



Programme: BA Business Management

The Global Business Environment LCBB4005

Assessment 2
Critically Analysis of fashion company ZARA

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Introduction

Business management is the principle adopted by companies to manage and control their whole operations. The importance of business management in companies is to overlook all the activities and planning strategies to widespread their business in different countries. This study sheds light on the business management of Zara company and its position in the market (inditex.com, 2019). This report aims to evaluate the marketing strategy of Zara and its strategies for the expansion of business. The objectives of this report are to analyze the changing points in business strategy, concerns regarding different stakeholders, and the competitive edge of the company in the market.

Critically analyze the changes that the company have made in the last few years to their business model to self-regulate and adapt to some of the concerns raised by the different stakeholders above

Elements	Factors	Influence
Political	• The political stability of China is 0.24 (theglobaleconomy.com, 2021). This indicates that companies can expand their businesses in different countries. • The Brexit Movement led to the closure of many companies.	Zara may face political instability which influences the profit margin of the company (Sheet, 2018). It disturbs the market strategy and labor relations of the company. The trade relations of Zara may face heavy tariffs and taxes due to Brexit Movement. Hence the company has developed Operations Research model where they can assess shipments based on stock and market demands.

Economical	• The unemployment rate in 2021 is 3.64% (statista.com, 2021). This indicates that many people have lost their jobs during the Covid situation. • Less demanding labor classes help the companies to secure a strong workforce.	The unemployment rate reduces the profit margin and customer base of Zara (Yang <i>et al.</i>, 2020). The company may hire new people in China as the country produces skilled and talented laborers. Less demanding laborers help Zara to secure their profit margin.
Social	• With the changing lifestyle of the people, the companies need to produce new products to meet the market demand. • China prefers less diversity in culture.	Zara manufactures clothes and accessories of all ages that enable the company to increase its profit margin. The less diverse policy of Zara prevents the company to maintain an inclusive work culture inside their organization.
Technological	• Due to the breakthrough of the Covid situation, people prefer online service to offline service. • The improved R&D activity gears the production system of the companies.	Zara provides both online and offline services that enable the company to reach a wide range of consumers. The company collect data from PDA devices and RFID tags. Zara implements new technologies to produce new clothes based on

		China's culture. The company has implemented technologies for its designers to get constant feedback from consumers.
Legal	• The companies need to follow all environmental laws to sustain themselves in their market. • China lacks digital signatures, consumers' rights, and validation of electronic contracts.	Zara follows the environmental laws to penetrate the Chinese markets. Zara may change their customer-related policies to maintain its position among the competitors in China.
Environmental	• The companies use eco-friendly applications to reduce the impact on the environment. • Weather and climate influence the requirement of products.	Zara recycles their wastes to produce new clothes. The company uses electric vans for delivery purposes. Zara produces different varieties of clothes depending on the market demand of China. The company produces its garments in only four weeks which means two designs in a week.

The concerns rose by different stakeholders, are:

- **Governance-** The political uncertainty and changing policies of government affect the economic growth of the company (Allam *et al.*, 2020). Zara may adopt new policies

such as Confucianism and guanxi which are the social values of China to avoid conflicts with the government policies and competitors. The government impacts negatively on the profit margin of the company and the internal stakeholders especially working staffs suffers most due to changing policies of Zara.

- **Disclosure-** China's companies' beliefs in discussing all business-related matters in a group. Hence, Zara's managers need to represent their whole expansion and business strategy to penetrate China's markets. This impact negatively on the internal stakeholders as they have to disclose their important policies in front of unknown people. While external stakeholders are benefitted as they get to know all the details of Zara in the meeting.
- **Ethics-** Zara may change their work culture and hire new people from China to understand their social and cultural preferences (Vella Bonanno *et al.*, 2017). The company sets a modest business model and consistent meetings with Chinese companies to win their friendship and achieve a competitive advantage in the market. Hence, Zara may adopt changes in its policies to exhibit its basic plan of fast marketing in China. The changing cultural values may affect the sentiments of working staffs. The ethical changes impact negatively on both internal and external stakeholders. Internal stakeholder may change their ethical values to penetrate new countries and external stakeholders may enforce the company to follow their ethical rules.
- **Continuity-** Zara adopts new succession policies to uphold business continuity. The board of directors of the company forms a special committee to fill the vacancies through both internal and external selection processes. Zara hires employees from China to understand their preferences and cultural values. This provides fresh perspectives and ideas to the company. Zara may mentor new executives to carry out their succession plans. Business continuity with new succession policies may impact negatively on the internal stakeholders.
- **Citizenship-** It is the responsibility of Zara to look after the environment and social preferences of China to penetrate their markets (Sapukotanage *et al.*, 2020). Zara may implement new strategies to maintain its workforce in China. Zara may provide free legal support and help poor citizens with tax planning. This impacts positively on both internal and external stakeholders as they implement some strategies to gain loyalty of people living in China and recruit some people in the company who can help the existing employees to learn techniques of their work.

Critically explain if these changes have/will give the company some form of competitive advantage position and provide any relevant recommendations to the management of this organization.

The changes that Zara may implement in their work policy to achieve competitive advantage. The company may change its policy based on Porter's 5 forces, are:

- **Bargaining power of buyers-** Zara has reputable brand recognition that helps the company o maintain a large customer base. The less switching of consumers and high distinguishing features of products provide a less competitive edge to the company (Lehtovuori, 2017). Zara produces a variety of garments and accessories that increase the market demand of the company. Zara prepares garments concerning customers' preferences and cultural values of a particular country that help the company to increase its market demands. Therefore, Zara experiences moderate pressure from its consumers.
- **Bargaining power of suppliers-** Liberalization of global trade has reduced the pressure of suppliers on Zara through the rivalry from the producers working low wages. The absence of dynamism in Zara reduces the power of suppliers on the company. The company offers various licenses to its suppliers to enable them to stick to a particular segment that minimizes variation in designs (Sarkar and Al Saeed, 2017). Zara maintains a large supply chain of 1328 suppliers whose profit margin depends directly on the company's profit. The company receives moderately high bargaining power from suppliers.
- **New entrants-** Zara receives serious threats due to the emergence of new companies with an affordable price range. Due to Covid's situation, the consumers prefer to spend less on clothes and accessories (Tan, 2019). Therefore, the company receives high pressure due to the entrance of new firms.
- **Substitution-** Duplicate fashion trends pose a serious threat to the company. Zara implements a low pricing range and maintains a high quality of products to target new and existing consumers (Ortega and Okechukwu, 2017). Zara's policy of implementing new designs and cultural values to expand their business in different countries, helps the company to maintain its profit margin and reduce substitution. Hence, the company receives moderate pressure from substitutes.
- **Rivalry-** The H&M and Chanel are the potential competitors of Zara. This enforces extra pressure on the company to maintain its standards and profit margin in the market.

The brand recognition and products' quality provide a competitive advantage to Zara. Hence, the company receives moderate pressure from its competitors.

SWOT analysis of Zara to understand and analyze the strength and market position of the company, those are:

Strengths-

Zara follows fast fashion trends to sustain the changing trends of the market. The company has a strong supply chain management that helps Zara to simplify the data and communication flow. The distinguishing designs and variable products enable Zara to attract new and existing consumers of the company. The company invests in developing new technologies that modify the streamline of the retail network and supply chain (Mierzejewska, 2017). Zara implements new IT technologies to provide a better online experience to their potential audiences. Zara provides high-quality products at a reasonable price range to drive a huge loyal customer base (Wang, 2018). This enables the company to increase its market size and profit margin. Zara provides extensive customer service by their well-trained employees that increase customer relationships with the company.

Weaknesses:

There are fewer stores of Zara that reduce the market presence. The company consists of fewer stores in New Zealand and Thailand compare to UK (ZARA, 2017). Zara spends less in promoting their products in the market, hence, their audiences are unknown about the new arrivals of the company. Zara focuses on the generalized collection which is the biggest weakness of the company that may shift the concentration of their potential consumers to their competitors (Lukianov *et al.*, 2020).

Opportunities:

Zara Company is planning to invest in developing smart and advanced AI technology to provide a better experience to its consumers (Yang *et al.*, 2020). The company's marketing strategy is customer-centric; hence, Zara implements new technologies and provides new products to provide a better experience to their audiences. The company can increase its customer base by advertising its models and new products on both its online and offline platforms to increase its profit margin. Zara can open new stores in India, Singapore, Thailand, and New Zealand to increase its market size and brand recognition (Simonova, 2019). Zara may implement new online buying patterns to target a wide range of consumers.

Threats:

The competitors of Zara have a strong customer base and brand recognition in the market (Maulina and Raharja, 2018). The company has strong supply channels and strong brand recognition but still receives high pressure from its competitors. The political instability and government uncertainty may affect the profit margin of the company. The increasing cost of raw materials affects the profit margin of the company. This increases the pressure on Zara to maintain its expenditures (Benzaghta *et al.*, 2021).

The relevant recommendations that may help Zara to improve their market value, those are:

- The company needs to increase its market presence by opening stores in both developing and developed countries.
- Zara should invest in advertisement platforms to promote their products and accessories to target a wide range of consumers. This enables the company to target its potential audiences and manufacture products accordingly.
- The company may follow a dynamic marketing strategy to increase its profit margin and introduce an aggressive marketing process to analyze the demands and necessities of its consumers.
- Zara should focus on the risk factors that may affect the brand recognition and business structure of the company such as the economic downturn, fluctuation in personal income, and responses of consumers.

Conclusion

Zara is a multinational retail company that provides the best clothing and accessories to consumers. The company operates its business in different countries on both national and international grounds. Zara faces both external and internal threats while expanding its business in different countries. The external risks can be analyzed by performing a Pestle analysis that portrays the economic, political, social, cultural, technological, legal, and environmental policies of China and other countries. The company face problem due to political uncertainty of China that affect the business strategy of the company. Zara implements new policies and strategies to initiate its business plan in penetrating the Chinese market. China focuses on building the relationship with new companies before starting their business in their market. Hence, Zara needs to plan for gifts and offers to Chinese retail companies to extend their friendship with them. Chinese people believe in group association for making any important decisions regarding their business. The company needs to introduce new advertisement technologies to promote their products and services. This will help Zara company to reach a wide range of consumers and put less pressure on the company.

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