The reasons behind Zara’s success: evaluating the value chain

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Abstract: Experts have studied the leading apparel company at providing fast service at affordable prices for a long time. Therefore, the present study is an attempt to evaluate the value chain of Zara within the context of the fast fashion market. A set of reasons have been gathered to explain the reasons behind such a successful supply chain, starting from the business strategy to future challenges and recommendations. What is more, the findings are close relationships with suppliers with collaboration as key; a global buyer-driven value chain with intrinsic information flows from customer feedback to the stores’ managers, directly to the headquarters; independence of workers providing a fast response and flexibility.

Keywords: value chain; supply chain; case-study; fast fashion industry; Zara; apparel business; evaluation.
1 Introduction

Zara is one of the most successful and dynamic apparel business in the world (Carugati et al., 2008). The vertically integrated supply network and manufacturing group had in 2015, 1923 stores in 88 countries worldwide (Ferdows et al., 2014; Romano, 2009). Therefore, the present study aims at evaluating the outstanding value chain of Zara. Alongside, there will be an interpretation of the most relevant theories and topics to discuss in-depth how does the company can reach such goals in both its value and supply chain.

Inditex’s flagship brand is a reference for both academics and corporates due to its peerless speed, from recognising a trend to placing clothes in the stores within thirty days (Ferdows et al., 2004). Likewise, every store receives shipments and places orders twice per week. What is more, the purpose of this study is to present a comprehensive view of an agile value chain, bearing in mind the current situation in the fast fashion market.
2 The business strategy of Zara

The business strategy that Zara focus on is differentiation (Porter, 1985), creating unique products and desirable services as a source of competitive advantage with a broad scope, which is how they are creating value to their value chain. The strategy is based on twofold purposes, minimising stock and responding rapidly to the needs of the market. Thus, it is about understanding what do customers want and speedily distribute it. From the case study, Inditex CEO Mr. Paolo Isla mentions that the business strategy is based on discovering “what our customers want and design, produce and distribute it quickly” [Ferdows et al., (2014), p.5].

On the one hand, this is a more effective strategy than its competitors, such as Gap, H&M, and Benetton. Moreover, the Corporate Vice President for the supply chain of VF Brands has commented that the brand needs “to look for other benefits like spend to market, material utilisation, lower inventories, less work in process, and lower cost to quality. Competitive advantage no longer comes from reducing the amount of needle time that goes into the garment, but from managing the whole supply chain.”

On the other hand, to achieve that brand strategy, Zara’s designers and customers are inextricably connected. There are information flows on customer’s decisions that specialist teams are persistently receiving through feedback. This associate with “the core of our business is not really fast fashion – it is accurate fashion” [Ferdows et al., (2014), p.5], completing a simple management system where employees are allowed to correct their mistakes quickly by themselves. Additionally, Zara’s business strategy for entering into new markets is based on deepening and controlled expansion of local conditions.

The differentiation business strategy entails product variety during the year, one of the perks from being in the fashion business.

Zara’s value proposition is to offer the latest affordable fashion trendy clothing through continuously presenting seasonable styles through achieving a responsive service to its customers. Furthermore, enabled by a supply chain characterised by speed and flexibility, influencing all operating stages: design, production, distribution and clothing retail.

Zara’s stores are strategically planned to optimise their merchandising proposition and to differentiate themselves from competitors. The design displayed invites customers to browse the entire store, the elaborated outfits to reflect the latest trends enhance purchasing, and in the division of the sections where women have a more significant portion of the store. Another way to look at this is through the QCD triangle (Imai, 1997). Zara’s has decided to go on the delivery matching the variety of the product with consumers requirements. Therefore, trade-offs should be considered by operating managers, who must prioritise Zara’s objectives to fulfil the fast delivery standard.

The way Zara competes is through the order qualifiers and the order winners. Usually, these are present ever since a product or service is purchased. Thus, businesses must target their customers to recognise whom to offer the most value possible at the end of the supply chain.

While the order qualifiers are cutting edge fashion at affordable prices, entailing a strong influence from the company to each step of the supply chain. Moreover, the quality provided for the cost offered, the fast delivery at a leading time, stores located in the trendiest areas, and an innovative capability. These are the minimum requirements that competitors are corresponding.
The order winners compose regular changes, stores that do not remain the same for long, besides the weekly shipment, the stock change amongst stores. Another decisive selection criterion is the arrangement of stores organised with suggestions of whole looks, similar to fashion shows. The trendiest clothing pieces directly from designers, but also from customer feedback, it is about what the customer wants. Likewise, the rapid movement of products creates incentives to customers who know that these may not be replenished or go into discounts, as it happens with most of the apparel industry.

The relationship of Zara’s value proposition to its order qualifiers and winners is the flexible response to the latest fashion items, directly delivered to Zara’s stores in a leading time up to two weeks, as shown in Figure 1.

Nevertheless, it must be noted that different products require a separate process, what Hill (2000) called tool-product profiling. The competitive advantage of Zara success is a balance between internal operational capabilities and the decision making criteria, where flexibility and fast response prevail. Therefore, order qualifiers and winners also differ over time, according to markets, and the product cycle, requiring the constant review of the supply chain. For instance, when it is about franchising stores, the order qualifiers include legal and political requirements and local knowledge to reduce risk at most. Moreover, in Zara’s case, there is high flexibility in changing stores locations according to the most successful commercial areas because it leases these, being an order winner.

In Figure 1, there is an adaptation on the value chain highlighting the order qualifiers and winners.

Figure 1  Zara’s transformational process model (see online version for colours)

The supply chain is positively related to Zara’s value proposition, providing a fulfilling service, the whole chain must be fast and intrinsically connected in each step, which is why people are so interested in Zara’s products. Additionally, what is making customers buying the company products is through the service provided, from the speed and flexibility, until the pleasant and clean store environment.

Operations strategy is the reflection of the corporate decision making onto the production or operations stages. This framework is vital to understand the lead time, capacity, efficiency and quality control of the company.

A value chain is an act of adding value to a product or service by a company, and its activities influence costs and profits (Porter, 1985). In Figures 3 and 4, there is a representation of the value chain.

Source: Created by the authors based on Slack et al. (2016)
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Zara’s primary activities are the fast and flexible connection between each stage, where the inbound logistics is concerned about offering precisely what the customer wants. Therefore, according to Mr. Echevarria, “our model depends on having information about the customer in our hands” [Ferdows et al., (2014), p.5].

Furthermore, there is the representation of a basic process mapping followed by the business process flow mapping to identify the main physical services, information flows, and the transformational process within the value chain.
3 Key questions

The primary considerations from the present study are the following:

- evaluate the information flows, processes and relationships from Zara’s value chain
- identify the strategy behind the supply chain, in terms of logistics customer service
- understand the importance of the weekly information for the success of the supply chain
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- recognise the main features of the supply strategy concerning its performance objectives
- analysis and identification of the critical issues in that value chain
- classification on the relationships with the company’s suppliers.

The present study demonstrates the evaluation of a supply chain and its importance to the success of a business. Furthermore, a connected chain with information delivered to each stage is a deciding factor. However, through this case, it will be reached other characteristics that provide one of the fastest services, while saving costs and retaining profits.

To understand the supply chain; it is essential to check Zara’s process type and layout design, through the 4V’s. Even though this business has lower production than its competitors, especially when compared to VF brands, as a fashion industry company, there is always high volume. Therefore, the processes should consider high repetition, specialisation, systematisation, and capital intensive and low unit costs as implications. Zara presented wide variety, meaning that it is concerned with flexibility, complexity, matching customer needs and higher unit costs. In terms of visibility, the Inditex brand is an expert, requiring a short-term tolerance, satisfaction governed by customer perception, where their contact skills are needed and high unit costs.

Bearing in mind the processes above described, Zara, as a product manufacturer, has batch processes and as a service provider, is a service shop.

4 Evaluating the value chain of Zara

A successful supply chain incurs many decisions, such as to make or buy, outsourcing or offshoring, selecting the right suppliers, the ability to negotiate, adapting to different scenarios, and methods to control.

According to Slack et al. (2016), the span of activities in a network is the direction, extent and balance of vertical integration. Zara presents a vertical integration on its supply chain.

The higher the integration on both operating directions, up and downstream, the less uncertainty and time in the flow of materials (Frohlich and Westbrook, 2001). In Zara’s value chain, there is an intrinsic connection between each stage. Besides, there is an unmatchable ability amongst the sector, to keep its inventory low without exceeding capacity, so that the customer receives new products every two weeks in all stores. Thus, the turnover ratio in 2014 was 0.0041 times. The market leads the governance structure of Zara’s value chain; that is, the buyer has a controlling role in the value chain (Gereffi, 1994).

This global value chain is characterised by highly competitive industries, labour-intensive production, low barriers of entry for production, global brands, and outsourcing the production in developing countries to upgrade its business.

Additionally, to match the customers’ needs, the value chain must be designed in a way that understands what the customer want. Zara’s design contributes to its competitive advantage, as customer feedback is directly communicated to the headquarters, where designers, market specialists and buyers are critical to quick and balanced decisions.
From idea generation and screening to the launching of the product, there is a large team of designers who gather information from fashion shows, trade fairs, magazines, clubs, pubs and cafés, university campuses and competitors to target their clients. In the headquarters, La Coruña, all this data is processed within cross-functional teams of designers, country managers and buyers. Moreover, the fashion specialists set the initial designs, select the fabric, prints and colours of the product through the CAD system, allowing additional adjustments to the items. Then, buyers would deal with sourcing and production to negotiate with suppliers, agree on purchasing prices, analyse costs and margins, and fix a standard cross-currency price for components. And country managers with the merchandising at stores, to determine the viability of the items in the market. Successful companies like Zara identify the importance of managing the design process, encouraging strong branding, organisational culture, and flexible control of the design process.

In this process, Zara also considers the use of environmentally friendly products and the investment on social initiatives, that require the consistent review of the supply chain to assure transparency of the business activities.

Furthermore, the module structure from this company is in syntony with the lean philosophy. The lean production system is based on an agile supply chain that purposes to do everything to the customer, with “flawless quality, the lowest cost and the shortest lead time.” Thus, quality management techniques are essential to comprehend the lean production system (Garvin, 1988; Xu, 1999). The pillars of lean are Jidoka, that is, building quality into the process, where is needed the best possible process control, allowing customer and employees’ satisfaction and loyalty while avoiding rework costs and constant mistakes in the producing line. Another pillar is just in time, requiring continuous flow processing with lower inventory costs, producing at the sales pace (takt time) avoiding unsold finished goods, and multi-skilled and efficient operators. Additionally, there is the standardised work, Kaizen and waste elimination in which the company needs well-qualified and engaged operators with systematic and stable tasks.

**Figure 6** Zara’s value stream mapping (see online version for colours)
Zara is the reflection of the lean model where fast fashion has got into another level, challenging the sensitivity market speed with the latest fashion trends, almost as directly from showrooms and fashion shows.

A crucial part of the lean production system is the value stream mapping. Figure 6 illustrates the information process flows with the data available on the case study.

The supply chain relationships should be driven at such level that the company holds the highest power. Zara positions its make or buy decisions on the buyers from the commercial team, established on the headquarters. Moreover, suppliers should meet the capability and capacity to provide speed quality and cost with the least risk possible (Ferdows et al., 2014). Cox’s power regimes model and relationships state that when there is a power relationship with high customer power and high number of dyads the business, the business has a customer dominant situation, as Zara’s case.

The relationship behind this strategy composes a market with high levels of competitiveness and low to high critically, for the basic and seasonal products, respectively. Even though Zara buys most services through its suppliers, there is a long-lasting relationship based on trust, where they commit with procurement, costs of quality, speed and capacity to accomplish Zara’s orders (Hines, 2013). The company has a broad base of 1,600 worldwide suppliers with the most extensive selection of fabrics and a reduced risk of depending on them. At the same time, these are contributing to the company order qualifiers and winners and meeting the operational performance of speed.

The decision to buy resources allows the company to set lower prices per unit while relying on “the world’s best suppliers of hardware and software to develop systems for the warehouses and had modified its own teams to fit its operations” [Ferdows et al., (2014), p.11]. Zara relies on its suppliers to accomplish its business model, but every decision is made on the headquarters.

Outsourcing is trusted on a highly intensive operation, such as sewing, which eases the production of Inditex owned factories to keep flexible to inventory changes. An essential strategy for lowering costs as firms are becoming more specialised.

The company commits with the management time by nearshoring the “time-sensitive fashion products” [Hines, 2013; Ferdows et al., (2014), p.9]. Even though it is not in terms of distance but a fast response, the locations are not as far as Spain, Portugal and Morocco. These Inditex factories are mostly located near Arteixo with a higher rate of in-house and onshore production than its competitors. This strategy is not coherent to VF’s, which prefer to invest in their bands and retail operations.

Nevertheless, Zara depends more and more on offshoring, with one-third of its products produced in Eastern Europe, and as the basic products in Asia. For online shopping, the company operates through rented warehouses for storage and third-party logistics for delivery. It allows lowering opportunity costs of lost sales, controlling inventory costs and winning sales from competitors with frequent updates (Hines, 2013).

The rule of thumb confirms Zara’s profitable strategy, where only the goods that are not critical to the product’s success are outsourced (Burt et al., 2003). Thus, the net profit has highly increased from 2010 to 2014, from 1.745 to 2.510. The most critical pieces are completed and designed in-house, depending on the suppliers for the raw materials and sewing. Zara chooses to work with several suppliers, and to build close relationships for mutual gain, providing alternative sources and the ability to negotiate lower prices, always managing operational risks.

This process adds value to the business as it considers the full costs of the chain, while providing the fastest response in the market.
Ensuring the support of the supply chain in the business strategy, the Fisher model provides two types, responsive and efficient supply chain. Zara’s case with an innovative and unpredictable demand, with a wide variety, price markdowns, short lead time, and a high margin, it needs a responsive supply chain.

A responsive supply chain requires fast response, low throughput time, deployed inventory, and flexible suppliers. It certifies product variety, reaching the market through customer needs, little stock uncertainty, spare capacity and minimum production and supplier costs. Zara controls demand uncertainty through an improved information flow, small-batch production, and postponement of the final product from physical stores, creating a standardised product such as a t-shirt up to a point and then customise it in a mass way. Overall, Zara can minimise market mediation costs with markdowns, as its supply is always higher than demand. Therefore, the supply chain diminishes marketability costs.

The matching of innovative products and a responsive supply chain this business strategy has created an agile supply chain intrinsically connected with its order winners and qualifiers. An agile supply chain is an integration of virtual flows with shared information in real demand, a network-based, influenced by partners and focused on core competencies. It has market sensitivity, with daily feedback and the capture of emerging trends (Christopher, 1998).

According to Zara’s relationship spectrum with suppliers, the Kraljic’s (1983) strategic sourcing matrix helps in guiding a company’s procurement strategy to analyse its purchasing portfolio. Buyers and suppliers present a significant impact on Zara’s business and considering the type of commodities produced, there is low supplier market complexity, mainly due to solid relationships. What is more, concerning the products and services that Zara purchases and that it has a wide range of suppliers with good contacts, the Kraljic’s matrix justifies a leverage strategy for the commodities.

**Figure 7** The power matrix (see online version for colours)

![The power matrix](image)

*Source:* Created by the authors based on Cox (2001)

The development of Cox from the Kraljic’s strategic sourcing matrix puts Zara with a supply chain with buyer dominance, where it should be exploited to leverage the ability to play the field between different suppliers.
This company is foremost in attending demand variations, that is why it has flexible processes, changing capacity anticipating or in touch with demand, and the cost per unit is higher than the industry average.

Zara manages capacity through the insurance of relative values of direct cost, quality and delivery. The capacity of one operation being the time available divided by the time per unit. The business has three distribution centres; in 2014, it held over a million pieces in a day without even close to exceeding its capacity.

Nevertheless, if Zara did not have this right, the implications on the lack of capacity would be catastrophic, with no chances of changing every store twice a week, having returned and allowing vast amounts of products to flow within the supply chain. It could be a lack of capacity from the distribution centre, or even the suppliers, who also guarantee the availability of sufficient load to produce Zara’s products. Figure 8 illustrates the mismatch on capacity.

**Figure 8** Load/capacity mismatch (see online version for colours)

Forecast helps capacity as a forward view to plan capacity in terms of the total market and its variations for each product. For Zara, is seasonality and that items remain in stores for two weeks maximum.

Zara forecasts by experts opinions, on a qualitative approach. The merchandising ideas are regulated by the headquarters and sometimes the replenishments. Moreover, store managers provide better forecasts and qualitative information about demand and trend preferences from stores.

Several meetings are held over time with differentiated teams involved, both formal and informally, who work on new collections and supplementing the current ones. Predictions are made through marketing data and seasonal variations, depending on the item, whether it is from the basic or new collection.

The business ability of flexibility needs to be managed with a consistent schedule. Thus, “Zara monitored contractors’ operations closely to ensure quality, compliance with labour laws, and especially adherence to the production schedule” [Ferdows et al., (2014), p.10]. It follows material requirement planning (MRP), beginning by scheduling the finished goods, then transformed on a timeframe for subassemblies and raw materials requirements.
Orders shipped to Zaragoza’s distribution centre, consolidating for a few hours, go to stores from trucks or aircrafts using published schedules. Moreover, this distribution centre and Meco have the latest technology systems to help to provide fast service of garments change with enough capacity, which outcomes in a large number of stock-keeping units (SKUs).

Buyers manage sourcing, procurement and production, monitor inventories and track shortages and oversupplies.

Figure 9  Overview of MRP (see online version for colours)

Source: Created by the authors

One part of MRP is an integrated technology, which enables vendor managed inventory (VMI), creating productivity on inventory management. Suppliers uphold a certain level of stock, adjusted as required. Additionally, there is daily communication with the end-user, reducing variability and uncertainty. Zara uses this pull supply system.

Buffering is about matching the output with demand, and it can be used on inventory, capacity and time. Moreover, inventory is made to order, exhibit 4 shows how Zara has increased its level of stock throughout the years, from 1.214.623 in 2010 to 1.859.516 in 2014, with an average of 1.521.865. It buffers against variable deliveries, variable order and rates of processing. While for capacity Zara’s strategy to determine resources size is chase demand, having short waiting time but high capacity buffering (low utilisation).

The performance criteria of Zara to achieve long-term competitiveness is about speed and flexibility. It is about being on-time delivery, waiting for the design to retailer lead-time fashion garment, speed to market, order processing time, delivery lead time, and customisation. Thus, to get the right value to customers, the triple bottom line is balanced on fast response, profit and innovation.

In Figure 10, there is a comparison on the competitors’ operational performance requirements, based on the correlation between competitors.
Lastly, from the evaluation made on the value chain, the following value chain has been created with the physical transformation of materials into the delivered product. Alongside there has been achieved the relationship with operational characteristics and the performance objectives of the business.

Figure 11  Detailed value chain of Zara (see online version for colours)

Source:  Created by the authors

5 Challenges and recommendations

Zara is an outstanding business that can keep up to demand changes, one of the reasons behind its success as a leading fashion retail company. Nevertheless, also the market is
changing, so businesses need to adapt their strategies. This is what causes the bullwhip effect, demonstrating the influence of customer information flows in increases of variability in the supply chain.

On the one hand, the current issues are the importance of sustainability, by reducing the use of cheap fabrics and toxic textile dyes, the labour and economics changing politics, which should protect everyone involved on the supply chain. Thus, as most production is outsourced and all orders have to go to the headquarters, it prevents the reduction of unsold items. As in VF brands case, Zara also uses third-party logistics, and it can be a threat, as engineers need to be willing to relocate or having intensive training to understand the company manufacturing procedures.

Even though Zara has a long-lasting relationship with suppliers who are reliable, flexible and efficient, there are breakdowns in technology, and some items have a wider variety and lower availability. The company’s gross margin decreased by 1% in 2014, because the operating expenses outstand more and more net profit. Additionally, operating expenses increased about €2,000, and the net growth of EBIT was 1.39. Generally, it is a scenario of investments, and the costs increase, although these should be controlled, for the health of the company to remain stable.

On the other hand, future challenges comprise helping the economy in boosting developing countries through local commerce, increasing costs in the supply chain through operating outside Spain, the evolution of artificial intelligence (AI) in the market, cultural differences from Asian suppliers and Spain. Moreover, as mentioned by the trade-offs law, a system is unable to provide simultaneous and high levels of performance. Zara focuses on delivery lead time and flexibility, perhaps concentrating on price as the concept of fast fashion is more concerned with showing the latest fashion items at the lowest prices.

Forecasts and planning can prevent the bullwhip effect mainly through MRP and VMI, as it diminishes uncertainty, triggered by information flows up and downstream the supply chain.

Figure 12  Order injection point (see online version for colours)

Zara has managed to overcome many paradigms with a leading response. However, there are a few aspects to consider to keep up this trend.
Contrarily to its competitors, this company does not use advertising as a marketing strategy. I believe this should be invested in, as it adds value to the business model. Marketing through social media, digital influencers or even printed versions on the streets. Moreover, it is a vital strategy to demonstrate the social responsibility of the company, showing its care for sustainability, for instance, just as Benetton does.

To adhere the issues of labour and economics, the production can be extended to new stores’ locations, or Zara could build more distribution centres closer to the manufacturing processes, which will decrease producing costs, time and will increase products’ safety. Furthermore, by investing in AI processes, the company will outstand from competitors and new entrants. At the same time that it provides experiences, through digital mirrors where customers can directly interact with payment methods, adding details to the cloth or photos to be shared on social media. This could also improve the forecasts and plans for supply chain with instant feedback.

Communication all over the supply chain is vital to eliminate the bullwhip effect, and therefore, reduce waste caused by handovers. Likewise, suppliers should be integrated on the value chain with ideas to improve the processes, leveraging learning.

All suggestions mentioned, except for the suppliers’ alignment, require financial investments. The resources imply control, focusing on core competencies, hiring technology and marketing professionals, managing the brand and constructing distribution centres. These can enhance business performance in asset and cost efficiency, improve customer service, marketing advantage, and profit growth. Moreover, upgrading concepts downstream the chain, improve stakeholders’ relationships by focusing strategies on countries that add value, guaranteeing the performance objectives of the company.

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