



LEVEL 7 ASSESSMENT SPECIFICATION

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Introduction

Zara is considered one of the biggest multinational fashion corporations. It is a subsidiary of Inditex, one of the world's biggest distribution firms. Their one-of-a-kind business strategy, which encompasses product creation, manufacturing, distribution, and sales via an expansive retail network, revolves around the consumer as its central focus (Mo 2015, p 17). Zara is a forward-thinking powerhouse in the fashion industry, and it exemplifies what is possible in a world in which responsibility and desire are open to everyone. By introducing a more regarded style to the globe, it is their mission to ensure that everyone, regardless of where they are located, has access to the awe-inspiringly beautiful, always on-trend, sustainably designed clothes that they rightfully deserve (Segran 2019). Nurturing a very personal connection with its clients, Zara's designers adapt immediately to their shifting demands, responding to the newest trends and continual input to create fresh ideas for every individual in the correct location and at the right time. Zara is always seeking to make its company more sustainable by lessening its effect on the world and incorporating sustainability into its day-to-day decision-making (López et al. 2022, p 684-700).

This paper will focus on conducting a macro environment analysis for the Hong Kong casual wear industry and determining the opportunities and threats facing the industry; demonstrating how the value chain can contribute to adding value, in each of these areas, to Zara as they maintain their operations in the post-pandemic environment; and evaluating the business and corporate strategies recently implemented by Zara. Determine the means through which these initiatives may be successfully put into action.

Mission, vision, and value analysis

Zara undoubtedly has a mission and vision statement that has been formalized, and the company is working hard right now to fulfil its purpose via the use of strategies that will allow them to accomplish its long-term goals. Adopting a mission statement that has been thoroughly prepared in strategic management is thought to provide several advantages (Koivulehto, 2017). These advantages include providing a foundation, or standard, for the allocation of organizational resources and ensuring that there is a homogeneity of purpose among the organization's members. Establishes a general tone or organizational climate to function as a centrepiece for personnel to connect with the organization's direction and purpose and to dissuade those incapables from getting involved further in the company's functions. It facilitates the translation of strategies into a work structure encompassing the task of responsibilities to responsible individuals within the organization. It specifies organizational aims and translates these aims into corporate goals (Seo and Suh 2019, p 86-100).

In the instance of Zara, the business's mission and vision statement underline its objective, which is to be an environmentally responsible company and contribute to the growth of society. This purpose is emphasized clearly and persistently. Their goal is the foundation upon which they make decisions regarding allocating their resources (Uriarte 2016). For example, people are aware that Zara places a greater emphasis on the amount of money it spends on marketing campaigns, developing more environmentally responsible business practices and expanding its supply chain. When taken together, the company's mission statement and corporate culture help create an environment inside the firm that is more amenable to pursuing its goals. In addition, since the mission statement is so transparent and straightforward, it is much simpler for personnel to adjust their thinking and actions to align with the business's goals (Ha, 2021). In other words, personnel are aware of the steps they need to do and the appropriate sequence to take them to accomplish the set goals. And so, in the end, Zara, as a determined firm, with the reasons of being a fast fashion brand that involves its environmental-friendliness, along with their long-term ambitions that are drawn from their mission and vision statement, established reasonably clear standards of their time, performance and cost evaluation, and it has worked well so far (Gujarathi, 2015).

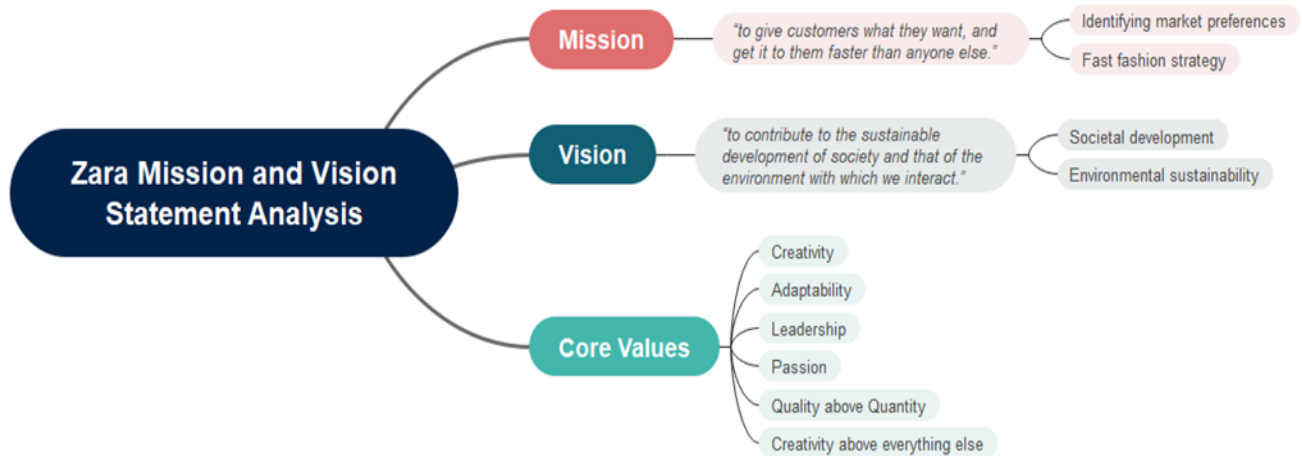


Figure 1

Zara's Mission

Zara's mission statement is "to give customers what they want and bring it to them quicker than anybody else." A powerful mission statement communicates its purpose in a manner that is both concise and clear (Gujarathi, 2015). Zara's mission statement unquestionably meets all of these requirements. It is fascinating to note that the statement's straightforwardness and simplicity precisely reflect why Zara has been so prominent in setting up effective management strategies and therefore succeeding in the clothing market. When studying the mission statement of Zara deeper, it can be seen that it consists of two primary components. These components include determining the target market's preferences and using a fast fashion approach.

Identifying Market Preferences

In the first section of its mission statement, Zara states that it strives to provide consumers with what they desire, and this is something that Zara does. Most competitors in the high fashion industry do not put in significant effort to understand the preferences of their target consumers. In all honesty, this mentality has pervaded the world of high fashion for decades (Gamble 2019). The designers merely create clothing that is suited to their preferences and styles, and they anticipate that other people would purchase it only because it is considered to be high fashion.

Zara takes a method that is opposed to this one. Zara is known for paying close attention to its clientele and employing a talented staff of designers. Zara has a highly dynamic presence on

social media, and the company makes use of this to connect with its customer base. By talking with its customers, Zara can obtain a sense of what the market is likely to purchase. Even at the shops, Zara employees pay attention to what consumers like and dislike about the brand. The design team is informed of the information and ensures that the client's demands and recommendations are integrated into the following collections that the brand releases (Sitaro, 2020).

The Strategy of Fast Fashion

In the second section of its mission statement, Zara aspires to fulfil the market's needs as quickly as possible. To put it another way, the manufacturing procedure does not include any unnecessary delays. A collection that has around 500 different designs may be finished by the Zara team in a matter of two weeks, on average. This encompasses everything, from the initial brainstorming of design concepts to the actual delivery of the apparel to the retailers (Goshen-Gottstein 2016, pp 57-67). This approach is now often mentioned as the "fast fashion strategy" in the retail business.

Zara's Vision

To “contribute to the sustainable development of society and that of the environment with which we interact” is the goal of Zara, which is stated in the company's vision statement (Ha, 2021). The statement of vision for a firm outlines the long-term objectives and describes how the organization intends to position itself in the years to come. In the same way, as its mission statement is straightforward and succinct, Zara's vision statement is similarly organized, and it elucidates a facet of the fashion company that is not readily apparent to customers while they are purchasing its products. The declaration demonstrates that the organization places a higher focus on contributing to society and protecting the environment than it does on increasing revenue and maximizing profits.

Societal Development

The company Zara places a high priority on its commitment to corporate social responsibility. It is always working on projects that aim to make people's lives better and gives strong support to initiatives that aim to give something back to the local community. Brands such as Zara are making an additional effort to assert their support for societal sustainability and growth in the wake of recent critiques received by the fashion industry concerning the use of inappropriate labour practices in facilities located in third-world countries (DAI, 2018). These criticisms relate to the use of child labour and forced labour.

Environmental Sustainability

The natural world is also something the Zara brand places a strong emphasis on. It has well-deserved renown for taking an active role in environmental causes. Zara has a long-standing opposition to the use of plastics and does not sew labels or tags onto its garments unless they are essential. In addition, there are no hazardous substances produced throughout the production process (DAI, 2018).

Zara's Core Values

Zara places a high priority on a variety of factors, but the aforementioned principles have served as its compass throughout the company's history, influencing both its long-term strategic choices and its day-to-day management practices (Sitara, 2020)

Beauty

Because they work in the fashion sector, it is only logical to assume that there should be respect for, and a commitment to, maintaining aesthetics in all parts of business and relationships in general.

Clarity

In the fashion business, which moves at a breakneck speed, clarity is of the utmost importance. To be more specific, Zara prioritizes clear communication in all aspects of the business, including interactions with customers and with the general public.

Functionality

Zara maintains a high level of functionality across the board in all of its product lines. Although it is considered high fashion, the garments are not just suitable for the runway but can also be worn in everyday situations.

Sustainability

The Join Lifeline and the growing number of eco-stores that Zara operates all over the globe are two examples of how the company demonstrates its unwavering commitment to sustainability in all of its forms.

A Macro Environment Examination of the Hong Kong casual Wear Industry

To establish the threats and opportunities pertinent to the business, a PESTEL assessment will be conducted, and Porter's Five Forces will be employed to evaluate how favourable the industry is.

Pestel Analysis

Political Factors

Because of the political difficulties experienced in Hong Kong in 2019, the fashion sector faced higher levels of uncertainty; As a result, decreasing levels of consumer confidence were experienced. Outstanding issues continued to be a source of instability and uncertainty throughout the year 2020. Several political concerns have been solved since then. Currently, the political atmosphere is calm, and Hong provides a policy that encourages business investment (Peirson-Smith and Craik 2021, pp.296-323).

Economic Factors

2019 saw a weakening in Hong Kong's economic performance. According to the data compiled by the Department of Census and Statistics, the country's Gross Domestic Product (GDP) saw a decline of 2.9% in real terms during the third quarter of 2019 when compared to the same period one year before (Chiu, 2019). The decreased pace of increase in GDP indicates that demand in the economy is decreased. Additionally, private consumption expenditures fell by 3.4% in real terms during the third quarter of 2019 as compared to the same period of last year. The Gross National Disposable Income figures for June 2019 were reported to be 753,950.000 HKD, which is a rise from the 730,379,000 HKD figure published for March 2019. In addition, the GDP price deflator rose by 2.5% when compared to the same quarter in 2018 when adjusted for inflation. That indicates that inflation as a whole is becoming higher. Even when consumers have sufficient buying power, they are less eager to make purchases when the economy is in a downward spiral, and the inflation rate is rising (Chiu,2019).

Free-market capitalism has reached an advanced level of development in Hong Kong's economy. It is distinguished by comparatively low taxation rates, almost unrestricted port commerce, and a robust presence on the global financial market. The fashion industry, which

includes the sector of casual wear, is now experiencing growth. In 2021, Hong Kong's apparel exports got back on track, which was in step with the recovery seen throughout the world (Wong et al. 2021).

Social

Alterations in the socio-cultural dimension influence how people shop and the choices they make about buying, as well as the brands that individuals choose to purchase from. These days, customers aren't simply looking for convenience; they also expect reasonable pricing and high-quality goods (Seo and Suh 2019 pp86-100). Even though the quality is not as high as that of luxury labels, it is still of a satisfactory level, and in regards to style and design, the brands that are intended for casual wear are not far behind. The casual clothes movement is becoming more popular. Not only does it affect the way people feel, but it also alters other aspects of them. Customers have developed more discrimination and now base their judgments on the information obtained from a variety of sources. They do not just depend on advertising but also use feedback as a source of information. In addition, people are becoming more concerned about their health and the quality of their lives. As a result, there has been a growth in the demand for functional clothing, which has led manufacturers to boost their investment in research and development as well as innovation. Now, clothing that protects against UV light, anti-rays, perspiration, and radiation, provides insulation, prevents fouling, and other functions is not hard to obtain on the market. Other functions include anti-fouling (Koivulehto, 2017).

Technological Factors

The twenty-first century has seen a rise in the popularity of purchasing online. Go-Globe conducted a study in 2018 on the subject of internet shopping in Hong Kong. 88% of shoppers in Hong Kong have made at least one transaction using an online platform in the last three months. The majority of online shoppers in Hong Kong (41.7% of them) purchase items in the Accessories and Clothing category when they do their shopping online. The customer service and purchasing experiences that one has while using an online shopping service have also been personalized (Koivulehto, 2017). Customers shop for apparel on the internet. One of the causes is the wide range of brands and aesthetic approaches that are available. When it comes to consumers, the Internet has transitioned from a "technology" to a "life circle." Internet shopping and the growing use of

smartphones for shopping are two factors that are influencing sales, marketing strategies, and customer decision-making.

Environmental Factors

Many customers are aware of the need to pay attention to sustainable practices. The concept of sustainability is increasingly playing a role in the purchase choices of customers. The consumer hopes that the company will implement environmentally responsible practices across its supply chain, which will ultimately result in a smaller carbon footprint and less environmental contamination. Utilize raw materials, packaging, and manufacturing processes that are less harmful to the environment. Even companies of casual clothes are becoming more conscious of their influences on the environment and taking measures to decrease their carbon footprint. Customers will remain loyal if the company can lessen its negative influence on the environment and invest in environmentally responsible and sustainable business operations. This presents a difficult situation for the market in Hong Kong (Mo 2015, p 217).

Porter's Five Forces

Consumer Power

The customer has a significant amount of influence in the negotiation process. Due to the nature of the casual wear industry and the prevalence of large corporations, customers typically are unable to engage in direct negotiations (Williams 2015, pp 1-97). However, people can shop for garments at a wide variety of other stores, so there is no incentive for them to stick with a single firm. Because of this circumstance, they have a significant amount of indirect negotiating power.

Power Of Suppliers

The supplier has a rather weak position when it comes to negotiating power in the sector of casual clothing. Hong Kong, which has an estimated 558 establishments, is home to a sizeable number of manufacturing companies (Celano 2021). In addition, the vast majority of businesses get their supplies from producers located in developing countries, who often earn just a small portion of the sale price. The suppliers have very little say in how this sector operates. They are not necessary and may always be replaced with anything else.

Threat of New Entrants

The danger posed by new companies entering the market for casual apparel is rather low. At the very least, in the initial few years of operation, economies of scale are very beneficial to the main market participants. This prospect is not open to companies who are entering the market for the first time. In addition, a beginning firm costs a significant amount of capital, and competing with established companies in the market is another obstacle that prospective new entrants in the market must overcome (Samarasinghe et al., 2015).

Threat of Substitute

There is a significant risk that replacements will be used. Because of the intense level of competition in the casual wear sector, no brand can affirm that it will continue to sell products and keep its celebrity status if it does not concentrate on its clients (Mohindroo, 2016).

Competition

There is a great deal of competition in the sector of casual wear. There are a significant number of stores offering things that are extremely identical to one another, but there is also the

idea of a brand that enables certain businesses to sell clothes at costs are very high. This sector does not see much in terms of innovative developments (Nor et al. 2016).

Value Chain Analysis

Zara has a multitude of fundamental operations for meaningful value-creating activity. The first major activity is operations, which involves intermediate products and components. In-house manufacturing accounted for 85% of the operation's total output (López et al. 2022, pp.684-700). Zara has maintained several long-term relationships with its suppliers, but it limited its formal contractual obligations to them. Subsequently, operations utilize a sophisticated communications system to link production, sales sites, supply areas, and headquarters. In addition, there is a long-term partnership with 450 embroidery workshops that specialize in a certain product type. The workshops of Zara are highly automated and specialized by clothing type. Many fashion-sensitive products are created in-house (Xuejie et al. 2019, pp. 7-16).

Inbound logistics, which handles raw materials, is the second main activity. Part of this is keeping approximately half of the textiles undyed so that seasonal updates may be made more easily and with the greatest degree of flexibility. A further component of this strategy is procuring from China and Hong Kong to boost the standard of their fabric while keeping prices low. The last step is accomplished using a strategy that is known as vertical integration. This is a just-in-time production method in which Zara receives designed, dyed, and finished textiles from a wholly-owned subsidiary of Inditex within one week (Aftab et al. 2012, p 212).

The third key activity is production and sourcing. The first component is 40% vertical integration in the production process, where 40% of the clothes are produced (Xing 2021, pp. 201-205). Zara acquired offices in Barcelona and Hong Kong to aid in the expansion of external sourcing. Design is also another key primary activity for Zara. This includes adjusting to fashion trends via the Technological system and other resources. Another aspect of this is having creative teams for the three product lines that work concurrently on the current season and the season that follows. This facilitates marketability to the public. The last step is generating two basic collections every year via a process that includes sourcing, pricing, first drawing, and fashion presentations.

Another primary activity is sales and marketing. A primary aspect of this activity is market-based pricing. A second crucial aspect of marketing used by Zara is ensuring that price tags reflect the local market pricing. Thirdly, Zara uses variations in product positioning, such as the necessity for a premium product presentation in South America. Importantly, Zara designs items to fit the needs of a single nation. The next crucial aspect is concentrating marketing efforts on the beginning

of the sales time after a season. In addition, the firm predominantly targets middle- to upper-middle-income women between the ages of 18 and 34. Zara does have foreign strategic partnerships and franchises to develop into other markets and acquire sourcing capabilities and global market share. Zara's sales associates are required to wear Zara apparel (Yu et al. 2020, pp.321-338).

Zara has various secondary activities in addition to her primary value-creating operations. Research and development are the first secondary activity. Implementing an automated monitoring system in the business is a crucial first step. This enables the correct quantity to be ordered. Developing a just-in-time manufacturing process is the next step. Last but not least, for economies of scale, Zara has begun building a second distribution facility in Hong Kong. Another secondary activity is the company's infrastructure. 18 of the 20 factories are positioned close to the headquarters for greater management. Also, Zara operates 507 shops in countries worldwide (Su, 2020). Zara is the most and arguably extensively internationalized subsidiary in Inditex's network. The third secondary activity is the management of human resources. Managers are paid a set salary and get performance-based remuneration. Next, personnel are trained on how to operate equipment and conform to the just-in-time strategy. Shop managers educate and address new sales workers during the first fifteen days. The last secondary activity is procurement. The first essential component is contracting out of purchasing offices and components in the far eastern market. At least twice each week, items must be sent straight from a centralized distribution centre to a well-located, aesthetically pleasing shop (Chu, 2016).

There is one activity in Zara's value chain that constitutes a "core competency" for producing economic value. This value-chain activity is vertical integration, and Zara gains teamwork from this strategic approach. Vertical integration has allowed Zara to manufacture new designs in a quicker cycle and sell them at a lower price than its rivals. Vertical integration at Zara encompasses all processes, from procurement of raw materials to sales. This necessitated a large investment of time and resources to construct a comparable system for rivals. Time and training are also required for workers to produce value for Zara. These procedures allow Zara to boost its inventory turnover rate. Also helps them to shift their fashion trends quicker and at lesser prices than their rivals. In addition, while GAP, Benetton, and H&M had a lower vertical scope than Zara, GAP and H&M outsourced their manufacturing. Additionally, Benetton did allow licensees to

operate their shops. All of this demonstrates how Zara's value chain activity, vertical integration, has allowed its core competency to beat all of its clothing sector competitors (Yu et al. 2020, pp.321-338).

Zara Balanced Scorecard

Customer Perspective

The company's principal goal is described as "responding to the demands of our customers via the greatest experience," which demonstrates that the company's business plan is designed with the consumer as its focal point. By using technologies such as Radio Frequency Identification, Zara can enhance the quality of the shopping experience for its customers. RFID enables sales associates to locate goods for customers immediately, both in-store and online. Zara also has a firm commitment to protecting the environment and takes comprehensive initiatives to safeguard biodiversity, minimize waste, combat climate change, and encourage sustainable sourcing (Linden, 2016).

Innovation and Learning Perspective

Zara's reliance on its physical shops was brought to light when the pandemic struck in 2019, forcing individuals all around the globe to withdraw from social interaction and remain cooped up in the privacy of their homes. Even while online sales helped to mitigate the huge reduction in revenue, they only accounted for 89% of 2019 rates. Inditex announced in June 2020 that it would be closing 1,200 or 16% of the total Zara shops to shift its focus to selling online (Xing, 2021).

Internal Business Perspective

By implementing extensive levels of vertical integration, the company can strategically locate 54% of its manufacturing facilities close to its Spanish headquarters and run an efficient distribution and retail network. The use of information technology facilitates the transfer of communication and data, hence facilitating the exchange of information with its 1,985 suppliers and 8,155 facilities located all over the globe (Aftab et al. 2018, p 212). As a direct consequence of this, Zara's business activities are streamlined and completed more quickly than those of any of its rivals. Because its online and retail collections are updated twice a week, new designs are introduced to the market in less than fifteen days. Furthermore, because of its ten distribution hubs, new designs may be delivered to any place in the globe within forty-eight hours.

Financial Perspective

Zara's success may be attributed to its unconventional policy of making little expenditure on advertising. The only methods that the corporation employs to broaden its public profile are the opening of new retail locations and word-of-mouth marketing. The profits figures for the second quarter and the first half of the fiscal year ending on June 30, 2022, were released by the Zara Investment Holding Company. The firm announced that its sales for the second quarter were 17.36 million versus 6.62 million for the same period a year earlier. In comparison to last year's net loss of 2.08 million, this year's net income came in at 1.22 million (Chiu et al., 2019).

Strategic Recommendation

Zara must solve its weak point and turn them into advantages to keep its position as the industry leader in the fast-growing fashion retail sector. The store involves very little in the way of marketing campaigns and commercials, apart from having active social media profiles, mostly on Facebook and Instagram and having its name printed on shopping bags. It employs a strategy known as anti-marketing, in which it attracts consumers rather than attempting to sell them its goods, and as a result, it spends just approximately 0.3% of its revenues on advertising. Zara has been quite effective in attracting a significant following, as seen by the fact that it has 43 million Instagram followers, 29 million likes on Facebook, and 1.3 million Twitter followers (Kumbara, 2020). Nevertheless, Zara has to exploit a marketing strategy that is more powerful to resist the various competitors who are seeking to imitate its business strategy and to boost the strength of its brand. One of the most significant competitors, H&M, has a co-partnership with high-end fashion designers like Jimmy Choo as well as celebrities to increase foot traffic to its retail locations by distributing SMS coupons and promotional campaigns via email.

Zara is in a position to take advantage of its big internet following and participate in influencer marketing. In today's digital era, influencer marketing has become an increasingly popular kind of marketing because of its lower cost than advertising production. Sponsoring bloggers, Vloggers, and other influential people that many people turn to for fashion tips is an easy way for Zara to reach a much wider audience. Now, with the help of the media platform Tik Tok, which allows users to share short videos, influencers may upload videos that go viral of try-on hauls, what they wear every week or their favourite clothing products. These videos can get thousands of views (Kumbara, 2020).

Zara's internet platform is another sector which needs to expand. Shein, Yesstyle, and several other companies are among the many that are joining the fashion retail business via e-commerce. These brands can potentially grab a large portion of the market in the coming years. Because of the lack of characteristics and performance, Zara's online shop cannot be considered a competitive advantage for the company (DAI, 2018). Zara must restructure its website to make it more user-friendly for its first-time and returning customers. Currently, the website places an excessive amount of emphasis on esthetics; therefore, users may find it difficult to browse and identify the item being advertised in the picture because of the simplified design and distracting

postures used by the models. Other customers have mentioned that navigating the online store's tabs may be difficult and that the shopping experience is not optimal across several platforms, including mobile phones and tablets. 37% of users report that the website's poor design and navigation drive them away, which puts Zara at risk of losing sales (Sitaro, 2020). This puts Zara in a position where it might lose sales. The website should have a more straightforward layout, and it should display items in a more unified manner while yet preserving its overall aesthetic.

Zara's e-commerce section demands greater personalization to satisfy customers' expectations, and this may be accomplished either by employing UI/UX designers in-house or outsourcing the work to specialists. Since the impact of COVID, the company chose to shut 16% of its shops to enhance its online sales, Inditex has been trying to solve this problem. As a direct result of the epidemic, an increasing number of individuals are doing their buying activities online. Therefore, to avoid experiencing the consequences of lost business, Zara has to make certain modifications.

The concepts of fast fashion and sustainable practices are incompatible with one another. Zara, on the other hand, is in the business of competing in a subset of the fast fashion industry while also promoting sustainability through its dedication to the environment (Wong et al., 2021). Lots of people keep on questioning how closely the business will persist in its announcement, even though Zara emphasizes its vow to the environment by practising responsible and ethical sourcing and production. Involving customers in the process would be the way for Zara to prove its promise of being environmentally friendly. There is one thing for customers to be aware of, Zara is purchasing is committed to sustainability, but actively participating in the process would have an even more outstanding result. An upcycling program might be implemented at Zara like that of H&M, which collects customers' abandoned clothes in exchange for a 15% off discount on their subsequent purchase (Celano, 2021). The customer could return Zara clothes that had been worn but were still in good shape. These clothes could be used again or given to countries in need.

Conclusion

The Spanish clothing company Zara is continuing expanding since its founding in 1975, eventually becoming the most successful fashion store on a global scale. Zara has a relationship between the external context and the internal context which is impacted by its strategy. It has been discovered that through the use of fast fashion Zara has competitive and development strategies in its contemporary management issues. Through implementing sustainable manufacturing strategies, Zara has well responded in shaping and implementing management of functions to ethical challenges. Zara rules the fast-growing fashion industry because of its strong vertical integration and favourable pricing, which allows it to compete successfully all over the world and online market. Nonetheless, the industry is scaling up at a fast rate, and for Zara to keep on enjoying its current level of success, Zara needs to carry on developing its business strategy, improve its performance in the digital marketplace, and maintain its dedication to the preservation of the health of the environment.

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