



LEVEL 7 ASSESSMENT SPECIFICATION

Student name:	WONG CHI HO	Student ID number:	2119643
Programme:	MBA		
Module:	Strategic Management		
Module code:	HKBM7013	Contribution to Overall Module Assessment (%):	100%
Lecturer:	Dr Terence Li	Internal Verifier:	Dr Leo Ho
Assignment Title:	Assignment 1	Word count (or equivalent):	5,000 words +/- 10%
Submission deadline:	31 October 2022	Return date of provisional marks & written feedback:	Within 20 days after submission
Submission method:	All written assessments, where practical and possible, must be submitted via Turnitin unless otherwise instructed by the Lecturer. (Please DO NOT put this assessment specification into Turnitin or it will match many similarities with other students' submissions.) Alternative submission method (if applicable): Late submission of the assessment will result in a late penalty mark. Penalties for late submission: Up to one week late, maximum mark of 50%. Over one week late, 0%. Only the Extenuating Circumstances Panel may approve a change to submission dates.		
Academic honesty / referencing:	Academic honesty is required. In the main body of your submission you must give credit to authors on whose research and ideas your work is based. Append to your submission a reference list that indicates the books, articles, etc. that you have used, cited or quoted in order to complete this assessment.		

HKBM7013 – Strategic Management

Name: Wong Chi Ho, Joe

Student Number: 2119643

Table of Contents

1. Introduction.....	1
1.1 Study objective	1
1.2 Study importance	2
1.3 Company background.....	2
2. Zara’s vision, mission and values	3
2.1 Strategy direction related to its vision, mission and values	3
2.1.1 The linkage of strategy direction with vision and values.....	4
2.1.2 The linkage of strategy direction with mission	5
2.1.3 Bring the Vision, mission and values into products.....	5
3. Macro environment analysis for Hong Kong casual wear industries	6
3.1 Economic factors	6
3.2 Social factors	8
3.3 Technology factors	9
3.4 Political factors	10
4. Value chain of Zara.....	11
4.1 Primary activities	11
4.2 Supporting activities	14
5. Corporate and business strategies recently proposed by Zara	15
5.1 Corporate strategy.....	15
5.2 Business strategy	16
5.3 Effectiveness of the strategies based on balance scorecard	17
6. Conclusion and recommendation	18
6.1 Recommendation for both corporate and business strategies for Zara	18

7. References	21
---------------------	----

1. Introduction

Multinational corporates operate the business in different geographic locations for many reasons. These could be leveraging economies of scale from operations globally. The corporate needs strategy management for a sustainable competitive edge over the market in the event of external environmental changes. The COVID-19 pandemic has affected the global economy. The fashion industry is one of the most impacted industries. Those products are classified as non-essential to consumers. The survey reviewed that over 56% of respondents from 9 countries across different continents around the world reported that their spending on fashion has been significantly reduced (Vladimirova et al., 2022). Companies in the industries would be suffered from closure or even bankrupted if there are no strategic changes to cater the issues.

1.1 Study objective

In this report, it aims to help the corporate address the problem related to external environmental changes. A case study with Zara would be analysed. The objective of the study is how strategic management is applied to Zara to retain its sustainable edge during the adverse environment. To achieve this study objective, below is the flow that would be used to present the case.

Firstly, the relationship between the strategic direction and the vision, mission and value of Zara would be discussed first. This would help explain what current corporate strategies are and how does it influence their operation strategy. Secondly, a macro-environment analysis of the Hong Kong casual wear industry would be performed followed by the opportunities and threats for the industries. The scope of external environment analysis would be based on Hong Kong. Thirdly, this report would then evaluate how the value chain can help add value to regain Zara's competitive edge as they continue to operate in post-pandemic environments. Finally, this study will go through the recent corporate and business strategies proposed by Zara and evaluate the effectiveness during execution by using a balanced scorecard. This would be followed by a recommendation for both corporate and business strategies and the implementation plan to assist the entrepreneurs to execute effectively.

1.2 Study importance

This study will management and the board of directors to rescue the revenue shrink of Zara due to the global economic downturn. It will help the company to survive so that more stakeholders are benefited. It includes saving as many job opportunities in Zara.

Zara is one of the global fashion chains that also have 12 outlets in Hong Kong. It would affect consumers' confidence if the brand existed in Hong Kong business due as of result of the shrink in the apparel retail industry. The study needs to prevent the worst scenario of bad performance closure. At the same time, Zara's investors would also be benefited from the better return. To continue the study, it is going to discuss the company background first

1.3 Company background

Zara is one of the largest international fashion is owned by the Inditex group. Inditex was opened by Amancio Ortega with a small dressmaking workshop in the year 1963. It started with a textile manufacturing company. The group set up Zara as the first fashion retail company in the year 1975 in Spain (Inditex, 2022). Based on this advantage of the ownership of the supply chain, allowing Zara produces more rapid product turnover. The manufacturing and retailing departments of a group would be more closely connected to satisfy changing customer demands. With such vertical integration with the supply chain, Zara has disrupted the fashion industry to create a fast fashion industry (AG, 2020). Zara has developed its extraordinary brand in Spain and could also manage to expand worldwide. Zara further expanded its business through related diversification in the year 2003 to establish Zara Home. It is targeting a new area to extend the expression of design into the home. As of June 2022, Zara operates more than 2000 stores in 406 locations (Parietti, 2021). Hong Kong is one of the footprints Zara started to operate in the year 2004. It first opened in IFC Mall with consistent latest ZARA layout worldwide and consistent with the operation strategy to situate all outlets in prime locations in the main commercial area across Asia, Europe and America (Government Press Release, 2004).

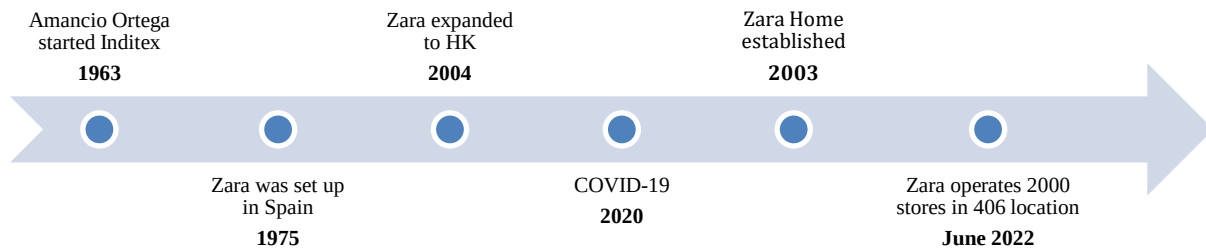


Figure 1.1 Timeline for Zara

Source: Constructed by Author

2. Zara's vision, mission and values

Inditex has shared one common purpose for all its eight brands, it is to put their customer first through a variety of categories and styles. They aim to serve the entire modern lifestyle of worldwide customers with what they need and want (Inditex, 2022). Zara shares the same vision and mission with the group Inditex while they remain self-independent to design corporate strategies, and business strategies for the business unit they are operating. Below are the Vision, Mission and Values.

Vision statement

Zara vision statement is “to contribute to the sustainable development of society and that of the environment with which we interact” (Zara, 2020).

Mission statement

Zara mission statement is to “give customers what they want, and get it to them faster than anyone else” (Zara, 2020).

Values

Zara core values include “beauty, clarity, functionality, and sustainability” (Zara, 2020).

2.1 Strategy direction related to its vision, mission and values

Vision, mission and values are the guiding principles of the company. Vision defines the strategic direction and is a conceptual mapping of how to move from current states to future desired states. The mission is the purpose of the organization's existence. Values are how the company act to fulfil its vision. To realize the vision, mission and values, it is not only relying on top-down but also to fully engage employees and all related stakeholders, e.g supply chain, to act in the same direction (Mirvis, Googins and Kinnicutt, 2010). In this section, it is going to use Zara as an example to assess the relationship between “Strategic Direction” and the “Vision, Mission and Values”.

2.1.1 The linkage of strategy direction with vision and values

Over three-fourths of the executive globally think that sustainability is important to the financial success of the company. However, only around 30%-40% are taking steps to apply in business (Mirvis, Googins and Kinnicutt, 2010). Zara and the group Inditex are to contribute sustainability to society and the environment. With a clearly-defined vision, it provides direction to align major stakeholders, from the self-owned supply chain, logistics and retail chain to its business partner across the globe to think of a way to reduce harm to the natural environment when doing business. This could be illustrated through manufacturing, logistics and retail outlet operation.

The group has exercised an environmental management system to control the consumption of resources and renewable energy. It is certified to ISO 14001 standard and fully implemented in group headquarters, logistic centres and the own factories. On the retail side, the group has launched a centralized platform to monitor and optimize retail outlet consumption. In the year 2021, over 66% of its stores were connected to that platform. The overall consumption has been reduced from 1,632,248 MWh in the year 2019 to 1,503,739 MWh in the year 2021. On the other hand, the group also set a goal to reduce 25% of water consumption in the supply chain by the year 2025. In the raw material supply chain, there was also a global project to evaluate the best practice for a more sustainable cotton supply chain. On the other hand, Zara did roll out an economy flagship store in Crawford House on Queen Road in Hong Kong. It is designed to consume less than 30% more energy than other shops and to reduce water consumption by 70%. This also shows how Zara lives with the core value to maintain its vision for sustainability.

All this explained that Zara's core value has become the beliefs and norms when conducting firm business to align strategic direction within the Inditex group and Zara on a global scale. (Inditex Statement, 2021).

To strengthen sustainable governance and integrate it into the company's corporate strategy, the board of directors has approved a sustainability committee to nurture the commitment to sustainability goal. Company values of sustainability could be reflected in actions and line with strategic direction. From the board structure to major projects achievement in recent years, it is shown that the group has built up strong share visions and values from top management to support the company strategic direction.

2.1.2 The linkage of strategy direction with mission

Zara's mission is to give customers their wants and needs and to provide new products faster than other companies. Zara's corporate strategy is to treat the customers as the centre of the clothing design strategy. Amancio Ortega saw the beauty to combine manufacturing and retailing since Zara's establishment. Its success has been contributed to internally controlled supply. The vertical integration strategy is mostly aligned with the mission to shorten product delivery time.

Zara makes use of the store as a source to promote the brand rather than through advertisement. It relies on the sale team in the outlet to capture customer preference and feedback through a handheld device to the in-house design team (Tokatli, 2008). As such, the customer needs and wants could be captured in a fast and accurate manner. The large team of designers in Zara act promptly to finalize the choice of material, cutting and design based on real-time information. Such information could be shared with the in-house supply chain and delivered to the retail outlet in a month (Parietti, 2021). Such a corporate strategy has enabled Zara to outperform other players to compete in the fast fashion segment.

This also demonstrates that mission is crucial to influence the direction of core corporate strategy.

2.1.3 Bring the Vision, mission and values into products

Zara established a standard “Join Life” to bring environmental protection and sustainability into the product. This let customers aware of the effort Zara has spent to protect the environment. The group Inditex has increased Join Life products from 9% in the year 2018 to 47% in the year 2021 (Inditex Statement, 2021). The success of the product collections was contributed to by engaging employees, suppliers and even customers.

All these show that the importance of an organization to develop a vision, mission and values is important to define the strategic direction of the company.

3. Macro environment analysis for Hong Kong casual wear industries

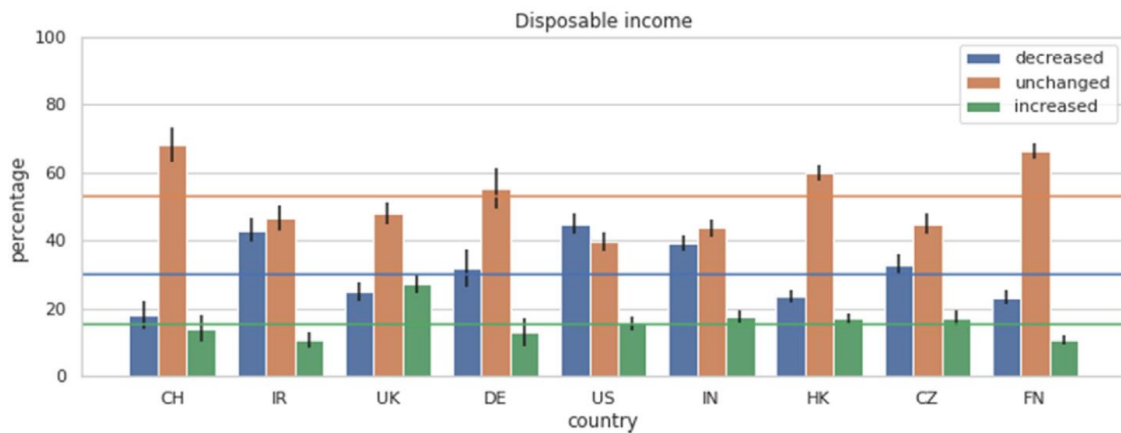
There are lots of external factors affecting the casual wear and fast fashion industries. To analyse the situation, we are going to make use of PEST analysis. Through the PEST analysis, it is possible to identify the key effects of changes and therefore to derive the opportunities and threats. PEST consists of 4 main areas: Political, Economic, Social and Technological. In the general environment, the major factor that impacts the macro environment is the outbreak of the COVID-19 pandemic. Firstly, COVID-19 disrupted the global economy, and Hong Kong’s economy is no exception (Vladimirova et al., 2022). Secondly, social factors are also important as a result of social distancing control by the Hong Kong government. It is expected social activities have been affected greatly. Thirdly, technological advancements in the digital wallet have facilitated more e-commerce sales activities (startupr.hk, 2021). In this section, it is going to discuss how economic, social, technology and political factors impacted to Hong Kong casual wear industry.

3.1 Economic factors

1. COVID-19 caused disruption of global economy. Hong Kong follows the trend but better than average

Billions of people around the world are being impacted. Below are the data conducted from Apr-June 2020, a quarter after COVID-19 was an outbreak. It shows that more than 30% of respondents found a decrease in salary. Hong Kong is slightly lower than the average.

Figure 3.1.1 descriptive statistic for disposable income

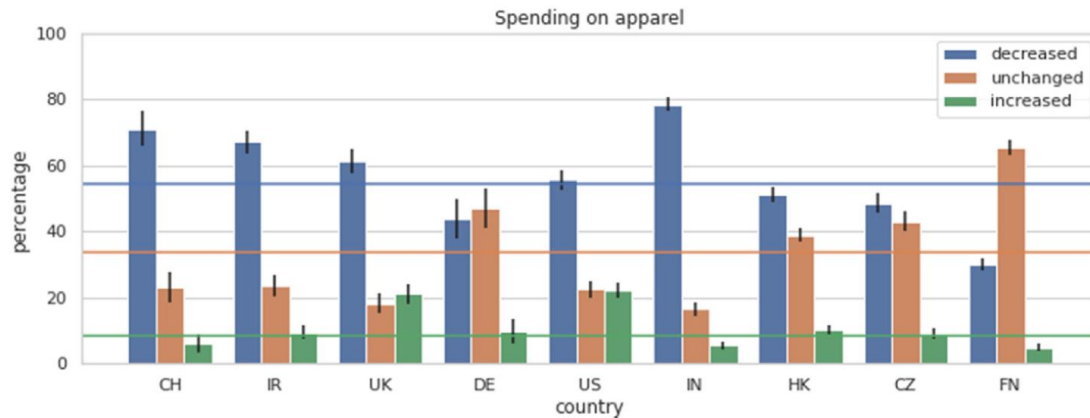


Source: Cleaner and Responsible Consumption (Vladimirova et al., 2022)

2. Global demand of textile has been decreased. Hong Kong follows the trend but decrease milder than the average

The COVID-19 pandemic has led to a 16% dropped in textile export. This has been the second-largest drop since the 19% drop in 2009 (HKTDC, 2022). Global demand for textiles has decreased. Hong Kong's local consumption is unavoidable affected. Textile is not essential products. It is not surprising to record a drastic decrease as a result of the global economic downturn. The below figures explained the situation by using another angle to measure the consumers' spending on apparel for the nine countries. All of them are recorded as decreasing spending. The decreased spending in Hong Kong is lower than the average of 56%. It indicates that Hong Kong people still recognize the apparent demands (Vladimirova et al., 2022).

Figure 3.2 descriptive statistic for apparel spending



Source: Cleaner and Responsible Consumption (Vladimirova et al., 2022)

3. Interest rate increasing cycle started in 3rd Quarter in 2022

The interest rate started to increase the based interest rate by 75 basis points in Hong Kong. This triggers the increase in lending rates from major banks increasing (Reuters, 2022). The commercial cost would then increase. This would further impact the economic. Companies' interest expense increase and there is a potential risk to cut staff costs to maintain financial competence. The demand for the inexperienced workforce would be even worse as a result of the headcount cut. As such, the consumption power of the younger group towards casual wear fashion would be greatly impacted. Zara's current target customer segment on younger age group. This is a threat to the company.

3.2 Social factors

The government has implemented a few waves of social distancing control since the COVID-19 pandemic outbreak in the year 2020. This further limited the opening hours and the number of people gatherings at restaurants, bars, karaoke and many entertainments. As a result, the demand for apparel has been reduced. On the other hand, many companies are executing the work-from-home policy. The demand to dress up has been further reduced. Besides, there is increasing social awareness of environment friendly and sustainability, the fast fashion industry introduces much unusual waste of material. As such, the demand for fast fashion is reducing. This is a threat to Zara as its business model is more focusing on fast fashion.

Hong Kong has been a fashion city. The city relied heavily on garment industries between the 1950s to 80s. The city has been connected to fashion for long history. The last generation has relied on mass manufacturing of garment industries to bring up during the period and finally become consumption of fashions (Peirson-Smith and Craik, 2020). A heritage project in an old Tsuen Wan cotton mill revamp has been one of the collective memory of the Hong Kong textile and fashion industry. This also recognizes Hong Kong's historical success in the garment industry (South China Morning Post, 2016). On the other hand, the lifestyle of pursuing fashioning entertaining experience is persisting (Peirson-Smith and Craik, 2020).

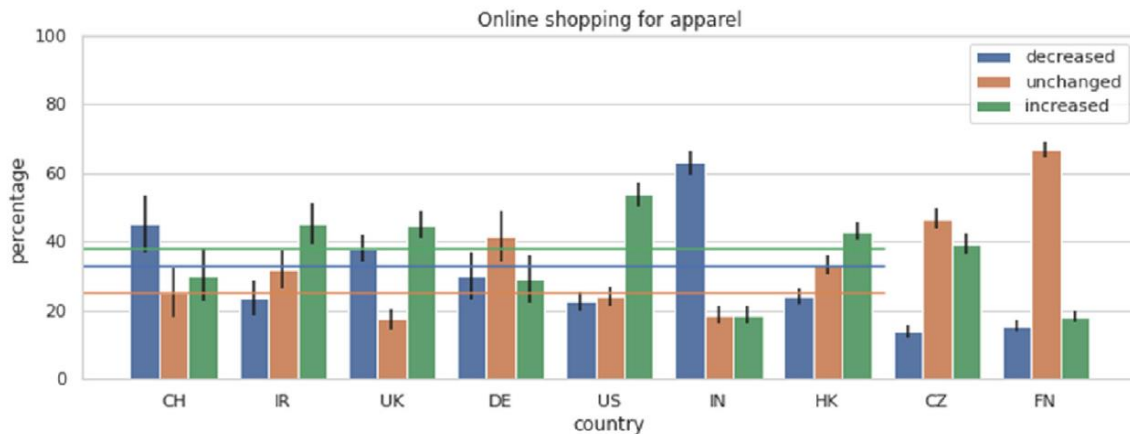
Due to the social appreciation of fashion in Hong Kong, there are opportunities to capture the rebound in retail when the social distancing measure is reduced. To capture this opportunity, it is recommended to promote more on “Join Life” products. This would address the threat of being criticized for its impact on the environment and promote Zara’s vision and brand image to support sustainability.

3.3 Technology factors

COVID-19 has enabled many opportunities for e-commerce. Online shopping become an important way of shopping to replace physical retail visits. There is urgent demand from the industry to develop online platforms, payment platforms, inventory management and ordering system. The advancement of technology has enabled the logistics for online shopping. Ride on the free trade policy, Hong Kong is not subject to any tariff or tax when transferring goods in and out (HKTDC, 2021). It is favourable to enable cross-border online shopping.

Below are the data conducted from Apr-June 2020, a quarter after COVID-19 was an outbreak. It shows that nearly 40% of respondents found an increase online shopping. Hong Kong is slightly higher than the average.

Figure 3.3 Descriptive statistics for online shopping



Source: Cleaner and Responsible Consumption (Vladimirova et al., 2022)

There is the opportunity and the threat to the industries. The threat is that the competitor in Hong Kong's casual wear industries is no longer a physical shop, but also the cross border online shopping. On the contrary, if the firm is good at operating online shopping, more cost could be saved from operating the physical stores.

3.4 Political factors

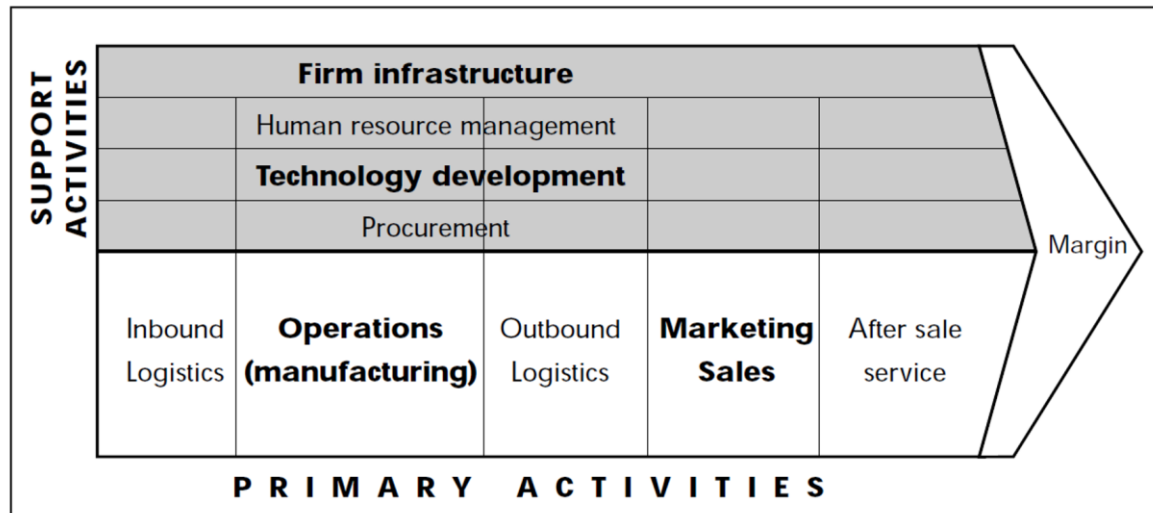
The textile industries comprise spinning, weaving, knitting and finishing of fabrics. In the year 2020, there were 310 manufacturing in Hong Kong with 1760 workers. This accounts for 1.1% of export. Ride on their good experience in manufacturing textiles, Hong Kong companies also engaged in textiles trading. Hong Kong textile industries not only came from local manufacturers but also Mainland China and other offshore production. Mainland China has agreed to provide Hong Kong with the textiles a product of origin and tariff-free arrangement under CEPA III effective in the year 2006. Due to labour costs increasing, investors tend to set up factories in countries like Cambodia, Vietnam and Bangladesh (HKTDC, 2022). Hong Kong is still a place that is favourable to the textile industry in terms of trade and retail.

There are opportunities to leverage the cheaper cost manufacturing supplier in East Asia countries like Cambodia, Vietnam and Bangladesh to produce simply products like plain fashion.

4. Value chain of Zara

To evaluate the internal environment of Zara, it is required to understand more about how Zara performs activities to support its strategy. Porter's value chain below shown in figure 4.1 show the component of the value chain model.

Figure 4.1 Porter's value chain



Source: Design management journal (Mozota, 2010)

In the value chain, it is divided into supporting activities and primary activities (Mozota, 2010). In this section, it is going to discuss how Zara adopt the design on the value chain followed by the contribution of each area of activities that created value for Zara as operates in post-pandemic environments.

4.1 Primary activities

Zara's primary activities rely on the supply chain. In this section, it is going to illustrate how inbound logistics, manufacturing operations and outbound logistics make Zara's unique business model.

Inbound logistic:

Zara buys huge amounts of only a selected few types of raw fabric from the supplier in major European countries in Spain, Italy, Portugal and Greece. It is ensuring the supplier of the raw

material is ready in 5 days when the order is placed They are all connected to the highly automated distribution centre. Inbound logistics are mainly by truck (Hugos, 2020). The well-established supplier of raw materials and centralized bulk order enable Zara to continue its competitive edge to control the cost of raw materials.

Operation:

Zara has a unique supply chain model with a centralized distribution centre that enables the supply of raw materials to be timely and doesn't require keeping much inventory of raw materials and the manufactured product. The design team are also centralized with over 200 fashion designers to satisfy customers' wants.

The operation has been riding vertical integration with the supply chain and applying lean and agile in the supply chain to perform just-in-time production. Such an operation model becomes a key enabler for Zara to maintain a unique competitive edge (Hugos, 2020).

This business model not only creates value for customers through differentiation from the rival but also aligns with the company mission to give what customers want faster than anyone else. This adds value to Zara to maintain the best cost-provider strategy in post-pandemic environments.

Outbound logistic:

Zara has strong distribution networks which enable it to deliver to European stores in 24 hours and to American and Asian stores in less than 40 hours. Such a short lead time for outbound logistics has enabled the centralized distribution centre located in Spain rather than shifting the production to Asia as what rival currently does. This continues to let the products made in Spain could be delivered to Asia regions, e.g Hong Kong, at nearly the same timeframe.

Marketing and Sales:

Zara saves costs in marketing and sales to open the store. The strong supply chain enables Zara's deliver products in two weeks and achieve 24 seasons a year rather than 4 seasons of

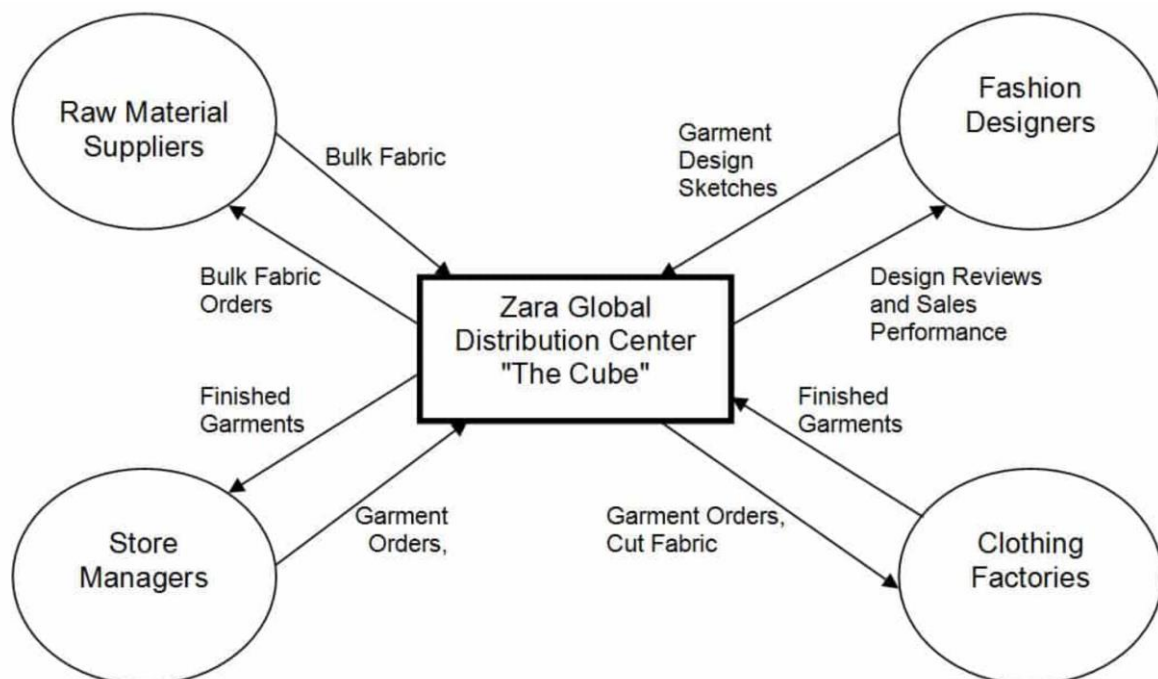
fashion in traditional apparel industries. The inventory for fast fashion products could be minimal. It created a sense of scarcity among the customer for those products they like in the store to prevent them from being sold out. This is a good way to boost sales.

After-sales service:

Zara didn't focus on after-sales service. What it focuses is on product, design and customer experience happening in the store. The sales team helps collect customer preferences and feedback through a handheld device to the in-house design team (Tokatli, 2008).

To summarize how the supply chain joins to create this unique competitive edge, the interaction key component in primary activities is illustrated in figures 4.1. The inbound logistics, operation and outbound logistics cooperate to form a highly automated distribution centre. The time-critical value creation enables Zara to have more marketing and after-sales service happened in the store.

Figures 4.1 Zara's Supply Chain supported by distribution centre "The Cube"



Source: Zara Clothing Company Supply Chain (Hugos, 2020)

4.2 Supporting activities

The support activities are tasks being firm infrastructure, technology, human resources, and procurement (Mozota, 2010). They are important to support the primary activities and company strategies

Firm infrastructure

-

This is the company's core infrastructure. As explained above, the company's business model is relying on the decentralized supply chain as its primary activity. The company infrastructure is important to keep close connections for Human Resources, Information Technology, Brand Marketing and Backoffice. The company's core business infrastructure is information technology. It provides the tool to support other activities and provides a platform for innovation.

-

Technology

-

Zara has developed a system to support highly responsive communication channels to enable the store manager to capture customers' demands in the design and products departments. This enables the supply chain can connect the store managers timely to maintain its lean and agile productions (Tokatli, 2008). Data captured in-store also helps the head office to perform analysis. It helps create value by improving the operation efficiency of different functions and performing holistic functional design as part of business strategy (Mozota, 2010). This is important for the head office decision-maker to devise the strategy and get prepared for the post-pandemic environment.

-

Human Resources

-

In the Inditex group, human resources are important to create a sustainability culture. In 2021, there are 15,560 are trained on sustainability compared to 6,960 employees in 2020. Every new joiner will receive training on sustainability training. They will then receive more thorough training in various programs according to the job positions (Inditex Statement, 2021). This is the foundation to ensure employees in Inditex and Zara embrace the company vision when doing their business. These core values are important to further develop and

promote the “Join Life” product line to match the environment-friendly and sustainable social trends.

Procurement

Inditex group is based on the vertical integration of the supply chain which includes raw material procurement. The group has also procured certain amounts of raw materials. Those suppliers are still assessed to meet environmentally friendly and socially responsible requirements (Inditex Statement, 2021). This is to ensure that such supporting activities also align with the company vision.

5. Corporate and business strategies recently proposed by Zara

In the previous section, the relationship of strategic direction with vision, mission and values has been discussed. The strategic direction has been influencing the group on how they are doing business. In this section, we are going to evaluate the corporate strategy and business strategy recently proposed by Zara. It will further analyse the effectiveness of strategies based on a balanced scorecard.

5.1 Corporate strategy

The most precious asset of corporate-level strategies is to have a vertical integration strategy with the supply chain. Inditex group created a strong foundation distribution system to react to the market quickly in the early 1980s’ (Martin Roll, 2021). Global strategy is also another one of an important area. The corporate design and production are considered with global needs to obtain economy of scale for the production.

Inditex group has established a long-term strategy to strengthen customer experience by investigating fully integrated omnichannel starting the year 2019. The corporate set up its objective to guarantee a golden future by expanding its physical prime location, innovation technology and online growth. The growth strategy has been established at the corporate level. This also extended to the different business units. To better support online and offline channel, RFID technology has been implemented in Zara, Massimo Dutti and Uterque first.

The technology refresh targeted to integrate store and online platforms sharing the same inventories to achieve more efficiency (Fashion Network, 2019).

To summarize, the corporate strategy of Inditex group focus on our vertical integration strategy, global strategy and growth strategy. This becomes the business norm that influences the individual business unit when doing their business. Next, it is going to discuss the business level strategy Zara recently adopted.

5.2 Business strategy

Based on the corporate strategy and the huge investment from Inditex group, Zara further strengthen its competitive edge to enable co-create products with the customers' input. Zara leverage the group's investment in innovation and technology. The brand uses RFID and its inventory system to track the location of garment products instantly. The store managers and staff are encouraged to capture customers' needs and wants. The data collected in the store could be analysed to provide more insight to management about the customer across different geographical locations, e.g smaller sizes in Japan. Besides, they could capture customer feedback on the design and send it to the designer for just-in-time production. As such, it makes products offered available to different countries to suit customer needs (Martin Roll, 2021). This is the quality differentiation. This uniqueness driver enables Zara to execute a broad differentiation strategy to offer unique product attributes to a wide range of buyers who admire fashion trends. The target customer segment would be on youngster age group.

Unlike its competitor, H&M has expanded a much greater number of stores to over 4000 to gain marketing penetration. Zara only owns 2000 stores which are half of H&M operated. To have a more competitive edge, Zara heavily invested in its technology and infrastructure. The highly efficient supply chain model enabled the production could be at a low cost. So that the pricing on Zara could be maintained relatively low with better quality than H&M. Based on all these factors, Zara has been adopting a best-cost provider strategy in their competitive strategy.

On the other hand, Zara has undergone related diversification to Zara Home. There is a synergy to reach a more economy of scale as those supply chain, designers could be shared more to increase profit margin. Zara's home was also included in the online shop

development during the group's investment in fully integrated omnichannel to customers (Fashion Network, 2019). This strategy target more middle age group which has more spending power that is willing to decorate their home.

5.3 Effectiveness of the strategies based on balance scorecard

The balance scorecard approach consists of 4 main areas, Financial, customers, internal business process and learning and growth. The corporate strategies focus on vertical integration, global strategy and growth strategy, while business-level strategies focus on best-cost strategy. Below is the summary of the balance scorecard approach in evaluating the effectiveness of strategies applied to Zara.

	Internal business process	Customers	Learning and Growth	Financial
Corporate	• RFID applied to supply chain to help inventories management with both online and store • Strengthen the investment in innovation and technology to improve efficiency of supply chain	• Growth strategy enable more exposure worldwide. Brand name awareness increased • Global coverage with Spain origin brand. Increased customer loyalty	• Corporate growth gives more opportunities to the employee growth	• Revenues growth before COVID-19 started
Business	• Faster business decisions as store information could be sent to supply chain with data analytic • Enable high quality product with designs more suit for customers and with highly efficient supply chain.	• Co-creation on brand products. Customer loyalty increased • The customer segment of Zara's home could be transferred from Zara once they have growth up	• Related diversification provide chance to the designers to develop knowledge to apply to "Home" products	• Revenues growth before COVID-19 started

		with more income.		
--	--	----------------------	--	--

6. Conclusion and recommendation

Zara's global marketing strategies are based on the advantages of its corporate vertical integration strategies. This has built a strong value chain to support primary activities for inbound logistics, manufacturing operations and outbound logistics that enable the production lead time from design to transport to store in 2 weeks. With strong supporting activities in technology infrastructure, it integrates the store management to invite customers' feedback to influence product design. This enables the company to anticipate the customer's need to provide trendy fashion. Those are the competitive edge enabling the successful stories of Zara. The corporate continues to execute growth strategies in the year 2019. However, due to the change in the external environment, below corporate and business strategies are recommended to change to ensure the sustainability of Zara.

6.1 Recommendation for both corporate and business strategies for Zara

As mentioned in section 5, Inditex group execute a growth strategy in the year 2019. The group has expanded its retail store to a prime location and invested in innovative technology to support fully omnichannel. However, the COVID pandemic started to occur at the beginning of the year 2020. The macro-economic has been greatly impacted. The physical store visits and spending on apparel have decreased. This is one of the important threats to the apparel industry. To address this issue, it is recommended to change the corporate strategy from a growth strategy to a defensive strategy. The objective is to cut costs to address the problem of revenue shrinking due to the macroeconomic downturn. Retrenchment could be performed at the corporate level to regroup those store locations to avoid duplication of customers' geographic segments.

In the business strategies of Zara's operation in Hong Kong, it is recommended to close one-fourth of the physical stores. As discussed in section 3, e-commerce has become an important channel for shopping during the pandemic era. It is recommended to spend more marketing promotion on online shops which could leverage the global online presence. This would not only reduce the cost of the rental expense of physical stores but also achieve the omnichannel

the group invested in. This involves the change in marketing strategy from physical stores to promotion through digital marketing and e-commerce. This also help to capture the business opportunities in cross border online sales as discussed in section 3 before.

On the other hand, interest rate increase has been identified as one of the major threats to macroeconomics as discussed in section 3. The unemployment rate for younger age is expected to even worst. In such a case, the buying power may be shifted to middle age group. During COVID-19, Hong Kong people get used to staying at home and working from home. People become more willing to spend on home accessories compared to apparel. It is recommended to put more effort into marketing promotion of Zara's Home. To match social aware of the sustainability, it is recommended to promote the "Join Life" label to let customers aware of company efforts in the environment protection. It is expected the Zara's home will increase the revenue contributed to Hong Kong business unit.

Below is the summary of strategy pre-implementation evaluation. The evaluations are based on 4 areas: 1. Consistency with existing strategy; 2. Consonance with external environment change; 3. Advantage: create competitive advantage; 4. Feasibility: it is implementation ride on existing resources and capabilities Zara current have.

Figure 6.1.1 Pre-implementation evaluation of the recommended strategy

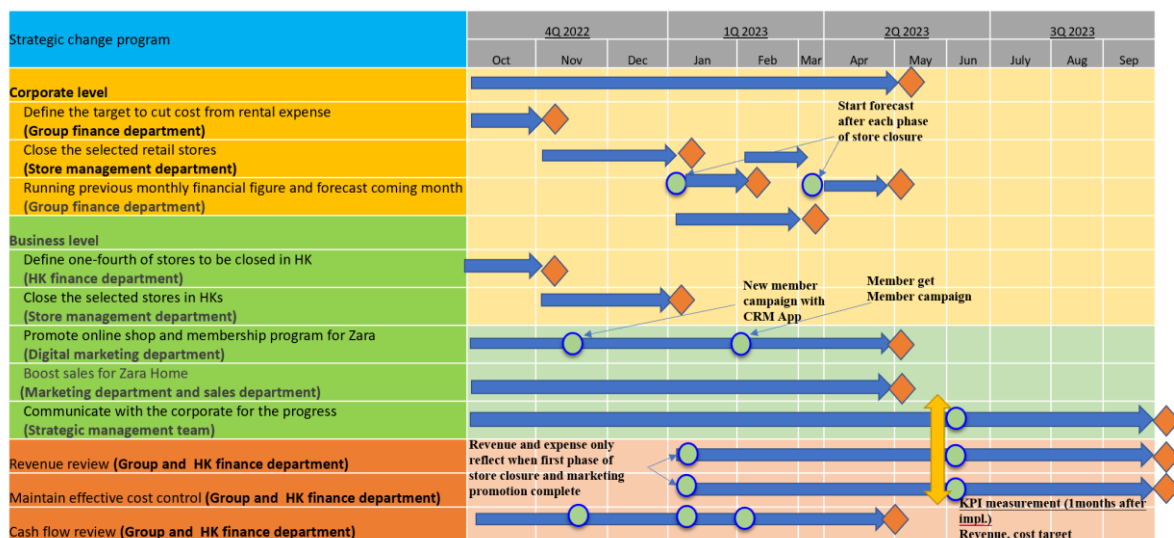
	<u>Corporate level:</u>	<u>Business level:</u>
Summary of recommended strategy	Retrenchment to regroup store location	Close one-fourth of the retail store in HK; Spend effort for e-shop and marketing; Focus more on Zara's home
Consistency	It may not be aligned with corporate strategy to invest a percentage of revenue to open stores. However, it help on cut costs	Continue the group strategy with omnichannel
Consonance	This is to follow the trend to cut the cost to address immediate threats due to the economic downturn	React to the social and technology trends to implement e-commerce and social media marketing
Advantage	The defensive strategy could help resolve cash flow problems during the adverse environment	The buying power of the customer segment of Zara fashion could be drawn to Zara Home once they reach the mature age with more income. It benefits the Zara Home brand as a long-term strategy

Feasibility	Project cost to undergo retrenchment is insignificant when compared to saving	E-commerce and omni-channel already introduced in the year 2019. It is just to ride on existing Zara's capability to tap into this area.
--------------------	---	--

Source: Constructed by author

From the above pre-implementation assessment, the recommended strategic changes at both corporate and business levels are aligned with the evaluation criteria. Next, an implementation plan is needed to ensure these strategies are effectively implemented.

Figure 6.1.2 - Gantt Chart for Strategy change program



Source: Constructed by Author

From the figure 6.1.2, the Gantt Chart illustrates the implementation plan with related involved parties contributing to the success of the strategic change program. There is a continuous milestone for revenue, cost and cash flow review. Communication between corporate and business-level progress is also in place. Besides, a regular review has been in place. The corrective and adaptive approach could be taken whenever there is a gap during implementation. Under such a comprehensive plan, it is expected that the strategies could be implemented effectively.

7. References

- AG, S. (2020). *Zara Business Model*. [online] www.strategyzer.com. Available at: <https://www.strategyzer.com/business-model-examples/zara-business-model> (Accessed 14 Oct. 2022).
- Fashion Network. (2014). *Zara rolls out eco-friendly flagship in Hong Kong*. Available at: <https://www.fashionnetwork.com/news/zara-rolls-out-eco-friendly-flagship-in-hong-kong,414422.html> (Accessed 1 Oct. 2022).
- Fashion Network. (2019). Available at: <https://www.fashionnetwork.com/news/Inditex-seven-brands-and-a-long-term-strategy,1136958.html> {Accessed 19 Oct. 2022}.
- Government Press Release. (2004). *ZARA opens its first store in Hong Kong*. Available at: <https://www.info.gov.hk/gia/general/200405/20/0520132.htm> (Accessed 1 Oct. 2022).
- HKTDC (2021). *HKTDC Research*. Available at: <https://research.hktdc.com/en/article/ODI5NzIwODI4> (Accessed 14 Oct. 2022).
- HKTDC (2022). *HKTDC Research*. Available at: <https://research.hktdc.com/en/article/MzEzOTUyNDMy> (Accessed 24 Sep. 2022).
- Hugos, M. (2020). *Zara Clothing Company Supply Chain*. [online] SCM Globe. Available at: <https://www.scmglobe.com/zara-clothing-company-supply-chain/> (Accessed 15 Oct. 2022).
- Kemp, S. (2021) *Digital in Hong Kong: All the statistics you need in 2021 — DataReportal – global digital insights, DataReportal – Global Digital Insights*. Available at: <https://datareportal.com/reports/digital-2021-hong-kong> (Accessed: 22 Oct, 2022).
- Inditex (2022). *History*. Available at: <https://www.inditex.com/itxcomweb/en/group/history> (Accessed 1 Oct. 2022).
- Inditex Statement. (2021). *Statement of non-financial information 2021*. Available at: https://www.inditex.com/itxcomweb/api/media/8cae4f70-40ea-4152-9688-732c4fdd8d91/2021_inditex_statement_of_non_financial_information.pdf?t=1655306399672 (Accessed 1 Oct. 2022).
- Martin Roll (2021). *The Secret of Zara's Success: A Culture of Customer Co-creation | Martin Roll*. Martin Roll. Available at: <https://martinroll.com/resources/articles/strategy/the-secret-of-zaras-success-a-culture-of-customer-co-creation/> (Accessed 19 Oct. 2022).

Mozota, B.B. (2010). Structuring Strategic Design Management: Michael Porter's Value Chain. *Design Management Journal (Former Series)*, 9(2), pp.26–31. doi:10.1111/j.1948-7169.1998.tb00201.x.

Mirvis, P., Googins, B. and Kinnicutt, S. (2010). Vision, mission, values. *Organizational Dynamics*, 39(4), pp.316–324. doi:10.1016/j.orgdyn.2010.07.006.

Parietti, M. (2021). *H&M, Zara and Uniqlo: Which Clothing Empire Is Beating the Competition?* Investopedia. Available at: <https://www.investopedia.com/articles/markets/120215/hm-vs-zara-vs-uniqlo-comparing-business-models.asp> (Accessed 1 Oct. 2022).

Peirson-Smith, A. and Craik, J. (2020). Reaching for the Sun, Moon and Stars: Experiencing Fashion Retail in the Neighbourhood in Hong Kong. *Fashion Practice*, pp.1–28. doi:10.1080/17569370.2020.1826732.

Reuters (2022). Hong Kong c.bank raises rate, HSBC and Standard Chartered follow. *Reuters*. 22 Sep. Available at: <https://www.reuters.com/markets/europe/hong-kong-central-bank-raises-interest-rate-after-fed-hike-2022-09-21/> (Accessed 13 Oct. 2022).

South China Morning Post. (2016). *Mill revamp is cue for Hong Kong textile workers to reminisce, and upcycle*. Available at: https://www.scmp.com/lifestyle/article/2011098/mill-revamp-cue-hong-kong-textile-workers-reminisce-and-upcycle?module=perpetual_scroll_1&pgtype=article&campaign=2011098

Tokatli, N. (2008). Global sourcing: Insights From the Global Clothing Industry the Case of Zara, a Fast Fashion Retailer. *Journal of Economic Geography*, 8(1), pp.21–38. doi:10.1093/jeg/lbm035.

Vladimirova, K., Henninger, C.E., Joyner-Martinez, C., Iran, S., Diddi, S., Durrani, M., Iyer, K., Jestratijevic, I., McCormick, H., Niinimäki, K., Thangavelu, P., Sauerwein, M., Singh, R., Simek, P. and Wallaschkowski, S. (2022). Fashion consumption during COVID-19: Comparative analysis of changing acquisition practices across nine countries and implications for sustainability. *Cleaner and Responsible Consumption*, [online] 5, p.100056. doi:10.1016/j.clrc.2022.100056.

startupr.hk. (2021). *Hong Kong Ecommerce Trends & Statistics 2021*. Available at: <https://blog.startupr.hk/hong-kong-ecommerce-trends-statistics-2021/>. (Accessed 1 Oct. 2022).

Yu, I., Ho, F., Law, E. and Fung, L., 2003. *An Analysis Of The Financial Health Of Hong Kong Corporations*. Hkma.gov.hk. Available at: <https://www.hkma.gov.hk/media/eng/publication-and-research/quarterly-bulletin/qb200312/fa1.pdf> (Accessed 22 Aug. 2022).

Zara (2022). *Company-+ Info | ZARA United Kingdom*. www.zara.com. Available at: <https://www.zara.com/uk/en/z-company-corp1391.html?v1=11112> (Accessed 1 Oct. 2022).

Zara (2020). *Zara Mission Statement 2020 | Zara Mission & Vision Analysis*. Mission Statement Academy. Available at: <https://mission-statement.com/zara/> (Accessed 1 Oct. 2022).