ZARA Supply Chain

A sample of Zara's fall-winter 2005 collection. A fashion imitator, Zara is quick to pick trends

Spanish entrepreneur Amancio Ortega Gaona started a firm manufacturing lingerie and nightwear in 1963, after quitting his job as a runner for a shirtmaker in La Corur". He opened the first Zara store in 1975, to sell stock after a customer cancelled a large order. Since then Zara has made high fashion universally accessible with 723 stores in 56 countries generating sales of Euro 3.8 billion.

Zara had become Spain's best-known fashion brand and the flagship brand of Euro 5.7-billion holding group Inditex. Inditex's stockmarket listing in 2001 had turned Ortega into the world's 23rd richest person, with a personal fortune that Forbes estimated at $12.6 billion. Ortega retained a low profile, rarely making public appearances (except during the run-up to Zara's IPO in 2000), and had never given an interview.

The Zara Supply Chain
Zara sourced around half its garments from third parties in low-cost manufacturing locations like Asia. These were basic collection items or wardrobe "staples," with minimum fashion content such as T-shirts, lingerie and woollens, and where there was a clear cost advantage. Externally manufactured items were shipped to Zara's distribution centre.

The other half of Zara's garments, those that were more fashion-dependent, was manufactured in-house, in nearby Zara factories.

Zara was a fashion imitator. It focused its attention on understanding the fashion items that its customers wanted and then delivering them, rather than on promoting predicted season's trends via fashion shows and similar channels of influence, which the fashion industry traditionally used.

A team of 200 young, talented yet unknown designers created designs, based on the latest fashions from the catwalk and other fashion hotspots, which were easily adaptable to the mass market. In this way, Zara became adept at picking up up-to-the-minute trends and churning them out to stores around the world in a matter of weeks.

For example, after Madonna's first concert date in Spain during a recent tour, her outfit was quickly copied by Zara. By the time she performed her last concert in Spain, some members of the audience were wearing the same outfit.

Working alongside the market specialists and production planners, the designers for each of Zara's collections kept in touch with market developments to create around 40,000 new designs every year, of which around one-quarter were manufactured.

Zara tried to keep its offering of any style simple, usually in just three sizes and three colours. Computer-guided cutting tools cut fabric, using patterns made from selected designs.

The labour-intensive sewing of the garments was outsourced to local subcontractors, which used seamstresses in cooperatives. Zara was usually their sole client, and they worked without any written contracts. Subcontractors received a flat fee per type of garment, and operated on short lead times and fast turnaround. They picked up the prepared fabric pieces from Zara, and returned them to the 500,000 sq. metre distribution centre.

At the Zara distribution centre, optical reading devices were used to sort and distribute over 60,000 items per hour. The garments were then picked up and collected by trucks, which transported them to different destinations all over Europe (which made up about 75 per cent of deliveries).

Products for more distant destinations were transported by air (about 25 per cent). Shipments tended to have almost zero flaws, with 98.9 per cent accuracy and under 0.5 per cent shrinkage.

Since Zara's garments were produced in-house, it was able to make a new line from start to finish in anywhere between two and five weeks, depending on the type of garment. As a result, Zara could be responsive to fashion items that were selling well during the season, and to discontinue those that were not.

By constantly refreshing the collection, and manufacturing items in high-intensity short runs, Zara was able to prevent the accumulation of non-saleable inventories.

It was estimated that Zara committed just 15-25 per cent of production before the season began, 50-60 per cent at the start of the season, and the remainder was manufactured in-season. Percentage of Zara sales consisting of markdowns was 15-20 per cent. In some cases, stores ran out of stock.

However, this was not viewed as a negative since it contributed to customers' perception of the uniqueness of their purchase.

Thanks to the frequent refreshing of stock, customers constantly returned to stores to browse new items. Zara's global average of 17 visits per customer per year was considerably higher than the three visits to its competitors.

Brand Management At Zara

Ninety per cent of Zara stores were company-owned; the rest were franchises or joint ventures. Customers entering a Zara store on Regent Street in London, Rue Rivoli in Paris, Fifth Avenue in New York or Avenidas das Americas in Rio de Janeiro generally found themselves in the same environment: a predominantly white, modern and spacious store, well-lit and walled with mirror. The latest fashions hung from the 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 per cent of sales on advertising, Zara spent just 0.3 per cent. The little it did spend went to reinforce its identity as a clothing retailer that was low-cost but high fashion.

Zara relied on its shop windows to communicate its brand image. Displays were changed regularly, according to designs sent by headquarters, and were critical for Zara to remain visible and entice customers. Store locations were generally busy, prestigious, city centre shopping streets.

Zara's pricing differed across country markets. It set prices according to individual market conditions, rather than using cost plus margin as its basis (which has been the industry norm).

In Spain, Zara products were low-cost, while in the US, Japan and Mexico, they were priced as luxury fashion items.

The remuneration of store managers was partially based on the accuracy of their sales forecasts and sales growth. Each evening, a hand-held PDA displayed the newest designs sent by headquarters, which were available for order. Order deadlines were twice weekly, and were issued via the hand-helds. Store managers who failed to order by the deadline received replenishment items only.

Deliveries arrived at stores twice per week from Zara headquarters, a few days after the order was made, and contained both replenishment items as well as new products. Failure rates of Zara's new products were reported to be just 1 per cent, considerably lower than the industry average of 10 per cent.

Technology was a key part of enabling communications and information flow. Zara's IT infrastructure was relatively simple, which meant that its IT expenditure was as much as five to 10 times lower than its rivals.

Trends For Tomorrow

Following Zara's success, competitors sought to reduce their own lead times. The competitive advantage achieved by Zara's vertical integration appeared to be eroding. As it opened stores in increasingly distant markets, would Zara be able to retain its flexibility in adjusting production to accommodate differences in local trends?

The Zara model seemed to work better in markets where customers had an appetite for fashion (such as France, Italy, Japan and the UK). In other markets, where consumers were less fashion-focused (for example, Germany and the US), Zara seemed somewhat less successful.

Would Zara be better served in the long run by increasing penetration in these fashion-sensitive markets, or by extending its global reach through increased presence in more markets?

Source: http://www.supplychains.in