

Spain’s Zara has become Europe’s leading apparel retailer, providing consumers with current, high fashion styles at reasonable prices. With over $8.7 billion in sales and more than 1,500 stores, the company’s success has come from breaking virtually every traditional rule in the retailing industry.

The first Zara store opened in 1975. By the 1980’s, Zara’s founder, Amancio Ortega, was working with computer programmers to develop a new distribution model that would revolutionize the clothing industry. This new model takes several strategic steps to reduce the lead time from design to distribution to just two weeks—a significant difference from the industry average of six to nine months. As a result, the company makes approximately 20,000 different items a year, about triple what Gap or H&M make in a year. Zara has been able to provide “fast fashion” for its consumers at affordable prices. The company’s success lies within four key strategic elements:

**Design and Production.** Zara employs hundreds of designers at its headquarters in Spain. Thus, new styles are constantly being created and put into production while others are tweaked with new colors or patterns. The firm enforces the speed at which it puts these designs into production by locating half its production facilities nearby in Spain, Portugal, and Morocco. Zara produces only a small quantity of each collection and is willing to experience occasional shortages to preserve an image of exclusivity. Clothes with a longer shelf life, like T-shirts, are outsourced to lower-cost suppliers in Asia and Turkey. With tight control on its manufacturing process, Zara can move more rapidly than any of its competitors and continues to deliver fresh styles to its stores every week.

**Logistics.** Zara distributes all its merchandise, regardless of origin, from Spain. Its distribution process is designed so that the time from receipt of an order to delivery in the store averages 24 hours in Europe and 48 hours in the United States and Asia. Having 50 percent of its production facilities nearby is key to the success of this model. All Zara stores receive new shipments twice a week, and the small quantities of each collection not only bring consumers back into Zara stores over and over but also entice them to make purchases more quickly. While an average shopper in Spain visits a main street store three times a year, shoppers average 17 trips to Zara stores. Some Zara fans know exactly when new shipments arrive and show early that day to be the first in line for the latest fashions. These practices keep sales strong throughout the year and help the company sell more products at full price—85 percent of its merchandise versus the industry average of 60 percent.

**Customers.** Everything revolves around Zara’s customers. The retailer reacts to customers’ changing needs, trends, and tastes with daily reports from Zara shop managers about which products and styles have sold and which haven’t. With up to 70% of their salaries coming from commission, managers have a strong incentive to stay on top of things. Zara’s designers don’t have to predict what fashion trends will be in the future. They react to customer feedback—good and bad—and if something fails, the line is withdrawn immediately. Zara cuts its losses and the impact is minimal due to the low quantities of each style produced.

**Stores.** Zara has never run an advertising campaign. The stores, 90 percent of which it owns, are the key advertising element and are located in prestigious high-traffic locations around the world. Zara spends significant time and effort regularly changing store windows to help lure customers in. In comparison to other retailers, which spend 3-4% of revenues on big brand-building campaigns, Zara spends just 0.3 percent.

The company’s success comes from having complete control over all the parts of its business—design, production, and distribution. Louis Vuitton’s fashion director, Daniel Pietto, described Zara as “possibly the most innovative and devastating retailer in the world.” Now, as Zara continues to expand into new markets and countries, it risks losing some of its speed and will have to work hard to continue providing the same “newness” all over the world that it does so well in Europe. It is also making a somewhat belated major push online that will need to work within its existing business model.

Zara changes its clothing designs every two weeks on average, while competitors change their designs every two or three months. It carries about 11,000 distinct items per year in thousands of stores worldwide compared to competitors that carry 2,000 to 4,000 items per year in their stores. Zara’s highly responsive supply chain is central to its business success. The heart of the company and its supply chain is a huge, highly automated distribution center (DC) called “The Cube”.

Zara buys large quantities of only a few types of fabric (just four or five types, but they can change from year to year), and does the garment design and related cutting and dyeing in-house. This way fabric manufacturers can make quick deliveries of bulk quantities of fabric directly to the Zara DC – the Cube. The company purchases raw fabric from suppliers in Italy, Spain, Portugal and Greece. And those suppliers deliver within 5 days of orders being placed. Inbound logistics from suppliers are mostly by truck.

The Cube is 464,500 square meters (5 million square feet), and highly automated with underground monorail links to 11 factories within a 16 km (10 mile) radius of the Cube. All raw materials pass through the cube and all finished goods also pass through on their way to stores. The 11 Zara owned factories are connected to the Cube by underground tunnels with high speed monorails (about 200 kilometers or 124 miles of rails) to move cut fabric to these factories for dyeing and assembly into clothing items. The factories also use the monorail system to return finished products to the Cube for shipment to stores. Then finished garments leave the Cube and are transported to the Zara logistics hub in Zaragoza. And from there they are delivered to stores around the world by truck and by plane. Zara can deliver garments to stores worldwide in just a few days: China – 48 hrs.; Europe – 24 hrs.; Japan – 72 hrs.; United States – 48 hrs. It uses trucks to deliver to stores in Europe and uses air freight to ship clothes to other markets. Zara can afford this increased shipping cost because it does not need to do much discounting of clothes and it also does not spend much money on advertising.

*Source: SCM Globe -* <https://www.scmglobe.com/zara-clothing-company-supply-chain/>

**Questions:**

*Answer the questions below in complete sentences. Assignment is worth* ***100 points.***

1. What did Zara do differently from other retailers that made them so successful?
2. Would Zara’s model work for other retailers? Why or why not?
3. How is Zara going to expand successfully all over the world with the same level of speed and instant fashion?
4. Describe the 4 P’s of Marketing and provide examples from the article on Zara.