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STRATEGY AND SUSTAINABLE COMPETITIVE ADVANTAGE- THE CASE OF ZARA FASHION CHAIN

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Abstract. In this case study we want to analyse this phenomenon called Zara, a strategic unit of the Inditex Group, and evaluate the strategies of Zara on the European fashion market. Finally within the clothing market, it shows the competitive advantage gained through modern systems by comparing Zara to its opponents.

1. COMPANY PROFILE

Firms strive for *sustainable competitive advantage*, financial performance that consistently outperforms their industry peers. The world is so dynamic, with new products and new competitors rising seemingly overnight, that truly sustainable advantage might seem like an impossibility. But there are winners and the Zara chain is one of them.

The Zara fashion chain, founded in 1975 in Arteixo, a small town in the north of Spain, is perhaps the world's most successful clothing chain. Zara has helped its parent, the Spanish firm Inditex, grow from obscurity in the mid 90s to the world's third largest pure-play fashion retailer after the Swedish H&M and US-based Gap Inc. with financial performance well ahead of these rivals.

The Inditex Group is present in 64 markets in Europe, the Americas, the Middle East, Asia and Africa, with upwards of 3,100 stores [8]. In addition to Zara Inditex has another seven commercial formats: Skhuaban, Pull and Bear, Massimo Dutti, Bershka, Stradivarius, Oysho and Zara Home. The Group also includes more than a hundred companies associated with different activities in the business of textile and fashion design, manufacture and distribution.

Inditex has grown dramatically in recent years, achieving a consolidated turnover in 2005 of 8,196 million euro, with a net profit of 1,002 million euro. It has reported a 25% rise in profit for 2006 on strong growth in its Zara chain -that makes up about two-thirds of Inditex's total sales. Profit for the year to 31 January 2007 was EUR1.0bn, on sales that rose 22% to EUR8.2bn [2].

On 31 January 2007 the Group had 60.240 employees. The Table1 shows the Group's most significant figures in 2005 and 2006:

Table 1. Financial data from Inditex

*Fiscal Year**	*2006*	*2005*	*2006/2005*
Turnover (in millions of euro)	8.196	6.741	22%
Net profit	1.002	803	25%
No. of stores	3.131	2.692	439
No. of countries	64	62	2
International sales	60,4%	57%	
Employees	69.240	58.190	11.050

* The Inditex financial year is from 1st February to 31 January of the following year
Source: Inditex Corporate Reports 2005, 2006

Table2 shows the Zara's most significant figures in 2005 and 2006

ZARA	*2006*	*2005*
Turnover (in millions of euro)	5.352	4.480,8
No. of stores	990	852
International sales	72,3%	68,9%
% of Inditex	65,3%	65,9%

Source: Inditex Corporate Reports 2005, 2006

With 1021 shops, at 13.04.2007, in 55 countries, Zara appears to have found the formula for success: Give the public what it wants, at the lowest possible price, in the shortest time possible [7].

In order to think about how the firms achieve sustainable advantage, it's useful to start with two concepts defined by Michael Porter: operational effectiveness and strategic positioning.

2. OPERATIONAL EFFECTIVENESS

According to Porter, the reason so many firms suffer aggressive, margin eroding competition, is because they've defined themselves according to operational effectiveness rather than strategic positioning. Operational effectiveness refers to performing the same tasks better than rivals perform them. Everyone wants to be better, but the danger in operational effectiveness is in "sameness"[5].

At its heart Zara is building on a vertically integrated demand and supply chain, while most other textile chains rely on outsourcing and cheap labour in China. It enables company to short turnaround times and achieves greater flexibility, reducing stock to a minimum and diminishing fashion risk to the greatest possible extent. In terms of speed to market, Zara has much in common with the computer company Dell. Instead of building computers according to a sales forecast and letting other companies sell them, Dell sells directly from its own website <http://www.dell.com> and call-centers and then builds to order. That way, it not only cuts distributors and retailers out of its supply chain but also gets paid up front [1].

Mainly vertically structured fashion companies offer an attractive and frequently varying range of goods, in order to increase households' propensity to consume textiles. By using a dynamic strategy, the traditional bi-annual collection cycle (spring/summer and fall/winter) is accelerated more and more, so that new collections are launched in increasingly shorter cycles, e.g. on a monthly basis [6].

Another characteristic of a dynamic strategy is the acceleration of the value chain processes. While it takes 60 to 90 days in order to design and deliver a new fashion style in a traditional value chain, it only takes 12 to 15 days for *Zara* who is vertically integrated [2]. Zara's in-house production purposely creates a rapid product turnover since its "runs are limited and inventories are strictly controlled"

The business model for the company is based on offering the latest style in a high quality product at a good price. With a creative team of more than 200 professionals, Zara's design process is closely to the public. Information travels from the stores to the designers, transmitting the demand and concerns of the customers. Zara's shops use Information Technology to report directly to its production centers and designers in Spain. Shop managers use PDAs to check on the latest clothes designs and place their orders in accordance with the demand they observe in their stores. Thus, they directly contribute to a streamlined fashion collection of the entire company. The designers at headquarters collect and evaluate these suggestions and they arrive, produce designs on their computers, and, when finalized, send them over the company intranet to a factory. The result is that Zara designs and produces as many as 10.000 new items every year.

The company avoids mass production. Although some stock is replenished, its clothing, for both men and women, is deliberately made in small batches. This helps create a scarcity value: better buy now in case it is gone tomorrow. It also keeps shops looking fresh and reduces markdowns. In Zara shops, there are two new collections every week, and the company manages to design, produce, distribute and sell each of its collections in just four weeks. In contrast, its competitors take several months. Zara pays special attention to the design of it stores, its shop windows and interior décor, and locates them in the best sites of major shopping districts.

In addition, the group does not spend even one euro on advertising. They consider it for not necessary in a “pull” model and to slow anyway because their offer is good localized.

But, the operational effectiveness is critical. Firms must invest in techniques to improve quality, lower cost, and design efficient customer experiences and, unfortunately, for the most part, these efforts can be matched. Because of this, operational effectiveness is usually not sufficient enough to yield sustainable dominance over the competition.

3. STRATEGIC POSITIONING

In contrast to operational effectiveness, *strategic positioning* refers to performing different activities than rivals, or the same activities in a different way. While the model itself is often very easy to replicate, technology is essential to creating and enabling novel approaches to business that are defensibly different than rivals and which can be quite difficult for others to copy.

The fashion market has changed considerably over the past few decades. Fashion products, which used to be an elite consumption product and now, are mass consumption market, are embodying what has been called “the democratisation process of fashion”[4].

In the last years the fashion market has polarized. On the one hand there are producers and retailers of premium products on a high price level offering luxury products. On the other hand the low price young fashion producers, often foreign international operating chains like the Swedish chain H&M (Hennes & Mauritz), the Dutch chain C&A (Clemens and August), the Spanish chains Mango and Zara or the American chain Gap.

Zara is considered as an example of the relationship between technology and strategic positioning. Inditex describes Zara in this way: “Zara is a high fashion concept offering apparel, footwear and accessories for women men and children, from newborns to adults aged 45. Zara stores offer a compelling blend of fashion, quality and price offered in attractive stores in prime locations on premier commercial streets and in upscale shopping centres. The in-house design and production capabilities enable us to offer fresh designs at out Zara stores twice a week throughout the year.”

Zara’s target market is very broad because they do not define their target by segmenting ages and lifestyles as traditional retailers do. Its target market is a young, educated one that likes fashion and is sensitive to fashion. Today, people around the world through various communication devices have more access to information about fashion. Therefore, fashion has become more globally standardized and Zara uses this to their advantage by offering the latest in apparel. For that reason, 80- 85% of the products that the company offers globally are relative standardized fashionable products. The international strategy of this fashion chan is excellent because it adopted a balanced mixture of standardization and customization. Figure 1 shows the Zara’s positioning according to the process and the customization.

ZARA POSITIONING

PROCESS	High customization	Some customization	High standardization
Manual schop	High fashion (Chanel, D&G)		
Batch flow	**ZARA**	Mark & Spenser	
Rigid line flow			Mass merchants

Fig. 1 Zara's positioning according to the process and the customization.

4. Conclusion

At the heart of Zara's success is a vertically integrated business model spanning design, just-in-time production, marketing and sales. The key to this model is the ability to adapt the offer to customers desires in the shortest time possible. For Zara , time is the main factor to be considered, above and beyond production cost. The group believed that vertical integration gave it more flexibility than its rivals to respond to fickle fashion trends. With the European markets becoming saturated, Zara had been looking at stretching its product line and furthering its global expansion

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