Chapter 3
Zara: Fast Fashion from Savvy Systems

Introduction

- Zara: Game-changing clothes giant
- Parent company: Inditex Corporation
- The blend of technology-enabled strategy unlashed by Zara seems to break all of the rules in the fashion industry
- The firm shuns advertising and rarely runs sales
- In fashion industry nearly every major player outsources manufacturing to low-cost countries, but Zara is highly vertically integrated, keeping huge swaths of its production process in-house

Table 3.1 - Gap versus Inditex at a Glance

	Gap	Inditex
Revenue	$14.5 billion	$18.3 billion
Net Income	$833 million	$2.56 billion
Number of Stores	3,248	5,527
Number of Countries	31	82
Biggest Brand	Gap	Zara
Number of Other Brands	4	7
Based in	San Francisco, USA	Arteixo (near La Coruña), Spain
First Store Opened	1969	1975

Sources: Year-end 2011 figures from http://www.gapinc.com, http://www.inditex.com, and http://www.bloomberg.com.

Why Study Zara?

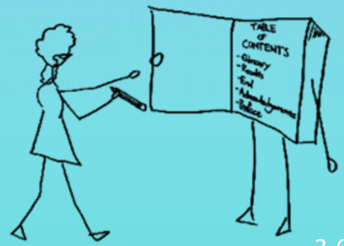
- To understand and appreciate:
  - The counterintuitive and successful strategy of Zara
  - The technology, which has made all of this possible

Gap: An Icon in Crisis

- Micky Drexler, the iconic CEO, helped turn Gap's button-down shirts and khakis into America's business casual uniform
- Drexler's team had spot-on tastes throughout the 1990s
- When sales declined in the early 2000s, Drexler tried to revitalize the brand by filling the stores with teenage apparels
- This shift sent Gap's mainstay customers to retailers that easily copied the styles that Gap had made classic

Gap: An Icon in Crisis

- Gap's same-store sales declined for twenty-nine months straight, profits vanished
- Paul Pressler, the new CEO, shut down hundreds of stores, but it did not help due to bad bets on colors and styles
- The marketing model used by Gap to draw customers in via big-budget television promotion had collapsed
- In January 2007, Pressler resigned

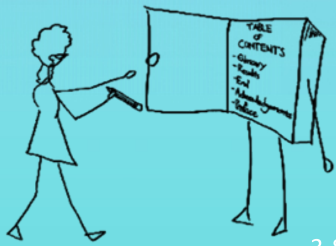


Contract Manufacturing: Lower Costs at What Cost?

- Conventional wisdom suggests that leveraging cheap contract manufacturing in developing countries can keep the cost of goods low
  - **Contract manufacturing:** Involves outsourcing production to third-party firms
    - Firms that use contract manufacturers don't own the plants or directly employ the workers who produce the requested goods
- Firms can lower prices and sell more product or maintain higher profit margins

Contract Manufacturing: Lower Costs at What Cost?

- The downside of contract manufacturing
  - In order to have the low-cost bid, contract firms:
    - Skimp on safety
    - Ignore environmental concerns
    - Employ child labor
    - Engage in some ghastly practices



Contract Manufacturing: Lower Costs at What Cost?

- Firms that fail to adequately ensure their products are made under acceptable labor conditions risk a brand-damaging backlash that may:
  - Turn off customers
  - Repel new hires
  - Leave current staff feeling betrayed

Don’t Guess, Gather Data

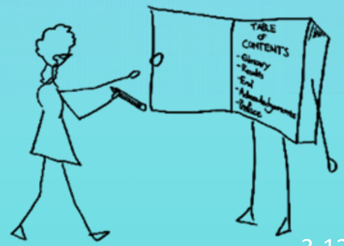
- To make sure that the stores carry the kinds of products customers want, Zara managers ask the customers
- Zara’s store managers are armed with personal digital assistants (PDAs) that can be used to:
  - Gather customer input
  - Chat up with customers to gain feedback on what they’d like to see more of
- Incentives for success—as much as 70 percent of salaries can come from commissions

Don't Guess, Gather Data

- Staff also checks for customer preferences by looking at unsold items
- PDAs are linked to the store's point-of-sale (POS) system
  - **Point-of-sale (POS) system:** A transaction process that captures customer purchase information, showing how garments rank by sales
- Managers can send updates that combine the hard data captured at the cash register with insights on what customers would like to see

Don’t Guess, Gather Data

- All of this valuable data allows the firm to plan styles and issue rebuy orders based on feedback rather than hunches and guesswork
- The goal is to improve the frequency and quality of decisions made by the design and planning teams



Design

- Zara designs follow evidence of customer demand
- Zara design staff consists of young and fresh designers from design school
- Teams are regularly rotated to:
  - Cross-pollinate experience
  - Encourage innovation

Manufacturing and Logistics

- The average time for a Zara concept to go from idea to appearance in store is fifteen days versus their rivals who receive new styles once or twice a season
- The firm is able to be so responsive through:
  - A competitor-crushing combination of vertical integration and technology-orchestrated coordination of suppliers
  - Just-in-time manufacturing
  - Finely tuned logistics

Manufacturing and Logistics

- **Vertical integration**: When a single firm owns several layers in its value chain
- **Value chain**: The set of interdependent activities that bring a product or service to market
- Nearly 60 percent of Zara's merchandise is produced in-house, with an eye on leveraging technology in areas that:
  - Speed up complex tasks
  - Lower cycle time
  - Reduce error

Manufacturing and Logistics

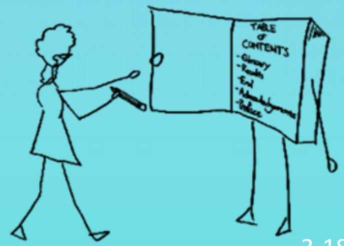
- Inventory optimization models ensure that each store is stocked with just what it needs
- Zara leverages contract manufacturers to produce staple items with longer shelf lives, which account for only about one-eighth of dollar volume

Manufacturing and Logistics

- Ceiling-mounted racks and customized sorting machines patterned on equipment used by overnight parcel services and Toyota-designed logistics, whisk items from factories to staging areas for each store
- Clothes are ironed in advance and packed on hangers, with security and price tags affixed
- Trucks serve destinations that can be reached overnight, while chartered cargo flights serve farther destinations within forty-eight hours
- Zara is also a pioneer in going green
  - Introduction of biodiesel for the firm's trucking fleet

Stores

- Running out of bestsellers at Zara delivers several benefits:
  - Allows the firm to cultivate the exclusivity of its offerings
  - Encourages customers to buy right away and at full price
  - Encourages customers to visit often
  - Reduces the rate of failed product introductions



Technology ≠ Systems. Just Ask Prada

- Zara's IT expenditure is less than one-fourth the fashion industry average
- Zara excels by targeting technology investment at the points in its value chain where it will have the most significant impact
- Zara makes sure that every dollar spent on tech has a payoff

Technology ≠ Systems. Just Ask Prada

- The Prada example offers critical lessons for managers:
  - Getting the right mix of the following five components is critical to executing a flawless information system rollout:
    - Hardware
    - Software
    - Data
    - Procedures
    - People
  - Financial considerations should forecast the **return on investment** (ROI) of any effort
  - Designers need to thoroughly test the system before deployment

Moving Forward

- Zara's value chain is difficult to copy, but it still has challenges to face
- Limitations of Zara's Spain-centric, just-in-time manufacturing model:
  - If problems occur in northern Spain, Zara has no other fall back
  - The firm is potentially more susceptible to financial vulnerabilities as the Euro has strengthened relative to the dollar
  - Rising transportation costs
- Zara's financial performance can also be impacted by broader economic conditions

Moving Forward

- Zara's value chain is difficult to copy; but it is not invulnerable, nor is future dominance guaranteed
- Zara's management must
  - Have an understanding of how information systems can enable winning strategies
  - Scan the state of the market and the state of the art in technology, looking for new opportunities and remaining aware of impending threats