Information Systems at Zara: A Case Study

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In global supply chain operations, organizations face many challenges threatening profits. Companies who navigate these challenges can convert them to competitive advantages. Lu (2011) lists four dimensions of these strategic challenges to include a market dimension, time dimension, resource dimension, and technology dimension.

The market dimension reflects volatility in today's marketplace ranging from geo-political instability and economic downturn to technology development and supply chain capacities (Lu, 2011). The resource dimension is the challenge of allocating resources effectively and efficiently such as financial, workforce, intellectual, natural material, infrastructure, and asset-related resources (Lu, 2011). In addition, the time dimension relates to who can develop and innovate first, remain agile and responsive, and cut down production and shipping lead-times (Lu, 2011). However, we will examine the technology dimension in this case study and how it can be used by companies like Zara to shorten lead-times and manufacturing to achieve first-mover advantages and its effects on the other dimensions to achieve operational efficiency (Lu, 2011).

Zara's Operations

Zara is a clothing company and a subsidiary of Inditex Corporation who tripled in size between 1996 and 2000 (Gallaugher, 2015). Directly competing with Gap, Zara is a company who can crank out new designs thirty thousand items per year (as opposed to around three thousand by competitors), design and ship brand new designs in two weeks (twelve times faster than Gap), and increase in-store productivity by as much as three hours (Gallaugher, 2015). These three hours are important for their employees to provide the best-in-class customer service

to their customers. A recent survey linked this positive customer service in the fashion retail with the customer satisfaction and likeliness of repeat purchase.

Through vertical integrating parts of their value chain and speedy turnaround on new products, Zara's gross margins are higher than their competitors, they pay higher wages to their labor in Spain than the competitors pay to those in China, and convince 85 percent of consumers to pay full price, 35 points higher than industry average (Gallaugher, 2015).

At the heart of Zara's operation is technology, used to guide the company in many of the decision-making that sets the company up for success. Use of personal digital assistants (PDAs) is used to gather customer input and links with the store's point-of-sale system (POS) to rank styles by sales (Gallaugher, 2015). More data is gathered by going through unsold items that were tried on looking for trends in styles, colors and fabrics (Gallaugher, 2015). This information fuels the design approach, guiding designers to make garments consumers want to see, versus what companies claim to be trendy. Through vertical integration, technology can consolidate this information between departments, "speed up complex tasks, lower cycle time, and reduce error" and coordinating products from start to finish, supporting their ambitious achievement of two-week turnarounds on new designs (Gallaugher, 2015, p. 49). In addition, technology at the store-level schedules staff times based on forecasted sales during peak and down-times (Gallaugher, 2015).

The Technology Dimension

Zara's use of technology to achieve operational excellence is often studied by rivals but the success has not yet been duplicated (Gallaugher, 2015). At all levels of their operation is technology flipped from a strategic challenge to a competitive advantage, separating themselves from the competition. Because fashion trends seem to change from season to season and

companies must respond. Coupled with lead-time in logistics throughout the supply chain, companies must navigate fluctuating customer demands and the short lengths of these seasons as a result of the market dimension. One issue is excess inventory, which per Gallaugher (2015) is "the kiss of death" to garment manufacturers, lowering the overall average price and thus, margins (p. 46). Through limited production runs and technology, information systems powered by data from PDAs and POS machines, Zara can implement just-in-time manufacturing, carefully manage their network of suppliers and logistics, and make twice-weekly shipments to keep inventory levels down (Gallaugher, 2015).

Companies like Zara must decide how to allocate their resources, whether financial, intellectual, or otherwise (Lu, 2011). While Zara's rivals use contract manufacturing in China, Zara vertically integrated their resources within "The Cube" in northern Spain, including making, cutting, dying, designing, and assembling their raw materials into garments for consumers (Gallaugher, 2015). Furthermore, they implemented technology to improve efficiency in operations to speed up tasks, lower manufacturing time, and reducing errors (Gallaugher, 2015).

Another strategic challenge for companies is time, lead-times in development, in shipping, and responsiveness to change (Lu, 2011). Development lead-time for H&M takes three to five months and others need around six to nine months to design and sell new garments (Gallaugher, 2015). Zara generate styles that are based on data collected at the store-level; specifically, PDAs, POS machines, and the employees sifting through clothes tried on but not purchased (Gallaugher, 2015). The use of technology to produce styles consumers want feeds designers in Spain to produce new garments in as little as two weeks or ten days for existing

items with small changes (Gallaugher, 2015). This leads to Zara producing thirty thousand items per year, versus around three by the competition (Gallaugher, 2015).

Other Challenges and Recommendations

Despite Zara's success, the company does face limitations. Centralizing their deliveries in Spain opens them up to problems should any issues arise in the region (Gallaugher, 2015). In addition, Zara, like all global companies, is susceptible to currency fluctuations that may drive their costs further higher than their competition (Gallaugher, 2015). Gallaugher (2015) indicates increasing prices overseas like North America and opening a second location in North America as options to help mitigate risks.

Some additional consideration can be given to opening a second "Cube" location in Asia. They can specialize design and delivery to the local markets more easily as well as source some of their materials potentially for a lower price. Due to their proximity, they can have tighter controls over human rights and safety requirements over their suppliers. Also, worth considering is expanding their vertical integration efforts into owning their own logistics company. Similar to Amazon, the hefty investment can reduce risk and improve on-time delivery. The use of RFID tagging can track garments from supplier to in-store delivery.

Using PDAs, POS machines, and digging through the bins help determine fashion styles to develop, the power or collecting customer information to personalize and enhance customer experiences can further their successful business model. This can be accomplished using a loyalty program, linking customer information such as age, gender, and clothing styles. This allows designers to reach specific demographics as Internet advertising does for e-commerce. Self-serve kiosks can reduce service time with customers; however, can run the risk of reducing customer satisfaction and is not recommended.

Many companies have tried to replicate the success of Zara's with little triumph. Technology is not just used as a cornerstone for their business operations, but strategically used to help, not just implemented as an exciting new endeavor. Their understanding of fusing people, process, and procedure has proved Zara to be best-in-class and a company to watch and study for years to come.

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