**Case Study on Fast Fashion**

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# 1.0 Introduction

This report analyses the supply chain management (SCM) approaches used across the fast fashion industry, through the given instances of Zara, Benetton and H&M. The report will consider the macro-environmental factors influencing the SCM approaches across the firms, as well as the micro-environmental factors such as limitations of resources or business model. The report will then determine the limitations across the scope of internationalisation and market expansion which is applicable across the three firms. Towards the conclusion, recommendations are given based on this analysis for the incorporation of digital technology across the supply chain systems. In particular, the report aims to improve the SCM performance of each of the three firms as digital transformation is an absolute necessity for fast fashion industry firms; the business growth of digital-only companies such as Boohoo and Shein is indicative of the advantages that digital transformation offers. Moreover, as Industry 4.0 technologies such as artificial intelligence are now commercially accessible, it becomes further necessary to increase the firm’s competencies across the use of digital technologies represented in Industry 4.0’s framework, within the context of SCM performance. The performance of digitisation of business operations offers firms a higher level of efficiency, resilience and the capacity to engage in disruptive performance. Therefore, the report will endeavour to provide recommendations on this basis for Zara, Benetton and H&M towards the conclusion.

# 2.0 Comparison of SCM approaches across firms

## 2.1 Zara

Zara is an independent brand that exists as a subsidiary under the portfolio of fast fashion brands owned by the Spanish-origin Inditex Group (Orihuela, 2021). The report notes that Zara’s SCM performance is the most integrated across Benetton and H&M, as Zara's operations include vertical supply chain integration to a highly effective level. Zara's SCM performance is streamlined to produce in small batches that are also designed to elicit market demand due to artificial scarcity (Orihuela, 2021). Therefore the business model by nature safeguards Zara against SCM issues such as overstocking, forecasting or other SCM-related developments. The firm's operations are made more efficient due to the performance of the majority of apparel manufacturing in Spain, within the large complex known as the Cube. It features internal monorail systems that connect raw materials to factories within a 2KM vicinity of the Cube facility, where manufacturing occurs (Kinney, 2023). The products are then sent back to the Cube for packaging and inventory, and they are subsequently dispatched across road, air and sea channels to Zara retailers globally.

Zara's business model is therefore demand-driven, and it is agile in responding to market trends due to the short-term forecasting of fashion trends. Any changes in consumer response are immediately factored into the operations, allowing for rapid adjustments to market changes by "shortening the lead time from product design to store display" (Mentzer, Myers and Stank, 2006, p.198). This also includes discontinuing low-performing product lines or increasing the production of successful apparel lines. As the apparel products are marketed and sold on a seasonal basis, Zara has the flexibility of SCM operations here which is secured by its short-term forecasting approach. This in itself is made more effective as Zara uses digital technologies such as artificial intelligence to empower its decision-making regarding forecasting, procurement and other SCM activities (Nikolopoulos, 2022).

## 2.2 Benetton

Benetton operates at a similar level in the business model context, as product designs are finalised before commencing the production cycle. However, Benetton does not have a similar degree of vertically integrated SCM operations, albeit it has factories for production in Italy. It employs outsourcing for certain functions of the value-chain operations, such as sewing and treating the fabric to transform it into end-user-ready goods. As a fast fashion company, Benetton outsources these activities to South East Asian countries such as Bangladesh which are globally known for their textile industry outsourcing merits (Berg et al., 2021). Value-chain activities such as dyeing the product are performed internally at Benetton, and this hybrid outsourcing approach, therefore, suits the firm's capabilities. Therefore, it is more diverse in outsourcing less differentiated value-chain activities such as sewing whereas it internally retains specialised activities such as dyeing, thereby maximising the firm's SCM strategy towards empowering business operations (Anzolin and Aloisi, 2021).

Similar to Zara, Benetton has incorporated digital technologies across varying degrees in its SCM approach. A key change in SCM in recent years is identified in the shift of supply chain activities closer to the home market of apparel industry firms (Fibre2Fashion, 2021). This was necessitated in the post-pandemic environment that was characterised by supply chain uncertainty and cost-prohibitive shipping rates. Therefore, outsourcing requirements were pulled from the standard South East Asian countries like India and given to closer countries to Europe, such as Egypt, Croatia and Serbia. Therefore, an immediate distinction is drawn as Zara has an advantage here in its integrated SCM operations whereas Benetton is caught in a reactive strategic shift caused by the unforeseen macro-environmental disturbance of Covid-19.

## 2.3 H&M

Like Benetton, H&M relies on outsourcing for various value-chain activities. However, its dependence on outsourcing as a business model is greater compared to both Benetton and H&M. During the pandemic, it was found that Zara localised 53% of production processes within Spain and nearby regions (McMaster et al., 2020). By comparison, H&M relied on outsourcing for over 70% of its production requirements that were fulfilled by Asian supply chain network partners (McMaster et al., 2020). This puts H&M at a disadvantage among the three firms, as it is unable to attain a similar degree of vertically integrated SCM performance. This is evidenced in developments such as H&M retaining outsourcing contracts with partners in countries like Myanmar, despite the presence of dictatorship in the country (Mallikka, 2023). However, Inditex Group as a whole also relies on partners in Myanmar and aims to develop working conditions for the local partners there in the background context of the dictatorship. H&M is therefore regarded as less agile in the competitive fast fashion industry, as its sourcing arrangements continue to rely on Asian partners for fulfilling operational necessities. Therefore, Zara is positioned as the most efficient and competitive performing company among H&M and Benetton in the context of SCM and operations strategies.

# 3.0 Essential distinctions across SCM approaches

## 3.1 Design Process

A common approach to business process design is noted in all three firms, as the fast fashion industry requires designing new trends to launch in tandem with new fashion releases across fashion seasons. Therefore, Zara, H&M and Benetton maintain their degrees of market responsiveness to adjust operations strategy accordingly to consumer demand. Among the three firms, Zara retains the most market agility owing to its higher level of supply chain integration and localised manufacturing (Lee, 2019). H&M follows behind Zara despite being comparatively slower in market response, whereas Benetton follows a more differentiated design process that secures the longevity of product life cycle compared to the more rapid fast-fashion approach used by Zara and H&M. Therefore, the design process in this industry is predetermined to have a short batching run for product styles, and a short life cycle to maximise sales by creating a fear of missing out a response in consumers.

## 3.2 Manufacturing

As H&M relies more extensively on outsourcing its essential production requirements to supply chain partners in Asia, similarities are drawn between Zara and Benetton. This is due to the former’s operations in Spain being similar to the latter’s operations in Italy. While H&M was more impacted by pandemic-led disruptions, Zara and Benetton recovered faster as they had localised a significant degree of their SCM operations (Milne, 2021). However, all three firms share a convergence of SCM operations as they utilise outsourcing as an advantage to secure additional manufacturing orders. For instance, Zara outsources to Malaysia the same way as H&M does. The degree of outsourcing of manufacturing is limited for Zara, owing to its advantage of direct ownership of supply chain activities at the Cube facility.

## 3.3 Sourcing

Zara sources its raw material for apparel manufacturing from local suppliers in Spain as well as nearby areas including Portugal. The raw materials such as cotton and other types of fabrics are delivered by roadways to Zara’s central Cube hub. H&M and Benetton have less localised procurement strategies in place, as they rely on procurement from external suppliers based across farther global regions compared to the home market of these companies. Therefore, Zara’s performance as a subsidiary of Inditex Group gives it this advantage, since Inditex Group has been developing the Spanish market to grow the Zara brand domestically as well as develop supplier networks within the region (Ferdows, Lewis and Machuca, 2014). Therefore, manufacturing as well as sourcing is more advantageous for Zara when compared with the other two firms.

## 3.4 Distribution

Distribution channels are more integrated at Zara as well, as the products are delivered from the same location as the Cube facility. Zara stores provide data regarding the local store’s consumer engagement, which provides headquarters with an accurate view of the stock requirements of individual stores. From this position of knowledge, distribution activities become more economically efficient and beneficial to the customers as well, as their favourite products are retained in stock at Zara stores through this data-driven analysis. This advanced approach to distribution and management of inventory is an advantage shared by Zara, as H&M and Benetton do not have a similar level of deep integration with sales channels and headquarters divisions under operations. However, H&M shares a convergence in distribution approach with Zara where it is also using technologies for distribution efficiency, as it needs to derive competitive strength from digital technology usage to compensate for its weakness in relying extensively on third-party suppliers for its business fulfilment.

# 4.0 Limitations concerning internationalisation and market expansion

## 4.1 Internationalisation

Internationalisation limitations are more flexible for Zara, due to its wide ownership of resources related to production, distribution as well as procurement. Internationalisation strategies become more capable of driving customer satisfaction and value through data analytics on the individual stores of Zara's retail presence globally. From this perspective, Zara is capable of internationalisation through the localisation of its store inventory. For instance, it is observed that German women are more progressive in consuming apparel items, as they favour trousers and other clothing over traditionally perceived feminine articles of clothing like skirts (Hunstig, 2019). A Zara store in Germany will therefore be capable of localising its inventory to address consumers' tastes accordingly, which offers it a considerable market advantage over H&M and Benetton. H&M relies on outsourcing and therefore has less control over its operations strategies, as the input of suppliers will be required to make concrete strategies. Therefore it is less capable of internationalisation through the satisfaction of customers in this way, and Benetton is similarly limited in its internationalisation approach.

## 4.2 Market Expansion

Market expansion is also more favourable for Zara compared to H&M and Benetton, as Zara has ownership of vertically integrated resources. This allows it to make high-investment approaches towards market expansion, such as entering new markets, as it retains control over manufacturing and distribution. Therefore, it will be capable of securing its market expansion through control over such SCM operations. Others like Benetton and H&M are less capable of market expansion through their relative lack of ownership of resources. However, the ease of market expansion through exporting has made it more equitable for all firms.

# 5.0 Recommendations

Firstly, Zara can capitalise on its advantage of resource ownership to drive a higher level of integration with digital technologies. This can allow Zara to attain higher performance through the use of digital technologies such as blockchain tracing and 5G automated manufacturing systems. The integration of 5G-ready manufacturing automation across the site will greatly increase the productivity of internal manufacturing due to the advantages of low latency and high bandwidth offered by 5G (Kiesel, Roessel and Schmitt, 2020). This will ensure that Zara maximises the advantage of the operation offered by vertical integration of supply chain systems at the company.

Secondly, H&M can increase its digitisation of manufacturing, procurement and other SCM operations to become more resilient against market disruptions that occur at a macro-environmental level. This will ensure it retains its outsourcing model of business operations while shifting towards suppliers located in closer regions to its European headquarters, such as from Egypt compared to Bangladesh in Asia (Fibre2Fashion, 2021). It will diversify the supplier network for H&M and further improve its operations through the advantages of supplier diversity, such as better prices and procurement capabilities.

Thirdly, Benetton’s strategy of slow and sustainable growth can be defined as slow fashion consumption to capitalise on the firm’s comparatively smaller market presence compared to H&M and Zara (Centobelli et al., 2022). Doing so will allow it to turn a conventional drawback into a competitive advantage, as the fast fashion industry must inevitably turn towards sustainable development to meet Net Zero 2050 requirements for overall sustainability (Santi, 2019).

# 6.0 Conclusion

The report has concluded the SCM and operations management of the fast fashion industry’s representatives across Zara, H&M and Benetton. The findings determined that Zara has the strongest market position as well as benefits from digital transformation, owing to its vertical integration of the supply chain network and manufacturing resources. H&M is comparatively more vulnerable to future market disruptions at a macro-environmental scale, and this was considered when developing recommendations that will improve SCM operations at H&M through digital technology. A similar consideration was given to Benetton, where the firm's resources and market presence make it capable of redefining itself through slow consumption of fashion and becoming more sustainability-oriented compared to firms like Zara.

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