

A CASE STUDY OF “SUCCESS STORY OF ZARA IN INDIA: PUNE CITY

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Zara’s Vision

“Zara is committed to satisfying the desires of its customers. As a result we promise to continuously innovate our business and to provide new designs made from quality materials that are affordable.”

Zara’s Mission Statement



“Through its business model, Zara aims to contribute to the sustainable development of society and that of the environment with which we interact.”

“The desire for innovation and constant improvement with which we began this project 36 years ago is the motivating idea which has guided us up to the present time. Now we have the privilege of seeing how this original idea, from which many others, with an open and creative mind, has emerged and continue to emerge, has converted itself into the Inditex Group.” Amancio Ortega Gaona, on Zara’s path to success

Introduction

Zara is a leading clothing and accessories retailer based in Arteixo, Galicia, Spain and founded in 1975 by Amancio Ortega and Rosalía Mera. It is the flagship store of the Inditex group. The other brands of Inditex group include Massimo Dutti, Pull and Bear, Stradivarius, Uterqüe and Bershka.

Zara started off by featuring low-priced, imitations of popular, higher-end brand clothes. In 1975, Zara was a single store in downtown A. Coruna, Galicia, Spain, but was a huge success and more Zara stores were to open throughout Spain. During the 1980s, Mr. Ortega brought about changes in design, manufacturing and distribution process which would effectively reduce lead times and bring in new trends in shorter time, called “instant fashions”. The company could achieve this with the help of groups of designers instead of individuals and use of information technology.

What is special about Zara is that it needs only two weeks from product design to shelf stage, while the industry average is six months. This translates to more than 10,000 new designs every year. In spite of this, it has resisted transfer of production to low-cost countries. Zara has an unusual strategy of zero-advertisement and it utilizes this revenue chunk in opening new stores at a faster pace. This is in contrast to its main competitors H&M, GAP and Uniqlo. Thus, Zara has come to be known as a “Fashion Imitator” with low cost products. Leaders in the fashion industry have all praised Zara. Louis Vuitton’s Fashion Director Daniel Piette describes Zara as “possibly the most innovative and devastating retailer in the world.” CNN has been quoted labelling Zara a “Spanish Success Story”.

Manufacturing, Distribution and Supply Chain Strategies

One of the major reasons Zara achieves such speed to market is that it is a vertically integrated retailer i.e. it controls all the steps from design to manufacturing to distribution of products, finally to the Zara stores. Zara’s factory in La Coruna, Spain was built in 1980 and adopted the ‘reverse milk-run type’ supply chain in 1990. Toyota Motor Corp. designed and pioneered this process, also called the Just-in-time (JIT) system. With the minimum inventory model, it allowed Zara self-containment and optimized stages of materials, manufacturing, and distribution to stores worldwide within a few days. Such turnaround speeds couldn’t be matched by any player in the industry. (Refer Fig. 1 Annexure I)

“One day in, the next day out” – a commonly used phrase in the apparel industry. The fashion industry is very dynamic. There is a regular change in trends, so predicting the market, forecasting sales and therefore planning of raw materials and production becomes very difficult. It’s important to constantly understand the consumer needs and satisfy those needs before they change. Additionally, each geographic location is different in terms of consumer buying behavior, tastes and styles, spending patterns and all these factors need to be carefully taken into consideration for evaluating the demand for specific clothing lines. What is unique to Zara is its supply chain strategies which has helped it hold onto the apparel industry leadership and healthy profits for many years.

“We rely on fast-changing fashion so have regular inputs to the design team. We work on minimum inventory model and the efficient distribution network takes care of the supply chain”, explained Zara Store

The following principles which are closely followed are the pulse of Zara and make it a fashion forward yet affordable brand.

- Prompt response to Demand – Zara follows a pull model in their inventory and supply chain management. This means that the current market trends are continuously analyzed and accordingly 900-1000 designs are created. Zara closely monitors its customer spending in stores, trending fashion and also takes in customer feedback and preferences on design changes. The store manager directly provides these inputs to the main design team and thus the altered designs roll in.
- Small Batch Productions – Zara follows a minimum inventory model thus translating to low inventory costs. This also means fast turnover i.e. quick replenishment of stocks with new fashion. The ordering cost and logistics may shoot up but the advantages that Zara enjoys with this model are many. First, it understands the fashion trends and quickly caters to those demands. Second, it customizes to create new designs and analyzes the acceptance rate in the market. Third, it creates an artificial scarcity with low stock and thus gives a feeling of exclusive fashion amongst customers. Fourth, it increases the number of store visits because of periodic “new arrivals”. Fifth, the probability of suffering losses from slow sales and increased inventory is minimized.
- Central Distribution Center – The backbone of Zara is its IT systems which supports its distribution. Zara has a central distribution center in Spain, which is three times the size of Headquarters across the street, where all the manufactured clothes from various factories around the world are shipped. From here, apparel is distributed to all the Zara stores on the planet depending upon individual demand. There is a turnaround deadline of 24 hours for Europe, Middle East and much of USA, and 48 hours for Asia and Latin America. The challenge of course lies with sticking with this tight turnaround period as Zara expands to far off countries. (Refer Fig 2. Annexure I for Zara’s unique business model).

Unique Selling Proposition

As discussed above, what differentiates Zara from its competitors is its fast fashion- quickly imitates latest trends and brings a product from design to shelf within a very short period of 2 weeks. Also, the design collection does not stay for more than 4 weeks in the stores, successful stock is sold out and the slow moving stock is removed from stores.

Analyzing Zara’s Business Model

Who is the customer?

Zara’s target market is young, stylish, trendsetting, price-sensitive, and highly fashionable customers. They have a much broader market to serve than a traditional retailer simply because they do not target their customers by segmenting age and lifestyle.

They segment their product line by women’s (60%), men’s (25%) and the fast growing children’s (15%) department. Zara which started its operations in Spain in 1975, and now operates in over 80 countries worldwide.

What is the Value Proposition?

Fashionable, Affordable Clothes

Zara's strategy is to offer cutting edge fashion at affordable prices by following fashion and identifying which styles are "hot", and quickly getting the latest styles into stores. This has been made possible by their controlling of almost the whole garment supply chain which covers design to retail. "Our main focus is on fast-changing fashion and we give regular inputs to the design team for the same. The efficient and wide distribution network takes care of the supply chain. We have a minimum inventory model. The stock which is a hit among customers, stays in the stores for around one month or till it runs out. The other stocks are changed or tweaked within 2-3 weeks", explained Zara Store Manager, Pune.

Large Choice of Styles

12000 apparel styles per year means that a Zara customer visits its store 17 times a year. The retail average being 3000 styles and 3 store visits per year. This is the level of apparel range Zara offers to its customers and the probability of a winning style is thus increased.

Scarcity

Zara creates a new design with minimum production units. A particular design available in the store on one day will be off the shelves within 2-3 weeks. This creates a sense of artificial scarcity, scarcity increases desirability and customers pay a premium to be an owner of this exclusive style. This is exactly the reason customers are always interested in visiting a Zara store and checking out the new styles thereby increasing the store visits. Thus, Zara does not need to discount its stock in sales often; 18%, which is half the industry average.

Prime Locations

Zara spends relatively less on advertising (0.3% of revenue) compared with traditional retailers (3-5%), instead they reach their target market by locating their stores in prime town-center locations.

How do They Deliver it?

Zara achieves flexibility and speed with its owned and monitored production facilities in Spain. This enables it to cater to two store orders per week of demand. The minimum inventory model leads to low working capital. After production, all the apparel items are sent to the main Logistics center in Spain. From here, it is delivered to Europe, USA and Middle East with a 24-hours turnaround deadline and 48-hours for Asia and Africa. (Refer Fig. 3 Annexure I).

Zara in India



In India, **Zara** has a joint venture with Tata called Inditex Trent. This joint venture, which was formed in 2010, has been making profits for best part of three and a half years it's been around in India. As compared to it, Levi Strauss, which has been in India for more than a decade, is still making losses.

Zara has replicated its world renowned model where it creates imitations of the latest trends in the fashion world at a price which is both affordable as well as value for money for a customer buying it. It also makes sure that the apparels are ready and available for the customer in double quick time. Inditex handles the major part of the operations – which begins from designing to distribution and a major chunk of manufacturing. Zara is very proactive and takes any non-appealing clothing line off the shelves within a week. Even popular styles are not kept beyond 4 weeks. This results into small warehousing requirements and the reorders minimal.

According to Industry executives, demand is just one part of the reason for Zara's financial success in India. It is observed that by striking a good deal with landlords and mall owners, Zara keeps real estate costs in control. Its

rear-end jobs and merchandise sourcing are chiefly handled by Inditex while for the identification of suitable locations and real estate nitty-gritties, Tata group's expertise is used. Also, speaking of the directors on the board of Inditex Trent, just three out of eight - Inditex Trent's CFO P Venkatesalu, vice-chairman Noel Tata and the company's MD Sanjay Rao - are Indians. Mr. Rao, who was previously financial controller at the company in North America, was told to relocate and handle its India operations.

Zara in India churns out close to 10,000 designs over the span of a single season which results in its customers always being in the lookout for what's new at Zara. At Zara stores in India - there are fourteen of them at present - customers visit around 17 times on average per year, which is also the case for customers in Pune (Refer Fig.7 Annexure I), this results in 85% of merchandise on offer being sold at full price as compared with the industry average of just 60%.

Zara's annual sales in last fiscal soared to Rs. 400 Cr, with each of Zara's nine stores (now more than fourteen) in the country making Rs. 45 Cr on an average, over five times more than the country's biggest apparel brand Louis Philippe and a bit higher than the country's largest departmental store chain Shoppers Stop. Inditex Trent showed 56% growth in sales without any new store addition in the year ended March 2013, according to its latest annual report.

What Makes Zara Different From Its Competitors

"In India, no brand provides fashion at such affordable prices. If we are not able to change the fashion trend regularly, we will not keep up to our reputation. We bring in new styles, new trends within a matter of 2-4 weeks having wide distribution system", Zara Store Manager, Pune

If we compare in terms of revenues and growth, **Zara's** chief global competitor is the Swedish firm H&M. H&M has already got permission from FIPB in November 2013 for opening its wholly-owned subsidiary in India. They have been eyeing India for some time now and have finally got the permission for opening their stores in India. The two leading fashion retailers have been competing to grab larger market shares across the globe which will also be the case in India, though Zara has a big first-movers advantage. In the rat race to supremacy, both the labels have transformed their philosophies into business models intricately, which has been a major motivator to drive towards success.

In the Indian market, Zara is competing with Marks & Spencer (Major British multinational retailer), Tommy Hilfiger (American fashion designer) and French Connection (British multinational retailer commonly known as fcuk) (Refer Fig.6 Annexure I).

"Runaway fashion at runaway prices is what Zara is for me. I visit the store for its unique clothing range having something new to offer on each visit, thus bringing exclusivity to my wardrobe", explained one of Zara's customers outside its Pune store.

Zara offers mid-market chic at a very down market price.

Zara when compared with its competitors is a clear winner when it came to turnaround time. For a normal brand, the entire process which starts from defining a concept to receiving goods in the retail store takes anywhere between 9 to 12 months (Refer Fig. 4 Annexure I). When Zara decided to enter the US in a big way, it was being compared to Gap (a leading fashion retailer in the US) and H&M (Swedish retailer who had also entered the US recently) more frequently. A key differentiator for Zara was having the shortest turnaround time. Zara's turnaround time was just 14 days, whereas H&M took somewhere around 21 days while Gap needed 9-12 months to reach stores.

The profits on the products manufactured is also low, but Zara re-invests a meagre 0.3% of its sales to advertise its product because of the fast changing fashion trends as compared to its competitors and as only a limited amount is manufactured, failure of a fashion trend still leads to negligible losses. It only puts 18% of its products on sale as compared to its competitors in the international market who put close to 35% products on sale. (Refer Fig. 7 Annexure I).

Zara is a smart choice for people who want to combine fashion with great price. A customer survey in Pune reinforced this with the fact that 67% of respondents found Zara synonymous with fashionable clothing line and quality clothing brand (Refer Fig.7 Annexure I). Probably its unique ability to imitate and copy the great designs of some of the top firms and put them in the best located stores in the quickest time is the killer combination. An example of successful implementation of this strategy is its expansion to Italy. Milan is considered as one of the world's fashion capitals. Many foreign firms have failed trying to open new stores there, because of the protectionist attitude of the Italian industry and the demanding Italian customers being used to getting the most radical and latest designs at a cheap and affordable price. The best opening record made in Milan was by Zara and today is one of the most successful firms in the city.

In India, Zara has been targeted towards the upper middle class and above, mainly in the age group of 18-35 years. It has strategically launched its outlets in high profile locations in India and it provides its customers with a turnover time of 4-5 weeks for its new collections made available at a fraction of the couture cost. Its styles include trendy, classic, contemporary, grunge, Latino and therefore is more preferred by women than men in India. The main objective for positioning the Zara brand in a market as mentioned by the company is to 'democratize fashion' (Refer Fig. 6 Annexure I). The company targets to deliver to its customers, up to the minute, stylish and high fashion products at lower prices to accommodate their requirements.

Marketing Strategy

The fashion company Zara has a business strategy that is quite distinctive. As discussed above, Zara doesn't believe in advertising. That's the reason Zara does not appear on television or poster advertisements. "Prospective customers read articles on Zara in magazines, e-newspapers but no promotional activities are undertaken anywhere whatsoever. Zara also believes in word of mouth promotions, celebrity followings", said the Manager in charge of Zara Store, Pune.

60% of Zara customers outside its Pune store came to know of Zara through family and friends proving Zara's policy of zero advertisement and word-of-mouth

Zara focuses heavily on the 3P's of marketing namely product, place and pricing and not so much on the 4th P of promotion. Unlike other retailers, Zara doesn't believe in advertising and they don't even advertise any store sales or sales promotions, other than sale items. Even the clothes don't have any brand or logo on them. Their products seemingly advertise themselves.

Zara claims that it produces new products every week. Zara is famous for its fast fashion, due to which popular and trendy products may disappear off the shelf within days, which constantly pulls customers to stores to check for new items. (Refer Fig. 5, Annexure I).

One of the marketing strategies that Zara has adopted is of expanding at a rapid pace; it opens close to 150 new stores every year, thus expanding its footprint to around 1,500 stores in over 70 countries. As Zara is a world renowned brand, the company is now also shifting its focus on sustainable marketing. For this they are now opening stores which consume 30% less energy as compared to the average conventional stores in the world. Additionally, the new stores also save 50% of water consumption and maintain their CO2 emissions below 150 tons a year.

Future Expansion Plans

Inditex Trent, their joint venture in India, has plans of opening more than 18 stores in the next 3-4 years in Tier-II cities like Mangalore, Surat and Indore.

The pitfall of this strategy could be that shoppers in these cities may or may not have the same attraction for Zara despite having the propensity to spend on international brands. As Zara is expanding in India, experts believe the challenge will be to sustain sales momentum. But Mr. Anshul, Sales Manager at Zara, Pune was confident of

Zara's growth plans, "Regarding the strategy of expanding in the near future, we will be conducting a thorough research study and mapping various cities' overall feasibility. We plan to open up in promising Tier 2 cities as well."

Annexure I

Fig.1: Stages of JIT System followed by Zara

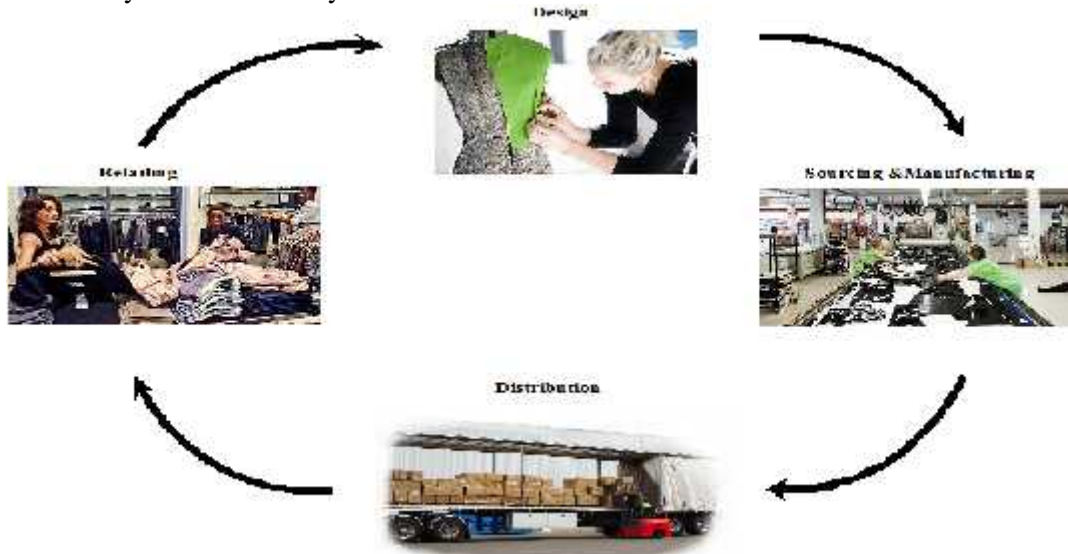


Fig. 2: Zara's unique business model with Central Distribution Centre



Fig. 3: Flow of Information in Zara’s production model

Four critical information-related areas that give Zara its speed include:

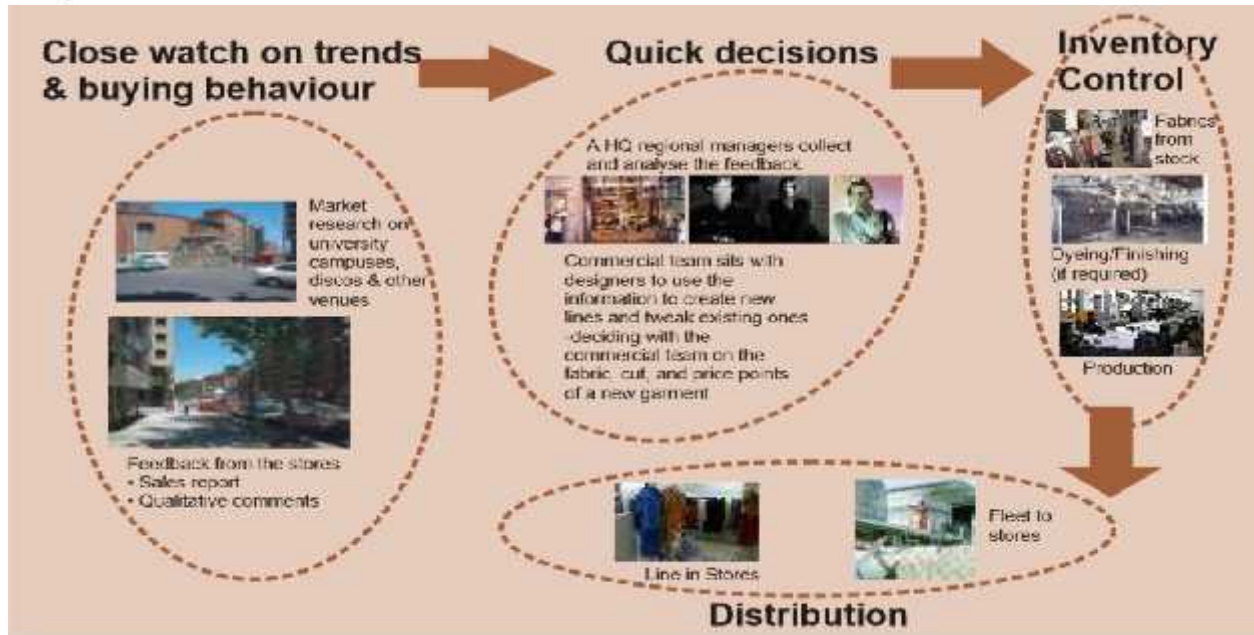
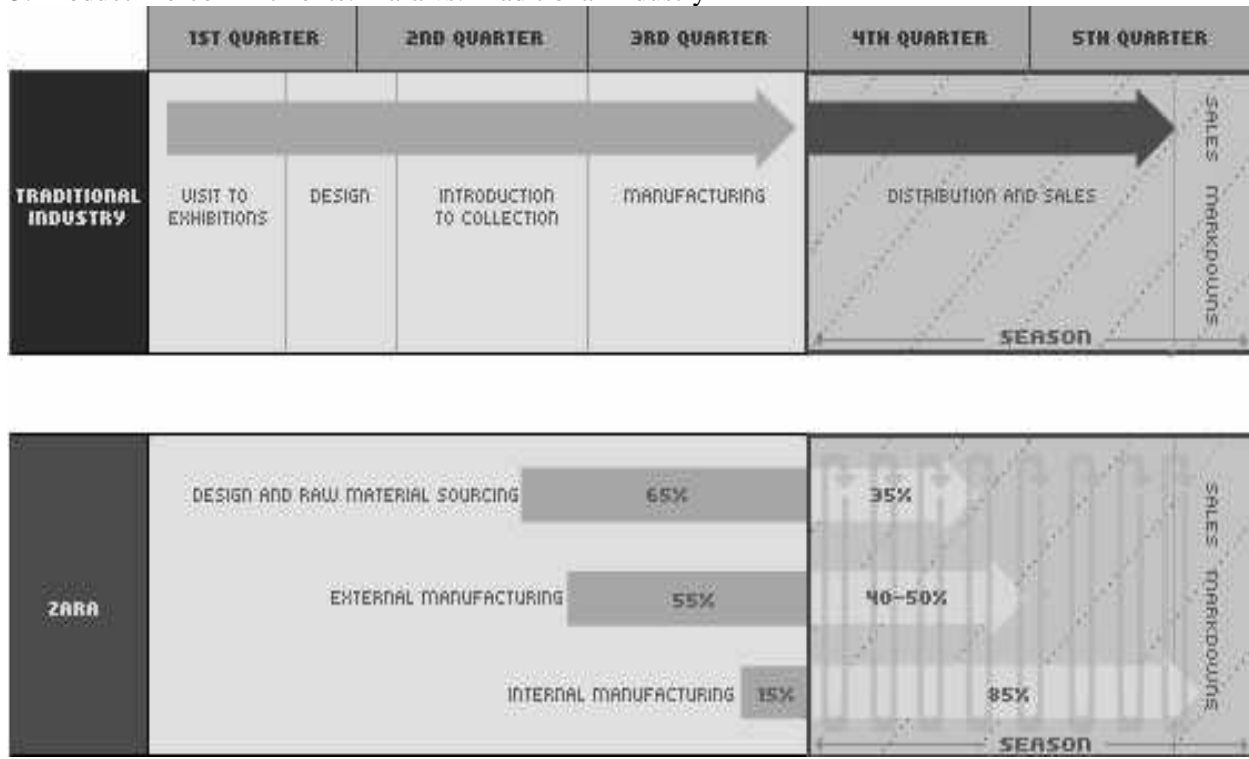


Fig. 4: Brief Comparison of Zara with its Major Competitors in India



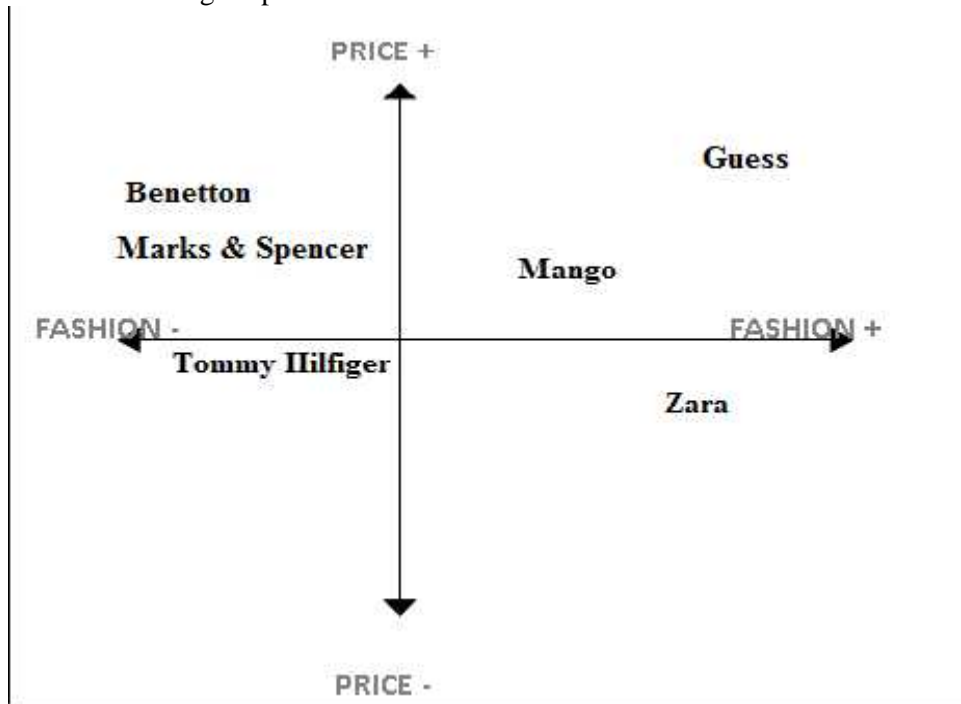
Source: Annual Reports & Industry Estimates (sunandchronicle.wordpress.com)

Fig. 5: Product Pre-commitments: Zara vs. Traditional Industry



Source: Inditex

Fig. 6: A Product Market Positioning Map



Source: Case Writer

Fig. 7: Survey of Zara customers in Pune giving insights on their expectations and perceptions of brand Zara

Survey of Zara Customers in Pune- 68 respondents	
Parameter	Impact on Zara Customer
Age group	15-30 years- 90%, 30-45- 10%
Apparel Shopping	Once every 2-3 months- 48%, Once a month- 33%
Annual spend on apparel	>Rs.10,000/- 49%, Rs.7000-10,000/- 19%
Perception of premium brands	Good quality- 50%, Fashion statement- 30%
Introduction to Zara	Family/Friends- 60%, Social Media sites- 18%
Aspiration for Zara	Fashionable clothing line- 44%, Brand Image- 25%, Quality Clothing- 20%
Zara's Differentiator from competitors	Fast changing fashion- 35%, Brand image- 30%, Affordable fashion- 25%

Source: Case Writer

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- <http://edition.cnn.com/BUSINESS/programs/yourbusiness/stories2001/zara/>
- Insights from Zara store manager through a focused interview conducted by the case writers.