwards of 7,000 stores. Today, ZARA counts 2,085 stores in 88 markets and 26 online markets.

ZARA

Main Characteristics

- A brilliant, cheap, short supply chain that delivers **similar to luxury** brands fashion at a much **lower price**.
- **The pioneer** in fast fashion industry & the third largest brand in the garment industry.
- For Zara **speed** and **responsiveness** are more important than cost.

| | | | |
|--|---|---|---|
|  <p>the largest brand of Inditex</p> |  <p>product lines (Women, Men, Child)</p> | <p>20 b.</p> <p>euro total sales 2015</p> | <p>64%</p> <p>of Inditex total sales</p> |
|  <p>88 markets worldwide</p> |  <p>2085 stores</p> |  <p>26 online markets</p> |  <p>450 mil. items produced every year</p> |
|  <p>>10,000 employees</p> |  <p>500 Designers</p> |  <p>1592 suppliers worldwide</p> |  <p>2 deliveries per week to stores</p> |
|  <p>eco Sustainable Management</p> |  <p>No Advertising</p> |  <p>Consumer feedback</p> |  <p>"Now-or-never" choice for Shoppers</p> |

The Fast Fashion Industry

Main characteristics

The term '**Fast Fashion**' refers to a phenomenon in the fashion industry whereby production processes are expedited in order to get new trends to the market as quickly and cheaply as possible.



- **Short Life-Cycles** - the product is often short-lived
- **High Volatility** - demand for these products is rarely stable
- **Low Predictability** - difficult to forecast total demand
- **High Impulse Purchasing** - many buying decisions by consumers for these products are made at the point of purchase.

Consumer Analysis

ZARA positions itself as the **designer-boutique alternative** for the price-conscious but trendy consumer.

Consumer Characteristics:

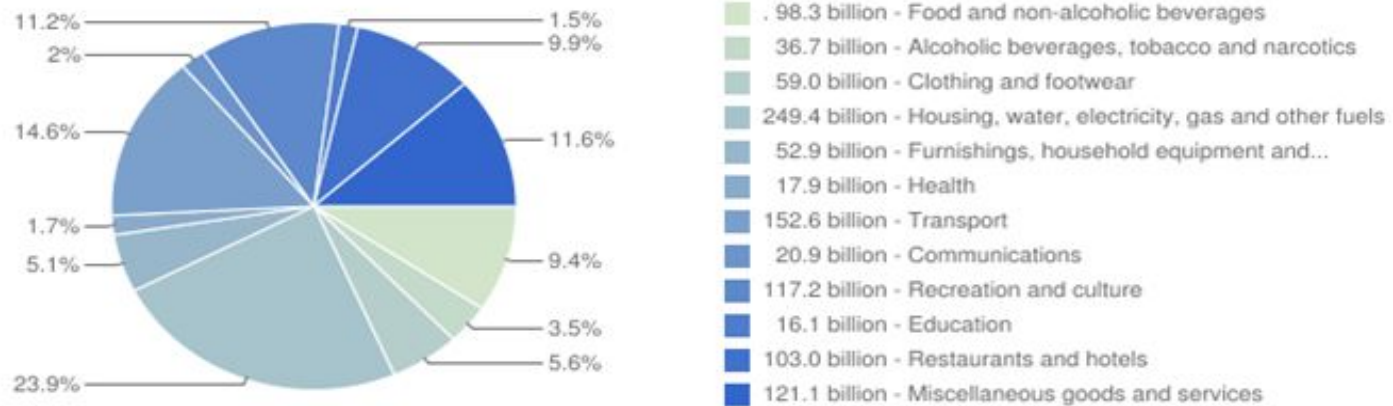
- Full shape body men and women
- People aged from 18 to 40
- Low to middle class income
- Mainly Fashion followers

Why we choose the UK Market?

The UK apparel market

- The population is approximately 64 million - Big Market
- The consumer consumption is estimated to be 59 Billion for Clothing and Footwear - Big Market
- GDP - per capita is approximately 36,600 pounds - Good purchasing power
- The UK fashion and textiles sectors as a whole employ an estimated 600 thousand people, making the United Kingdom the third-largest fashion employer in the EU-27 surpassed only by Italy and Germany.

Consumption Expenditure (EUR) - United Kingdom



Source: UK Office for National Statistics

PESTEL Analysis

Political factors:

- United Kingdom is a unitary state under a constitutional monarchy.
- Conservative Party Governing UK since 2005.
- BREXIT
- Refugee Crisis

Economic factors:

- GDP : 3.087 Trillion Euros (as of Feb.2016)
- GDP growth Increase +2.2% for year 2015
- Inflation (CPI) Increase 0.2% in 2015
- Average gross salary £2,480
- Unemployment approximately 5.1%

Social factors:

- Population 64 Million
- Age structure 0-14 years: 17.3%, 15-24 years: 12.6%, 25-54 years: 41%, 55-64 years: 11.5%, 65 years and over: 17.5%
- Religions: Christian 59.5%, Muslim 4.4%, Hindu 1.3%, other 2%, none 25.7%, unspecified 7.2%
- 38 % with College Degree
- Cultural Superpower (a political union of four countries with each preserving elements of distinctive traditions, customs and symbolism)

Technological factors:

- Quality of R&D and innovations
- Gross expenditure on R&D, £27.4 billion
- Almost 2% of the GDP

Legal factors:

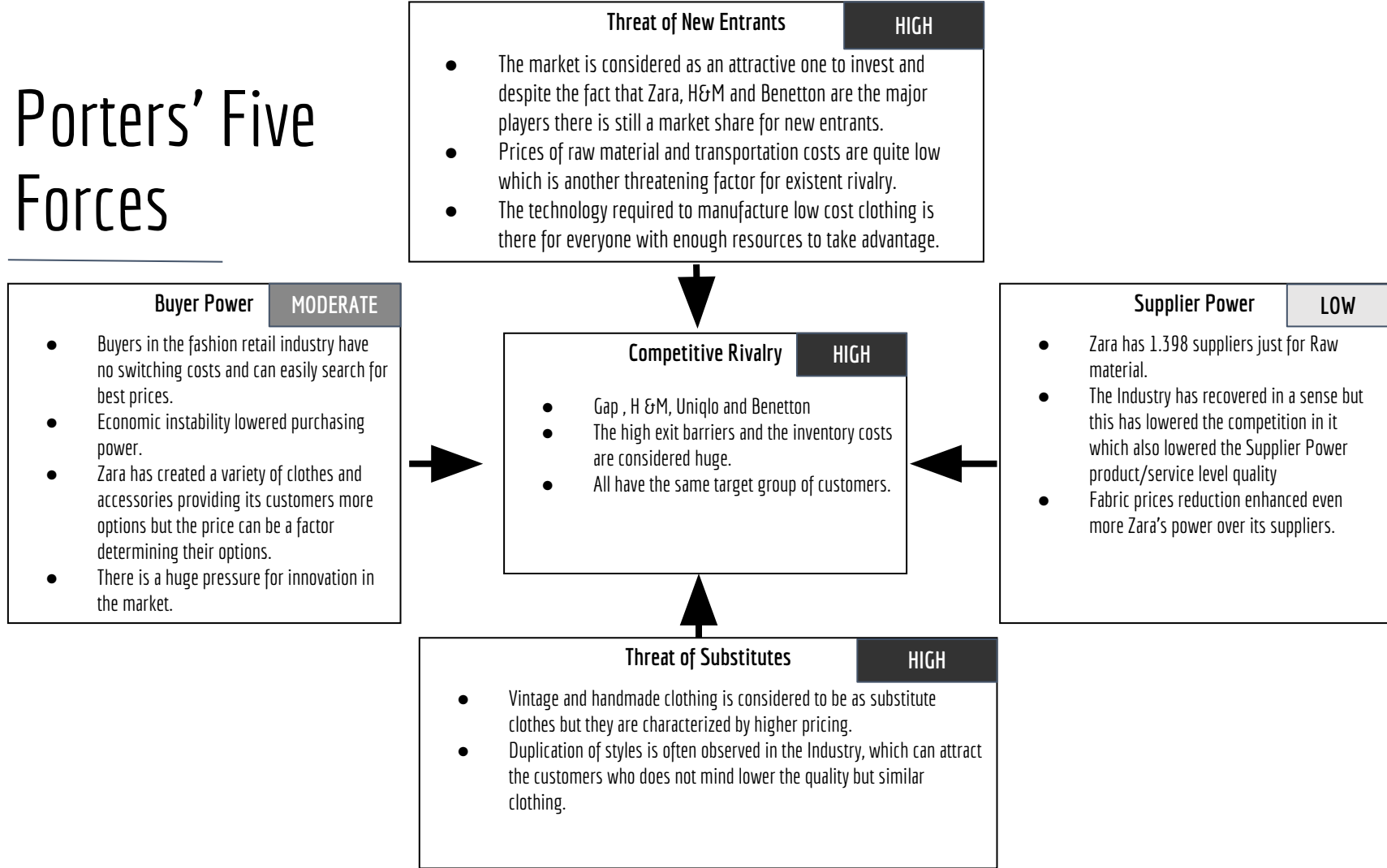
- Laws that affect the UK's business environment have been created and amended with the interests of investors in mind.
- The majority of multinational corporations based outside Europe prefer to control their European operations from the UK because of the flexible procedures helping businesses.
- None to less bureaucracy.

Environmental factors:

- Supporting the Sustainable Environment policies.
- Decide to support and co-fund the Climate Change Decisions.
- The country has broadened its environmental objectives because of various international commitments, and partly as a response to its goal of sustainable development

External Analysis

Porters' Five Forces



Competitor Analysis



H&M has been quick to internationalize allowing the company to gain sales in countries outside its native Sweden, also **is more attentive in terms of entering new markets** and tends to enter one country at a time, **as opposed to Zara who multitasks globally.**

Builds distribution centers in their international locations in order to cut down lead times and potential logistics costs,

H&M outsources production to a network of more than 500 suppliers.

The logo for Mango, featuring the word 'MANGO' in a bold, black, sans-serif font. The letters are slightly shadowed, giving it a 3D appearance as if it's floating above a light surface.

Mango is known for its excellent business model and supply chain management, has approximately the same number of stores in the same number of countries worldwide, like Zara.

The products of Mango are also similar to Zara's in style, pricing and quality, However, **Mango is very different from Zara in organizational strategy** as Mango **is based on a franchising system**, and in marketing strategy, relying heavily on **advertising campaigns.**

The logo for Gap, featuring the letters 'G A P' in a bold, black, sans-serif font. The letters are widely spaced and have a slightly shadowed, 3D appearance.

Gap, has a world-wide presence such as Zara. It is known for the American style culture and the majority of its stores are located in the US.

Gap is identified as a higher quality but more expensive retailer. **It is also based on a franchising system.** Gap has introduced web-based stores and it is investing heavily in **online sales.**

Competitor Analysis



Benetton emphasized brightly colored knitwear. It achieved prominence in the 1980s and 1990s for its controversial advertising and as a network organization **that outsourced activities** that were labor-intensive or scale-insensitive to subcontractors.

But Benetton actually **invested relatively heavily in controlling other production activities.**

PRIMARK®

A UK retailer, focusing on **lower class income targeting mainly women's** fashion clothing.

Its marketing campaigns focusing on **discount offers.**

Extended use of economies of scale as the strategy is to buy huge quantities.



Uniqlo was originally founded in 1949 in Japan.

Its business model is based on that of The Gap. Uniqlo **manufactures its clothing within Japan.**

Uniqlo's distribution channels are concentrated in Japan with over 700 Uniqlo stores.

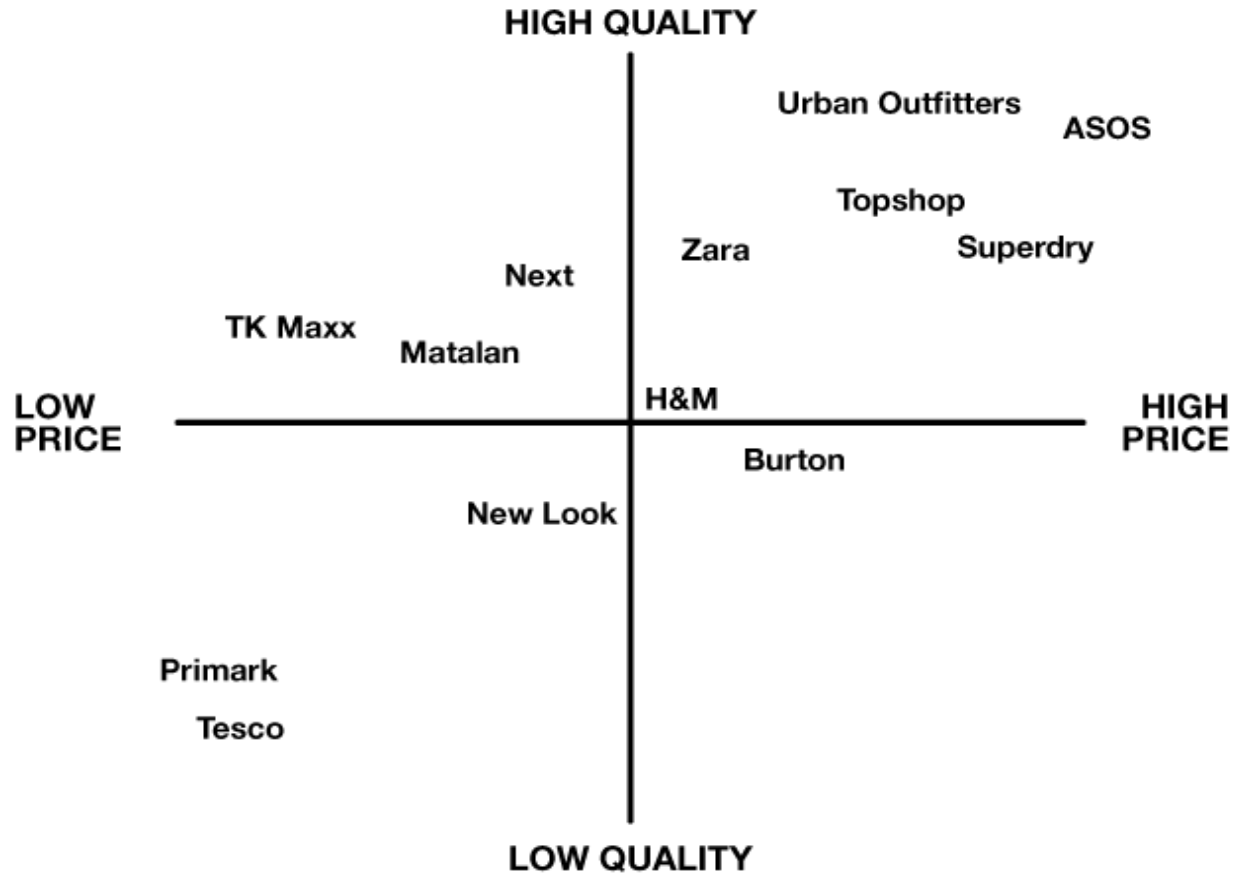
The designs that Uniqlo creates tend to be **more simplistic and practical** than those sold by Zara and H&M.

Porter's Generic Strategies



Differentiation

UK Market Positioning



SWOT Analysis

STRENGTHS

- Strong R&D
- Global Presence
- Strong Brand Name
- Affordable prices in clothes
- Trendy Clothing
- Supply Chain "Miracle"

WEAKNESSES

- Huge span of control.
- The more cutting edge the design, the greatest the risk.
- Innovation Risk.
- Threat of easy replacement.

OPPORTUNITIES

- Merge with Inditex group has created more possibilities to invest in emerging markets.
- Entry in Emerging Countries.
- E-marketing
- Online Sales

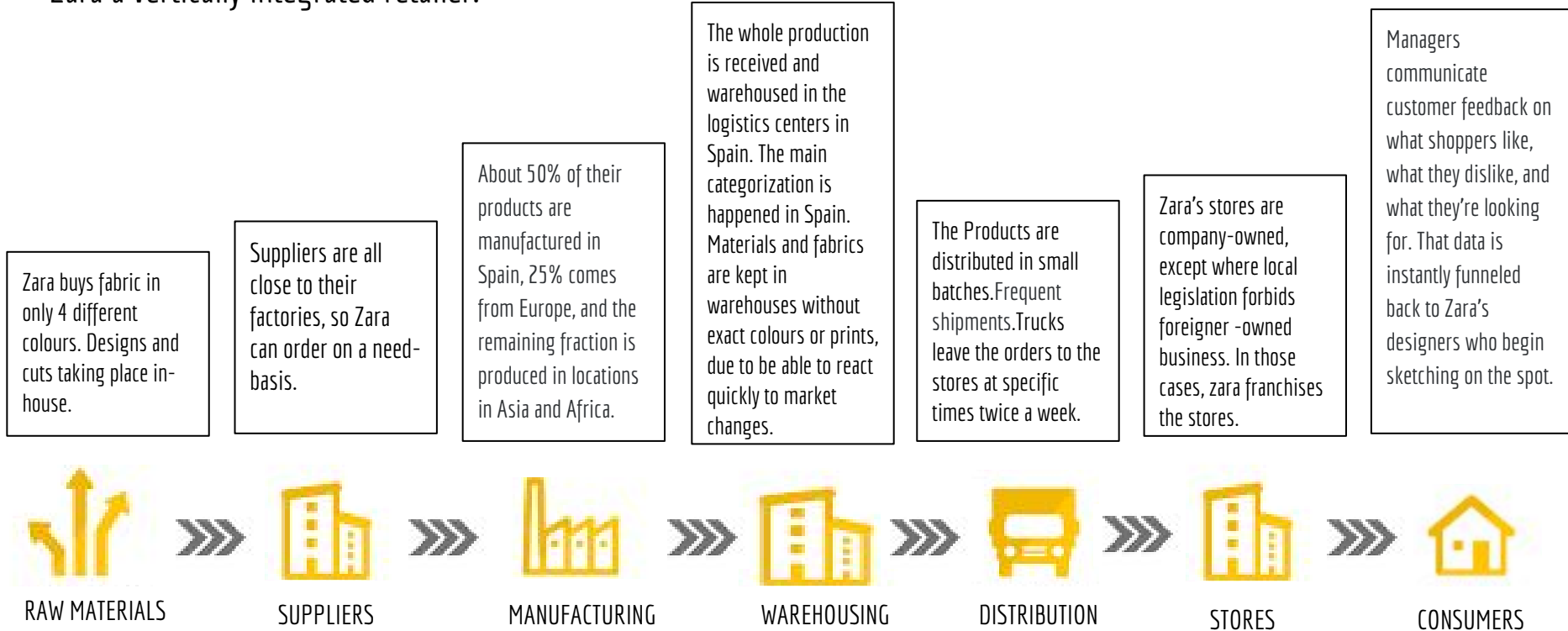
THREATS

- Its competitors and new market entries.
- Less customer purchasing power.
- High-end fashion and vintage clothes.

Internal Analysis

Value Chain Analysis

Zara a vertically integrated retailer.



Resources

Physical

Prime Location- The stores are always located in prime locations of the city.

Attractive Window Displays- Zara rely so much on its physical store-experience

Exclusive and Trendy designs- Zara is able to provide designs that their customer love.

Sophisticated IT System- Information from stores to headquarters. What the customers like, dislike etc.

Human

Trained designers - Zara cooperates with many new designers, they give training to them in order to produce in shorter lead-time and also adaptive enough to produce with materials/fabrics that are available.

Caring Employees - They train their employees to provide better service (Having a sense of belonging to the store and hard-working)

Organizational

Market-oriented Strategy - The customer is the King. By concentrating on customer's demand, they make them loyal.

Staff-education - Concentration on customer-service.

Eco-friendly- Brings positive response from the society.

Production strategy- They design with the available materials/fabrics (reduced lead time & minimize costs)

Value chain - Lead time of 2 weeks

Capabilities

| Functional Areas | Capabilities |
|--------------------------------|--|
| Distribution | - Solid Distribution Network (enables the company to deliver goods within 24 hours) |
| Logistics | - Centralized logistics (Zara sticks to a deep, predictable and fast rhythm, based around order fulfillment to stores. |
| Human Resources | <ul style="list-style-type: none">- Trained staff with concentration on customer-service- Good design teams, who approach to match quick and creative design with information coming in from the sales staff. |
| Management Informations System | <ul style="list-style-type: none">- Highly vertical-integrated and centralized- PDAs to gather immediate customer input and feedback and directly send it to the headquarters. POS system show how garments rank in sales in different areas-countries. |
| Marketing | <ul style="list-style-type: none">- A successfully worldwide famous brand.- Direct communication with consumers (No advertising) |
| Management | <ul style="list-style-type: none">- Synergy between business and operations strategy- Good supply chain management |
| Manufacturing | - Just-in-time (JIT) production (reduces the amount of inventory available, lowering Zara's storage cost). |
| Research & Developement | - Ability to envision the future clothing |

Core Competences

Capabilities that are almost impossible to copy, they are valuable and unique from a customer's point of view:

- Customer insight and feedback
- Rapid-response manufacturing
- Strong Logistical operations
- The ability to design quickly

Competitive Advantage

Responsiveness

- Zara's competitive advantage is the ability to respond in a fast way to the demands of consumers.
- Due to its effective value system, Zara has managed, over time to reduce the manufacturing and transportation costs to minimum, taking advantage of the economies of scale due to its size which ultimately benefited the final consumer by reduced pricing.

Inventory Management

- The company determines the quantity that should be delivered to every single one of its retail stores.
- The stock delivered is limited. This allows Zara to ship more often and in smaller batches and there's not a ton of unsold inventory to get rid of.

Distribution Network

- Enables the company to deliver goods to its European stores within 24 hours, and to its American and Asian outlets in less than 40 hours.
- Zara can get a product out from concept to store in just 15 days, while the whole fashion industry average standard is 6 months and it is about 10-12 times quicker than its nearest competitor GAP and H & M.

Outsourcing

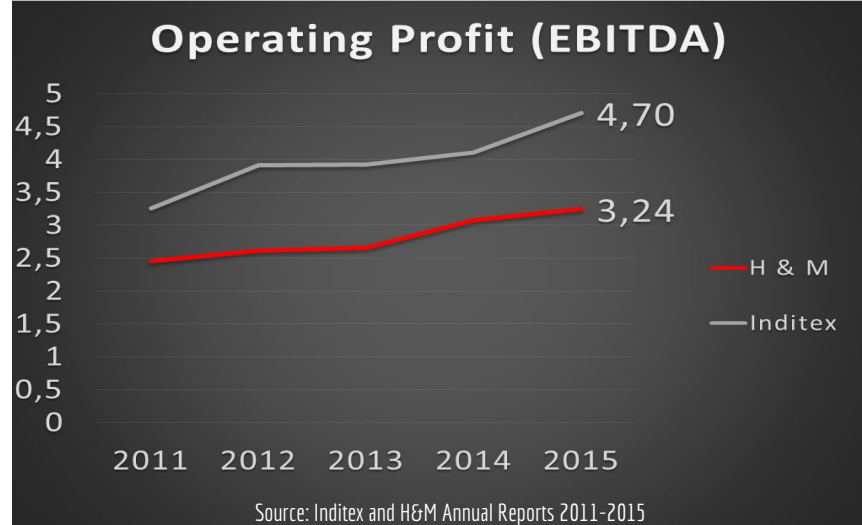
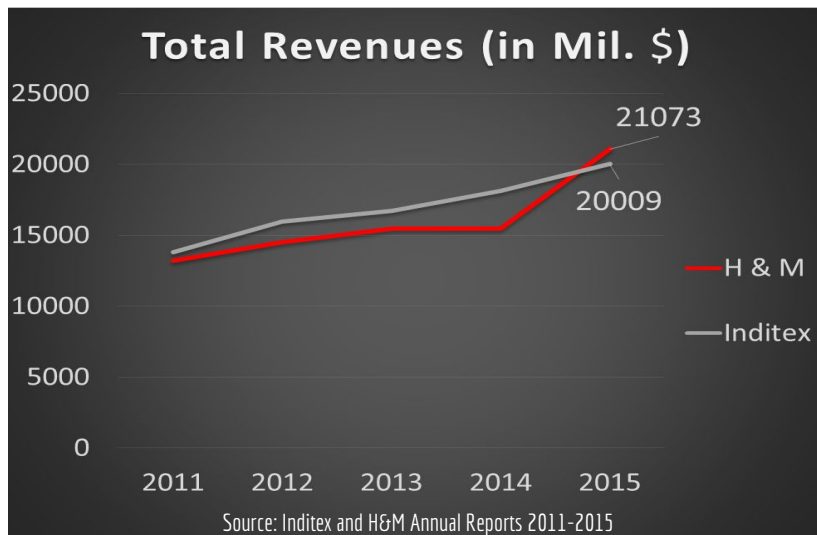
According to the Economist, 2012:

*“...Other fashion firms have their clothes made in China. This is cheap, but managing a long supply chain is hard. By the time a boat has sailed halfway round the world, hemlines may have risen an inch and its cargo will be as popular as geriatric haddock. Inditex, by contrast, sources just over half of its products from Spain, Portugal and Morocco. **This costs more. But because its supply chain is short, Inditex can react quickly to new trends.** Instead of betting on tomorrow’s hot look, Zara can wait to see what customers are actually buying—and make that. While others are stuck with unwanted stock, Inditex sells at full prices.”*

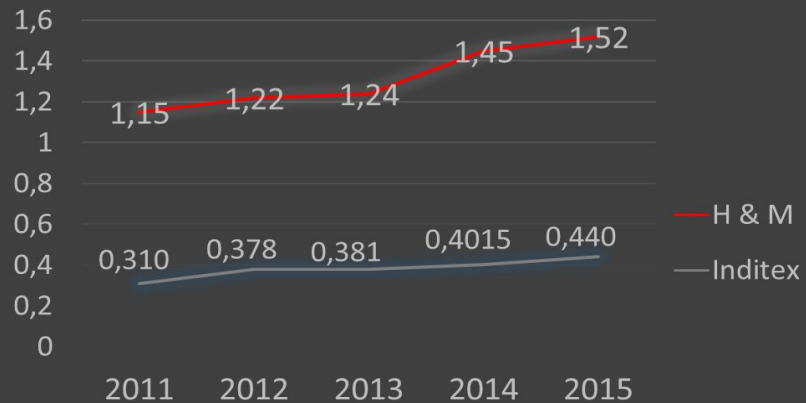
The original choice of not outsourcing deprives Zara of low production costs but makes its innovative value proposition possible.

Source: “Fashion forward: Zara, Spain’s most successful brand, is trying to go global”, The Economist, Mar 24th 2012

Financials

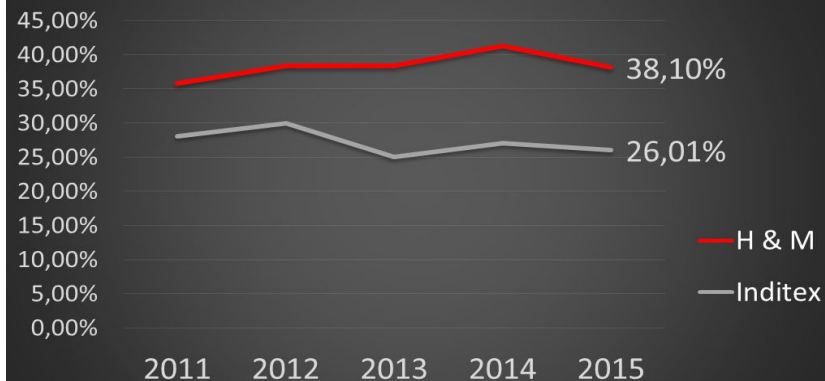


Earnings Per Share



Source: Inditex and H&M Annual Reports 2011-2015

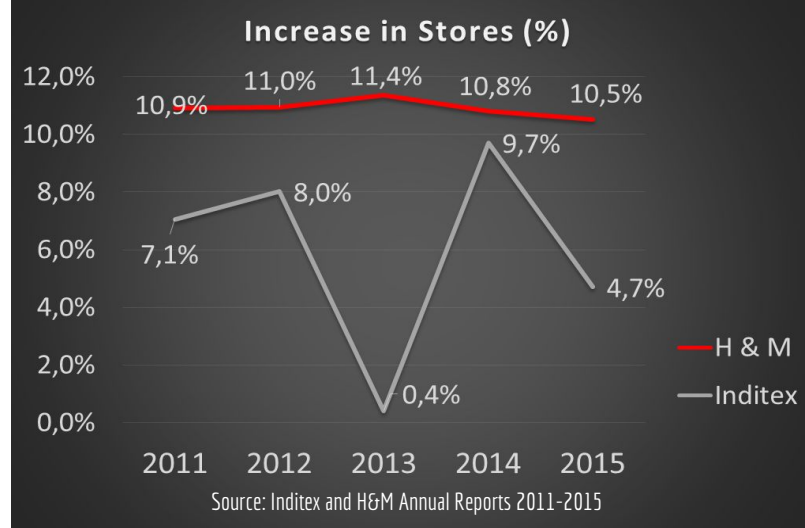
Return on Shareholders' Equity (%)



Source: Inditex and H&M Annual Reports 2011-2015

Financials cont.

Expansion performance





Invest in Emerging Countries and the US market.



Strengthen the online presence and boost the internet selling.



Localize, to meet cultural demand and domestic purchasing power.

Recommendations

Thank you for your attention

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