

The Strategic Analysis of Zara, Part of Inditex Group and the World's Largest Fashion Retailer

Kwaees, M. A.

BMMB7013D

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Executive Summary:

Zara is part of Inditex, one of the world's largest fashion retailers and has become one of the most successful fashion brands today (Inditex, 2021). The brand has a huge presence globally with thousands of store locations across the world. This report looks to carry out a strategic audit on Zara, to delve into the organisation's business model and its strategies through an internal and external analysis.

The frameworks and models utilised to carry out this analysis include, the PESTEL (political, economic, socio-cultural, and technological), Porter's Five Forces, Bowman's Strategy Clock and SWOT (Strength, Weakness, Opportunity, and Threats). The aim is to understand where the business stands in the competitive environment of the fashion retail industry and how Zara has managed to maintain leadership within it, in particular through their niche of fast fashion. Strategic recommendations and implementation ideas are also explored, with the brand's future growth in mind, whilst examining the impact of the coronavirus pandemic.

Introduction:

Background:

Inditex, commonly or known worldwide by consumers as Zara, is considered to be the world's largest clothing manufacturer nowadays, with over 3,000 stores that span 96 countries, it is the flagship brand of the Inditex Group with an estimated value of \$14.7 billion (Forbes, 2020). The brand specialises in fashion catering for men, women and children of all ages and demographics with apparel lines that include clothing, shoes, accessories, beauty, swimwear, perfumes and more. Over the years, Zara has remained faithful to its core value of "giving customers what they want and getting it to them faster than anyone else" as noted in the Inditex mission statement (Zara, 2021), with the brand becoming so popular it now has over 176,000 employees that include their subsidiary's branches of Bershka, Pull&Bear, and Massimo Dutti, to name a few.

History:

Zara was founded in 1975 in the Spanish coastal city of A Coruña, by Amancio Ortega and wife, Rosalia Mera. It started as a family run dress making business in 1963 under the name of Zobra, eventually having to rename to Zara for legal reasons, (Kala, 2018). The business would see so much growth from the period of 1963 to 1975, it would push Ortega to expand the family business and eventually open the first Zara in 1975 located in the founding city. The store would host recreations of popular and high-end fashion at affordable prices. This business model of closing the price gap for high end fashion resulted in huge success with customers. As the customer base and demand grew, Zara would expand across Spain in 1983 and open its first international store in Portugal in 1988, before soon going transatlantic to New York City in 1989 (Hansen, 2012).

The business would do so well in the years to follow, that it would also throw its hat into the home goods sector to rival the likes of Ikea and Pottery Barn with Zara Home, which aimed to keep up with the fast fashion ethos and speed, with new styles hitting stores twice a week. Zara Home, which allows customers to buy anything from bed linens to home furnishings and kitchen ware, was the first subsidiary of Inditex to hit the online market in 2007 and has approximately 600 stores, spanning 75 markets, including the United States. Today, Zara is headquartered in Arteixo, Spain and operates worldwide, consistently striving to innovate and work on bringing high-end products to customers at affordable prices, (Hanbury, 2019).

Main Findings:

Business Model:

Zara's value proposition focuses on keeping up with fast-changing fashion trends and offering high-end fashion designs to consumers quickly and at a modest price point. The business model focuses on spotting fashion trends and launching new pieces instore in the shortest period of time, in comparison to competitors like Forever 21 and H&M, that only show two collections per year, whilst sometimes taking over nine months to get products into their stores (Parietti, 2021).

Many have tried to emulate and adopt the same strategy as Zara; however, its incorporating flexibility, digital integration, and ability to differentiate itself, has allowed the organisation to become a market leader within the fashion space with competitors finding difficult to keep up. This is because Zara business model was impeccably structured and encompasses many factors which contribute to the organisation's success. A particularly significant example of this is their use of vertical integration, a technique which allows the business to control all aspects of its operations inhouse, splitting them into strategic business units (SBU's) that are independently managed within the business, and which often have their own visions, missions, objectives, and ideas (Bhasin, 2019). This gives Zara the added advantage of even further differentiation as it allows it to be flexible in the amount, frequency, and variety of new style products created, while maintaining full control of them until procured by the consumer (Kimiagar, 2008). With Zara's extremely responsive supply chain, they can deliver newly produced garments and put them on display in stores worldwide within the space of two weeks or less, which is unheard-of in the fashion industry (Ferdows et al, 2004). This business approach is perfectly summarised in the Financial Times quoting of Mr Ortega

who noted; “to be successful, you need to have five fingers touching the factory and five touching the customer” (Baber, 2012).

PESTEL Analysis:

The PESTEL (political, economic, socio-cultural, technological, environmental, and legal) framework relates to the analysis of external factors that influence activities and strategic development in a business, as defined by Sloman and colleagues in 2016.

Political/Legal

There are several political and legal factors that affect the fashion industry. Those that can impact Zara directly will depend on the political climate within Spain and internationally. If for example, the government intervenes in the economy and encourages companies to buy fabrics locally, that will interfere with the ease of the brands ability to operate, especially if the taxation on imports from other countries is increased (Frue, 2018). Furthermore, the fashion industry has repeatedly come under scrutiny for issues such as workers' rights and child labour laws, with many brands outsourcing their manufacturing to different countries (Kitroeff, 2019). Workers in clothing plants may picket their employers, especially if their wages or medical benefits are less favourable than workers in comparable industries, which can cause challenges and delays for fashion retailers in getting products to consumers on time (Chron, 2018). Whilst Zara does not outsource any of its manufacturing, the organisation must be aware of, and prepared for, any potential problems when faced with workers' rights because if the brand is perceived to be lacking in cause, buyers may develop a negative perception of the brand, viewing them as unethical for example. This increases the chances of customers employing voluntary and intentional abstentions such as a boycott of the brand, (Edelman, 2020).

Economical

Zara is a Spanish brand, headquartered in a country that has one of the highest rates of unemployment, which allows the business to benefit from low-cost labour. However, this kind of economic environment whilst great for the larger business within Spain, does not take negate the fact that the country must cope with its slow economic growth (FocusEconomics, 2014). An unsteady economy, sees and forces huge shifts in buyer behaviour as consumers are discouraged from spending, with less disposable income is prioritised towards household essentials (Magill et al, 2019). An example of this is what has recently happened in the United Kingdom following the countries exit from the European Union (EU). Brexit (British EU Exit) lead to a decline in the value of pound, resulting in high inflation rates, less disposable income in the hands of the consumers and a reduction in sales and revenue for not only Zara but the entire fashion industry (Mustoe, 2019). The positive for Zara however, is the brand offers relatively inexpensive quality products in comparison to its counterparts which rewards the business with greater market share in times of economic crisis.

Social-Cultural

The social-cultural and demographic environment is a volatile one that is forever changing and with social trends now having a huge impact on any organisations supply of products (Abeles, 2014). Social media platforms now have a profound impact on brands and have become a crucial factor within many businesses today due to their ability to attract large numbers of users. With consumer preferences also in a constant state of change, especially within millennials (people born between 1981 and 1996) and boomers (people born between 1997 and early 2010s), due to social media marketing revolution, Zara must cater for these fluctuations through e-commerce, expansion and via its variety offering of products.

Technological

Technology is not only reshaping the retail world, but also allowing it to thrive in the face of unforeseen circumstances such as the COVID-19 pandemic (Shankar et al, 2021). As it has become more sophisticated, it has also allowed for easier entry to the fashion industry by reducing the barriers for new entrants and increasing competition within the market (Hayes, 2021). This is because nowadays the internet provides a space for individuals and business alike to sell goods without the need of investment or infrastructure, which has seen a huge surge in the global e-commerce market with e-retail sales projected to account for 21.8% of total global retail sales by 2024, (Coppola, 2021). If this trend continues it will pose a real threat for Zara, whose online presence has been tested by the arrival of the pandemic.

Environmental

The trend of pro-environmental consumerism has grown massively in the 21st century. This is especially true in recent years, where the world has seen a shift in support of sustainable fashion brands, led predominantly by millennials and boomers who have consistently demonstrated a willingness to pay premium prices to stay greener (Munoz, 2021). The reason for this is that the fashion industry has been heavily criticised for being one of the biggest polluters on the planet due to its massive CO2 emissions and large-scale release of plastic microfibres into the ocean (McFall-Johnsen, 2019). A McKinsey & Company 2019 survey, noted that due to the COVID-19 crisis, engagement in sustainability has resonated deeply with European consumers, wanting the fashion industry to act responsibly in considering the environmental impacts of their businesses on the planet (Granskog et al, 2021). This could pose a significant challenge for Zara as the advantages of fast fashion are overshadowed by the harm of the “throw-away clothing” attitude of consumers.

Porters Five Forces:

Porter's 5 Forces will be used to examine Zara's competitiveness within the fashion industries external environment. The model proposes that there are five factors that decide a firm's profitability; competitive rivalry, new entrants, supplier power, buyer power and substitutes, all of which may shape a firm's strategy (Porter, 1996).

Competitive Rivalry (High)

The global apparel market is on the rise, with the demand for clothing, accessories and shoes not subsiding in the near future and market projection estimated to be roughly \$2.25 trillion in value by 2025 (Shahbandeh, 2021). Naturally, this indicates significant amounts of competition within the market not only for Zara but also many of its primary competitors including H&M, Gap and Forever21. This translates into a relatively slow growth rate within this market because the fashion industry is a mature one with extremely low entry barriers, making it extremely saturated and difficult for existing as well as new entrants to stay within it (Theyskens, 2015). Brands like Zara however can compete as they have the means and resources to cover the cost of manufacturing new goods quickly, they also have the ability to procure raw material faster than their competition which enables them to be more competitive and survive within the market (Fisher et al, 1994). Zara also differentiates itself further by catering for consumer buying habits and trends, this allows them to keep changing what they do and come up with new ways of retaining customers, driving loyalty based on product quality and features (UKEssays, 2018).

Threat of New Entrants (Low)

The risk or threat of new entrants into the apparel fashion industry is relatively low for Zara due mainly to their large global footprint. Furthermore, the apparel market is relatively over saturated and populated with several brands offering similar products, making it difficult for any new entrants to differentiate themselves from already well-established brands and seize a segment of the market share (Mann, 2019). It is worth noting however that barriers for entry into the fashion retail market have become quite low, with new entrants only requiring a premises to rent, with minimal capital investment (OpenStax, 2016). However, there are other barriers such as manufacturing, marketing and supply chain, that are challenging for new entrants as these require huge investment due to economies of scale (UKEssays, 2018).

Bargaining Power of Suppliers (Low)

In the fashion retail industry, supplier power is a relatively insignificant force (Pratap, 2017), due to the simple fact that there are so many suppliers in the textile industry, that the purchasing power lies with the brand, as they can switch and substitute as and when they see fit. This is particularly important when negotiating price brackets with suppliers, for example when trying to adopt a different forward-thinking approach, such as sustainability. Today most apparel businesses have a huge variety of global suppliers and can source their products from countries such as China and India, as well as developing countries such as Bangladesh, Vietnam, for a fraction of the price in comparison to local suppliers; further diminishing bargaining power locally (International Labour Organization, 1996). Furthermore, Zara procures their own raw materials to develop and manufacture their products inhouse and so do not require external suppliers (Bush, 2016).

Bargaining Power of Buyers (Medium)

Consumers have minimal direct bargaining power in the fashion and retail industry. Ultimately however, due to their purchasing power they decide whether a brand is successful or fails. This indirect bargaining power makes consumers an influential force to be reckoned with (Sharma and Krishnan, 2001). The effects of this indirect power have intensified in the 21st century thanks mostly to advances in technology which has produced well, and occasionally ill, informed customers, flexibility in accessing multiple alternative product options and the ability to effortlessly switch brands zero cost with a click of the button. For organisations such as Zara that dominate their marketplace this is less of an issue, as there will always be consumers that change brand.

Threat of Substitute (Low)

There is no substitute or threat to clothing, as it is a basic necessity required worldwide in many areas by law. It's defined as an object that covers and protects the human body from environmental elements such as heat, cold, etc. Clothing offers physical safety to the body and prevents damage, it also helps identify who someone is or what they do for example a police officer, and is one of the most important factors in representing status and individuality (Ektavon, 2021). There are however clothing subcategories within the retail industry, these are not clothing alternatives but garments that differ in price, quality and offering, where consumers can freely move from category to category for example, a customer interested in high-end fashion but cannot afford it, may opt to shop at stores that offer similar styles with a reasonable price point such as Zara, (Ha, 2021).

Bowmans Strategy Clock:

Bowman's Strategy Clock will be used to examine Zara's position within the fashion industries external environment, defined by Dănilache (2018) as the model used in marketing to analyse the competitive position of an organisation within a market and was developed by economists Cliff Bowman and David Faulkner. See Fig 1.

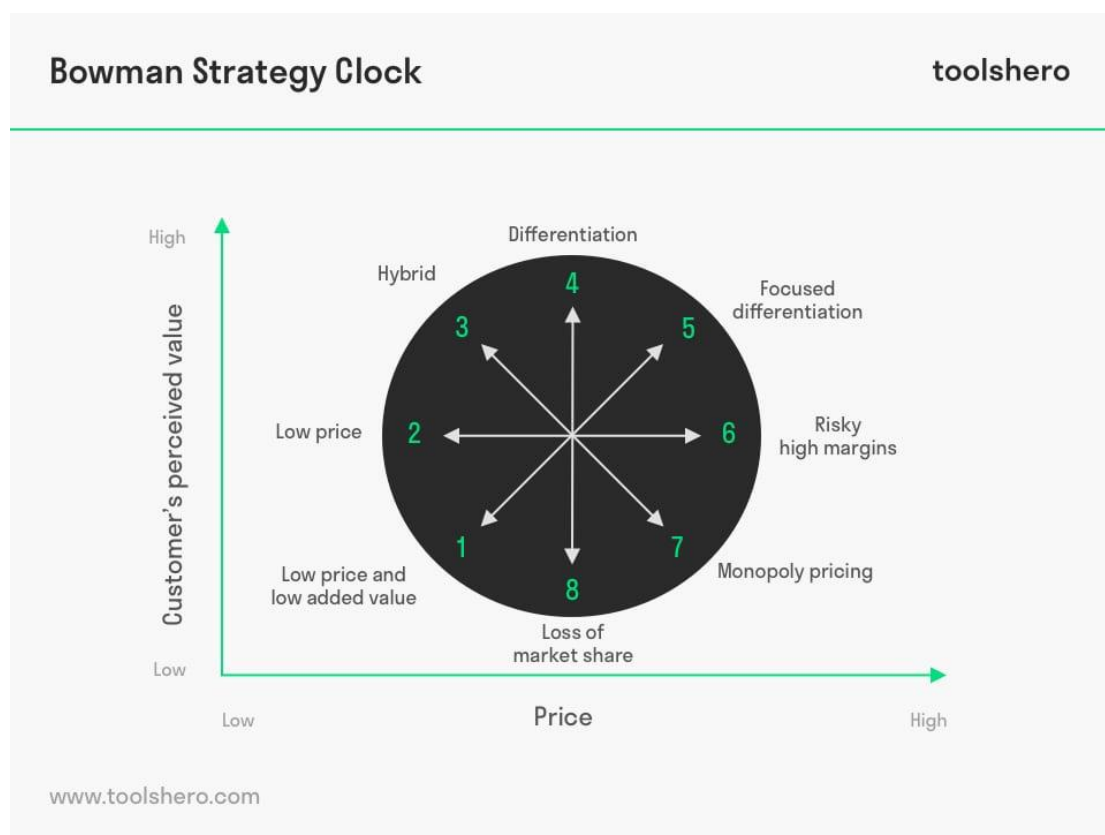


Figure 1: Bowman Strategy Clock (2018) toolshero. Available at:

<https://www.toolshero.com/strategy/bowman-strategy-clock/> (Accessed: 10 December 2021).

Zara utilises the differentiation strategy from Bowmans's clock, with goal of providing consumers with products that offer a higher perceived value and are different from those of their competitors, (Johnson et al, 2008). They achieve this by offering more exclusive goods in comparison to their competitors at a lower price point via cost leadership and carefully

positioning themselves in the market as a brand that produces high quality garments, which are not mass-produced, designed to be a more cost-effective alternative to the more expensive high-end fashion designer brands.

The differentiation strategy allows Zara to increase the number of available styles instore, whilst decreasing quantities at the same time of the products that do not sell well. In producing small quantities of products, the organisation continuously obtains a differentiated product line with low overall cost and saves in inventory costs, changing their instore collection every fortnight and making products seem more unique in comparison to their competition. It is so successful, that high-end fashion competitor Louis Vuitton's director of fashion Daniel Piette would quote "Zara is possibly the most innovative and devastating global retailer to enter the fashion industry" (Armstrong, 2008)

SWOT Analysis:

Strengths

Zara is one of the leading firms in the fast fashion sector, the organisations operational strategies have been key to their success in a highly competitive global market and achieved via the practice of high levels of vertical integration. Zara possesses 90% of its stores in several countries including United States, Europe, Asia, Middle East and boasts in-house production factories within proximity of the headquarters, giving them a strong supply chain network (Hill, Jones & Schilling, 2014). This allows Zara to expedite operations faster than any of its competitors, thus allowing them to maintain a distinct advantage in the fast fashion market. With new clothes being designed and hitting their stores in less than two weeks, they prosper through their ability to respond to consumer needs and deliver to any location worldwide (Anwar, 2017).

Zara's pricing strategy has also played a key role in the organisation's success, as it produces clothes at a competitive price with the most innovative and fashionable designs, then targets consumers that cannot afford high-end fashion trends. It can afford to do this as it does not spend enormous amounts of capital on advertisements (Patel, 2019). This overall low-cost structure compared to its competitors drives up its popularity and loyalty amongst its customers, and recently forced luxury brands like Gucci and Burberry to develop sister brands in an effort to recoup lost customers (Lopez and Fan, 2009).

Weaknesses

Zara is the market leader in the fast fashion industry, however there are some small flaws in the businesses overall strategy, in particular its heavy reliance on physical stores, which

would see them achieve 11% less in sales targets in 2020 comparison to 2019 due mostly to the coronavirus pandemic and a shift to online retail; prompting Zara to accelerate plans to reduce physical stores and focus on their online presence (Sudhakara). Another challenge for Zara is the fast fashion trend that propelled the business to where it is today has come under scrutiny from environmentalist noting that, it costs the planet more to supply what they call “disposable fashion”, claiming that fast fashion contributes to waste and pollution due to its use of the cheaply made garments that cannot be recycled, which are predominantly made of 60% synthetics (Hayes, 2021).

Zamani notes that collaborative consumption is one way to change the fast fashion clothing supply chain model, which is intended to respond quickly to the latest fashion trends by frequently updating the clothing products available in stores (Zamani et al, 2017).

Collaborative consumption can potentially reduce the environmental impacts of fast fashion by prolonging the practical service life of clothes, this could help Zara with its sustainability commitment to the environment.

Finally, compared to other competitors Zara has limited social media presence and spends very little on marketing. It is estimated only 0.3 per cent of sales profits are spent on advertising while the preferred route of brand awareness being consumers in physical stores and their feedback (Nazir, 2019). Although this has generated recognition in the past, in a fiercely competitive market such as the fashion industry, Zara could find themselves facing future challenges without a robust marketing strategy.

Opportunities

Zara is a globally recognised brand and can leverage the strength of its business for potential growth opportunities and with the business's focus being its consumers, one great way of doing this is through technology via artificial intelligence. This is emerging as a powerful tool for retail brands to gain a strategic advantage over their competition, with a predicted growth in revenue for the retail market of \$643.7 million in 2016 to an excess of \$36.8 billion in 2025, just from the use of AI (Mani, 2020). Investing in artificial intelligence could also help Zara capture rich and plentiful data on consumers, uncover customer insights and create a new shopping experience for future revenue streams and as the organisation currently relies heavily on its physical stores, this could shift focus to the internet and online, raising brand awareness in-turn (Choi et al, 2018).

Global online shopping activity is predicted to reach \$3.5 trillion worldwide in 2019 due to the challenges of the lockdown imposed by the coronavirus pandemic (Coppola). Thanks to digital savvy consumer, expectations from retail business have evolved and with Zara's website being one of the most complained about to date, the organisation should look at encouraging more consumers to shop online and investing in artificial intelligence to expand its e-commerce presence.

Threats

With so much competition in the fashion retail sector, threats are inevitable but for Zara the biggest are in e-commerce, with new entrants coming into the market by way of the internet due to the covid pandemic encouraging more online shoppers. The popularity of fast fashion has also given rise to businesses like Shien, a Chinese fast fashion brand has quietly been conquering the world through e-commerce and the millions of bargain hunting consumers,

particularly millennials via the use of social media, with the Shien application overtaking Amazon as the most downloaded app in the U.S. (Bloomberg, 2021). This organisation has taken and refined the fast fashion model once pioneered by Zara and changed it to accelerate production of clothes into what Matthew Brennan, author of a book on TikTok, calls “real-time retail”, designing and manufacturing clothes in less than a week, then flooding its application and online stores globally forcing Zara into a price war to try and compete (Gapper, 2021).

Conclusion:

In the last three decades Zara has transformed the global fashion retail industry starting out as small family business, metamorphosing into a hugely recognisable brand due to its continued to growth. The organisation is already looking at additional ways to surpass and stay ahead of competitors post-pandemic with Zara's parent company rumoured to be injected an investment of \$3 billion to boost its e-commerce presence (Orihuela, 2020).

However, the fast fashion market is forever growing and changing, with technology creating stiff competition from new entrants such as Shien, that can cause challenges for Zara overtime and become a real threat if they capture a significant portion of the market. In order for Zara to remain successful it must look at some of its short comings which include, the organisations commitment to the environment, improvement to their e-commence presence and marketing strategy, this will allow them to keep a strong foothold not only in fast fashion but the global fashion market.

Recommendations:

Sustainability

Fast fashion for all intents and purposes is designed to be replaceable and with the world addicted to purchasing new clothing, our environment is suffering the aftermath. This is acutely worse since the arrival of the COVID-19 pandemic, which has caused the drastic increase in online shopping. Oxfam report that the United Kingdom alone accounts for 50 tonnes of carbon emissions annually, more than any of its European counterparts due to the purchase of roughly two tonnes of clothing, for every one minute in the day, (Oxfam GB, 2019).

Zara claims like many other retailers that it is committed to the environment and sustainably, however simply making this statement does not resonate with consumers today. These consumers would like to see immediate action from the brand, with the Independent newspaper noting “The word sustainability is used so often now and plastered across so many billboards and building developments that it is almost beginning to lose its meaning” (Benson, 2021).

How can Zara and organisations like it tackle this challenge? They must find ways in which to cut down their carbon emissions to help maintain the stability and resilience of the world’s ecosystem. One way to achieve this, is by the businesses adopting a circular fashion model, which entails reusing existing products and materials to reduce or even in some cases eliminate waste (MOTIF, 2019). With this regenerative model products are developed with future use in mind, promoting consumers to buy less and use more, which means garments are in circulation for as long as possible and then recycled, which should thus have a positive impact on the planet (MOTIF, 2019). Another method for Zara to further commit to sustainability would be to investigate vegan fashion, where organisations adopt an animal

welfare policy and encourage consumer participation through marketing campaigns. Their competitor H&M were ahead of the game in 2019, when they became the first brand to create a vegan fashion product line, (Seo and Suh, 2019).

E-Commerce

The COVID-19 pandemic has changed the global climate and the fashion industries landscape as we know it, with the focus now shifting towards e-commerce and online shopping. Even though lockdown measures have eased in the past 6 months, the world expects the pandemic will not disappear overnight and as such consumers have now becoming accustomed to shopping online. Zara was one of the fashion retailers to suffer the impact of the pandemic due to their lack of online presence and heavy focus on consumers coming to shop instore and saw a drop of 44% in sales in the first quarter of 2019 (Bloomberg, 2020). The recommendation for Zara here is obvious and it would be wise for the business to look at investing into their e-commerce space. Amidst the surge of online shopping and increase of new entrants into the market, with competitors such as British brand Boohoo reporting an annual increase of 48% in sales due to their e-commerce presence in 2021, it would be unwise for any retail fashion player not to invest into this space (Bain, 2021).

With this in mind, the parent company Inditex will be looking to close many Zara stores worldwide and spending €1bn to further boost online offerings for the brand and improve sales by 2022 (Jolly, 2020). There will also be additional funding spend on the remaining physical stores to allow for the introduction of smart shopping technology to be integrated within these stores, in the hope this accelerates website traffic and allows customers to order products seamlessly and check-out quickly. The aspiration is that this new plan sees online sales accounting for over 25% of Zara's revenue and for the business to prosper post

lockdown with some larger stores possibly acting as distribution hubs, taking a similar model to that of Amazon.

Marketing Strategy

To continue growing and capitalise on opportunities Zara must look at adopting some form of marketing strategy, as the business currently does not advertise through traditional media. Beyond having some active social media accounts to keep in touch with consumers, Zara does not spend much effort on marketing themselves and approaches the market by pulling customers in through their stores, which means no real requirement to push products out, (Payton, 2017). This was and is a huge oversight made more evident by the covid-19 pandemic as highlighted above. Marketing informs an organisations audience about the products or services they offer, allows customers get to know the value of the products, not to mention creates brand awareness and makes the business stand out. The function may evolve overtime, but it is an ongoing strategy to that helps businesses flourish and become more profitable, (Mansoor, 2019).

In this digital age where businesses are required to maintain long-lasting and ever-present relationships with consumers, Zara must have a marketing strategy, as it allows them to engage audiences with consumer engagement being at the heart of every successful business (Moving Targets, 2016). Marketing is one of the, if not the most, important contributor to an organisations success or failure and extends throughout the business, tapping virtually every function (Arons, M. et al, 2014).

Finally, as Zara is already established a presence on social media platforms, it could leverage this to reach larger target audiences through social media via campaigns, allowing them to

engage with these target audiences using social media influencers or celebrity ambassadors.

Influencer marketing has been found to be an authentic marketing channel, with no initial heavy investment (Zietek, 2016).

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