



## LEVEL 7 ASSESSMENT SPECIFICATION

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# STRATEGIC MANAGEMENT

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HKBM 7013 Assignment I

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## Executive Summary

This report will be discussing the importance of developing the VMV – vision, mission and values of a company based on a case study on one of the most successful fashion retailers in the world – Zara. By analyzing the company versus the macro-environment, therefore to identify the different stages of their strategic management, from strategy formulation to implementation and to appraise the effectiveness of the strategic plans.

Discussion will be focusing on below parts:

The assessment of the correlation between “Strategic Direction” and the “Vision, Mission and Values” of a company.

PESTELE analysis: A framework that to monitor the external environment factors that will possibly be impactful to a company. Factors including – Political, Economic, Social, Technological, Environmental, Legal, Ethical.

Value Chain analysis: By in-depth understanding of the analysis of a company’s value chain can allow the increment of it’s profit margin, it is a process on the path of outperforming competitors and to indicate the blind spots that can possibly cause trouble in the company as you can only fix what you can see.

Balance Score Cards: the balance score cards can allow management to look at the company from four different perspective – financial perspective, customers perspective, internal business perspective, innovation and learning perspective.

With regards to the analysis and research, a conclusion will be reached, and recommendations will be provided.

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## Company Overview

Zara, founded by Amancio Ortega and Rosalía Mera in 1975, in Galicia, Spain. It was first a family business. The approach of the business was to feature and manufacture lookalike items of high-end designer brands clothing with low prices. The brand has a wide range of product offers including men's and women's ready-to-wear, children's wear, accessories – shoes, fashion jewellery and bags. Also, a subline Zara TRF that offers edgier items for teenagers with even lower price points. (Martin Roll , 2021)

## Timeline of Growth

The eight years after the company was founded, Zara has been received great acceptance from the Spanish consumers, then it has led to the continuous opening of nine new stores located in the major cities of Spain.

In the year of the 10<sup>th</sup> anniversary of the Zara, Inditex has been incorporated as a holding company, which has established a solid foundation and system that was capable to perform shift distribution to stick closely with the fashion trend. One of the founders – Ortega has created a new process with the most minimal lead time to react to new trends, from design to manufacturing and to finally launch in stores, which he named “instant fashion”.

## Company milestones

Since 1985, Zara has actively grown into international markets, including the United States, Paris, Portugal, Mexico, Sweden, Belgium, and others. There are 2,264 Zara stores worldwide, distributed strategically in key cities in 96 different countries. The holding company, Inditex, one of the greatest fashion groups in the world, employs approximately 174,000 people to run more than 7,400 stores in 202 locations, including 49 e-commerce regions. Its brands include Zara Home, Pull & Bear, Massimo Dutti, Bershka, Oysho, etc. In 2019, the company's revenue was at a total of 23.4 billion USD.

## Brand strategy

As one of the largest fashion retailers globally, Zara was ranked 29th global brand consultancy Interbrand's list of best global brands. The core values of the group have been maintained throughout the years were clarity, sustainability, functionality and beauty. The brand has filled a significant gap that few other fashion brands will be able to keep up the pace with the latest trends yet with quality and affordable at the same time. Founder Amancio Ortega understood the mentality and behavior of the brand's audience reach, people will only like to wear the same garment for a limited period and they would either throw it or forget it

already. Therefore, Zara has been concentrated in three main strategy to effectively keep up with fashion trends that might pass for less than a month or two.

- i. Shorter lead times: while other brands focus on forecasting what their audience or potential audience might purchase in near future. Zara would rather focus on the current desires of their customers, ie. a sudden popular item – worn by celebrities, influencers, etc. It will be ensured that particular item or style will be found in their store as soon as possible.
- ii. More styles: Zara produces many different styles in stead of more quantities per style, roughly 12,000 styles will be produced every year and its designs will only be able to remain in the store for maximum four weeks. The constant refresh of designs can make customers always curious to see what is new and visit the stores more frequently.
- iii. Lower stock quantities: To create desirability for reducing the quantity for manufacturing. More styles instead of quantities can avoid poor sales of particular products.

## Vision, Mission and Values

### Zara Mission Statement

To conclude the mission statement of Zara, it is to “get the things that customers want to them faster than anyone else.” It is straight-forward and clear yet effective, also explained the reason that Zara can be so successful in the apparel industry. (Edraw Mind, 2021)

In the first part of statement, it is clear the mission is to deliver what customers want to them, that have differentiated themselves among the apparel industry, from mass fashion to high fashion. There are not many fashion houses really pay attention to what their customers but instead they will deliver products based on their styles.

While in the second part of the statement, another clear and direct message has been delivered to the public. It is to be faster than anyone else that they have minimized the lead time to a period as short as possible. There is no wastage in the way of its production process. The team normally only takes 10 to 14 days to complete a collection with over 500 different designs and it has already covers all steps needed, from conceptualizing to shipping all items to stores, this is what referred to be the “fast fashion strategy” in the fashion retail industry.

## Zara Vision Statement and Values

Zara has envisioned “to contribute to the sustainable development and the environment with which we interact.” (Visionary Team, 2020)

A company's vision statement outlines its long-term goals and how it sees itself evolving. It has unveiled and highlighted the aspect of an apparel brand that is essentially impossible to perceive when we are just buying there. Zara's vision statement is as concise and obvious as its mission statement.

This statement has declared that how the company prioritized societal development and environmental sustainability above its sales and profits, further elaborate:

- i. **Societal Development:** Corporate social responsibility is something that Zara is enthusiastic about. It actively backs charitable causes and is always taking part in projects to make people's lives better. In light of recent criticism the fashion industry has received regarding the use of unethical labor practices in its facilities in third-world nations, companies like Zara are going above and beyond to announce their support for societal growth and sustainability.
- ii. **Environmental Sustainability:** Zara pays a lot of attention to environmental protection and have a reputation of taking an active part in this aspect. The brand has been opposed to plastic consumption for a long time and they will not be adding unnecessary labels to garments during productions. To avoid hazardous materials will also be one of the key focus that Zara pays attention to.

Both the Zara mission and vision statements are on the standards that companies used to create their company objectives. The two messages have been well complementing each another. It has made Zara's aspiration and direction care to public and their employees.

A study has shown the connections between organizational values, firm performance, and officially or indirectly codified company missions. It emphasizes how important internal communication of such declarations is in helping employees internalize company principles and live and apply them in their daily work. (Dermol & Sirca, 2018)

The brand's vision essentially describes where it wants to go, while the mission outlines how it will get there, and the core values outline the characteristics of the company's internal community. These statements taken as a whole will direct brand strategy and form the cornerstone of brand identity creation. They are the glue that keeps your brand together;

without them, there is nothing. A never-ending list of tasks that lacks a unifying purpose or direction will overwhelm you. (Torres, 2021)

### Macro-environmental analysis (PESTEL analysis)

By conducting macro-environmental analysis with PESTEL to identify threats and opportunities for Zara in Hong Kong fashion retail industry.

Political factors:

The social turmoil and protests that started in June 2019 are anticipated to have an impact on Hong Kong's market and by the year-end, we have then entered the pandemic globally, the economy growth was therefore expected to slow down. By entering end of 2020 and early 2021, the political unrest was under control and Hong Kong has regained its socio-political stability, which we can foresee a steady recovery of the clothes retail industry.

| Positive influence                                                                                                                                                                                                                                                                                                                                                                                                                      | Negative influence                                                                                                                                                                                                            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Insecurities that caused by unforeseen future can alter consumers' behavior. During crisis, customers tended to respond more logically due to the emotional impact. (Ulpiano J. Vazquez-Martínez, 2021)<br>Therefore, Zara can offer customers high-end style products but with lower price points, people will be more willing to spend 3,000 HKD to purchase ten items than to only purchase one from luxury high-end fashion brands. | Political correctness, that the brand has be extremely cautious to avoid offending any groups in the society. After the social turmoil, Hong Kong people tended to be extremely sensitive to political standing of a company. |

### Economic factors:

Hong Kong's economy is declining since the end of 2019 due to the social turmoil and covid-19 pandemic. A declination of 3.9% in the first quarter of 2022 has been observed, the GDP of Hong Kong moderately decreased by 1.3% in the second quarter of 2022. The government foresees Hong Kong's GDP growth for 2022 will be between -0.5% and 0.5%, with the disappointing global economic prospects, the first half has been unexpectedly bad. The overall retail sales revenue for the first half of 2022 has decreased by 1.5% from the same time in 2021. (Yeung, 2022)

According to graph below, Hong Kong's total retail sales value was about 326.5 billion in 2020. In the previous ten years, it had the second-lowest retail sales value. (Statista, 2022)



Figure 1(Statista, 2022)

| <b>Positive influence</b>                                                                                                                                                                                          | <b>Negative influence</b>                                                                                                                                                                                        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Under a fluctuate economic environment; even though the products are affordable, consumers have a tendency of spending lesser on high-end goods and replace by lookalike items as alternatives with a lower price. | Due to the psychological impact to people during crisis or unstable external environment, people spend money in a more rational way. Even the products are affordable, they tend to buy lesser than normal days. |

Social factors:

Hong Kong with around 7.5 million population is considered as one of the cities with the highest popularity. Numerous families' homes are ridiculously tiny, divided-up, some of them are even without windows since the properties are too expensive to rent, let alone to buy. In fact, housing issue has been one of the biggest concerns for Hong Kong that has been passing through generations.

Hong Kong people are good at navigating both the Western and Eastern worlds but tend to think more traditionally as well as being Christian and Westernized. Both men and women are so focused on their careers and self-reliant prefer not to have children. The number of birth has been dropped to 40,000 in 2021, it has been the lowest birth rate for the past 50 years, this will be a significant impact for the city if the birth numbers are continuously dropping or people having a tendency of migrant to other countries. (Yiu, 2022)

| <b>Positive influence</b>                                                                                                                                                                                                                                                                             | <b>Negative influence</b>                                                                                                                                                                  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The new generation tends to be more focus on their careers and self-development, they are willing to spend more resources on themselves and to invest on their apparel. Due to the limited space of storage, people will be more willing to spend for lower price points clothing instead of high-end | With the high popularity and density, many people can only be living in small flats, with the concerns for storage at home. People will be more conscious on purchasing unnecessary items. |

|                                                                          |  |
|--------------------------------------------------------------------------|--|
| ones but yet the style and quality can be maintained at a certain level. |  |
|--------------------------------------------------------------------------|--|

#### Technological factors:

Hong Kong's technology is considered quite advanced, top-notch Internet connectivity and Information and Communications Technology infrastructure are renowned. Hong Kong has long planning to adapt advance high-tech concepts financially. From time to time Hong Kong government has increased their investment on IT sector. And yet, Hong Kong is still behind several of Asia markets, which is including Singapore, in the development of technology. For instance, Singapore houses the regional headquarters of numerous global corporations in Asia, including Google, Facebook, LinkedIn, and Visa, with a 59% share; Hong Kong only houses 18% of these headquarters. (Hammond, 2020) Many businesses have hold back from making investments in Hong Kong as office spaces and lands are with extremely high cost.

| <b>Positive influence</b>                                                                                                                        | <b>Negative influence</b>                                                                                                               |
|--------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| Despite being geographically smaller than many of Hong Kong's Asian neighbors, Hong Kong's domestic markets provide many business opportunities. | Hong Kong will always have limitations for expansion as the market would not be able to be allocated more investment from headquarters. |

#### Environmental factors:

Hong Kong is considering a shoppers' paradise with numerous of high-rise department stores, also a duty-free port with beautiful Victoria harbor views and skyscrapers, a mix of eastern and western festivals that have made this place a tourist haven. However, the over-developing and maximized use on the urban areas and led to the lack of habitat and green area, serious air pollution and waste management are issues that Hong Kong needs to resolve for a better living place.

| <b>Positive influence</b>                                                                                                                                                                                                                                                                                                                                                                                                                                               | <b>Negative influence</b>                                                                                                                                                                                                                                                                             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Due to Hong Kong located on China's southeast coast, it has given travelers easy access to several large Asian markets, including mainland. Most of the cities can be reached within a single day. Tourism is one of major input for Hong Kong's economy, it contributed over 4.5% of the city's GDP and provided 6.6% of the overall job opportunities. (Hong Kong Tourism Board, 2020) The geographic location of Hong Kong has benefitted a lot for retail business. | With such prime geographic location, Hong Kong is tied for first place globally as the most expensive city to live in alongside Zurich, Switzerland, and Paris, France, according to the Economist's Intelligence Unit. The labor costs and expenses will consume a big part of the company's budget. |

Legal/ Ethical factors:

Under the "one country, two systems," Hong Kong has a separated judiciary system from the mainland China. It was considered one of the best legal systems in Asia for the fairness and transparency. The Employment Law and Ordinance that ensures and protect the benefits of employees, for example, paid maternity, sick leaves, etc. and have provide fair and comfortable environment for employees by law.

| <b>Positive influence</b>                                                                                                                                                                                                                                            | <b>Negative influence</b>                                                                                                                                                                                                                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Hong Kong has strong financial and political institutions. International organizations can trust the local banks and systems for their investment. Anti-corruption and extremely transparent legal system has made this city a highly business-friendly environment. | Even though it is a relatively business friendly environment, they have very complex tax law and with minor mistake can cost penalties. The company will need to recruit experienced professionals to avoid unnecessary lost. (GP, 2021) |

## Diversification strategies – Value Chains

Value chain is referred to the operations and procedures that will involve in a business that manufacture goods or as a service provider. From researching and implementing the research results in a development plan, marketing and sales, logistics will all be included in a value chain. By analyzing the value chain and pinpoint the potential areas for improvements can optimize the value that can be contributed in each stage of the chain and process. In order to better comprehend the competitive edge of the business, the value chain needs to be study and well-understand.

Referring to Porter's definition, a company's value chain's activities will be divided into two groups of activities that will affect the company's margin: primary and secondary. (Porter, 2013)

### Primary activities

Primary activities are preliminary actions that enter into the process of producing a good or providing a service, analysis for Zara as below:

Inbound logistics:

Zara will need to transport and distribute raw materials for manufacturing purposes, allocation, control inventory and supply of the raw materials; also, the manufactured products distribute to point of sales.

With at least 50% of the company's products were manufacture in Spain and the other 50% are produced overseas, inbound logistics is another important aspect that the group needs to focus on. In order to always be ready to react to minor market changes, the entire production will be held in warehouse before distributing to each market. While the group discovered certain products that went highly popular, they can respond and allocate more of its stock from warehouse to stores.

Outbound logistics:

Since Zara is a global fashion retailer, Europe and the rest of the world have distinct seasons, Zara's clothing is typically distributed at the start of these seasons, which correspond to the four distinct weather seasons (winter, spring, summer, and fall). In the cold weathers, summer clothing will be hard to sell, same suitable applies for hot weathers.

To forecast customer demand and keeping track of sold goods are important assessment tools for store managers at each locations as they rely heavily on these information and data, therefore to highly precise quantity orders.

#### Operations:

Actions or procedures that turn raw materials and components to a completed product will one of the most important aspects to keep the business. Men, women, and children are the three core business lines that Zara operates, yet with more focus on the women's category. They would like to ensure that each line can respond instantly to market changes and come up with solutions.

#### Services:

Zara commits to a standard set of guidelines to preserve their customers with pleasure and loyalty. Even their focus is on product management that do not require much service support, yet their first rule is to avoid long queues and waiting periods in store.

Employees are instructed and trained to proactively assist customers who are wanting for assistance in the store or in a rush as the company understands they are serving a large percentage of young customers or white collars, who expect the whole shopping experience to be quick and would not want to waste unnecessary time for queuing or waiting for sizes. Additionally, they are also trained to address customers' concerns, complaints or request as soon as possible.

#### Marketing and sales:

Comparing to other fashion retailers, Zara does not invest significantly on marketing areas. Since Zara handles its own manufacturing in order to respond as soon as possible to the market fluctuations and rapid changes in fashion. They aimed to maintain the period from production to distribution as short as it can be so the most popular products can reach the market faster than any other brands do. To keep the interest of the customers and constant return to store, the display of clothing will be changed within a brief period of time. It sends a message to the customers that if they do not buy it quickly, the item will soon be sold out and they are compelled to purchase, with this tactic only 18% of the total products are unsold, which is a relatively low percentage.

In order to have a better control of labor costs, Zara maintains their advertising and marketing costs minimal to achieve balance as one of their competitive advantages is low prices.

Zara controls the bulk of its stores, however due to cultural differences, they are also open to joint ventures and franchising in "high risk" nations.

### Secondary activities

Secondary activities are actions to support primary activities to become more effective and create a competitive advantage:

#### Procurement:

Inditex Group regional departments and offices are located in the U.K, China, Holland, and some other branches are in Europe, Asia, and Australia. The company sources and purchases raw materials by in-house designers, also some completed goods with very low-cost from outside vendors.

#### Technological development:

One of the most important aspects of Zara's strategy is information transmission with technology. Through the in and out of data and information from headquarters to frontline staffs and backwards, they maintain tight connections and communications throughout their whole supply chain.

The group has made significant investments in information technology to create some assessment tools like the PDA (Personal Digital Assistance) software, data from sales and distribution can be obtained from point of sales so the supply chain can be well-informed , allowing quick response to market changes as needed. All aspects have been well planned and prepared before they were making significant expansions globally.

#### Human resources management:

The management of human resources is crucial to Zara's business strategy. Each of the brands under the Inditex group has a dedicated Human Resources director who handles all external and internal HR related concerns. Their direction is clear that they focus a lot on employee training, the standard will be at least one week across all stores or functions.

Design team and product development team are expected to attend different exhibitions and events in order to keep up with the latest fashion trends. To ensure the satisfaction and

motivation of the team, the strategy of the HR management is to encourage the leader of each store provide support and motivate their team.

Infrastructure:

Zara has a very unique business model, which focus on rapid changes and production, to decentralized decision-making is another important element as well. The IT infrastructure is consider the core of its business that it can support quite a few important functions including production control and distribution. Also serve as an assessment tools for store managers.

The very tight communications daily from top down, headquarters to each branches management to frontlines have set the overall course for the company.

### Strategies Appraisal

To offer high-end goods at affordable costs has made it a highly intriguing business strategy, also has differentiated Zara from other fashion retailers. By keeping up with the latest trends and have well-trained their frontlines staff to ensure customers' pleasure and interest on their products. By reviewing Zara's value chain, they have accomplished it independently without depending on any external suppliers. Focusing on developing their own textiles and create their own designs.

Zara has minimized their marketing and promotion expense but to focus on well-designed and unique products, depend heavily on the word-of-mouth marketing by own customers. Yet, their key investment will in on information technology as they depend on it not only to control their supply chain but also to have immediate respond based on the data generated, a complete and mature developed IT system can contribute to the whole value chain.

### Balanced Scorecard Approach (BSC)

The Balanced Scorecard (BSC) Approach was proposed by Robert S. Kaplan and David P. Norton in their January – February 1992, that it is a metrics framework to provide a base to measure a company's performance. The BSC is used to collect data, including objectives, metrics, initiatives, and goals, which come from these four core business functions. Based on the data collected, businesses can locate the issues affecting performance, areas for improvement and therefore to alter the strategy to fit the company. (Tarver, 2022)

## Learning and growth

Zara's empire was built on 2 rules: "to give customers what they want" and "to deliver to customers faster than anyone else." The brand has trained and encouraged their staff to be extremely sensitive to what are the needs of their customers and be proactive to provide not only service but to listen and understand their comments regarding all aspects – including sizing, cutting, fabrics, etc. By gathering all this information globally and actual statistics data from reports, the brand can tailor-made their own strategy based on very precise strategic information.

## Business process

Zara headquarter database will receive information globally every day, which this data will be in use for new designs and to modify some existing ones. With proper customers relationship management, extremely efficient e-commerce that customers can receive what they purchase online within a few days, moreover, the return policy is also very user-friendly. All of these factors have created a high success rate in converting business opportunity.

## Customer perspective

The product offers from Zara can reflect distinctive client demands and needs in terms of physical, climatic, or cultural variances based on competitive customer research capabilities. For example, in overall Asia markets, the company offers smaller sizes as Asians have relatively small bone structure. In Arab areas, the company offers specific clothing for women. In South America, it offers clothing with a diverse of seasonality. The regular and tight communication between local branches and its creative staff have helped to substantially enable these variations in product offers across different nations. All of these details have increased the customers loyalty and satisfaction intangibly. (Roll, 2021)

## Financial perspective

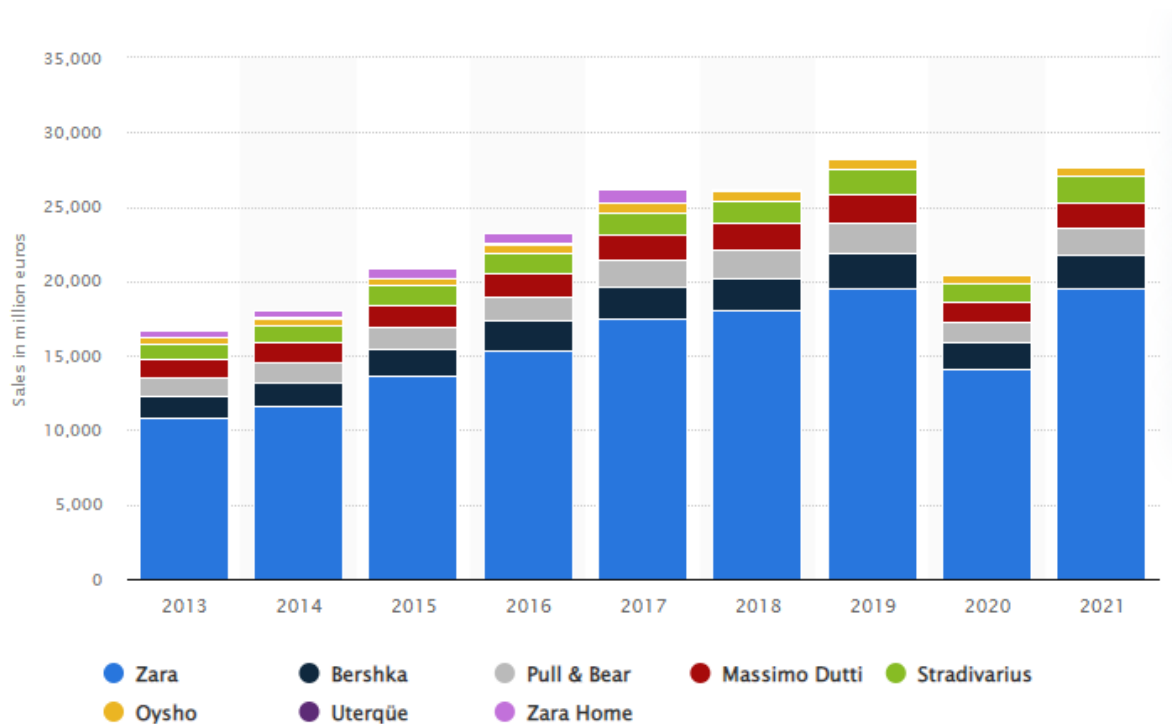


Figure 2 Net sales of the Inditex Group worldwide from 2013 to 2021, by brand (Statista , 2021)

With the unique business model and approach of Zara, the result has been steadily growing since 2013. It has a downfall in 2020 due to the pandemic, but the company has picked up quickly in 2021.

## Conclusion

To effectively compete and sustain Zara's strategic advantage, the focus will have to shift from competitive pricing towards quality. Zara will have consider making investment in creating an unique and powerful market positioning and actively promoting it.

In order to expand the brand and bring in new customers, effective brand communication is essential. Zara relies heavily on word-of-mouth but left some blank space in terms of marketing. Due to this, family and friends may have a strong influence on how potential customers' perceptions towards Zara, which may not be accurate and it will limit the recruitment for potential customers.

## Recommendation

It is important for Zara to have a stronger input and presence on social media platforms as their target audience start using more social and digital platforms for communication and for sharing their life. To effectively recruit potential customers and expand the diversity of their clientele. There are two recommendations that Zara can consider.

### Personal shopper program

In order to be able to cross-selling, I would recommend in selected stores to add in new positions as personal shopper like other department stores – Lane Crawford and Harvey Nichols. To provide styling service in selected prime locations, like IFC mall and Pacific Place, white collars nearby will be able to enjoy a private experience that professional stylists can help on their mix and match. Also tourist spots like Harbour City and Central Queen's Road Central Flagship store to accommodate tourists with high spending power.

### Digital campaign and public relations

To break through the saturation of Zara's development and to recruit potential customers, I suggest to incorporate social media platforms more deeply as part of their advertising and communications plan in the future.

Zara always create beautiful and artistic campaign images on Zara official website and mobile application. These images can be distributed to print and digital media along with press release to maximize the exposure; and to promote the collection inspirations as well.

Collaborate with celebrities or influencers globally for digital campaign every month to promote new launches and create desirability for the public. All contents and images generated will be featured on all official social media platforms with boosting and also sponsored digital advertising.

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