

Analysis on the Successful Case of Efficient Supply Chain in ZARA

Qinghua Zhang

School of Information Management & Engineering,
Shanghai University of Finance & Economics, Shanghai, P.R.China, 200433
zhangqh@mail.shufe.edu.cn

Abstract—By searching on the efficient supply chain of ZARA which is the well-known world-level garment brand, four key links has been analyzed and three of the advanced ideas been concluded. By presenting some of the famous branded clothing in China, the paper releases to the public what is possible for those Chinese costume enterprises which can borrow the successful experience from ZARA and what is impossible to imitate ZARA for aims to propose some constructive suggestions for the development of domestic costume enterprises.

Keywords—Supply chain; Efficient supply chain; ZARA

I. INTRODUCTION

ZARA is the subsidiary of Inditex who is ranked in the No.1 position in Spain and No.3 in the whole world among apparel retailers. ZARA is both a clothing brand and a brand of retail chain. Founded in 1975, ZARA has become the leader of fashion brands over recent years. What is the reason behind for ZARA who has grown up into the world first-class brand with a great competition within such a short period of time?

ZARA owes its success to many reasons, e.g. customer orientation, efficient organization management, and one of the most important reason is that the application of efficient supply chain system has helped greatly in reducing the lead time (the time from designing to selling of garments to the consumers). The time is usually 6-9 months for Chinese clothing industry, 4 months for international brand and only 7 days for ZARA inside the shortest time, 12 days on the normal base. The charm and attraction of ZARA shames China who is known as “the world factory”.

II. THE EFFICIENT SUPPLY CHAIN IN ZARA

The efficient supply chain of ZARA is of brand demands, i.e. the chain coexists with brand. Without the support of a brand, the realization of such a chain may be impossible. And No brand image will be built without such a chain. The supply chain made by ZARA all develops in the form of “one core for one brand”.

The whole process of the supply chain in ZARA could be divided into four parts: product organization and design, purchase and production, product distribution, sales and feedback, which are all client-focused and brand-guided; they are optimized in every step, forming the sensitive and highly efficient supply chain in deed.

A. Product Organization and Design

The costume design pattern of ZARA is essentially established on imitation base which is different from those

clothing enterprises that are keen on the design and development with originality, hence, the main duty of ZARA’s designers is not for product innovation, but for reorganizing fashion elements of the existed products on their purpose, transferring them into new kinds of products. They work to interpret the fashion instead of creating fashion.

The main approaches for ZARA to integrate the fashion information on the market for purpose of bringing forth its own new products include: to attend Haut Couture in Paris, Milan and so on, drawing inspiration from top designers and designs for top brands, making slight changes to convert into their own matters. The professional buyers throughout the world purchase the local top quality brands or the seasonal fashion products made by the competitors, and will then send rapidly the samples to the head office for reference of designers. To seize every possible opportunity at fashion shows, trade fairs, coffee shops, restaurants, bars and school campus where the fashion elements and costume details could be seen and collected for use of designers. Via information system, each shop of ZARA feedbacks the sales and inventory information to the head office where makes analysis and conclusions about the features of products which are salable or unsalable in order to perfect the old styles or to provide reference for new designing. Each shop is responsible for feeding back to the head office the customer opinions in sales process, the ideas and suggestions from the shop assistants about the pattern, fabrics, color and even all kinds of information related with elements which could be imitated from what the customers wear. All the above information will soon be sent to the head office, and the designing team of ZARA will work instantly to reorganize the fashion elements or will make overall changes in pattern for production of its own new fashion series. The flow of product organization and design see Fig.1.

B. Purchase and Production

When the designing plan is decided for production, sample dress could be made all at once. Since there are fabrics and garment accessories in stock, the making of samples will be ready in a very short time. Then the members from purchasing and production planning team will start to prepare to buy raw materials and to put it into operation. Decision will be made whether each product is manufactured by ZARA itself or by some body else according to the time-length of product launch, requirement for quantity and speed, request for professional skills, opinions of experts and so on.. The flow of purchase and production see Fig.2.

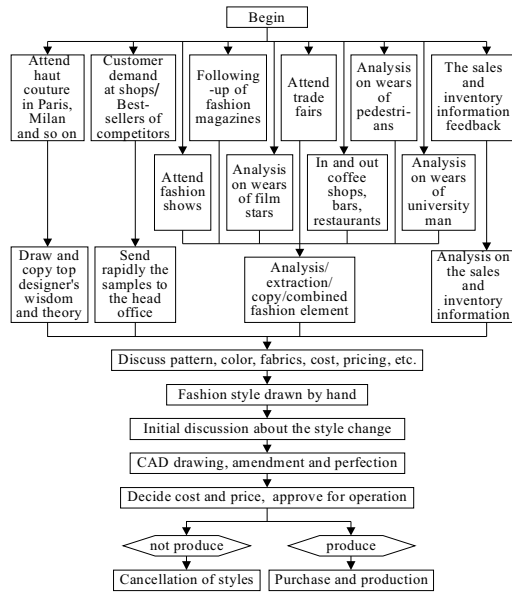


Fig.1 the Flow of product organization and design

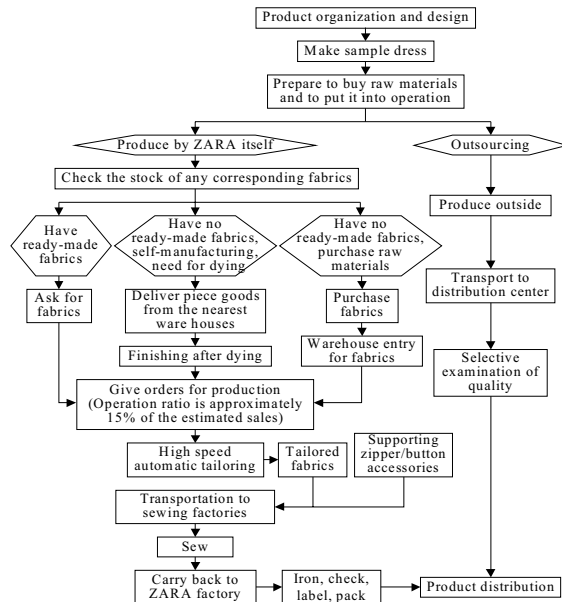


Fig.2 the Flow of purchase and production

C. Product Distribution

The finished clothes, after being packed and inspected in quality, will be sent to distribution center through underground conveying belt, begin product distribution. To ensure that each order could arrive at destination punctually, laser barcode scanners which are able to pick and sort over 80,000 pieces of clothes with a error rate of less than 0.5% will be adopted in sorting the finished products.

Distributions will be carried out according to orders from each shop, goods will be delivered within 8 hours upon receipt of orders and distributions are made twice every one week. The transportation means include air planes, ships and trucks. For those shops near Europe, distributions are directly made by logistics centers by trucks which are scheduled to start regularly. To use two of the nearby airports to transport goods to USA and Asia and then delivered to each shop of ZARA by

trucks of the third party logistics centers. The distribution could be made in the first place by ships and then by trucks of the third party logistics centers. Hence, shops in Europe could receive goods within 24 hours, USA 48 hours and 48-72 hours for Asian shops. The flow of product distribution see Fig.3.

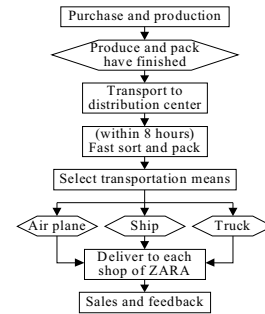


Fig.3 the Flow of product distribution

D. Sales and Feedback

Sales information from each of ZARA shop is sent to head office and replenishment orders are made twice every week in accordance with the current inventory and sales situation. The head office will make judgment about that whether the related kinds of products are salable or unsalable upon receiving sales information, inventory information and order information from shops.

If the product is unsalable, the original production plan will be cancelled. Since only around 15% of the estimated sales are put into production at the current season, the risk could be controlled to a minimal. In case that products have yet been sold out within 2-3 weeks, they will be sent to one of the local shops for one-time discount sales. If the product is salable and the head office has the corresponding materials in stock, the originally left redundancy capacity will be appended in production and stock replenished rapidly for purpose of grasping the sales opportunity. If no stock, the production will be suspended or the products similar with the quick sellers will be made with the existed fabrics. For ordinary quick sellers, there are at most two times of replenishment in order that less production of homogenized products is resulted in one hand to meet requirements for market fashionization and individuality and some artificial shortage of products will be produced on the other hand to lure consumers to buy the products. The flow of sales and feedback see Fig.4.

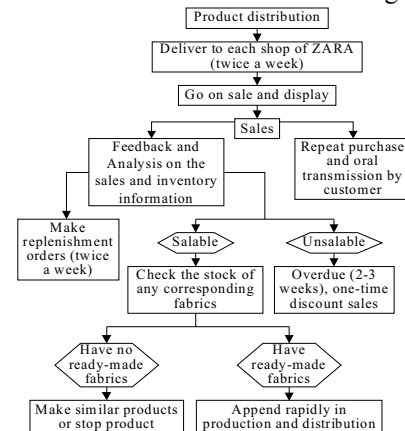


Fig.4 the Flow of sales and feedback

III. SUCCESSFUL EXPERIENCE OF ZARA

A. *Small*

The efficiency of ZARA originates from the small scale in operation which includes order reception for the small lot in high frequency, small batch production and transportation, many times of distribution in small quantity. This has never been experienced by the domestic costume enterprises because of that it is usually thought more economical and more cost-effective in large quantity according to the traditional theory of supply chain while it neglects the value of speed. In the fashionable clothing industry which is similar with the fast food, the speed, and fashion should be considered as an important factor, seeking fast from small.

The “small” of ZARA could be sensed through the following points: (1) Small order quantity. If the order is big, the inventory increases accordingly and the ability to comply with the change of customer demand decreases. For instance, if the single order reaches the expected requirement in one quarter, the stocked goods will be piled up, increasing greatly the stock service fee. In respect of sales, no problems probably occur in the first month while in the second and third month, the originally imported goods may be far more behind the consumers’ demand which will become headachy dead stock. (2) Small production lot size. If the production lot is too big and almost all the production capability will be exhausted, awkward is at hand that we see off the valuable business opportunity when we find that certain style of product sells good and we feel it quite necessary to make additional production, it is at this moment that we do not have redundancy capacity or raw materials to use. From this sense, the production lot should be kept as small as possible, leaving out extra capacity in the products which are mostly needed in the manufacturing market. (3) Small bulk transport. There many cases involving transportation, ranging from purchasing piece goods, warehouse entry of dyed products, sending for sewing in outsourcing company and delivering goods to shops by distribution center, hence the overall respond time of the whole product is the total of time from each link. If each of the transportation is realized with the economic lot size, there will be definitely a longer time of waiting at each link and the total time be greatly extended, it will be impossible for speed.

The general practice for ZARA to place orders twice a week ensures the “small” lot size, and the regular way of only producing 15–20% of the estimated sales amount reflects the “small” in production lot. The self-constructed distribution centers flexibly manage the “small” in transportation lot size.

It is quite unnecessary for domestic costume enterprises to copy the way of ZARA which is in favor of the “small” while they should search for some strategies of their own in favor of the “small” for promotion of respond speed of supply chain. We have to admit that we are not in the time of using clothes for merely protecting our body and protecting from cold, clothes have become a kind of fashion consumer goods which could be bought at random. It is imperative for costume industry to raise the respond speed of supply chain for promotion of sales and benefit. Then, what should domestic costume enterprises do in realizing “small”?

(1) To realize the small order quantity, domestic costume enterprises should learn from ZARA who has its terminal shops to place orders directly. Compared with the situation that the upper level decides the quantity for goods distribution, it is more accurate in predicting the demand, resulting in that the batch of order will never be the relatively larger economic order quantity.

(2) To realize the small production lot size, it is quite necessary to have adequate controllability in production process. To ZARA, it has a one-stop production line of its own, which makes it easier in controlling the production process. To most of the domestic costume enterprises, they adopt the combined way of self-manufacturing and OEM, and only some of them use the purchasing way of 100% OEM. How to make OEM produce with large variety and small batch becomes the difficulty in this sense, meaning that the smaller the batch is, the more expensive the cost for study and production is. If enterprises are reluctant to compromise in purchasing price of OEM, the result will be that they will not get good cooperation from OEM. Enterprises should make reasonable predictions in respect of the benefit brought forth by speed, make corresponding payment to OEM and establish long-term cooperative relationship in maintaining a sustainable environment.

(3) To realize small bulk transport, it is unnecessary to set up distribution center of ones own in the way of ZARA, the only thing is to maintain good cooperative relationship with any third party logistics company, otherwise, the traditional way of economic bulk transport will delay the whole supply chain, in which, as we mentioned before, there are always too many demands for transport and the total respond time is the added number of all these time.

B. *Short*

To be short is another foundation for being fast. “Short” refers to the short length of this supply chain. Demand starts from shops and distribution is directly from distribution center to shops. ZARA can not shorten the production process, but the whole supply chain could possibly be shortened by means of simplifying the distribution and sales process, hence the respond speed for supply chain will be improved.

Instead of placing direct orders from shops, domestic costume enterprises usually do it through many layers of agents. One order made have to go through many layers and distribution is done in the same way. The long process often causes the result that by the new products go for sale in the market, the demand has been changed. If such a problem is unsolved, what we mentioned before for making additional production of best sellers will be no use in practice.

The “short” for ZARA could be reflected from its business process. Under the cooperation of cross-functional departments from design, marketing as well as purchasing and planned dispatching, the process for product transferring from concept to substance will be shortened. For domestic costume enterprises, it is usually clearly divided for functional departments and the communications between each other is not so convenient, and it possibly happens that the employees in one department do not have any connections with those

from the other, which will make it impossible to realize “fast” under such an organization structure.

C. Transparency

Transparency is the factor to promote “fast”. Transparency means transparency of information. In the fashion industry which changes so rapidly, the reference value is very limited in terms of statistical analysis to the past data, because what is thought of fashion yesterday has passed and it is unpredictable when it will be fashioned again next time. It is believed that the key lies in controlling the current information and predicting the future demand information for a short period of time. ZARA emphasizes on making use of the updated information technology to promote information transfer. Information is transferred via PDA in each shop, which includes not only the tendency of order and sales but also the feedbacks of customers. The real-time data transfer enables the head office to know all the while the information of what is salable, what is unsalable and what changes should be made for what kind of products, helping to make the relevant adjustment in production plan and even to predict the future demand within a short period of time to a certain extent.

For the moment, the so-called ERP system is used in the cash machine of some costume shops, but we have to say that it is more of a cashier system for inventory management than an ERP system. What we can get from it is what has been sold today inside the shop and what turnover made instead of the inventory. The information is not feed backed to places where it is needed, where it will make the information fully used. It is the ZARA that makes it possible to transfer the information to places where it is needed. Variation trend for demand of costume fabrics is transferred to purchasing department, information of fashion element transferred to design department, information related with customer preferences to the production plan department. This is what we should learn from for our domestic costume enterprise, and we should make full use of information system instead of using partial function of the system and even letting ERP to be a decoration.

IV. HOW TO LEARN FROM ZARA

The existence of ZARA breaks through the operational mode of traditional costume enterprises, featuring essentially in its innovation of highly efficient supply chain which could be summarized with one sentence for each of the four corresponding links: to duplicate fashion by rapid product organization and design system; to accelerate process of purchasing and production by adopting the standardized semi-finished products method after dying the white piece goods, small batch production and strategy of partial outsourcing; to accelerate distribution process by using perfect logistics system and distribution centers with circulation feature as well as to adjust production, to stop production of unsalable goods and to append quick sellers by taking the timely and accurate response to sales information for result of great reduction of bullwhip effect and problems of demand forecasting and inventory in the whole supply chain. All the

links of the efficient supply chain work together around the brand and target customers, and all the efforts are for purpose of pursuing high efficiency and fast speed of supply chain.

The success of operational mode for the synergetic supply chain of ZARA centered on brand operation has offered referential perspective for large number of domestic costume enterprises. The manufacturing lead time will be shortened by focusing on consumers’ need. The homogenization will be avoided and psychological demand for meeting individuality be satisfied with concept of few quantity by large varieties. The cooperation of cross-departmental communication helps to give quick response to market demand for enhancing the brand value and competitiveness.

Then, who are suitable for borrowing the approach of ZARA among the countless domestic costume brands? It should start from the brand positioning of ZARA in judging which brand is good in learning from ZARA. From the point of brand level of ZARA, it is classified into mid-and low-standard which belongs to fashion in sense of category. From the point of target user, it covers men’s wear, ladies’ wear and children’s wear. From the point of age, it ranges from 0-40. From the scale of enterprise, Inditex, the parent company is a large-scale costume enterprise. For those who are ready to learn from ZARA, he should hold certain degrees of similarity with ZARA.

It is the domestic costume enterprises with large scale, various products and casual clothes of mid-and low-standard that is suitable to learn from ZARA. For the time being, we have found that Baleno is a little bit similar with ZARA. S&K is one of the brands mainly for casual clothes and jeans under Baleno, and we can see the style of Levi’s and Lee from among the many kinds of trousers made by S&K. Is this the way that S&K imitating ZARA? If this is true, we believe that in the near future, Baleno will probably be the first case in borrowing the successful experience of ZARA.

ACKNOWLEDGMENT

This research was supported by the “211 Project” of Shanghai University of Finance and Economics.

REFERENCES

- [1] Sunil Chopra, Peter Meindl. Supply Chain Management Strategy, Planning, and Operation[M]. Tsinghua University Press, 2001.
- [2] Simchi-Levi David, Kaminsky Philip, Simchi-Levi Edith. Designing and Managing the Supply Chain: concepts, strategies, and casestudies[M]. McGraw-Hill Press, 2002.
- [3] Lee H L, Padmanabhan V, Whang S. Information distortion in a supply chain: the bullwhip effect [J]. Management Science, 1997, 43(4): 546-558.
- [4] Baganha M, Cohen M. The stabilizing effect of inventory in supply chains[J]. Operations Research, 1998, 46: 72-83.
- [5] Li jun, Huang Pei-qing, Chang Ya-jun. Efficient supply chain[J]. Enterprise Management, 2006(11): 70-71.
- [6] Kasra Ferdows, Michael A.Lewis, Jose A.D.Machuca. Efficient Supply Chain of ZARA[J]. Accountant, 2006(6): 66.
- [7] Quan Xiao-fan. Study on Attire Supply-chain Countermeasure Based on Time[J]. Journal of Zhejiang Institute of Science and Technology, Vol. 21, No. 3, 2004, 240-243.
- [8] Li Kun. The Agile Supply Chain Mode Based on Time-based Competition[J]. Logistics Management, 2005(3): 35-37.