

**Indian Institute of Science  
Bangalore  
NPTEL  
National Programme on  
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**Global Supply Chain Management**

**Lecture – 03**

**Zara fast fashion**

**Prof.N.viswanadham**

**Department of Computer Science and Automation**

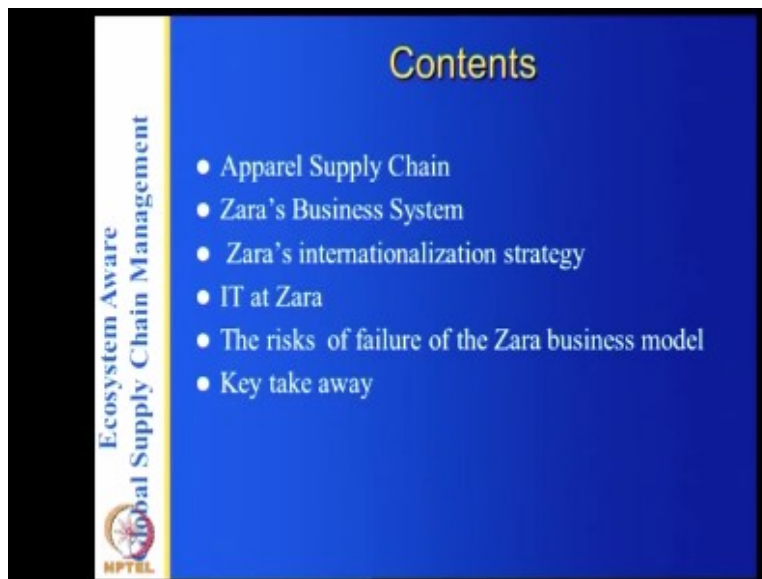
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In this lecture, we study the company called Zara, a Spanish company which does fashion dresses for men, women and children. It is a very special company in fashion business and it is

one of the role models. It is a company that does things in a very unconventional way and its supply chain is supposed to be excellent. It is very intuitive to understand how it does and but it is difficult to imitate its practices. Zara tells us how the management skills are more important than the standard practices

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#### Contents

- Apparel Supply Chain
- Zara's Business System
- Zara's internationalization strategy
- IT at Zara
- The risks of failure of the Zara business model

Key take away

**ZARA**

- Founded in 1963 by Amancio Ortega and First Zara shop opened in 1975 selling low price imitations of more up market fashion house.
- Zara is a part of the € 4 billion Inditex group and 100% owned company, based in Barcelona. Over 80% of the group's sales are contributed by Zara's 600 stores
- Women's, men's and children's wear, over 724 stores in 56 countries
- Ortega thought that customers would regard clothes as a perishable commodity - no different from yogurt or bread – to be consumed, rather than stored in closets.

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Founded in 1963 by Ortega, the first Zara shop opened in 1975 selling low price imitations of up market fashion house. Zara is a part of Inditex group which is four billion dollars 100% owned company based in Barcelona and over 80 percent of the group sales are contributed by Zara 600 stores. It is an international company selling women, men and children wear with more than over 700 stores in 56 countries. Ortega thought that customers would regard clothes as a perishable commodity.

**Apparel Supply Chain**

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Let us first look at the Apparel supply chain.

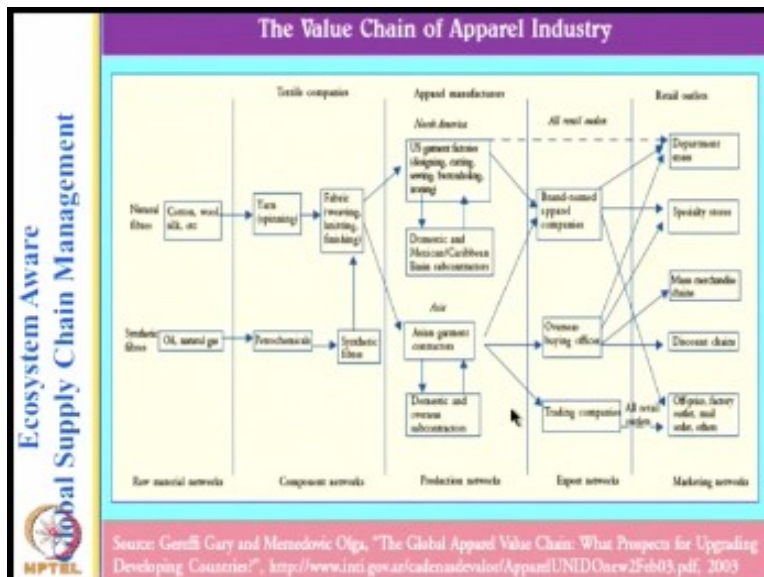
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## Apparel Supply Chains

In global apparel supply chains, the channel masters could be retailers Or branded manufacturers or trading companies.

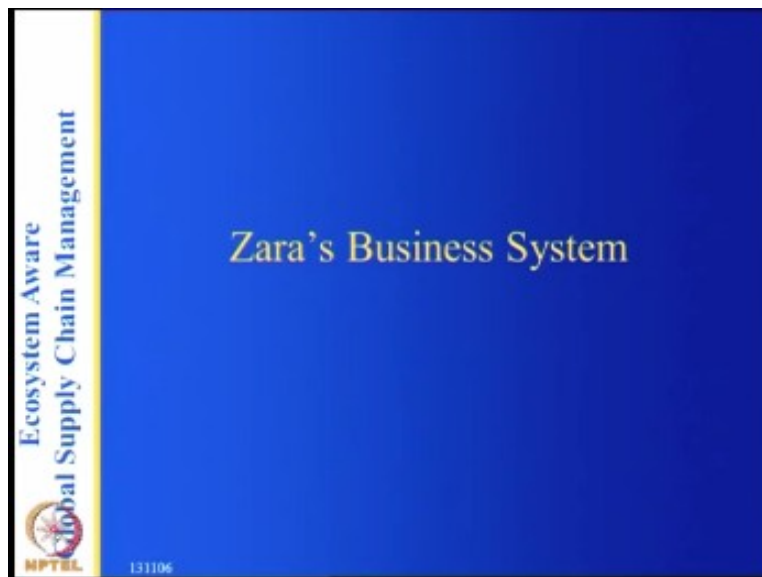
In global supply chains, the channel masters could be retailers or brand masters or trading companies. So in an Apparel supply chain, the masters could be retailers like Wal-Mart or Macy's or any other big retailers in the United States or brand manufacturers

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Look at the Apparel value chain. You have raw materials such as cotton, wool, or silk. You also have oil or natural gas that goes into petrochemicals to make synthetic fibers, the apparel manufacturers and the retail stores. You have basically the raw materials providers, production networks and export networks and marketing channels.

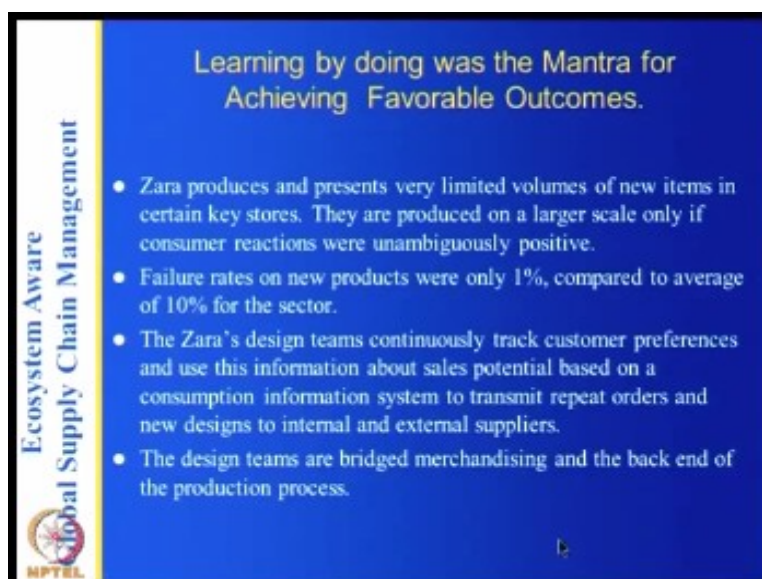
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## Zara's Business System

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## Learning by doing was the Mantra for Achieving Favorable Outcomes.

- Zara produces and presents very limited volumes of new items in certain key stores. They are produced on a larger scale only if consumer reactions were unambiguously positive.
- Failure rates on new products were only 1%, compared to average of 10% for the sector.
- The Zara's design teams continuously track customer preferences and use this information about sales potential based on a consumption information system to transmit repeat orders and new designs to internal and external suppliers.
- The design teams are bridged merchandising and the back end of the production process.

Learning by doing is the mantra for achieving favorable outcomes. In fashion business, you do the designing, advertising, low cost outsourcing. You have plenty of stocks in the stores that are available whatever customer wants and whenever he wants. But Zara is different. Zara produces and presents very limited volumes of new items in certain key stores. They are produced on a larger scale only if consumer reactions are positive. Failure rates on new products for Zara are only 1%, compared to average of 10% for the Apparel sector. The Zara's design teams continuously track customer preferences and use this information about sales potential based on a consumption information system to transmit repeat orders and new designs to internal and external suppliers. The design teams are bridged to merchandising and the back end of the production process.

Zara tracks the customer preferences by talking to the store managers, they attend the fashion shows, and they talk to their customers, they go to the schools and talk to the end consumers and so on.

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Zara concentrates on four critical information areas: closely watch the trends of buying behavior, market research on University campuses and other venues to learn what people are wearing, what color they like, feedback from the store sales report, The headquarters regional managers collect and analyze the feedback and commercial data. The designers use the information to create new clothes.

Based on the above information, the inventory of the fabrics Zara has, the company produces the products and sends them to the stores. This is in contrast with what usually happens in



fashion business: You design, you have catwalks, and you manufacture put them in a high street stores in large numbers. But Zara does not design things for the future It just sees at the present what people are wearing, design those products with the materials it has, send them to the market.

**Zara Supply Chain- Highly Unconventional**

- Zara defies most of the conventional wisdom about how supply chains should be run. Some of Zara's practices may seem questionable, if not crazy, when taken individually.
- Unlike so many of its peers in retail clothing that rush to outsource, Zara keeps almost half of its production in-house.
- Far from pushing its factories to maximize their output, the company intentionally leaves extra capacity.
- Rather than chase economies of scale, Zara manufactures and distributes products in small batches.
- Instead of relying on outside partners, Zara manages design, warehousing, distribution, and logistics itself.

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Instead of relying on outside partners for design warehousing distribution and logistics, Zara does things itself. Zara defies most of the conventional wisdom about how supply chains should be run. Some of Zara's practices may seem questionable, if not crazy, when taken individually. Unlike so many of its peers in retail clothing that rush to outsource, Zara keeps almost half of its production in-house. Far from pushing its factories to maximize their output, the company intentionally leaves extra capacity. Rather than chase economies of scale, Zara manufactures and distributes products in small batches. Instead of relying on outside partners, Zara manages design, warehousing, distribution, and logistics itself.

**Many of Zara's day-to-day operational procedures differ from the norm.**

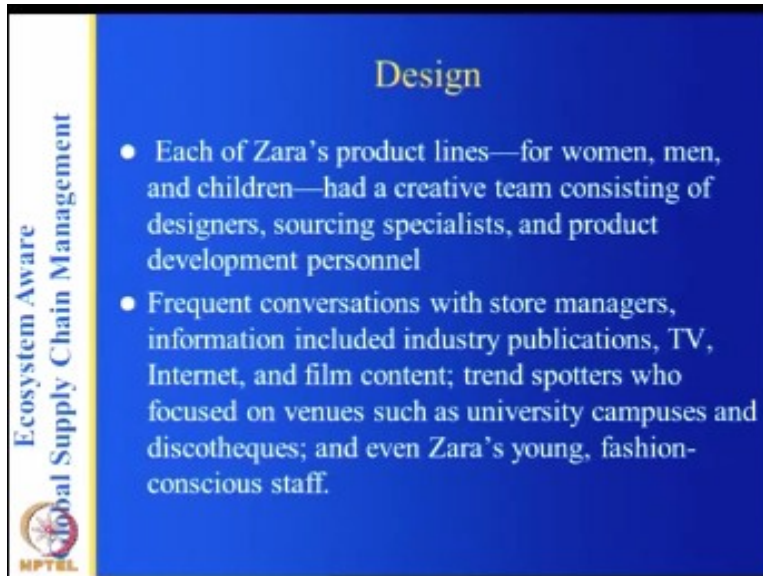
- Zara holds its retail stores to a rigid timetable for placing orders and receiving stock.
- It puts price tags on items before they're shipped, rather than at each store. It leaves large areas empty in its expensive retail shops. And it encourages, occasional stock-outs.
- Zara sends half-empty truck across Europe, pays for airfreight twice a week to ship coats on hangers to Japan, and runs factories for only one shift.
- Zara's senior managers have stayed the course and resisted setting performance measures that would make their operating managers focus on local efficiency at the expense of global responsiveness.

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Operational stock-outs create a sense of insecurity in the minds of the customers. If I do not buy it now it would not be available. So if you like something you buy it now otherwise it would not be there is the kind of feeling that it gives to the customers.

Just in time, lean manufacturing etc. are all defied by Zara. Zara senior managers have stayed the course and assisted setting performance measures that would make the operating managers focus on local efficiency at the expense of global responsiveness. What is important is to give the customers what they like at that time instant.

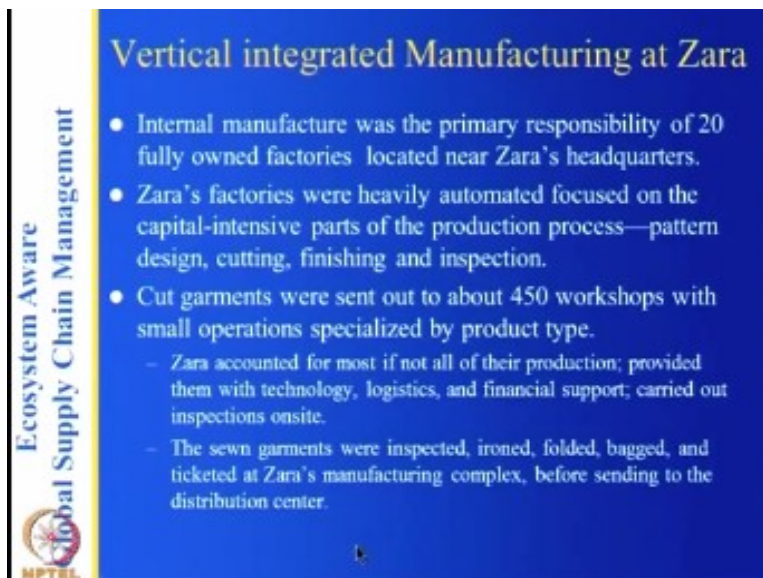




## Design

- Each of Zara's product lines—for women, men, and children—had a creative team consisting of designers, sourcing specialists, and product development personnel
- Frequent conversations with store managers, information included industry publications, TV, Internet, and film content; trend spotters who focused on venues such as university campuses and discotheques; and even Zara's young, fashion-conscious staff.

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## Vertical integrated Manufacturing at Zara

- Internal manufacture was the primary responsibility of 20 fully owned factories located near Zara's headquarters.
- Zara's factories were heavily automated focused on the capital-intensive parts of the production process—pattern design, cutting, finishing and inspection.
- Cut garments were sent out to about 450 workshops with small operations specialized by product type.
  - Zara accounted for most if not all of their production; provided them with technology, logistics, and financial support; carried out inspections onsite.
  - The sewn garments were inspected, ironed, folded, bagged, and ticketed at Zara's manufacturing complex, before sending to the distribution center.

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## Store Operations

- Zara's stores were located in highly visible locations, often in the premier shopping streets in a local market and upscale shopping centers.
- The stores functioned as both the company's face to the world and as information sources
- Zara actively managed its portfolio of stores and relocates in response to the evolution of shopping districts and traffic patterns.
- Older, smaller stores may be relocated as well as updated (and typically expanded) in new, more suitable sites.
- Zara invested more heavily and more frequently than key competitors in refurbishing its store base.

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### Three Principles of Zara's Supply Chain

- Transfer both hard data and anecdotal information from shoppers to designers and production staff quickly.
  - Track materials and products in real time every step of the way, including inventory on display in the stores.
- Stick to a rhythm across the entire chain: timing and synchronicity are paramount.
- Leverage the Assets: Zara produces roughly half of its products in its own factories. It buys fabric and dyestuff Inditex firms.
  - **So much Vertical Integration is out of fashion in the industry; rivals like Gap and H&M, own no production facilities.**

Three principles of Zara supply chain follows:

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Leverage the Assets: Zara produces roughly half of its products in its own factories. It buys fabric and dyes etc from Inditex firms. **So much Vertical Integration like Zara is out of fashion in the industry; rivals like Gap and H&M, own no production facilities.**

### Zara's Competitive Economics

- Zara can sell some 80 % of its products at full price — about twice the industry average.
- The ability to avoid markdowns more than compensates for any added manufacturing and distribution costs

What is the competitive economics? How does Zara make money ? Zara can sell 80% of the products at full price, about twice the industry average. When it sells the products at full price, avoiding markdowns, It more than compensates for any added manufacturing and distribution costs.

Why do companies have to mark down? Because things went out of fashion. What Zara does is to find out what the customer wants and from that time within two weeks you supply it at the stores.

The slide features a blue background with white text. On the left side, there is a vertical white bar containing the text 'Ecosystem Aware' and 'Global Supply Chain Management' above the NPTEL logo. The main title 'Zara's product merchandising policies' is centered at the top. Below the title are three bullet points. In the bottom right corner, there is a small inset image of a man in a white shirt speaking.

**Zara's product merchandising policies**

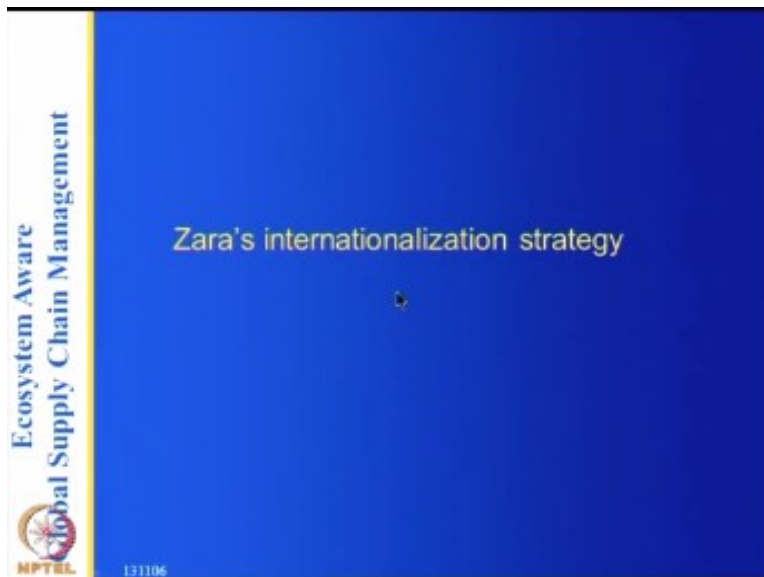
- The Zara name had nevertheless developed considerable drawing power in its major markets
- Zara shoppers even knew which days of the week delivery trucks came into stores, and shopped accordingly. About three-quarters of the merchandise on display was changed every three to four weeks, which also corresponded to the average time between visits given estimates that the average
- Zara shopper visited the chain 17 times a year, compared with an average figure of three to four times a year for competing chains and their customers.

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So the feeling that that Zara gives is that if you do not buy it now; you may not get it again. If you want high fashion items, you go and visit Zara more frequently so that you get the fashion item in Zara and the prices are not very heavy. And you need not go to out of town to get them to go to Zara store it is in the High Street. That is how Zara makes money.



And inventory to sales ratio for Zara is 7% . For Gap it is 14% which is twice that of zara.



So what is the gel Zara internationalization strategy?



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### International expansion has adopted three different entry modes

- Zara had its own subsidiaries in most European and South American countries that were perceived to have high growth potential and low business risk
- **Joint ventures:** In Germany and Japan the deal was on a 50-50 joint venture. In Italy Inditex held a 51% share in Zara. However, Zara has recently increased its ownership to 78% in Germany, 80% in Italy and 100 % in Japan.
- **Franchising:** This strategy is chosen for high-risk countries such as Saudi Arabia, Kuwait, Andorra or Malaysia

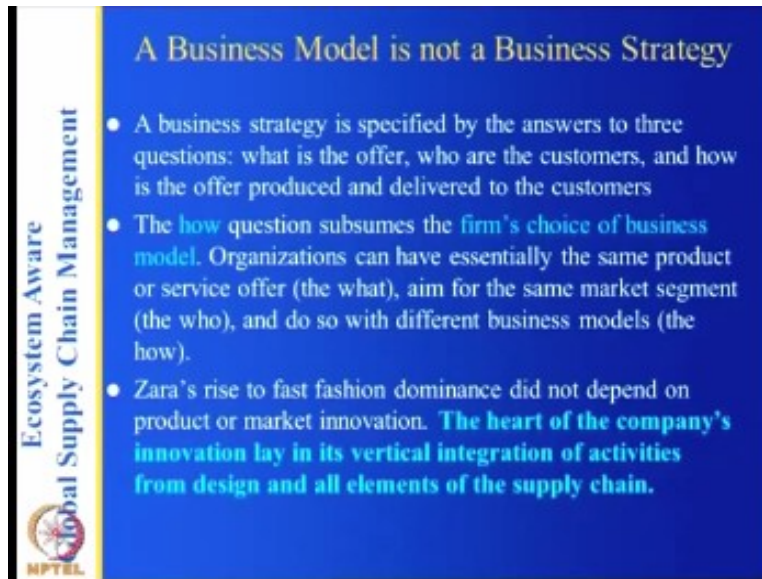
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### Comparison of the business models of Gap, Hennes & Mauritz and Bennetton, the Key Competitors with Inditex



So how do you compare the business models of Gap, Hennessey and very tender and so on with Inditex is the global company of Claro so how do you compare the business models.



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**A Business Model is not a Business Strategy**

- A business strategy is specified by the answers to three questions: what is the offer, who are the customers, and how is the offer produced and delivered to the customers
- The **how** question subsumes the **firm's choice of business model**. Organizations can have essentially the same product or service offer (the what), aim for the same market segment (the who), and do so with different business models (the how).
- Zara's rise to fast fashion dominance did not depend on product or market innovation. **The heart of the company's innovation lay in its vertical integration of activities from design and all elements of the supply chain.**

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You find What the customers wants by a survey at the store or in TV channels, or at the university campuses and supply it within two weeks at stores which are in high streets in various big cities. Basically whatever customers think is a high fashion item, it is available in the stores within two weeks so people go there and buy. You need not depend on outsiders for a manufacture, no question of capacity limitations of others that will affect your supply chain, no limitation of other countries restricting your entry. So whatever losses you incur by keeping the extra capacity you gain by not having the risk; if you compare with Gap , H&M who outsource all the production.

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**Comparing ZARA with GAP & H&M**

- H&M outsourced all of its production while Zara's retained many production activities in house and kept all internal and external activities under its strict control.
- H&M's competitive strategy different: Its prices were lower, its spending on advertising much higher, and its stores less upscale.
- Both GAP and H&M relied on a traditional "push" approach, devoting substantial resources to advertising. Zara used a "pull" approach, attracting shoppers with small collections and new weekly offerings in reaction to customers.
- At GAP, design preceded manufacturing and commercial activity, while Zara's business model configured the same activities simultaneously by taking a team approach to the design-manufacturing-commercialization activities

Comparing ZARA with GAP & H&M; H&M outsourced all of its production while Zara's retained many production activities in house and kept all internal and external activities under its strict control. H&M's competitive strategy different: Its prices were lower, its spending on advertising much higher, and its stores less upscale. Both GAP and H&M relied on a traditional "push" approach, devoting substantial resources to advertising. Zara used a "pull" approach, attracting shoppers with small collections and new weekly offerings in reaction to customers. At GAP, design preceded manufacturing and commercial activity, while Zara's business model configured the same activities simultaneously by taking a team approach to the design-manufacturing-commercialization activities

Both GAP and H&M relied on traditional push approach devoting substantial resources to advertising. Zara used an approach that is attracting shoppers with small collections and new weekly offerings in reaction to what the customers wanted. This is like made to order without commitment for the customer.

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## The Management Team

- The key governance team for orchestrating internal activities for each product line is a trio consisting of
  - the (final) designer (using CAD-CAM technology)
  - the commercial person (talking to the store managers and analyzing previous sales)
  - the supply chain person ensuring that the collection that would be agreed to on the table could actually be made in order to deliver new fashion to shops every week and change seventy percent of the stores.

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## IT at Zara

One would expect that Zara would have an impressive array of complex and expensive IT systems



One would expect Zara to have impressive array of complex expensive IT systems but it does not.

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## Information and Technology – Heart of ZARA Business

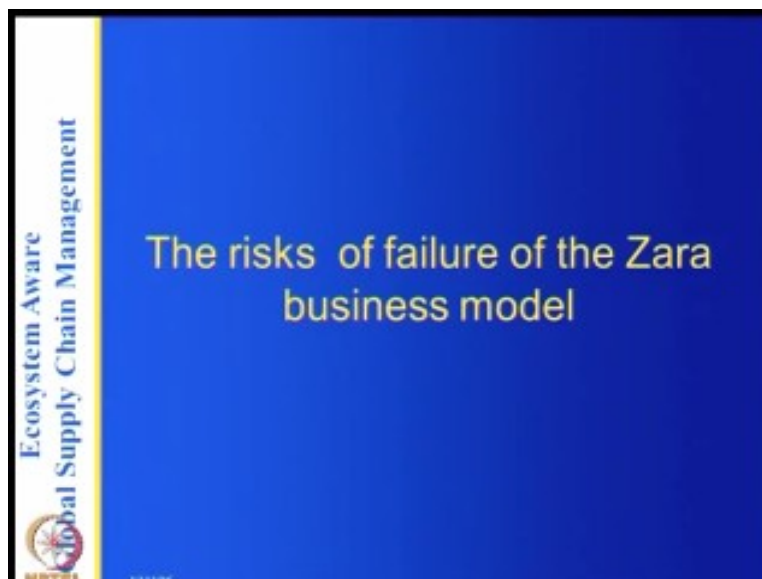
- Four critical information related areas that give ZARA its speed include:
  - **Collecting information on consumer's need** : Designers check the database and have access to real time information
  - **ZARA "warehouses" the product information** with common definitions, allowing quick and accurate design preparations with clear cut manufacturing instructions.
  - **Product information and inventory management** gives ZARA the capability to design a garment with available stocks, rather than having to order and wait for the material to come
  - **Distribution management** : Distribution facility works with minimal human intervention. Optical reading devices sort out and distribute 60,000 items an hours.

Information and Technology – Heart of ZARA Business. Four critical information related areas that give ZARA its speed include:

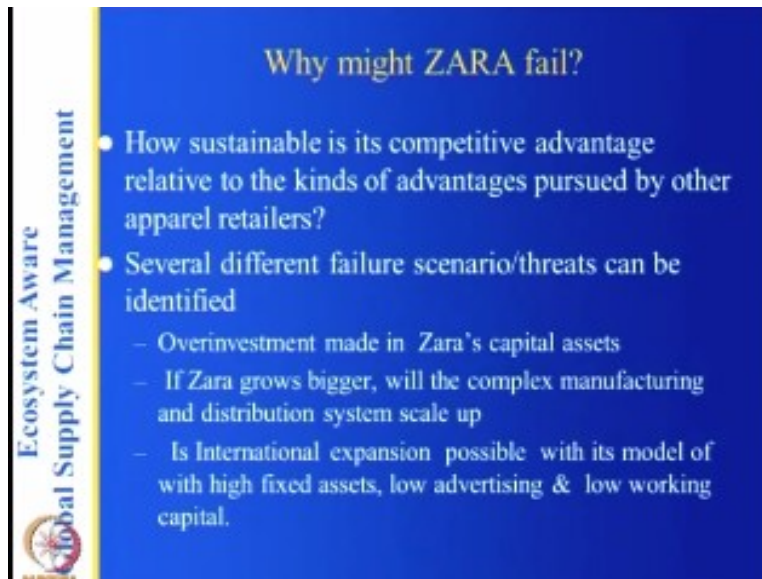
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- **Distribution management** : Distribution facility works with minimal human intervention. Optical reading devices sort out and distribute 60,000 items an hours.

Zara collects all the information accurately and processes it so that the designer will get an accurate information of the customer requirements, customer tastes and what the customer intends to buy. The designer converts the customers intent into a design and a product and finally deliver it him at within two weeks. So if a particular product is to be made out of silk and silk is not available, you make it with cotton and price it accordingly. You manufacture the product with whatever material that is available to you and submit it to this to the retail sector.

What are the risks of failure of our business model?



Now if you look at the what is a Zara business model it is very simple. If you are in a fashion business go to the university campuses and interview them what kind of fashion they want. there is a very risk of failure since people can imitate this particular business model and that is why Zara might fail.



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### Why might ZARA fail?

- How sustainable is its competitive advantage relative to the kinds of advantages pursued by other apparel retailers?
- Several different failure scenario/threats can be identified
  - Overinvestment made in Zara's capital assets
  - If Zara grows bigger, will the complex manufacturing and distribution system scale up
  - Is International expansion possible with its model of with high fixed assets, low advertising & low working capital.

The risks of failure of the Zara business model. How sustainable is its competitive advantage relative to the kinds of advantages pursued by other apparel retailers?

Several different failure scenario/threats can be identified

- Overinvestment made in Zara's capital assets
- If Zara grows bigger, will the complex manufacturing and distribution system scale up
- Is International expansion possible with its model of with high fixed assets, low advertising & low working capital.

How sustainable is the competitive advantage relative to the kind of advantages pursued by other traders. Zara owns lot of things; the manufacturing facilities, the warehousing, the trucks etc.

What happens if tomorrow the fashion changes and these asset specific investments can be a liability.



**Risk of failure of the Zara business model**

- The explicit, public, and general nature of a business model makes replicating another firm's business model trivial. **All evidence is to the contrary.**

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Another forms business model trivia all evidence is to the contrary what people think is that if your business model is explicit it is clear to others you can replicate it and as we seen Zara business model is explicit and it is easy to understand it is just in time model then you find out what people want and Stitch it and then supply it. Well is this is the kind of model that that can be easily be imitated? Somebody else can do it but that is what people may think but the evidence is to the contrary  
What is the evidence?

**Risk of failure of the Zara business model**

- The explicit, public, and general nature of a business model makes replicating another firm's business model trivial. **All evidence is to the contrary.**
- The multiple failures of established airlines – Delta, Continental, and so forth – to replicate the business model of Southwest Airlines suggest the challenge of copying a model that is explicit, public, and general.
- Attempts to replicate best-practice operations typically disappoint. Replicators often fail to appreciate the complex interconnections of multiple activities that constitute **a best practice.**

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Risk of failure of the Zara business model. The explicit, public, and general nature of a business model makes replicating another firm's business model trivial. **All evidence is to the contrary.** The multiple failures of established airlines – Delta, Continental, and so forth – to replicate the business model of Southwest Airlines suggest the challenge of copying a model that is explicit, public, and general. Attempts to replicate best-practice operations typically disappoint. Replicators often fail to appreciate the complex interconnections of multiple activities that constitute a **best practice**.

Just because you understand the business model does not mean you can follow it, imitate it. Attempts to replicate best practice operations typically disappoint replicators. They often fail to appreciate the complex interconnection of multiple activities that constitute a best practice what is the best practice that Zara is doing. Zara is interacting directly with the customers, having stores in high streets so that people can visit frequently at no cost. It is very difficult to get into this kind of practice. So whatever the best practices that Zara has are very simple practices, they can be easily imitable but people fail to imitate.



The key takeaway is run to your business right whatever is your business.

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**ZARA Business Model : Key take away**

- Selling “state-of-the-art” fashion though being a fashion follower
- Integration upstream to create competitive advantages downstream
  - Relation between distribution and product development
  - Evolutionary product development and sourcing
  - Product development and distribution instead of promotion underlies brand development
- **Rethink the entire supply chain**
  - Reduction in mark-down can more than make up for increase in labor cost
  - Planned shortages can induce more future demand
  - Good store location, layout and product display can substitute advertising
  - Faster response eliminates inventory risks

## ZARA Business Model : Key take away

Run your business right: Selling “state-of-the-art“ fashion though being a fashion follower is the principle Zara follows

Integration upstream to create competitive advantages downstream

- Relation between distribution and product development
- Evolutionary product development and sourcing
- Product development and distribution instead of promotion underlies brand development

### **Rethink the entire supply chain**

- Reduction in mark-down can more than make up for increase in labor cost
- Planned shortages can induce more future demand
- Good store location, layout and product display can substitute advertising
- Faster response eliminates inventory risks

From Zara business model, the key takeaway is running your business right and selling state of the art fashion through being a fashion follower. Zara does not create fashion, it finds out what people want today and what is people think is the fashion and just make it and then deliver it to the stores. When you are looking at supply chain best practices such as outsourcing, globalization etc., Zara is certainly a counterexample. It shows that you can run your supply chain at your house efficiently and satisfy your customers and be the world class company.

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