

Strategic Operation Management

Zara

Zara is a Spanish clothing retailer which was founded in 1975 by Rosalia Mera and Amancio Ortega. Apart from being known as the largest apparel retailer, Zara is also famous for designing, developing and delivering any new product to its stores within a span of just two weeks. In this study the discussion would focus on Zara's product design, production and operation. Furthermore, analysis of the interesting facts and strategies of the company would be done to identify the reasons behind the success of Zara (ZARA, 2010).

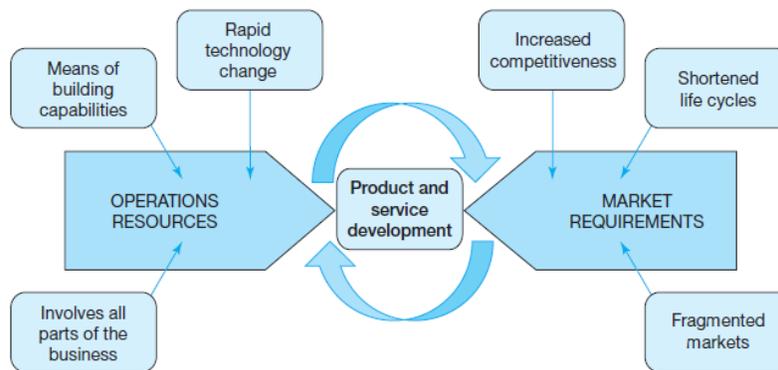
Product Design and Development strategy

The process of product designing and development is an extremely people intensive procedure. Zara has three major product lines, for men, women and children. It has a creative team consisting of sourcing specialist, designers and personnel for product development. The creative team of the company work on products for the current season and they are also engaged in selecting product mix and fabric for the products. Two basic collections are prepared by Zara every year that are the winter/fall collection and the summer/spring collection. The designers of Zara showcase their designs in renowned fashion programs and shows too (Zhelyazkov, n. d.).

There is enormous workload of 1000 new design and fashion every month, which is managed by development and design team of 200 employees in Zara. All these employees work from their headquarters that is Spain. This signifies that every individual produces 60 different styles per year, which means approximately 2 styles in every week. This speed is maintained at every stage of product development, which catalyses the retail sales by 200,000 – 300,000 in a year. Though this process followed by the company is certainly not cost-efficient, but it is compensated through the high margin on the product (Dutta, 2003). The unique selling proposition (USP) of

Zara is that it can take its designs from drawing board to the retail stores around the world in a span of just two weeks. The designs are initially sketched and dedicated through the Computer-aided (CAD) system, with the help of which samples are made by the skilled workers who are working within the design facility (Ferdows, 2003). All the sewing operations take place in the factories owned by the company. The product development structure stated in Figure 1 below is helpful in understanding the product designing and development or production process (Zhelyazkov, n. d.).

Figure 1: Product Development



Source: (Slack and Lewis, 2002, p. 247)

Product development process involves input of operations resource, which includes developing capabilities and rapid change in technology. Moreover, considering the market requirements also play significant role in this process, this is what Zara actively does (Slack and Lewis, 2002). The product development phase begins with market research. This is combined with visiting universities campus and other venues such as discos for observing the fashion trend of the young leaders, sales reports and daily feedbacks (Dutta, 2002). Apart from this, significant investment in information technology and different communication infrastructure has been availed by the

company for gathering information on customer demand. The sales managers and associates have customised handheld computers for informing the headquarters regarding daily sales report on real-time basis. The garment styling starts as soon as the designing team receive calls from stores regarding the needs and the team forecast the future demands with the help of these calls. The commercial manager sits with the designers to forecast design demand, fabric, cost and selling price (Dutta, 2002).

Resource and Process implications

In this section the sources and the processes would be discussed. The fabrics required in the company and other inputs are purchased from external suppliers. There are purchasing offices of Zara in Hong Kong and Barcelona. Apart from this, there are also sourcing personals in Spain, but Europe has been always the top choice of Zara for procuring raw materials. One-half of the fabric purchased by Zara is grey in colour so as to avail maximum flexibility. Most of the fabric was funnelled through Comditel, which is an owned subsidiary of the company Inditex, which have around 200 suppliers for procuring raw materials (fabrics). This is one of the major resources for the company after the human resource (Ghemawat and Nueno, 2006.).

As far as the process proposition of the company is concerned, 40 percent of the finished garments of Zara are manufactured internally, while among the remainder, about two-third garments are sourced from North Africa and Europe and one-third from the Asian countries. The most fashionable garments, which are also considered to be the riskiest are produced in small lots by the company or through those suppliers who are really close to the company (Parsad and Jha, 2012). Production in European countries are around 15 -20 percent expressive for the company than in other countries (Slack and Lewis, 2002). About 20 suppliers of Zara accounts for around 70 percent of its external production and for internal manufacturing, Zara has its own 20 fully

equipped factories, of which around 18 of them are around its headquarters in Arteixo (Ghemawat and Nueno, 2006.).

The factors of the company are absolutely automated and the settings of these machineries are designed according to the type of the garment. The garment production process in Zara is a capital intensive task and the production process includes stages of cutting, pattern design, final finishing and assessment. Vertical integration has been incorporated into the manufacturing segment of Zara since 1980s and also significant investment has been made towards installing just-in-time system in the factories (Parsad and Jha, 2012). The garments that were made in factories of Zara are sent out to around 450 workshops in Galicia and northern Portugal for performing labour intensive sewing (Slack and Lewis, 2002). These workshops are small and around 20-30 employees work in these places on average. These sewn garments are then sent back to the factory of Zara for further complex manufacturing and finishing process, where these garments are inspected, folded, ironed and bagged. Then they are ticked and send to distribution centre (Ghemawat and Nueno, 2006; Berfield and Baigorri, 2013).

Interesting Facts

Zara makes their customers' needs, wants and desires come true in just a span of two to three weeks. This is not only the case for its stores in Spain, but around the world. This is the most interesting fact about Zara, which makes it different from its competitors. The fashion director of Louis Vuitton said that Zara is probably the most innovative and overwhelming retailer in the global fashion market (Slack and Lewis, 2002). Zara has started the trend of fast production in the low cost countries. Another unusual strategy of Zara was its zero advertising policy, in spite of which its brand is so popular among customers. The company prefers to utilise those funds for opening new stores instead of spending on promotion (Zhelyazkov, n. d.).

Another unusual and interesting approach of Zara is its designing team, which operates from the headquarters of the company. It is unusual as well as marvellous to research about customers demand and fashion around the world, design the products accordingly, manufacture them according to the specification and supply them to numerous stores around the world almost within the same time (Slack and Lewis, 2002). Apart from this, it is a highly challenging task to design garment somewhere else and sell them successfully in another country. This signifies that designers of Zara are not only efficient at their work, but are good as forecasting and assumptions too (Dutta, 2003).

Strategies shaping Zara's success

In this section of the study, the discussion would be regarding the strategies that are behind the success and progress of Zara as a global retail brand. The first strategy which grabs attention is the number of Zara stores popping up all over the world market, which signifies its strategy of aggressive expansion. The company has been involved in investing in 49 new markets recently. In China alone, 132 stores have been launched (Parsad and Jha, 2012; Dishman, 2012).

Secondly, the smartest move of the company has been recently seen in 2011, when it ventured into e-commerce arena. Shoppers could order through online Zara stores in US, Japan and European countries initially, but now these facilities are available in numerous countries. Third strategy is to design a smart supply chain, which Zara had successfully done (Slack and Lewis, 2002). The company utilises resources such as cheap labour in different countries such as China and other Asian countries. European countries offer costly labour, which is obviously not the choice for the company. Managing stretched supply chain is extremely challenging but Zara has been doing it successfully for more than a decade (Ferdows, 2003; Dishman, 2012).

Fourth strategy of the company is to avail cheap labour, but that does not mean compromising on quality. Zara offers sophisticated looking quality garments and accessories to its customers. Customers using Zara's garments claim that they have been using garments for ages and never seen threads coming out or so (Slack and Lewis, 2002). Fifth strategy of the company is to keep close watch on the changing customers' preferences and changing trends, quickly take decisions related to manufacturing or production. Sixth and the most significant strategy of Zara is effective control in case of selecting fabric from stocks, finishing and production process and efficient distribution for delivering products on time, sorting, etc (Zhelyazkov, n. d.).

Zara is successful not because it follows different strategies, but because it follows similar strategies differently. Since instant designing, production and distribution is capital intensive, the company's motto is to keep the cost low so as to keep their profit margin high. The average salary of the industrial worker in Spain is around \$1,300 per month, while in China or many other Asian countries it is around \$500 (Dishman, 2012). So it can be very well understood how much Zara saves on salary expenses (Ferdows, 2003). The second strategy of the company in its cost cutting area is to spend on opening new stores than on advertising. It spends 0.3 percent of its sales on promotion and advertising compared to its competitors, who spend an average of 3.5 percent of their sales on promotion. Technology is the heart of Zara because functions ranging from collecting data regarding customer needs to checking the sales flow daily are done online and on real-time basis. The designers in the company also check their databases in order to track sales figures and dispatch information (Dutta, 2002; Dishman, 2012; Slack and Lewis, 2002).

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