

A CASE STUDY ON

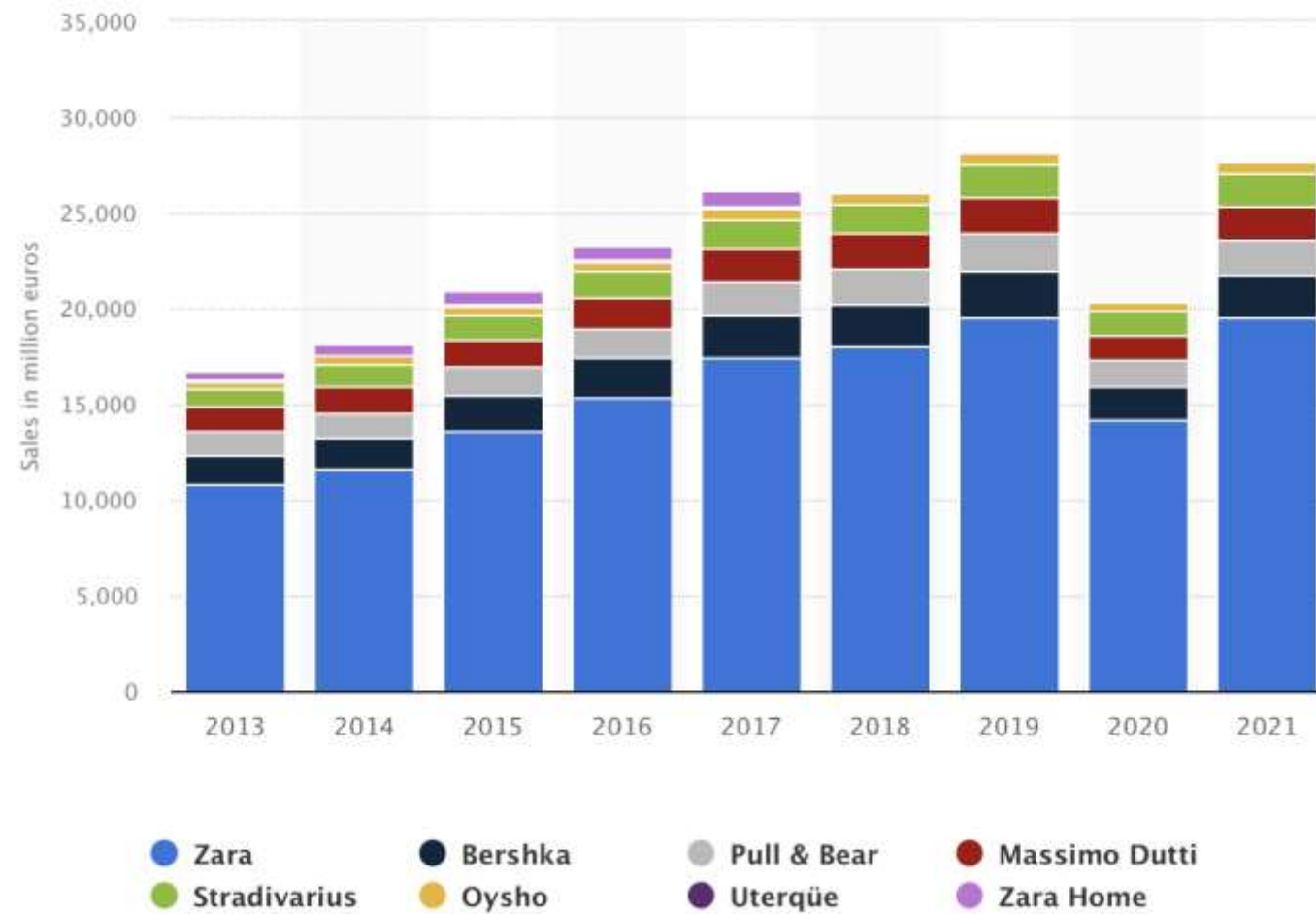
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Zara is a flagship clothing chain store, under Inditex Group, a Spanish based apparel retailer. It was founded by Amancio Ortega in 1975, which has now currently employed 100,000+ people at different sections and opened 2000+ stores in 80+ countries. This company has been such a success in the apparel retailing industry, that it did not even incur a loss for 19 years, until Covid stroke.

But how did they manage to build up such a successful and profitable company in such a small time going as long as a Silver jubilee?

The answer lies in the core philosophies that the company believes in and in the analysis of its customers, their likes and dislikes, their social behaviours, their needs, etc. which is nothing but data analytics.



Any data analytics process starts with a particular 6-step framework which is described as below:

1. **ASK:** defining a project; asking effective questions; benchmarking a successful result; collaborating with others.
2. **PREPARE:** preparation for data acquisition through surveys
3. **PROCESS:** surveys cleaned up of any errors and outliers to make sure it is complete, correct and relevant
4. **ANALYZE:** analyzing data to find patterns and trends in the respective industry; discovering the key indicator of success in the project
5. **SHARE:** communicating with team members regarding the future
6. **ACT:** working with team members to decide the best implementation; taking actions based on the findings

1. ASK

The company's core philosophy believes in the Customer-First Technology, which means that Zara thinks about what the customer will wear in which season, age-wise changing trend of clothing. In writing down its company philosophies, Zara used the first step, i.e. ASK.

Ortega found out the first big change in the fashion industry, when he observed that there were big companies which sold high-end products, whereas local shops sold low – medium quality products. However, there was an increasingly higher demand for medium-end good quality clothing.

The first thing they did was researched the trending designs at premium outlets like H&M and other bigger shots. They also researched the demands of the travelers, the different pop culture at different cities and their taste.

2. PREPARE

To maximize their profits as well as to earn the trust and loyalty of their customers, Zara very cleverly designed their survey questions for meeting the demands of their customers with zero cancellation policy.

They create survey questions which gives the analysts a better in-depth knowledge about the age, gender, occupation, how did they come to know about Zara, etc. Data from the survey can then be either stored for future use or can be analyzed and used to maximize their profit and fulfilling their customers' needs.

3. PROCESS

After cleaning up the data from the surveys and making sure that the data in these surveys are matching with the overall trend analysis, Zara makes sure to abide by the data, giving them insights into the likeability or dis-likeability of their customers.

Analyzing and using these survey data is essential to the longevity of any company competing in any industry.

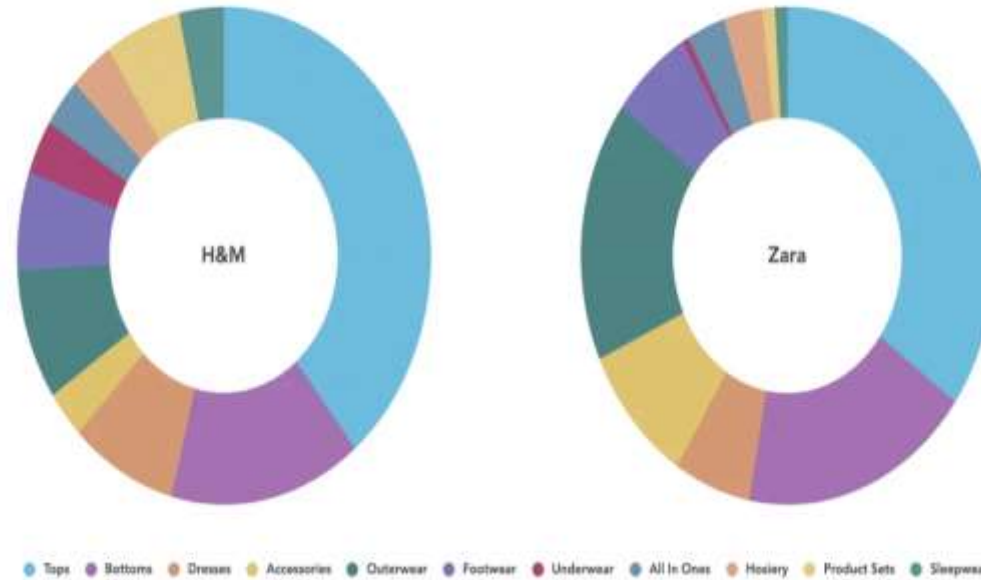
4. ANALYZE

This 4th step, which is analyzing the data, is almost the most fundamental step in the company's future, which marks a change in their overall viewpoint.

Ortega found that in the age group of 20-34 years, which is the general workforce of any country, women were found to be more inclined towards the variety and design of the clothes rather than the quality. This resulted due to the summed cause of changing fashion trends and also the influencers who brought in a wave of change in the way people thought about clothes. Also, women tended to buy clothes with different designs rather more than buying the same design over and over.

Top performing category breakdown at H&M vs. Zara

Based on products arriving new and selling out of majority SKUs in the US between Sep 8 - Dec 8, 2020



Data analysis for the top performing category at Zara shows that the highest rating goes for the “tops” category. So, the decision needs to go in its favor. However, its sale is comparatively low in the category of sleepwear, product sets, underwear, which means that Zara customers are more inclined towards dressier items, while H&M customers are more inclined towards casual outfits.

5. SHARE

Inditex tags every item of clothing with an RFID microchip before it leaves a centralized warehouse until it gets sold. This enables them to track that piece, so that as soon as it gets sold, Zara can replenish it. This is done through real time basis to HQ data processing, which is a critical element in enabling Zara to fulfil customers' demands with the newest trends in town and also eliminates the risk of overproducing unwanted designs.

In case a customer needs a particular clothing, the salesperson can quickly locate the clothing through the RFID in store or at a nearby location.

6. ACT

Keeping in mind all the analyses and the trend in the apparel industry, Zara attempted and changed the clothing industry drastically.

- ✓ To fill in the gap between the high-end and the low-medium end products that the retail industry had prior to its founding, in place of producing high quality clothes with less quantity, Zara started to produce medium quality clothes with more quantity. Zara also ensured through talking with the seller, to sell materials at a lower price with bulk quantity.
- ✓ To come up with the ever increasing demands for newer designs, Zara also made sure to come up with a new design every 2 weeks whereas others were producing goods bi-annually i.e. making new designs only twice a year. The supply chain management starting from Research, Designing, Tailoring, Transport, ending with Display, takes only 2 weeks a maximum.

Higher production costs but less advertisement spending is the market strategy that Zara came up with, which has been a rather successful story than its counterparts.

✓ **Just in time production**

- a. Inventory is only customizable
- b. Decreased storage cost
- c. Chain becomes efficient
- d. Saves inventory cost

✓ **Just in case production**

- a. Inventory stocked up at all times by default
- b. Increased storage cost
- c. Wastage of inventory

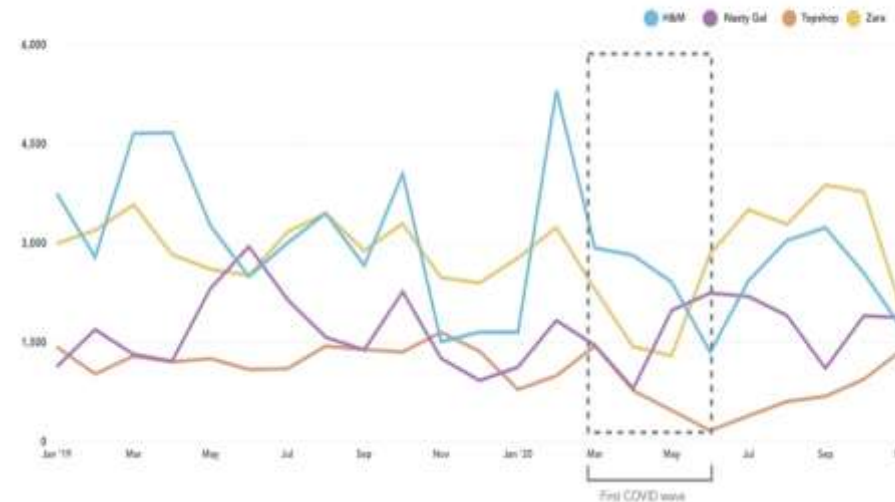


BENEFITS FROM THE 6-STEP FRAMEWORK

- Excited customers would come into Zara's shop due to the variety of cloth designs available at an affordable cost as materials itself were brought at a lower price.
- Due to new designs coming in at 2 weeks' time, there were 3-4 times more buying just for the fear of it going out of stock saving Zara's inventory cost which resulted in an increased sales.
- Due to its Just-in-time + Just-in-case production, it has sufficiently decreased its storage cost while increasing the productivity rate at the same time. This has been vital in the growing of its business. Also, due to this policy, Zara can keep up with the latest trends as well as stop its produce altogether if a particular product is not attracting much attention.

Frequency of new product drops online

Based on number of new products arriving online each month on US sites



From the yellow graph which belongs to Zara and the blue graph belonging to H&M, it is evident that the Zara graph is more stable than the erratic H&M graph. This means that the new products dropping online in Zara can have more variable designs than its counterpart. This has also been the marketing strategy of Zara, which produces new designs every 2 weeks, whereas other companies produce bi-annually. This means that Zara brings only 3-4 designs @ 2 weeks, while others bring 14-15 designs @ 3-6 months. This lets Zara cut the over producing of goods.

CONCLUSION

This all has been possible only because Zara has kept its technological development stable, meaning the Business strategies and Data analysis inside Zara continues side by side, which has been vital in the growth and success of Zara to a company of such caliber, that the founder, Amancio Ortega is the 3rd richest person in Europe, according to Wikipedia.

In 2019, the global fashion business Journal MDS stated that while the textile commerce of the world had gone down by 2.38%, Zara's had risen 2.17%.^[42]

Even when companies are facing crisis over covid, Zara's economy has been stable and is even rising during some months.