Chapter 3
Zara: Fast Fashion from Savvy Systems
Introduction

• Zara: Game-changing clothes giant
• Parent company: Inditex Corporation
• The blend of technology-enabled strategy unleashed 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

<table>
<thead>
<tr>
<th></th>
<th>Gap</th>
<th>Inditex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$14.5 billion</td>
<td>$18.3 billion</td>
</tr>
<tr>
<td>Net Income</td>
<td>$833 million</td>
<td>$2.56 billion</td>
</tr>
<tr>
<td>Number of Stores</td>
<td>3,248</td>
<td>5,527</td>
</tr>
<tr>
<td>Number of Countries</td>
<td>31</td>
<td>82</td>
</tr>
<tr>
<td>Biggest Brand</td>
<td>Gap</td>
<td>Zara</td>
</tr>
<tr>
<td>Number of Other Brands</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Based in</td>
<td>San Francisco, USA</td>
<td>Arteixo (near La Coruña), Spain</td>
</tr>
<tr>
<td>First Store Opened</td>
<td>1969</td>
<td>1975</td>
</tr>
</tbody>
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Why Study Zara?

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