

## The Story of Zara – *the Speeding Bullet*

### How a Business can Achieve Sustainable Competitive Differentiation and Positioning

ZARA HAS become Spain's best-known fashion brand and the flagship brand of £2.5 billion holding group Inditex. Amancio Ortega Gaona, the company's founder, began retailing clothes in 1963. By 2005 Inditex emerged as one of the world's fastest growing manufacturers of affordable fashion clothing. Now with over 2000 stores and promising to double that number by 2011, Inditex is one of the biggest business success stories in Spanish history.

Zara's success offers us all some instructive lessons in how to create and sustain a break through strategy. The striking thing is that Zara has found differences that matter to customers and differentiated itself from its competitors by performing key activities [in its supply chain] differently. It is this that sets challenges for competitors because they will not find it easy to imitate or equal Zara's positioning and it is this achievement that has given Zara sustainable competitive differentiation and positioning.

This article shows how Zara has achieved this level of uniqueness.

Let's start with the market! Today's consumers are spending less on clothing—choosing to spend their disposable income on healthcare, electronics, education, and travel and leisure. Moreover they can now choose from a wide assortment of inexpensive products. Thus to capture today's elusive consumer, it is more important than ever to find a breakthrough in the clothing market.

Through a clear focus and vision, Zara has tapped

into the power of fashion. It has shortened conventional supply chain response from 5-7 month down to 2-2½ months and their customers are eagerly awaiting next week's—take note, not next season's new fashion!

Small and frequent shipments keep product inventories fresh and scarce—compelling customers to frequent the store in search of what's new and to buy now...because it will be gone tomorrow. Thanks to the twice weekly deliveries of replenishment stock as well as new items, customers constantly return to stores to browse new items. Zara's global average of 17 visits per customer per year is considerably higher than the three visits to its competitors

As the eyes and ears of the company, empowered retail managers provide word-of-mouth information on customer wants and preferences. This is quite at odds with relying solely on electronically collected data, an approach used by competitors. Thus lines that are not selling well are quickly removed and popular items quickly replenished. A quick turn around on merchandise helps generate cash, reduces inventories and eliminates the need for significant debt.

Poor communication is often the culprit of bottlenecks. Zara invested in information technology (IT) early on. Their in-house IT is simple and effective. Vendors and suppliers report that people are accessible and answers can be obtained quickly. Internal communication is maximized by housing on one floor, the designers, pattern makers and merchandisers, as well as everyone else involved in getting the product completed.

Ninety per cent of Zara stores are company-owned; the rest are franchises or joint ventures. Customers entering a Zara store in London, Paris, New York or in Rio de Janeiro find themselves in the same environment: a predominantly white, modern and spacious store, well-lit and walled with mirror. The latest fashions hung from the

## The Strategist's Choice

store racks around them. A long line of people typically waited at the cash registers to pay for their purchases: a few select items.

In comparison with other clothing retailers, who spent 3-4 percent of sales on advertising, Zara spent just 0.3 percent. The little it spends goes to reinforce its identity as a clothing retailer; low-cost but high fashion.

Controlling notorious bottlenecks along the supply chain is key to speed. For example dyeing and fit are critical processes within the supply chain. Zara is a large investor in a dye and finishing plant—a notorious bottleneck. Its control allows them to oversee the dyeing process. A further trouble spot is sewing. Even though Zara uses sub-contractors some subcontractors, it carries out the bulk of all cutting itself—a crucial process that determines fit.

60% of the manufacturing processes are outsourced in countries close to the Zara headquarters in Spain to help achieve a quick turnaround. Zara maintains a strong relationship with their contractors and suppliers—viewing them as part of the company.

To successfully react to consumers demands, design decisions are delayed as long as possible. Typically, Zara pre-commits to 50%-60% of its production in advance of the season, whereas other clothing retailers commit to 80%-90%. Thus Zara reserves mill capacities to ensure production facilities are available when needed.

Design collections are developed by creative teams rather than groups of designers. Creative teams consist of designers, sourcing specialists and product development personnel. The teams work simultaneously on different products, building on styles that were previously successful. Designers are trained to limit the number of reviews and changes, speeding up the development process and minimizing the number of samples to be made.

Zara hires young designers and trains them to make quick decisions. Decision-making is encouraged and bad decisions are not severely punished. Designers are trained to limit the number of reviews and changes, speeding up the development process and minimizing the number of samples made. Failure rates of Zara's new products were reported have been said to be just 1 per cent, considerably lower than the industry average of 10 percent.

Some say Zara's real strength is its well developed culture, and that isn't something that can be easily knocked off.

Traditionally, design and development precedes fabric procurement. Zara has turned this practice on its head. Zara unlike rivals is fabric driven. Designs are developed with available fabrics and trims. This eliminates waiting for the long and laborious process of fabric formation.

In today's competitive environment, Zara has shown that fine tuning the supply chain is no longer a strategic tool, but a necessity. It has shown that supply chain management can be managed provide sustainable competitive differentiation and positioning on the one hand and increase throughput, reduce inventories and operating expenses on the other.

**To read more about strategies to grow your business click here**

Best wishes,

Andrew Pearson  
Managing Director  
Unique Business Strategies

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## Something about us

Andrew M Pearson is widely considered to be a leading expert in the fields of **strategy, marketing and business-development coaching**.

Trained in sales and marketing at J Bibby, the oils and animal-feed business, Andrew set up his first business aged 25 and steered it to market leadership and a turnover of £11m in 6 years. Since then, he's held senior management and professorial posts at a number of UK firms, including 4 years with Cargill, when he founded pioneering strategies for business development in Eastern Europe.

He now regularly works with top managers and business owners in the UK and overseas, helping them to create and exploit superior strategies and business solutions.

Those who have submitted testimonials for his coaching, training and consultancy services are like a who's who in business development...

- John Adams: Fowler Welch
- Rob Keene: Over Farm Market
- Andrew May: Mainland Marketing
- Paul Smith: Due Diligence
- Don Burgess: Freeminor Brewery
- Simon Harvey: Mack International
- Graeme Kemsley: Business Link
- David Neil: Andersons Consulting
- Brian Redrup: Velcourt
- Ann Louise and Bill Hartley: Hartley's Nurseries
- Paul Hebblethwaite: Cadburys

... to name but a few.

## Coaching and Workshops

The content of this book and its sister publication, *How to Create Breakthrough Strategies for*

*Your Business* forms the basis for coaching and workshop events for executives wanting to develop breakthrough strategies for their businesses.

These learning events are available in a variety of formats from a **short talk**, one or two day **workshop** to extended **coaching** support.

The next one day **open course** will be held at Whittlebury Hall Buckinghamshire.