

The Global Business Environment

Assessment 2

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Introduction

The Global business environment is referred to as the environment in different countries with factors exogenous to the local environment of the organisation that influences the decision making of the resources usage and capabilities. The global business environment can be divided into two categories – internal and external environment. The environmental analysis of the organisation entails assessing the internal and external situation. This report will shed light on the critical analysis of the changes Zara has made in the last few years. This study also entails the competition company faces in the market of China.

Company background

Zara is Spanish apparel based in Spain. The company is in the largest fashion industry and specialises in clothing, shoes, swimwear and so on. Though the company is headquartered in Spain, this study focus on the ZARA established in the market of China. The company has more than 2270 stores across the globe. Zara first launched in China in the year 2004. In total, the company has a total of 581 stores in China including Hong Kong and Macau (zara.com, 2021).

a) 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.

Zara has developed as one of the most popular brands in the fashion sector and is impeccably structure; Zara is one of the companies who are responsible for most per cent of the pollution caused. The reason behind this is the production and distribution of the different garments contributes to high-level pollution (Soundararajan, 2018). The degree of pollution is increasing because o the unstable materials used as the raw material of the clothes. Mainly the Zara China is one of the major contributors to environmental pollution.

PESTLE Analysis

Political	The political factors that will influence the business of ZARA are the political stability of china and laws. The governmental regulation including both formal and informal rules has to be followed by the industry for both traditional and e-commerce business. The country has a well-developed framework for the trade agreement that helps Zara to import raw material and export the final goods (Song <i>et al.</i> , 2017). Financial regulation of the countries has a great impact on the smooth function of the business. The political disruption in China will disrupt the supply chain and the economy of the ZARA.
Economic	Over the last few years, China has been experiencing a significant amount of GDP growth rate and if China continues to surpass this rate it will across the US GDP rate. The potential factor that will affect the business of ZARA is the inflation rate, potential urban growth, skilled labour and so on. The current GDP rate of China is 6.1 % and the inflation rate is 2.9 % as of 2020 (statista.com , 2021).
Social	Volatile social trends always have a huge impact on the supply of ZARA's company product. It also affects the individual's buying behaviour. The company is not focused on the niche market (Gheibi <i>et al.</i> , 2018). Culture plays a huge role in influencing the business of ZARA. Other factors like consumer lifestyle, religion, and education are also taken into consideration.

Technology	The technology uses in the production of new products, purchase mechanism, production technology, distribution mechanism are some of the technological factors. A major issue that China faces is the development of the B2C sector do not have a stable and safe online payment option.
Legal	Well known brands like ZARA has to follow certain rules and regulation while operating in any country. While operating in China the company has to use copyright infringement and patent to protect their clothes from others to steal them.
Environment	The entire fashion sector is hugely associated with wastefulness and they're a number of factors why a company like ZARA comes under the scrutiny of the customers. The laws of sustainability are not being properly followed by ZARA in China and thereby contributing to the pollution in the environment.

Zara's main stakeholders are the customer, employees, investors and managers. All of them are a fan of the fashion and not their business models. Zara has been transforming the retail sector and to understand that it was important to study the business model behind Zara. The business model generally takes the customer's need into consideration. On the other hand, Zara's business model is only about two fundamental strategies – stocking less merchandise and updating the collections. Zara in this process has ignored the amount of contribution it is making to the environmental pollution just to make business. Customers of today are not only concerned about the products, but they focus on the goes behind the products. Studies have shown Zara uses unsustainable raw material to make their garments which is ultimately harming the environment. However, Zara has aimed to make clothes from sustainable clothes by 2025([theguardian.com](https://www.theguardian.com), 2019). Even the companies will be using renewable energy sources for all their operations. Zara is middle of the sustainability drive and has promised that the factory will not discharge hazardous chemicals in the stage of the supply chain. Zara to use the eco-efficient system, recycle packages sustainable practices and green alternatives and also start an in-store recycling programme. The fashion industry is constantly throwing those challenges and getting engaged to make authentic and environmentally conscious decisions ([zara.cnn](https://www.zara.com), 2021). Therefore they decided to achieve their targets in a sustainable manner. For instance, the change in their business model was evitable in their collection of October. An Italian designed print that was

made from pure wool that was spun from recycled wool fibres and the fabric will last long. They were coming out with collect made from 100% reusable cotton. They are trying hard to marry design and sustainability together.

b) 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 organisation.

Porter's Five Forces

Rivalry: The brand faces low degree of rivalry as it is already a well-established brand and has a separate customer base. In fact for this purpose bulk of advertisement is not a major priority to gain market shares (Na *et al.*, 2018). Though the market in which Zara is operating has competitors like H&M, Benton and so on. Among all the brand's operation in China Zara is the one who responds to change immediately.

The threat of New Entrant: Zara is one of the fast-growing brands both in style and bringing new fashion statements. Customers of today are very loyal to established brands. Brands like Zara have a global presence (Sorescu, 2017). At the same time, the threat of the new entrant is low as other brands to enter the market of China needs high capital investment which Zara has. Second is the brand image which also is owned by Zara.

Buyers power: The consumerism of fashion is very dynamic and the threat is high for Zara. Due to the fact that the threat of substitution makes the buyers in the middle of decisions making process.. It is in the hands of the buyers to buy the products or not. Zara is not only proving trendy fashion but also using sustainable products still the power is the hands of buyers.

The threat of substitution: This threat ranges from medium to high. There are other competitors in the market of China operating in the same sector as Zara. Therefore Zara has to bring innovative ways to capture the market. Despite the fact that the brand is having the latest fashion, the customer today looks beyond fashion. They look for use of sustainable material, the recycling strategy if followed by the company or not and so on

Power of suppliers: The powers of suppliers is low because of the low wage boundaries of China. Moreover, the monotony of the suppliers also diminishes their power as they are now very much dependent on the apparel industry (AGGOUR, 2018). The power can increase at times when the brands like Zara get accustomed to one supplier and establishes a relationship with them. on the contrary, a renowned brand like Zara while operating in so many countries cannot

be dependent only on a few suppliers they will have several options to switch when one does not work for them.

SWOT analysis

Strength	Weakness
• Improved design • Huge turnover ratio • Reproducing trends instead of creating it • The store concept is attractive • Brand identity • Wide variety of products (theguardian.com, 2019) • The production chain is vertically integrated • Faster adoption of trends • Brand building approach at three levels • Store locations are strategic	• The average prices are higher than others • Not much into advertisement or promotion • Contributing to the high level of pollution • Customer services are minimal or non-existent. • They are a trend follower and trendsetter • Bad reputation due to lawsuits • Self-checkouts not available
Opportunities	Threats
• E-commerce market • Expansion in other markets • Expansion of the existing like “Zara home”(Zara.cnn, 2021) • Increase their focus on the sustainable principles	• The huge number of competitors • Issues of image rights • Patent issues • Subjected to worldwide fluctuation rate

Analysis

Zara is a big hit in the fashion world and has incorporated the right balance of demand and supply chain to success. Its advantage is the unique design and technology they use. On the contrary, they have a low presence in the market and do not prioritise marketing. It has the opportunity to use AI for better customer service experiences (zara.cnn, 2021). They can develop

a retail channel in the countries where they do not have one. Online e-eCommerce is the current focus of every company and company like Zara should leave that arena. At the same time the threat the company faces cannot be forgotten. There are other renowned brands that give Zara strong competition. On the other hand, the rules and regulation of market like China can influence the business of Zara. The rising price of raw material is also one of the biggest concerns to sustain in any market.

Recommendation:

The following recommendation is made for the management of Zara :

- It is recommended that for Zara to take imitative in relation to sustainability to directly target their customers.
- Their garments having the initiative “closing the loop” is only available to five of the ninety-three country. Therefore it is advisable to the management of Zara to make it available to the other markets.
- Through the various study, it was found their programme of “Join life was only focused towards the fewer country. It will be better the management device some plans to make it availed to the other countries like China.
- There are huge numbers of the population that are inclined towards the company that is environmentally swayed. It will better for Zara to bring changes in their principle or rather they can adapt the green principles.
- The management team of Zara has to take seriously the issue of pollution and the use of sustainable material as their raw material. As the customers today demands purchase that meets the environmental consciousness and it will help Zara to create a positive image of the brand in the market.

Conclusion

It can be concluded that the sustainability goals has been deeply integrated into the companies to develop a list of standards. These standards will act as an agent of change. But there are reports that have been attacking sustainability as greenwashing or also being termed as corporate rhetoric meaning lacking consistency between action and talk. The gap between sustainable principle and sustainable practice in production is a serious issue. Rather than focus on their brand image, Zara has to make a major shift towards the movement. Making profits at the cost of harming the environment is a serious concern. Companies like Zara should start using products that can be reusable and has long longevity. In fact, the raw material that is used by them should be of sustainable materials. In this report, it was clearly visible that the earlier business model that was used by Zara was completely incompatible with the sustainable business model. Though over the years the company has been trying to make changes in its business and trying to take a sustainable approach to contribute to the environment in a positive way.

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