GSM Final Report | Ishaan Jain, Keerthana Bobba, Vishnu Kariyattu, Ananya Das

Case background

The emergence of international fashion has changed how people view fashion in the modern world. Global fashion brands have dramatically increased in recent years as a result of the fashion industry's active involvement in internationalization processes. Large merchants increasingly choose to expand internationally in search of long-term growth, responding to and advancing the process of globalization.

Operating globally is a popular choice for business expansion, especially when the domestic market demonstrates rising levels of competitiveness and market saturation. Unaffected by conditions in the domestic market, an increasing number of born-global enterprises are also choosing to expand internationally from the start of their operations. One of the main drivers of internationalization is the desire to profit from the exposure of exclusive brands to global markets. Nevertheless, different retailers have different internationalization plans, and this also affects the outcomes.

ZARA, one of the biggest apparel retailers in the world based in the Spanish city of Arteixo, is a part of the Inditex Group. The company was established by Amancio Ortega and his wife Rosalia Mera in 1975. Ortega served as the organization's initial CEO and is still heavily involved in its operations. In this paper, we will examine ZARA's internationalization strategy, method of entry, and competitive advantage to understand how the company managed to dominate the world market.

History in brief:

ZARA is a fashion label and fashion chain established in 1975 by the Spanish group Inditex, owned by Amancio Ortega and Rosalia Mera. In addition to ZARA, the Inditex group also owns Bershka, Massimo Dutti, Pull and Bear, Stradivarius, Oysho, ZARA Home, ZARA Kids, and Uterque. ZARA started as a small clothing outlet in Galicia, Spain, but rapidly expanded throughout Spain and later worldwide. Inditex had the highest sales with ZARA among the selected major apparel retailers and manufacturers, with revenues of approximately 31 billion U.S. dollars as of 2021 *(Exhibit 1).*

https://www.statista.com/statistics/242114/sales-of-the-leading-10-apparel-retailers-worldwide/

ZARA's business model

There are many factors that have contributed to the success of ZARA, but one of its key strengths is its ability to put customers first. ZARA is obsessed with its customers, and they have defined the company and the brand's culture right from the very beginning.

ZARA's aim, according to Amancio Ortega, founder of Inditex, is to democratize fashion by offering the latest fashion in medium quality at affordable prices. ZARA's business model is based on the principles of fast fashion and vertical integration. ZARA's vertical integration of design, just-in-time manufacturing, delivery, and sales; flexible structure; low inventory rule; quick response policy; and advanced information technology enable a quick response to customers' changing demands. A completely new piece of clothing can be designed, manufactured, and delivered in less than four weeks.

What distinguishes ZARA from its competitors is the feedback that ZARA's store managers get from customers at the point of sale about new garments or products that they are interested in. Store managers report customers' demands and sales trends to headquarters daily. The design group uses the feedback to create new articles or modifications to existing goods and then delivers the items to the stores. Every store receives small batches of products twice a week, avoiding large inventories. The outlets are situated in main commercial areas, and the interiors are designed to create a unique atmosphere with attractive window displays. The firm spends very little of its annual turnover on advertising, normally at the beginning of the sales season or on the occasion of a new store opening. The store is considered its most effective communication tool. The business model canvas is depicted in *Exhibit 2.*

How does ZARA view the world as a market?
Global footprint/ chessboard?

Push factors	Inhibitors	Facilitators	Pull factors
Saturation	Administrative barriers	International status	Spain joined the EU
Low growth opportunities	Geographic distance	Learning process	Economies of scale
Changes in consumer behavior	Low economic development	Spreading cost and risk	Globalisation
	Different seasonality		Abolition of economic barriers
	Cultural distance		Growth chances
	Lack of experience		Cultural affinities
	Risk perception		Information technologies

Source: Adapted from McGoldrick (2002)

ZARA concentrated on domestic market expansion from 1975 until 1988. The Spanish market's maturity prompted ZARA to search for business expansion potential in international markets.

Expansion was limited to one country on average a year between 1988 and 1997, taking a more careful approach. ZARA entered nearby markets that are similar to the Spanish market in terms of geography and culture during the early stage of entering the global market. For instance, ZARA began operations in France in 1990 even though Paris is the fashion hub of this geographically adjacent nation. Mexico was also included in 1992, despite being far away physically, since it is culturally close to Spain.

Experiential learning inspired ZARA to raise the bar on their ambitions for doing business abroad. As they gained more worldwide expertise and overcame the psychological barrier, they accelerated their global expansion aggressively and quickly at the beginning of 1998, regardless of the closeness to other cultures or locations. Between 1998 and 1999, stores were opened in 16 different nations, including Canada, the United Kingdom, the Middle East, Japan, and many others, which have vastly different customs and cultures.

The "oil stain" strategy, as described by ZARA's management, is the pattern of the company's international expansion. It begins with the opening of a flagship store in a major city, which serves as a hub for further expansion. After gaining experience and success in operating locally in the country, ZARA then proceeds to open stores in adjoining areas, spreading outward like an "oil stain." For example, the flagship store in Paris anchors a pattern of regional and national expansion, leading to the opening of 113 stores in France by 2023.

Source: https://www.statista.com/statistics/674653/number-of-ZARA-stores-by-country/

https://www.mbaknol.com/management-case-studies/case-study-the-international-growth-of-ZARA/

One of the key decisions in the internationalization of a firm is the selection of a right country market. ZARA conducts both macro and micro analysis to analyze new market opportunities.
CAGE, ADDING, and 3C’s are some of the useful frameworks to evaluate opportunities in global expansions. *(Exhibit 3)*

ZARA is a global fashion retailer that has expanded rapidly, with a presence in over 90 countries worldwide. Let’s analyze ZARA global expansion with the **ADDING** framework.

Adding Volume: ZARA's global expansion has certainly helped add volume to its business. By entering new markets, the company has been able to tap into new customer bases and increase its sales and revenue. In fact, ZARA's revenue has grown steadily over the years, reaching over €28 billion in 2020.

Decreasing Costs: The global expansion of ZARA has facilitated the exploitation of economies of scale, allowing the company to benefit from lower raw material costs and reduced overall costs through increased manufacturing volume. Furthermore, ZARA's vertical integration approach has enabled the company to manage the entire supply chain, thereby enhancing cost efficiency.

Differentiating/Driving up Willingness to Pay: ZARA updates its stock every two weeks. They also try to create scarcity and an opportunity climate. Whenever a customer likes a garment, they tend to buy it immediately because the stock changes constantly, fearing that it won't be available on their next visit. The company's global expansion has allowed it to reach a wider audience, build a stronger brand, and increase customer loyalty.

Improve Industry Attractiveness: ZARA's expansion into emerging markets, such as China and India, has helped the company tap into high-growth markets and improve industry attractiveness. Additionally, the company's focus on sustainability and ethical production practices has helped it stay ahead of industry trends and appeal to consumers who prioritize these values.

Normalizing Risk: ZARA's global expansion has helped in lowering country-level risk by allowing the company to diversify its business across other areas. This has assisted in reducing the risks connected to political or economic unrest in any of the countries.

Generating and Upgrading Capabilities and Knowledge: To keep its competitive edge in the fashion sector, ZARA's global expansion has given the company the opportunity to acquire new skills and knowledge by adapting to various markets, consumer preferences, and market conditions.

3C Framework

Company: ZARA is a fast-fashion brand that operates under the Spanish company Inditex. The company was founded in 1975 by Amancio Ortega and has since grown to become one of the largest fashion retailers in the world. ZARA is known for its unique business model, which enables it to quickly bring new designs to market in response to changing fashion trends. The company operates over 2,000 stores across 96 countries and also has a strong online presence.

Country: ZARA is headquartered in Arteixo, Spain, and is a major player in the Spanish fashion industry. Spain has a rich fashion heritage, and the country is home to many other prominent fashion brands such as Mango, Desigual, and Massimo Dutti. In addition, Spain has a favorable business environment, with relatively low taxes and a well-educated workforce.

Competition: ZARA faces significant competition from other fast-fashion brands such as H&M, Mango, Forever 21, and Topshop. These brands also offer trendy and affordable clothing and have a strong online and offline presence. ZARA also competes with other mid-range fashion brands such as Gap, Uniqlo, and American Eagle Outfitters.

In summary, ZARA is a strong company with a unique business model and a global reach. It operates in a competitive market but has managed to maintain its position as a leading fast-fashion brand through its focus on innovation, design, and efficiency.

How does ZARA view the world as a competitor?

The company's command over its supply chain is well known. In other words, it oversees the majority of the stages of clothing production, including the initial designing stage and the distribution stage. The corporation has a significant edge in production speed from a business model perspective. ZARA is able to quickly modify and alter its designs in response to customer demand thanks to this approach of immediate customer input. Online retail is another component of the business. The business model of the Inditex Group is adaptable to even the smallest changes in the apparel market and shifts in client needs, which has allowed it to be successful in this industry. However, it is important to analyze in detail the competitive strategies of the company, compared to other clothing retailers.

Value Chain Analysis of ZARA

ZARA: Value chain

ZARA's value chain is characterized by vertical integration, which allows the company to exercise a high level of control over both the upstream and downstream aspects of production and sales. As a result, ZARA is able to oversee all stages of product development, manufacturing, distribution, and retail. This focus on the primary value chain, rather than support activities, is particularly important for ZARA, as it has established itself as an industry leader in supply chain management and gains a competitive advantage from this approach. (*Exhibit 4*)

Inbound logistics

ZARA's production facilities are mostly located in Spain, as the company has chosen not to follow the popular trend of outsourcing to East Asia for cheaper production costs. To ensure a high level of control over its supply chain, ZARA has established its main production facilities in a small town in Galicia, which is located close to its corporate headquarters. Approximately 50% of ZARA's clothing is manufactured in Spain, with the remaining 50% produced in other European countries. Using its in-house team, ZARA manages all aspects of the production process, including design, buying, pattern making, sampling, and manufacturing. This team is extensive and capable of adding up to 12,000 new products to ZARA's product line each year.

Operations

With a floor area of 480,000 square meters and the capacity to handle more than 60,000 items per hour, ZARA's core production facility is located in Galicia, close to the company's headquarters.

Outbound logistics

ZARA's outbound logistics system operates on a demand-based just-in-time approach. This method allows ZARA to keep its costs low by maintaining only the necessary amount of inventory. ZARA's system enables the company to determine whether a product line is successful within a few days. If a product is selling well, ZARA can quickly order, produce, and distribute more within two weeks. This process can also be customized based on the location of the stores. For example, if a product is popular in a Paris store but not in a London store, ZARA can continue supplying the Parisian store while discontinuing the product line in London. This level of decision-making customization ensures that ZARA's customer-oriented philosophy is fulfilled at both operational and strategic levels.

Sales & Marketing

ZARA's marketing and sales strategy centres on providing products that align with customers' preferences and tastes and exceed their expectations in terms of design, quality, and service. Communication between the store managers responsible for upstream activities and the designers and production staff responsible for downstream activities is critical to ensure the exchange of information is appropriate and feedback is received effectively. This exchange of information is essential to ensure that the products placed on the shop floor are well received by customers and generate sales.

Service

ZARA places a great deal of importance on providing excellent customer service. The company strives to offer a premium shopping experience to customers while still selling clothing and accessories at reasonable prices. ZARA's stores are located in prime locations in major cities like New York, Paris, Madrid, and London, as per Inditex (2009). The storefronts are visually attractive, and visual merchandising is a fundamental aspect of the company's culture. The interiors of the stores are clean, well-maintained, and have eye-catching visual displays. The store experience is an essential component of the value chain, as it adds value to the customer's overall shopping experience.

Competitive Analysis of ZARA (*Exhibit 5 & 6: Competition evaluation*)

ZARA competes with the following brands in the retail industry.

ASOS

ASOS, a fashion and beauty retailer headquartered in London and founded in 2000, initially focused on selling imitations of clothes from TV and film to young adults. Today, the brand sells over 850 brands as well as its own clothing line worldwide, using a hybrid revenue model of wholesale purchase and in-house production. However, ASOS has received criticism for its involvement in fast fashion, and its clothes are known for being lower in quality and price than ZARA's. In response, ASOS introduced collections like the "Responsible Edit" and the "Circular Collection" to address sustainability concerns, though some critics argue that these efforts are superficial. Despite this, ASOS has seen significant growth and profitability, partly due to its two-pronged marketing strategy using digital influencers and customer influence. One significant vulnerability for the company is its complex supply chain network, which resulted in an 87% decline in profits in the first quarter of 2022 due to reduced stock availability.

H&M

H&M Group is a multinational clothing company founded in Sweden in 1947 that follows a fast-fashion business model, similar to ASOS and ZARA, selling clothes for men, women, children, and teenagers. It has over 4,800 stores in 75 markets worldwide. Unlike ZARA, H&M outsources production to more than 900 independent suppliers, mainly in Asia and Europe, which has led to allegations of poor factory conditions and low wages.
The company has also faced criticism for greenwashing, as its claims of being environmentally friendly have been challenged, revealing that its green credentials are not as advertised. This highlights how fast-fashion companies' marketing campaigns can be misleading and backfire, particularly since their practices contribute significantly to environmental destruction.
H&M's recent performance reflects the backlash it has received, as its sales have declined in the past few years, and its stock price plummeted by 40% in 2018. Despite the impact of the pandemic, the company's online sales increased by 30% in 2021. However, it remains uncertain whether the company can sustain long-term growth and remain prosperous.
Nevertheless, the company's executives announced plans in 2022 to double sales by 2030 through a multichannel strategy that will reduce the company's carbon footprint by 50%. Whether this plan will succeed in bolstering the company's growth remains to be seen.

MANGO

Mango is a clothing company from Barcelona, Spain that was established in 1984. The company follows a production revenue model as it designs and manufactures its clothes and sells them in over 1,200 stores worldwide, spanning 91 countries. Mango uses an in-house logistics system, making it the second-largest textiles exporter in Spain. Franchising is a critical component of Mango's global expansion plans, and it aims to incorporate additional brands, such as Rituals cosmetics, to draw in new customers. Mango and ZARA have comparable business models and target the same consumer demographics, so incorporating new brands could be a key factor in Mango's success. Mango has been accused of greenwashing in the past, but the company has recently received approval for its emissions reduction targets from the Science Based Targets Initiative (SBTI). The company's next significant challenge will be to meet these targets. Mango's sales increased by 21.3% to $2.5 billion in 2021, and it recorded a profit of 67 million euros, triple the amount before the pandemic. The company's strategy of global expansion into Belgium, Canada, and Austria is working well.

UNIQLO

Uniqlo is a Japanese clothing company that started as a textile manufacturer in 1949. Today, it has over 2,000 stores in 25 markets worldwide and is recognized as a global brand. Unlike other fast fashion companies like ZARA, Mango, and ASOS, Uniqlo offers functional and affordable clothes designed to inspire people to dress casually. While ZARA and Mango are high-end stores that offer fashionable clothes at higher prices, Uniqlo's focus is on providing affordable clothing.

The leadership of CEO Tadashi Yanai has been instrumental in Uniqlo's success. He has been recognized as one of the best-performing CEOs by the Harvard Business Review and has provided a significant return to shareholders. Uniqlo places a high priority on providing an exceptional customer experience and invests heavily in employee training and development. The company has built Uniqlo University in Tokyo to train new store managers.

Uniqlo has also tapped into the trend of using influencers and celebrities in digital marketing. It has six global ambassadors, including professional golfer Adam Scott and tennis champion Roger Federer.

Uniqlo's business strategy has translated into successful results. In FY21, the company made a revenue of 930.1 billion yen, a 10% increase year on year, surpassing ZARA and H&M. E-commerce sales also increased by 20%. However, it's important to note that Uniqlo and ZARA cater to different audiences and have different values. Uniqlo focuses on providing everyday essentials, while ZARA's focus is on stylish and fashionable pieces

Integration Responsiveness (*Refer to Exhibit 7*)

ZARA's supply chain is highly responsive and vertically integrated, which enables them to export garments 24/7 all year round, resulting in the delivery of new products to stores twice a week. The process takes around 10-15 days from design to stores, as all clothing items are processed through a distribution centre in Spain, where they are inspected, sorted, tagged, and loaded onto trucks. Most items are delivered to stores within 48 hours. This vertical integration allows ZARA to have control over fabric-processing areas, and they can provide the correct fabrics for new styles according to customer preferences. Moreover, it eliminates the need for warehouses and helps to reduce the impact of demand fluctuations. ZARA launches around 12,000 new designs annually and produces over 450 million items, making the efficiency of the supply chain critical to ensure a constant refreshment of store collections.

ZARA has implemented vertical integration to maintain control of its supply chain. This involves acquiring businesses at different stages of the chain to react quickly to shifting consumer demands, reduce risk, increase transparency, and lower distribution costs. By controlling everything from design to display to shipping, ZARA collects valuable data at each stage, which can be analyzed to identify inefficiencies, areas of success, and create accurate forecasting.

Vertical integration enables better communication and collaboration between different partners, providing companies with the flexibility to weather difficult market conditions. It is a suitable strategy for businesses seeking to minimize supplier power. Nevertheless, controlling all or most of the supply chain involves greater risk and has high upfront organizational costs. Businesses can follow the ZARA model by purchasing suppliers, merging with partners, or investing in the sales end of the process.

How does ZARA view the world as a partner?
ZARA's Mergers & Acquisitions

Sources:
https://www.fashionabc.org/wiki/massimo-dutti/
https://ww.fashionnetwork.com/news/ZARA-acquires-a-3-600-m2-store-in-manhattan,157605.html
https://www.businessoffashion.com/news/retail/ZARA-billionaire-bets-700-million-in-move-into-us-logistics/

Currently Inditex - the parent company of ZARA has about 8 brands under its umbrella. (*Exhibit 5 & 6* for detailed positioning of different brands). Some of the brands that they have are the following:

Brand name	No. of stores	Year of creation	Market
ZARA	1,939	1975	Fashion for men, women and children
Pull and Bear	964	1991	Casual laid-back clothing and accessories for the young
Massimo Dutti	682	**1991 (acquired)**	Clothing and accessories for cosmopolitan men and women
Lefties	135	1993	
Bershka	971	1998	Blends urban styles and modern fashion for young women and men
Stradivarius	915	**1999 (acquired)**	Casual and feminine clothes for young women
Oysho	556	2001	Lingerie, casual outerwear, loungewear, gym wear & swimwear and original accessories
ZARA Home	482	2003	Home goods and decoration objects

Over the last 30 years, ZARA's expansion strategy has evolved around acquiring two companies and organically ideating and simultaneously growing different brands catering to different customer segments.

Overall, ZARA's acquisition and growth strategy has helped it expand its brand portfolio, reach new markets, and diversify its product offerings. Let's delve deeper into one of ZARA's acquisitions.

ZARA acquires Massimo Dutti
In 1991, ZARA acquired a smaller Spanish fashion brand called Massimo Dutti, which came as a strategic move to expand ZARA's brand portfolio and to reach newer markets. Let's evaluate ZARA's intent and strategic reasoning behind acquiring Massimo Dutti using the 4 C's framework.

Prospect for the alliance at the outset: Framework

Complementarity

Both ZARA and Massimo Dutti are in the retail fashion space. Both are complementary in the following ways:
1) *Massimo Dutti and ZARA's product line* - Massimo Dutti is a company with a complementary product line, while ZARA's product line was focused on trendy and fashionable styles, Massimo Dutti's focus was on traditional styles with a specialization in cashmere and wool.
2) *Market command* - Massimo Dutti had an established presence in several European countries, including Spain, Portugal, France, Italy, and Germany, while ZARA was already in a few countries by 1991. By acquiring Massimo Dutti, ZARA was able to expand their international presence and enter international markets.

Convergence - Massimo Dutti's business model/goals completely fit in line with ZARA's. Overall. Initially, it was a challenge for ZARA to achieve diversification with their core product line, thus this acquisition allows ZARA to take advantage of Massimo Dutti 's existing infrastructure, product line and distribution for catering to a distinct target market.

Commitment- The acquisition of Massimo Dutti by ZARA demonstrates a strong commitment to expand their product range and invest in fashion brands. After the acquisition Massimo Dutti continued to operate under the umbrella of ZARA and maintained its brand identity while also benefiting from its global distribution network and supply chain expertise.

Compatibility-
a) *Shared values*: Both place an emphasis on fashion, trends and reducing their time to market.
b) *Diverse products*: By acquiring Massimo Dutti, ZARA was able to cater to a different segment of the market, which preferred more classic and timeless styles of clothing. This allowed ZARA to increase its revenue streams and reduce its dependence on its fast fashion business model.
c) *Synergy in distribution*: Both the companies leveraged distribution networks and existing relationships with retailers to expand their reach and increase sales.

JOINT VENTURES

Apart from acquiring companies, ZARA has also been expanding internationally by entering several Joint ventures.

Some of their recent moves include **ZARA's entry into India via Joint Venture with Tata Group.** ZARA entered the Indian market in 2010 via a joint venture with the Tata Group. They started by opening stores in two main cities in India- Mumbai and Delhi.
Let's evaluate this move by using the Three tests framework. (Framework in Exhibit 8)
This includes the following.

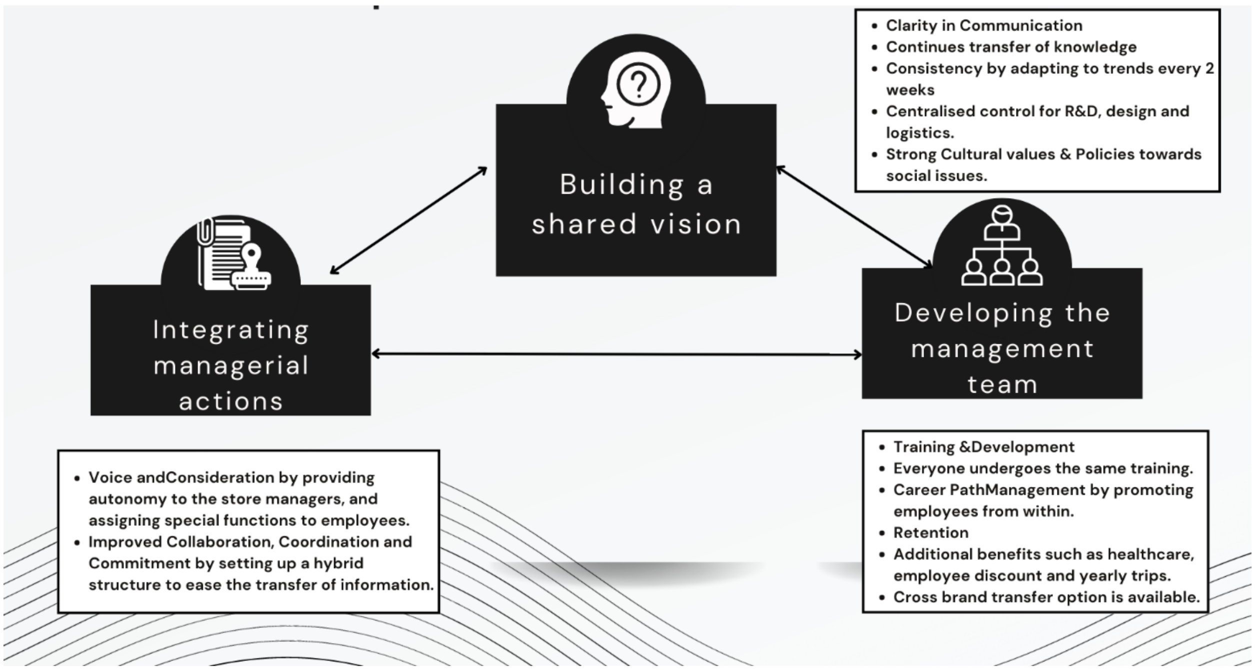
Source- https://www.licenseglobal.com/retail/inditex-teams-tata-ZARA-stores-india

How ZARA views the world as an organisational challenge

Responsiveness and speed are the factors that are key to ZARA and that is what gives ZARA a competitive edge over other traditional retail chains. Cost takes a back seat in this approach, and it would be impossible for ZARA stores to have new merchandise released every two weeks. To achieve the fast fashion objective, ZARA designs and produces its clothing in-house or nearby, with their headquarters, eleven Spanish factories, and distribution center, all in the same vicinity in Arteixo, a small Galician town in Spain.

There are several factors that makes it possible for ZARA to span its operations over various continents and make its presence known in several countries. Effective global matrix allows us analyze the same by understanding:

1. How ZARA build a shared vision and establishes effective communication.
2. How ZARA as an organization integrates managerial actions.
3. How ZARA develops the management team.
   (*Exhibit 9: Effective Global Matrix*)



Building a Shared Vision & Flow of Communication

Having a strong shared vision is very important for any global firm and ZARA has nailed it to a tee. It has brought cla rity, consistency, and continuity to its operations and to the organization overall. In its headquarters, Amancio Orte ga Gaona has an office from where he oversees the entire process and interacts with the designers, planners, and b uyers. Being at the center of the process and innovation has allowed ZARA to communicate at a rapid rate and in a fluid manner.

Each store keeps meticulous track of all the merchandise and monitor the sell through rate, a key metric that is conveyed to the Spanish headquarters daily. Analysis of such KPIs help ZARA understand the consumer's buying habits and preferences and analyze the trends that are coming In or dying out. *(Ruddick, G. (2014, Oct. 20). How Zara became the world's biggest fashion retailer. Retrieved Nov. 28, 2015, from Telegraph: http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/11172562/Ho w-Inditex-became-the-worlds-biggest-fashion-retailer.html)*. Responsiveness hinges on the fact that the designers of ZARA can take this information and "make changes to the initial collection based on demand" (Inditex).

Apart from the analytics point, ZARA incorporates a human touch by allowing individual store managers to place orders with headquarters twice a week. The commercial team and in-house designers then work on fulfilling these orders by sending the appropriate quantity of each product.

ZARA's reverse-knowledge setup also allows for both explicit and tacit knowledge transfer between the foreign units and the home office.

This easy flow of communications between stores, headquarters, the designers, buyers, and logistics teams allows ZARA to horizontally differentiate in terms of style, design, color, branding, or packaging and this brings customized end products catered to regional taste into customer' s hands.

Integrating Managerial Actions (Understanding the Organizational Structure)

Inditex, the parent company of ZARA, has a multidivisional organizational structure where it gives each brand a sign ificant amount of autonomy. At the top, the company holds a functional type setting and all the eight brands, ZARA being the major one, reports to the Vice President. Going down the ladder however, the structure shifts a bit, allow ing the eight individual brands with some common support from the logistics and expansion team.

(*Exhibit 10: Organization* Chart**)**

ZARA employs a hybrid organizational structure (as shown in the figure), which combines both functional and product structures. This allows for multiple reporting lines within the organization. Under this structure, employees report to store managers, who then report to the regional manager, who ultimately reports to the head of ZARA. The organization is divided into three segments - Women, Men, and Children - each with its own product offerings, designers, and department heads. The stores themselves are also divided into these three segments, with three store managers overseeing each store. Despite these divisions, ZARA's overhead resources, such as logistics, distribution, and accounting, are shared across all three segments of the brand.

Inclusion is exercised by ZARA by providing autonomy to a certain extend to store managers, which is incentivized through commission-based salaries. Within each store, ZARA has a dedicated store manager handling communications with the head office, and also the employees are sub divided into appropriate roles and departments in order to execute a smooth customer experience and also to communicate with the store manager regarding concerns, product placement, customer preferences, etc.

Developing the Management Team (Taking Care of its Employees)

“Training is crucial to Inditex's business which is based on a model that calls for continual innovation and teamwork. Our employees' training programmes are tailored to the needs of each and every one of our professionals. However, they all share a common denominator: everyone that works for the Group has to spend a certain amount of time training in-store, regardless of the position have been hired into” (Inditex. (n.d.). Our History. Retrieved Nov. 28, 2015, from Inditex: https://www.inditex.com/en/our_group/our_history).

Not only does this enables ZARA to establish the standards, but also help employees understand what is expected of them. This type of training allows the employees to understand what goes on in the store, how customers interact with the store and the rest of the employees, as well as to understand why their job or position would benefit the company and how working for the company will benefit them. Since, every employee, undergoes same training, it helps create a shared sense of responsibility and a feeling that employees are an integral part of the company and the community since their opinions and observations matter.

On completion of the training, employees are given additional benefits such as health care, a 15% discount, and an annual trip to bond with coworkers. In order to stay at the forefront of fashion industry, ZARA also sends their designers to fairs and exhibitions in order for them to identify the “next big thing.”

ZARA adopts policies of companies such as Nike in promoting employees from within the organization by providing the employees with career development options. “Internal promotion is no mere policy at Inditex: it is the only way the Group could have grown from 60,000 employees in 2005 to over 140,000 today. This growth was possible because we always rely on our own teams to drive the Group’s expansion” (Inditex. (n.d.). Our History. Retrieved Nov. 28, 2015, from Inditex: https://www.inditex.com/en/our_group/our_history). Also, Inditex allows its employees to cross transfer between ZARA and another one of the seven brands under the parent company.

Employees of a socially responsible ZARA can be proud that their company is considered up to date on social issues, such as being socially responsible, being environmentally friendly, and not participating in animal abuse or forced human labor. There is also extensive training provided to employees in supply chain sector to understand what constitutes human trafficking, slavery, and child labor and how to respond if they run into such situations and have to make vital decisions that may be against company’s values.

ZARA's remarkable success story has been a significant achievement for its founders, Amancio Ortega and Rosalía Mera, as well as for the Spanish fashion industry as a whole. Through its strategy of prioritizing speed and responsiveness, ZARA has set itself apart from other Spanish and global fashion companies. Additionally, ZARA's focus on its employees, provision of reasonably priced high-fashion items to customers, and commitment to environmental sustainability have led to significant positive changes. Overall, ZARA has done an impressive job of transforming the industry and revolutionizing traditional business practices.

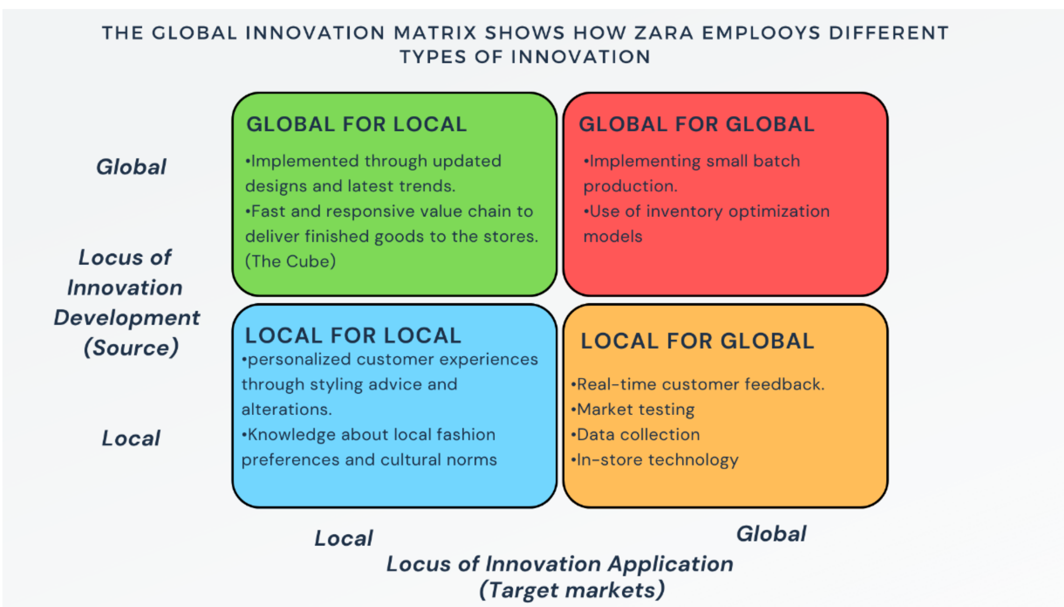
Innovation

ZARA masterfully pulls this off through its vertical integrated, highly centralized operating model. ZARA uses "The Cube", which is a state-of-the art distribution systems in its design and manufacturing headquarters, located in La Curuna, Spain. The Cube (i.e. "command central) is linked through underground tunnels to its 11 ZARA-owned factories, all within a 10-mile radius. The tunnels are fitted with high-speed ceiling rails to transport garment racks, 400+ chutes, conveyor belts, and optical scanning and sorting devices. (Ref: ZARA: a Retailing Force to Be Reckoned with By Natasha Dossa). (*Exhibit 11: Innovation and Information Flow*)

"INVENTORY = DEATH"

Through its Just-in-Time production model, the Company is able to order in small batches during the season based on current trends. Employing a strategy of small-batch production confers not only a reduction in potential losses if a particular trend fails to materialize, but also imbues customers with a sense of exclusivity. ZARA boasts an inventory turnover rate of 12 times per year, as opposed to the industry standard of 3-4 times by keeping its products on the shelves for no longer than one month.

In terms of innovation, both Trickle down and Trickle up effects are observed.



<u>Culmination lot of ideas from various geographies</u>
The design team at ZARA comprises 350 individuals who are responsible for creating and delivering a staggering 18,000 new product designs per year. This translates to about 360 designs every week or over 70 designs each working day. Designers get their ideas from books, magazines, twitter and blogs but above all from feedback from our shops.

<u>Move rapidly from design to market!</u>

ZARA's ability to move quickly from the initial idea to the shop shelf is a significant competitive advantage, taking less than four weeks. Additionally, ZARA's strategy involves introducing their products simultaneously to 5500 stores worldwide, from Brisbane to Lisbon. They make minimal adaptations for local markets, resulting in global products that sell across all five continents. This approach provides them with great economies of scale.

Innovate all aspects of the business.

ZARA's innovative approach extends beyond product design to include various aspects of their business operations such as to streamline and optimize their manufacturing processes, supply chain management, data tracking, inventory management, store layout, and staff operations. This holistic approach to innovation has helped ZARA to deliver high-quality products quickly and efficiently while maintaining excellent customer service.

Prototype and Model Quickly

ZARA has a fast-paced approach to testing their designs and ideas. At their headquarters in Arteixo La Coruna, Spain, they have 25 full-size shop windows with different displays and lighting. This setup allows designers to see how their designs will look in retail shop windows under different conditions. By testing their designs in a real-world setting, ZARA can quickly determine what works and what doesn't, enabling them to refine their ideas and bring their products to market more efficiently.

Fast feedback

Fast information about what is selling and what is not enables the group to respond to the public mood and to quickly supply more of the most popular designs to where they are needed. But even the top selling fashions are discontinued after four weeks since ZARA must continue to innovate. This policy also means that customers must visit the stores often to ensure that they do not miss out on the hottest items.

Conclusion & Future of ZARA

Despite the recent dip in share prices due to higher expected capital expenditure, Inditex, the parent company of Zara, remains confident in its ability to grow and expand in the future. The company's profit and sales have already exceeded pre-pandemic levels, and its rapid pace of sales has continued into the first few weeks of the 2023 financial year. Inditex plans to invest in further expansion in the United States, with 30 new Zara projects planned from 2023 to 2025, as well as automation in its distribution centers in Spain and phasing out hard anti-theft tags in stores. The retailer also plans to expand Zara stores in prime locations in Paris, London, and Milan. However, China remains a "very challenging" market due to COVID-19 restrictions, and Inditex closed a fifth of its shops there in 2022. Nonetheless, the overall outlook for Zara's future appears positive as the company continues to focus on executing its global strategy and expanding in key markets. *(Exhibits 12, 13 and 14)*

In conclusion, Zara's global strategy has been successful in positioning the brand as a global fashion leader by leveraging its unique business model of fast-fashion, vertical integration, and efficient supply chain management, Zara has been able to expand rapidly into new markets around the world. Zara's success can be attributed to its ability to adapt to local consumer preferences while maintaining a consistent brand image and product quality.

EXHIBITS

Exhibit 1

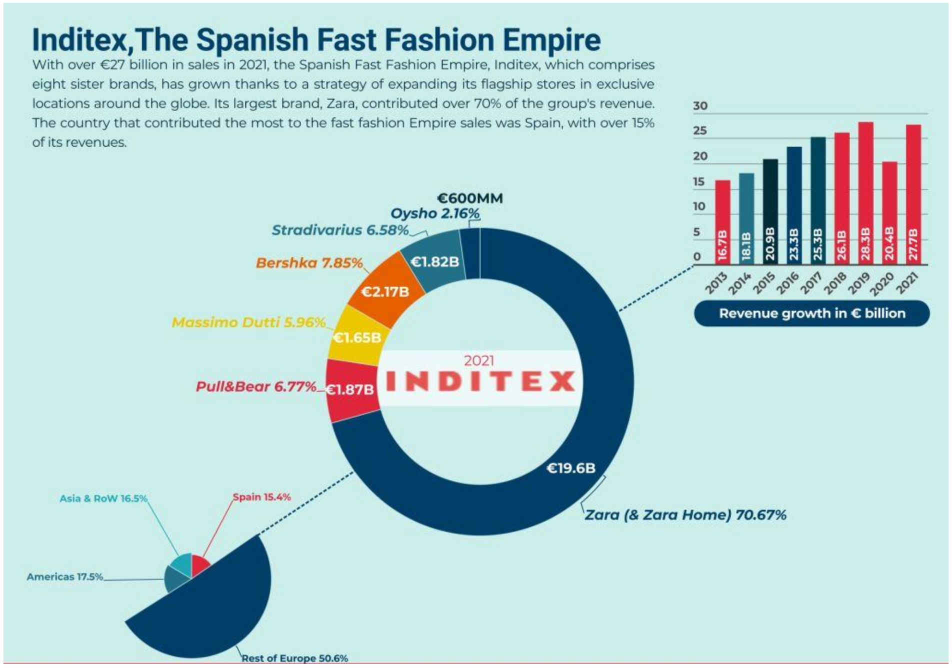


Exhibit 2

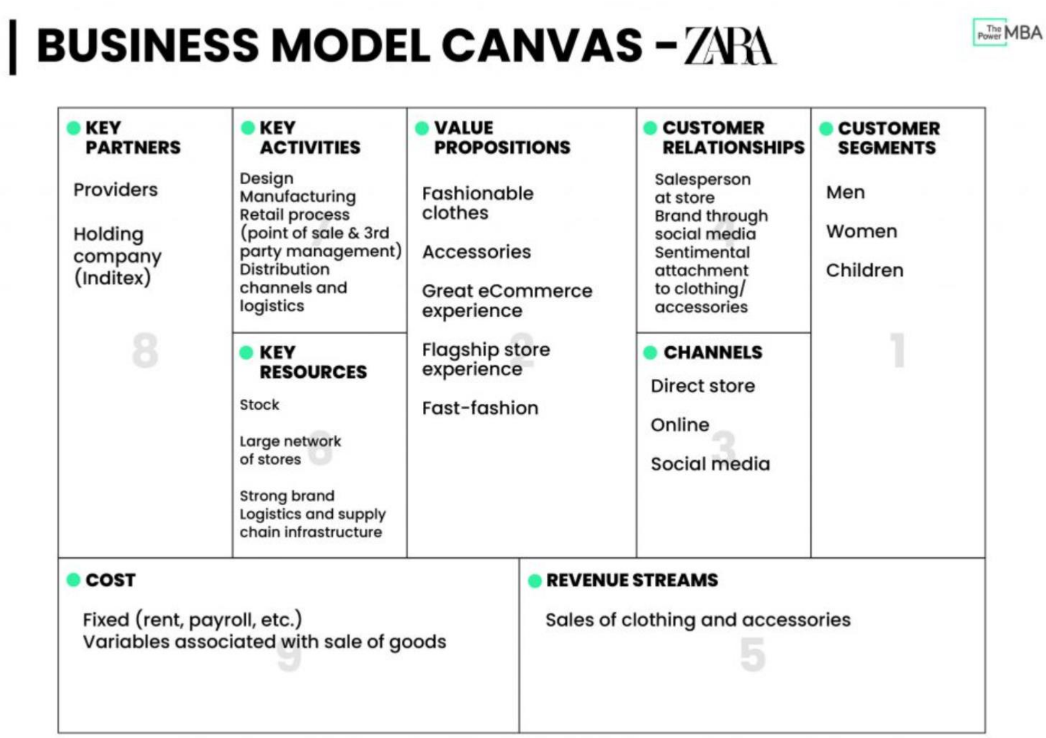


Exhibit 3 (CAGE Framework)

Country	Cultural distance	Administrative	Geographic distance	Economic distance
PORTUGAL	Culturally they have their differences. On the brighter side though their languages are different, can be easily understood by the other.	Portugal is a member of the European Union, which means that there are fewer administrative barriers for Zara to enter the market.	Portugal shares its borders with Spain and could make it easier for Zara to transport goods and manage operations. Hence right choice for its first global expansion.	It is relatively a smaller country and GDP is lower than the average european. This could affect Zara's revenue.
CHINA	The language and the distinctive culture are hard to adopt. Chinese consumers have their own preferences when it comes to fashion, and Zara will need to adapt to meet those preferences.	China has a complex regulatory environment that can present challenges for foreign companies. Good superior ports and modernization of infrastructure.	Good superior ports and modernization of infrastructure.	China has a large and growing middle class that presents a significant opportunity for Zara.It has larger markets. Higher income. Good supply chains.

GERMANY	Germany has a strong sense of regional identity, so Zara may need to consider regional differences when designing products and marketing campaigns.	Germany has a well-established legal system and regulatory framework that can make it difficult for foreign companies to navigate.	Germany is centrally located in Europe and has excellent transportation infrastructure, which makes it an attractive market for Zara.	Germany is the largest economy in Europe and has a strong purchasing power. However, the cost of doing business in Germany can be high due to high labor costs and strict regulation.
UK	The UK has a distinct culture that values individualism, innovation, and humor. It has flexibility of the product and merchandising. Developed more fashionable lines and customizable prices to the British market.	The UK has a well-established legal system and regulatory framework. Zara will need to ensure that it complies with all relevant regulations and obtains any necessary permits or licenses.	Competitiveness and good structure of locations where the consumers are more likely to buy.	More chances of Profitability as people are more appreciated and recognized in the market. There is high popularity for fashion among all the classes.

BRAZIL	Language variances as supposed to other countries. Zara may need to develop personal connections with local suppliers and partners.	Zara will need to comply with all relevant regulations, including those related to taxation, labor, and environmental protection.	Poor infrastructure and slow custom process. Vast geographic differences making it challenging for Zara to develop supply chains	The country faces significant economic challenges, including high inflation, a large informal economy, and income inequalities
INDIA	India has a diverse and complex culture, with significant regional and linguistic differences in consumer preferences.	It has common law. It may need to develop personal relationships with government officials to navigate the bureaucracy effectively. Transportation infrastructure is poor in some regions, which may increase costs and lead to delays.	Transportation infrastructure can be poor in some regions, which may increase costs and lead to delays	India is the fifth-largest economy in the world, with a rapidly growing middle class and high purchasing power. However, the country faces significant economic challenges, including income inequality, poverty,

Exhibit 4 (Value chain)

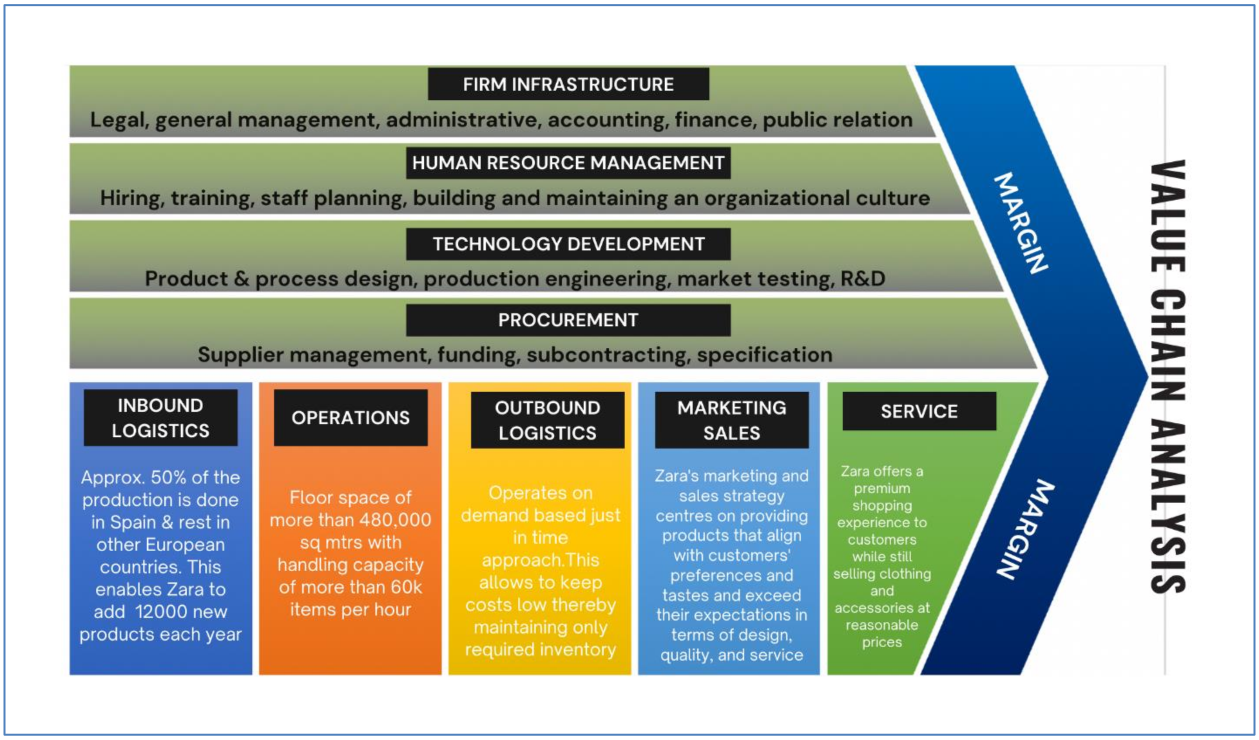
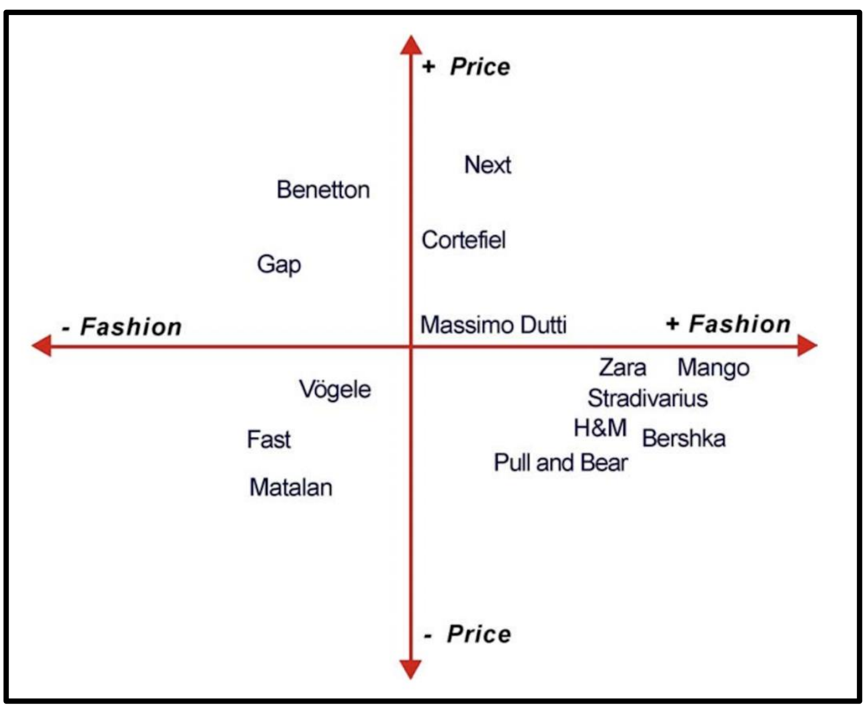


Exhibit 5
Zara | positioning map



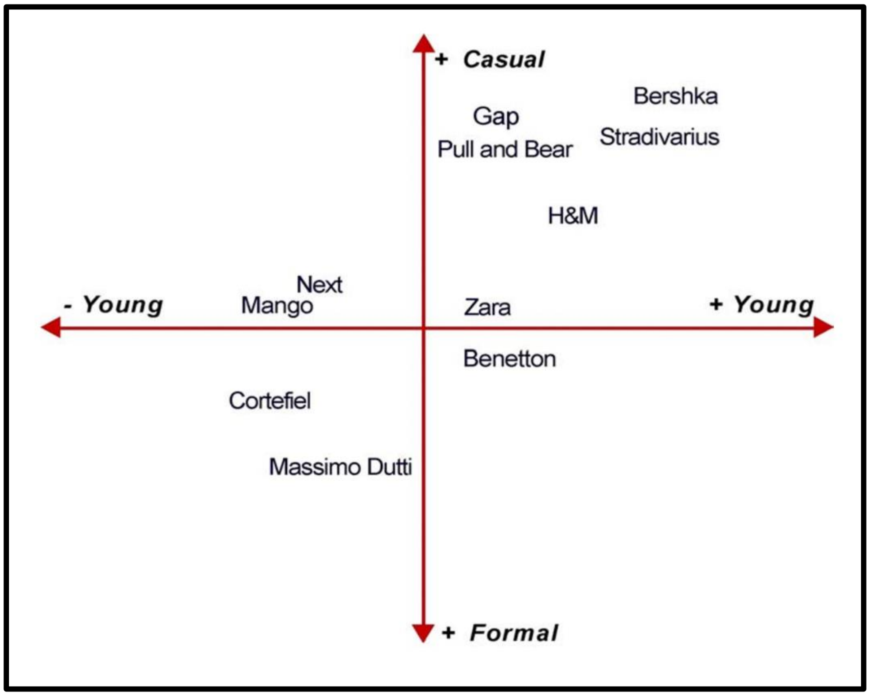


Exhibit 6 (Inditex vs competition sales)

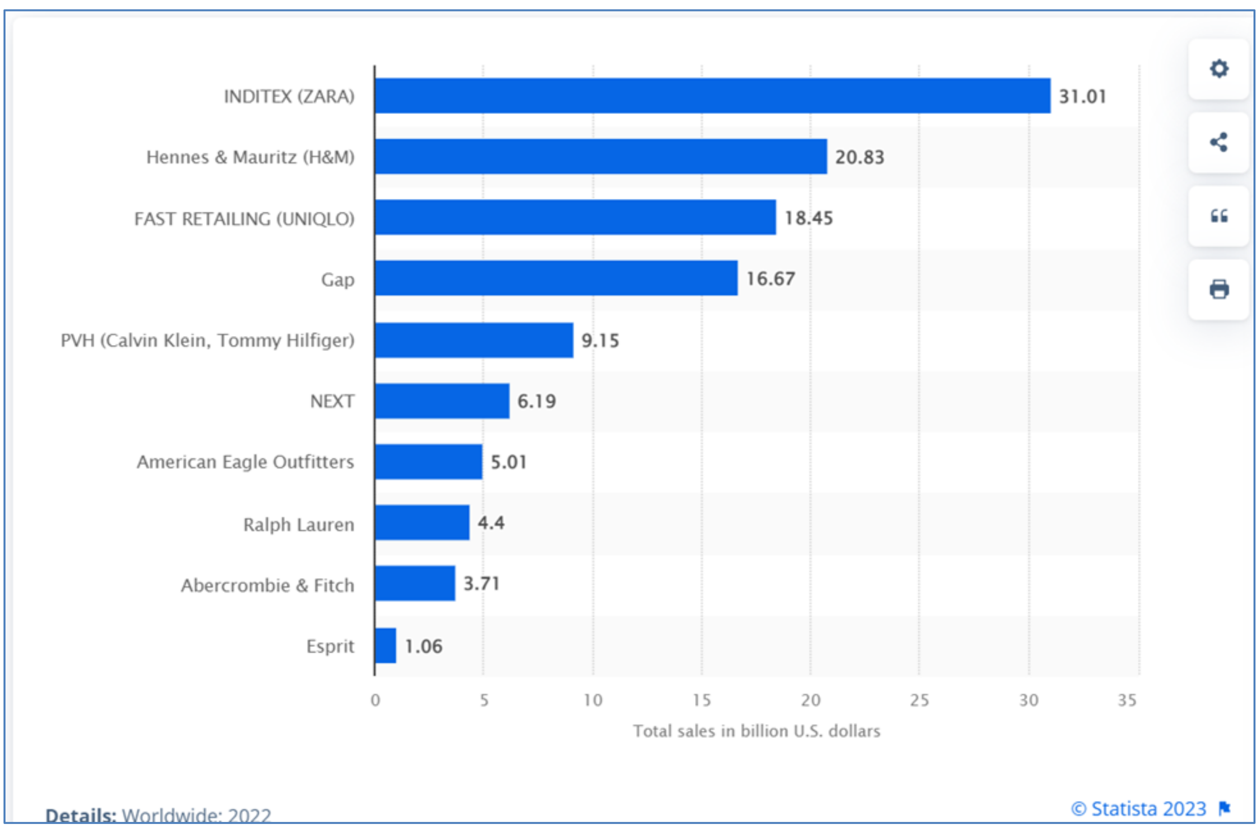


Exhibit 7 (Integration Responsiveness)

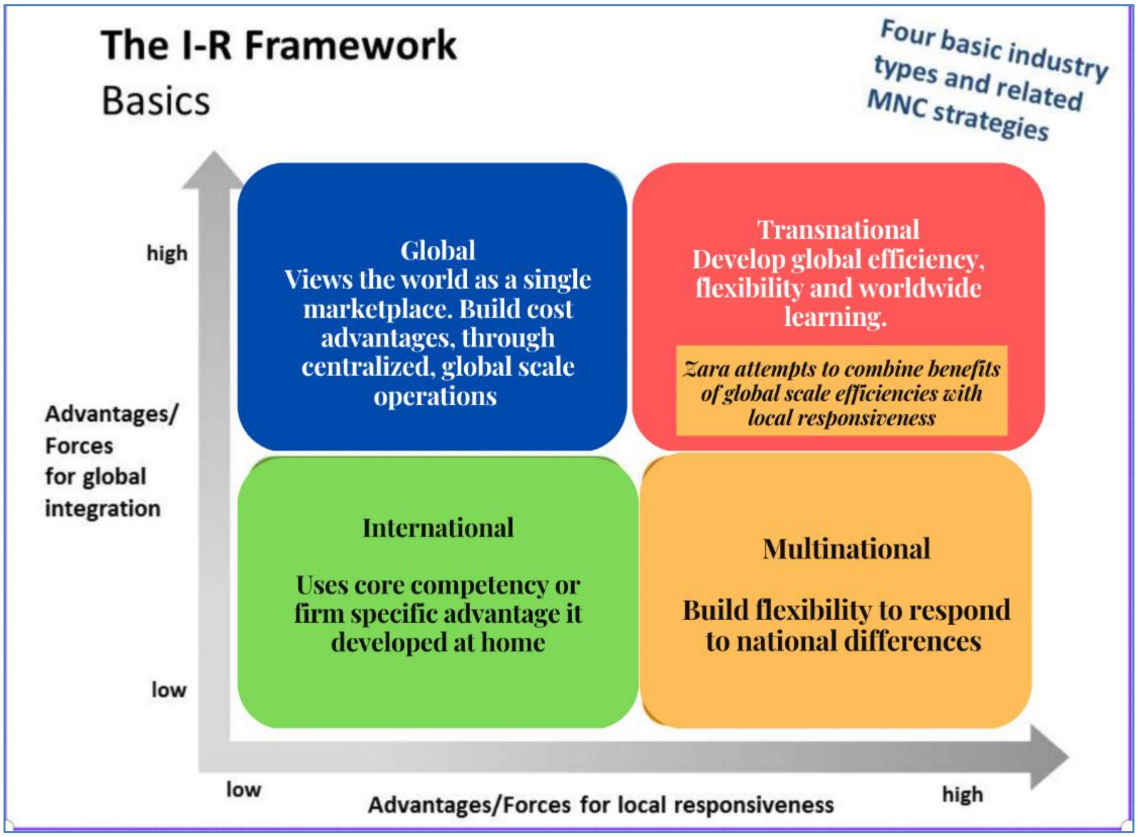


Exhibit 8 (The three-test framework)

Exhibit 9 (Effective Global Matrix)

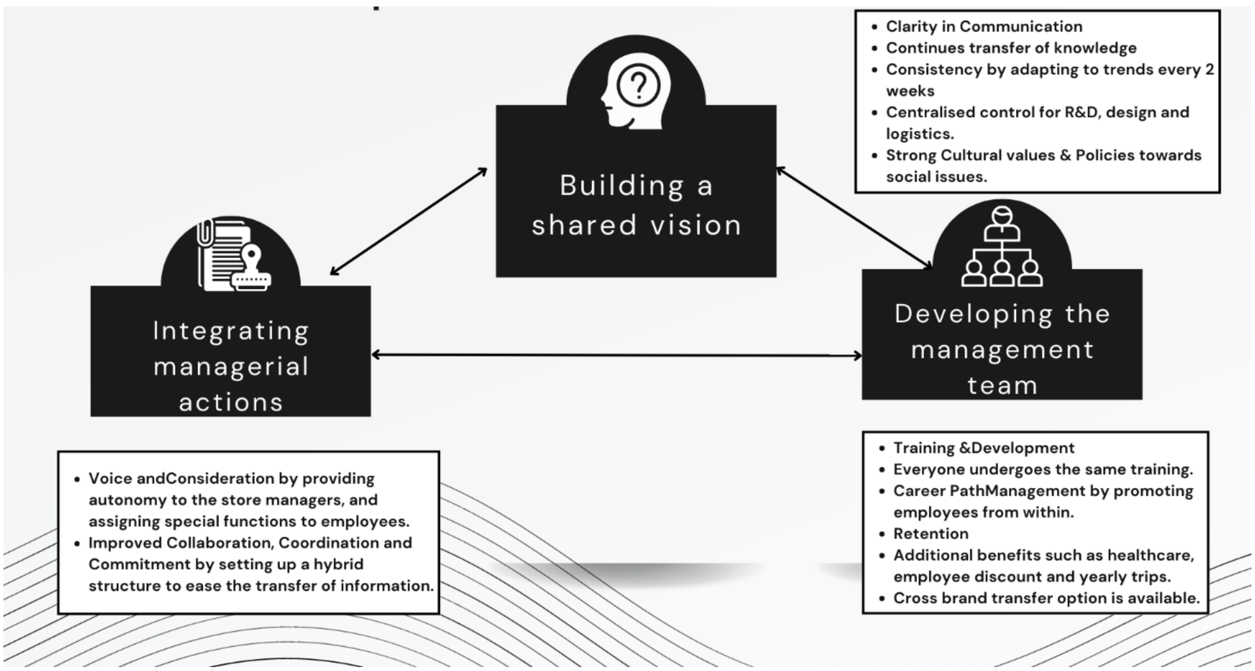


Exhibit 10: Organization Chart

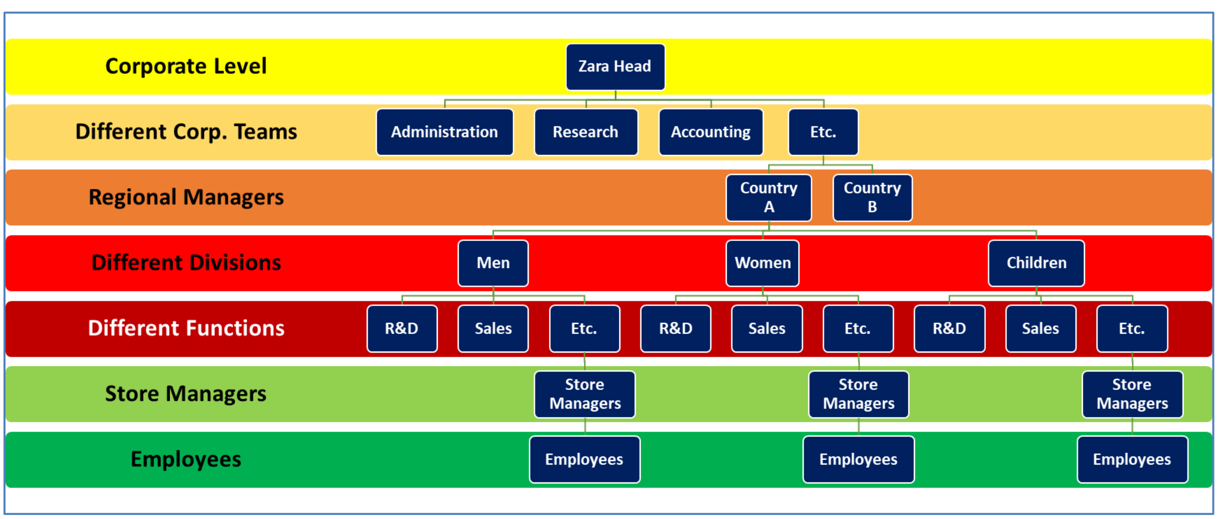


Exhibit 11: Innovation and Information Flow

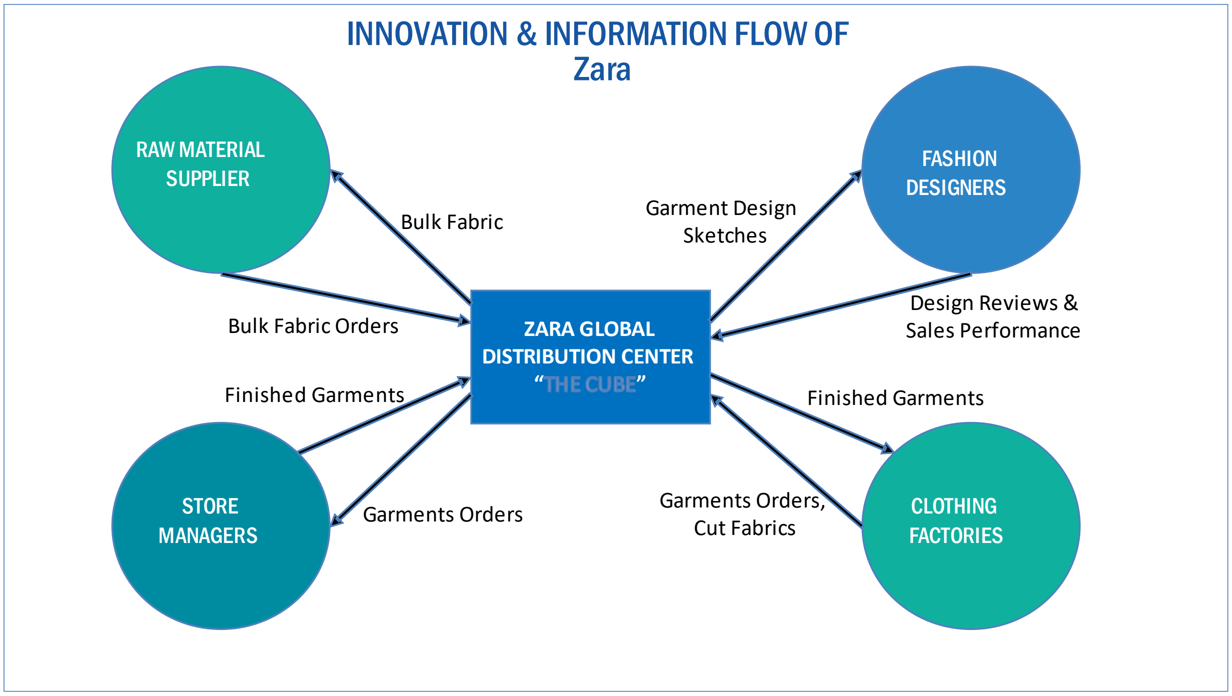


Exhibit 12 (Inditex Income Statement- 2021, 2022)

(Amounts in millions of euros)	(Notes)	2022	2021
Net sales	(4)	32,569	27,716
Cost of sales	(5)	(14,011)	(11,902)
GROSS PROFIT		**18,559**	**15,814**
		57.0 %	57.1 %
Operating expenses	(6)	(9,867)	(8,596)
Other losses and income, net	(7)	(43)	(35)
GROSS OPERATING PROFIT (EBITDA)		**8,649**	**7,183**
Other results	(33)	(231)	-
Amortisation and depreciation	(8)	(2,899)	(2,901)
NET OPERATING PROFIT (EBIT)		**5,520**	**4,282**
Financial results	(9)	(214)	(142)
Results of companies accounted for using the equity method	(18)	53	58
PROFIT BEFORE TAXES (PBT)		**5,358**	**4,199**
Income tax	(25)	(1,211)	(949)
NET PROFIT		**4,147**	**3,250**

Exhibit 13 (Zara’s share compared to other Inditex brands)

	Net Sales (million €)	Net Sales (%)
Zara	13.628	**65,2**
Pull and Bear	1.417	**6,8**
Massimo Dutti	1.498	**7,2**
Bershka	1.875	**9**
Stradivarius	1.289	**6,2**
Oysho	452	**2,2**
Zara Home	666	**3,2**
Uterqüe	75	**0,4**
Lefties	?	?

Exhibit 14 (Zara across different countries)

Source: Inditex May2001 Offering Memorandum

	Company-owned	Franchise	Joint Venture	Total
Spain	220			220
Portugal	32			32
Belgium	12			12
France	63			63
United Kingdom	7			7
Germany			6	6
Poland		2		2
Greece	15			15
Cyprus		2		2
Israel		9		9
Lebanon		2		2
Turkey	4			4
Japan			6	6
United States	6			6
Canada	3			3
Mexico	23			23
Argentina	8			8
Venezuela	4			4
Brazil	5			5
Chile	2			2
Uruguay	2			2
Kuwait		2		2
Dubai		2		2
Saudi Arabia		5		5
Bahrain		1		1
Qatar		1		1
Andorra		1		1
Austria	3			3
Denmark	1			1
Total	410	27	12	449