



3.2 STRATEGY IN ACTION

Competitive Advantage at Zara

Fashion retailer Zara is one of Spain's fastest-growing and most successful companies, with sales of some \$10 billion and a network of 6,500 stores in 88 countries. Zara's competitive advantage centers around one thing: speed. Whereas it takes most fashion houses 6 to 9 months to go from design to delivering merchandise to a store, Zara can complete the entire process in just 5 weeks. This competitive advantage enables Zara to quickly respond to changing fashion trends.

Zara achieves this by breaking many of the rules of operation in the fashion business. Whereas most fashion houses outsource production, Zara has its own factories and keeps approximately half of its production in-house. Zara also has its own designers and its own stores. Its designers, who are in constant contact with the stores, track what is selling on a real-time basis through information systems and talk to store managers weekly to get their impressions of what is "hot." This information supplements data gathered from other sources such as fashion shows.

Drawing on this information, Zara's designers create approximately 40,000 new designs a year, 10,000 of which are selected for production. Zara then purchases basic textiles from global suppliers, but performs capital-intensive production activities in its own factories. These factories use computer-controlled machinery to cut

pieces for garments. Zara does not produce in large volumes to attain economies of scale; instead, it produces in small lots. Labor-intensive activities such as sewing are performed by subcontractors located close to Zara's factories. Zara makes a practice of retaining more production capacity than necessary, so that when a new fashion trend emerges it can quickly respond by designing garments and ramping up production.

Completed garments are delivered to one of Zara's own warehouses, and then shipped to its own stores once a week. Zara deliberately underproduces products, supplying small batches of products in hot demand before quickly shifting to the next fashion trend. Often, its merchandise sells out quickly. The empty shelves in Zara stores create a scarcity value—which helps to generate demand. Customers quickly snap up products they like because they know these styles may soon be out of stock and never produced again.

As a result of this strategy, which is supported by competencies in design, information systems, and logistics management, Zara carries less inventory than its competitors (Zara's inventory equals about 10% of sales, compared to 15% at rival stores such as The Gap and Benetton). This means fewer price reductions to move products that haven't sold, and higher profit margins.

Sources: "Shining Examples," *The Economist: A Survey of Logistics*, June 17, 2006, pp. 4–6; K. Capell et al., "Fashion Conquistador," *Business Week*, September 4, 2006, pp. 38–39; K. Ferdows et al., "Rapid Fire Fulfillment," *Harvard Business Review* 82 (November 2004): 101–107; "Inditex is a leader in the fast fashion industry," *Morningstar*, December 15, 2009; "Pull based centralized manufacturing yields cost efficiencies for Zara," *Morningstar*, June 19, 2014.

improves (which raises value to consumers), thereby enabling the company to create more value. This has certainly been the case at Southwest Airlines, and it helps to explain the persistently low cost structure and high reliability of that company (see the Opening Case).

Information Systems Information systems are, primarily, the digital systems for managing inventory, tracking sales, pricing products, selling products, dealing with customer service inquiries, and so on. Modern information systems, coupled with the communications features of the Internet, have enabled many enterprises to significantly improve the efficiency and effectiveness with which they manage their other value