

Apparel Industry – Zara (Inditex Group)

1. Situation Analysis:

Zara is the flagship brand of the Inditex Group. Zara opened its first apparel store in 1975 in La Coruña, Spain. When Zara was incorporated into Inditex in 1985, it started to expand rapidly. Worldwide growth culminated in 1,298 stores in Europe, 345 in the Americas, and 565 in Asia and the rest of the world, including Australia, by 2020. In 2018 Zara was declared one of the most valuable apparel brands worldwide.

1.1. Supply Chain Structures:

Zara started out as a small company with a traditional organisational structure which involved little or no communication between its internal departments, which operated independently of each other.

Despite the growth of the company and its worldwide coverage Zara is still a vertically integrated retailer which prides itself on delivering what the customer needs faster than other retailers.

In order to compete for a market share in “fast fashion” Zara has focused on its retail and distribution operations whilst still maintaining its core of operations in La Coruña using a local workforce. The company enabled better communication and integration of its operations, such as embedding its designers within its production area and placing distribution centres where they can best serve a number of retail sites. This suits its marketing model and generates a high level of customer need through fear of missing out due to stock outs and a feeling that purchases are more exclusive due to the small number of each item produced.

Zara’s policy has been to develop its supply chain capability and improve its distribution systems through better movement of information, internally and to the customer. Their policy has been early adoption of technology to track stock items through Radio Frequency Identification (RFID), which facilitates locating stock items in a store or warehouse. Staff can tell whether an item in a particular size is available to customers in the store through the use of hand-held devices and can reserve stock for online customers. Sales associates are leading buyer research by providing comments, ideas and information on new styles that customers are wearing to the design team. Tracking commences before garments are packed and dispatched to the distribution centres. In the manufacturing process garment pieces are tracked by bar codes from as early as the cutting process through to the completion of sewing operations. This level of combining physical flow of goods and information by seizing technological opportunities is responsible in part for Zara’s success in bringing product to the market quickly.

1.2. Supply Chain Performance

Zara’s current supply chain model performs well with its marketing strategy contributing to a lean model with very low returns and unsold stock. Zara does not employ sales as its strategy for moving excess stock.

The use of information gained through mapping sales through direct contact in stores and excellent customer service drives customer fulfillment through driving a pull rather than push model. Customers return to stores and buy online due to Zara’s understanding of what its customers want.

The overall performance of its supply chain, especially when benchmarked against market competitors has been outstanding. Zara’s rate of expansion and sales growth over an extended period has shown it to be one of the most successful fashion companies.

Zara has also been developing an online presence in response to a changing market, together with the use of more technology both in store and online. Together with early adoption of RFID, it introduced click and collect via automated collection points, self-checkout kiosks, interactive fitting room systems providing styling suggestions and allowing shoppers to view different size or colour options available. Zara also provides an augmented reality app which can be used by shoppers in store. Although items can be purchased online, returns are made in store which provides the opportunity to market other lines to the shopper increasing downstream supply chain performance.

The fashion industry presents a number of risks due to manufacturing in emerging markets where political and social instability, weather events, long distances, poor transport infrastructure and a lack of reliable third-party logistics providers are common factors for disruption. Zara's decision to manufacture in Spain mitigated many supply chain vulnerabilities.

1.3. Business Context:

Zara's marketing strategy takes a modern approach to fashion, targeting Millennials as its main demographic and employing high rotation products in small quantities. The company engages young designers who are in touch with customer needs. Whilst sufficiently good fabrics are used in garment construction, clothing is meant to be used for one season only. Zara can bring around 20 collections per year to its retail stores leading the trend of moving away from the traditional Spring/Summer and Autumn/Winter collections.

The marketing strategy revolves around

- **Products** – not only are the products similar to the latest “must have” items in the market but Zara tailors its products for each geographic location, matching garment traits to suit the local taste, culture and climate.
- **Place** – although Zara had over 2,000 clothing stores worldwide in 2020, the retail spaces are designed to provide the same experience for customers in any location and have a feeling of spaciousness and luxury.
- **Price** – the pricing model has been developed to focus on the average customer who wants the latest fashion items at an affordable price.
- **Promotion** – compared to most other retailers in the fast fashion industry, Zara spends very little on promotion (about 0.3% of sales).

The external business environment in the fashion industry is very competitive and in order to develop and retain brand loyalty companies need to appeal to a market in which customers will make regular purchases, garnering a sufficient profit margin. Zara's marketing tactics are excelling at the customer experience – not just the appeal of its retail spaces but also the more personalised service provided by its sales associates. Since 2019 there has been an option to personalise clothing with custom stitched names or phrases (the “Edited” collection) thereby increasing the exclusivity of purchases.

2. Identification of main issues and problems

Zara's main issues have arisen as a result of the pandemic affecting its supply chain and ability to ship products quickly due to lockdowns. This has had a direct impact on its high levels of daily sales and previously healthy financial position. Despite Zara's online network, garment sales fell due to the shutdown of physical stores and it also saw a 14% drop in the download of its app in the US market when customers' priorities changed from discretionary spending to buying staple items. It has been reported that more than 60% of consumers are spending less on fashion and around half of that number expect the trend to continue after the pandemic.

Zara will need to work to retain as much of its market share as possible through the pandemic to ensure its customers still maintain their brand loyalty. Once its customer base has been lost, without changes to its marketing strategy it will be difficult to return to its former position.

3. **Generation and evaluation of alternative solutions**

Options are:

- Adopting nearshoring or offshoring manufacturing bases to mitigate future logistics risks
- Outsourcing all manufacturing to low-cost countries to increase its competitiveness
- Reducing its retail footprint
- Restructuring and automating its logistics operation to better fit online retail
- Move away from the fast fashion type of consumerism to a more sustainable model

It should be noted that Zara is already reducing its retail footprint which will mean restructuring its logistics operation as warehousing of stock is not tied to a high number of stores. Choosing warehouse locations based on an online sales model could have the potential to reduce costs, deliveries, fuel and emissions. A major learning from the pandemic has been that people in lockdown have been returning to more sustainable practices – reducing, reusing and recycling. There is potential to wean consumers off fast fashion and away from practices which damage the environment. Suppliers may need to put prices up to maintain profitability if sales decrease but consumers may learn to live with what they need rather than what they want. Repositioning itself in the market could provide Zara with new market opportunities.

4. **Recommended solution and justification**

In emergent events like the pandemic, the lack of supply chain resilience, even for Zara, has been highlighted and supply chain mapping to find weak points and make improvements will be critical for future growth.

The recommended solution would be:

- Zara reposition itself as a producer of sustainable clothing and practices which will appeal to Millennials.
- Incorporate more sustainability into its logistics function by re-examining its value chains and implementing real savings for both cost and the environment.

Long term sustainability for the company will mean a real change of direction, not just greenwashing, to retain existing customers and attract ones. Millennials are driving climate change initiatives now and will become the leaders of tomorrow. The planet's resources are finite and fast fashion is one of the most damaging industries and this is now widely recognised by consumers.