PAPERWORK

TOPIC: Strategic Management, case of Zara

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# I Background of the company

The first Zara store was opened in 1975 by Amancio Artega Gaona, a man with the vision to reproduce trendy fashions using affordable resources with which he would create high demand outfits that could be sold at smaller prices. Zara is the best sold brands that are under Inditex retailer which is the most popular all around the world. This brand is offered is more than 80 countries with around 1700 opened stores. Inditex was established in 1963 and includes 8 brands: Stradivarius, Massimo Dutti, Zara, Bershka, Pull &Bear, Oysho, Zara Home and Uterque. Comparing these 8 brands, Zara has the biggest success, more than 60% of sales. Zara offers to the clients women, men and kids collection including accessories which would help in completing a great outfit.

# II Vision and Mission of Zara

## 2.1. Zara’s vision

*“Zara is committed to satisfying the desires of our customers. As a result we pledge to continuously innovate our business to improve your experience. We promise to provide new designs made from quality materials that are affordable”.*

Zara can be included in the list of the best brands in the world, this company is very successful and it is expanding day by day on the international market. They produce beautiful collections which meet their customer’s needs. The customers of Zara are very loyal to this brand and with impatience are expecting new collection which gives first position to Zara on the list for the most favorable customer brands. If we analyze the vision of Zara, we can conclude that their vision is already achieved.

## 2.2. Zara’s mission

*“Through Zara’s business model, we aim to contribute to the sustainable development of society and that of the environment with which we interacts”.*

Their mission statement evidently and firmly highlights the purpose, which is to be an environmental-friendly company and contribute to society improvement. The other purpose is to set their base in making distribution to the resources in which Zara allocates more on creating an eco-friendly operations and increasing its own supply and value chain further than spending for advertising campaigns.

It is easy for the employees to set their mindset and behavior to be united with the Zara’s objective they know what they are supposed to do, how they ought to do, in order to accomplish the objectives. Taking into consideration the characteristics of mission, which is stated by Fred David we can say that in Zara’s case the mission is broad in scope. It doesn’t have more than 250 words. From the other side Zara’s mission is too simple and can’t encourage people to win accomplishments but they show the environmental and social responsibility in a very good way. To conclude we can say that Zara’s mission doesn’t have all nine characteristics that are given by Fred David and who state that a good mission statement should replicate the expectations of its customers.

# III Long-term objectives

Zara’s business model states that their aim is not only to sustain development in society but also development of the environment. Considering this commitment to the environment all the stores and customers are influenced. Following long term objectives will give better picture:

**The eco-friendly store, save energy:** The company implements eco-friendly management form in the stores with the aim of reducing energy utilization by 20%, initiating sustainability and effective criteria. The managing model sets out procedures to be useful to all processes, including the design of the store, the lighting, heating and cooling systems and the opportunity of recycling furniture and decoration.

**Recycle and produce less waste:** They recycle their hangers and alarms, which are pulled out up from the stores and processed in other plastic essentials. This is an pattern of the waste management policy that is followed in the company. Millions of hangers and alarms are processed yearly and the cardboard and plastic used for wrapping are also recycled.

**The responsibility extends to all their employees, rising awareness between the team members:** In the company exist awareness campaigns and particular multimedia-based preparation programs to train the staff in sustainable practices, for example, restrictive energy utilization, using sustainable transfer and changing of behavior samples**.**

**Use ecological textiles, organic cotton:** The Company supports organic farming and creates some of the clothing out of organic cotton. They have specific labels and are simple to mark in their stores.

**Use biodiesel fuel:** Zara’s fleet of trucks, which carry more than 200 million items of clothing per year, use 5% biodiesel fuel. This allows them to reduce their CO2 emissions by 500 tons.

# III External Assessment

## 3.2. External Factor Evaluation (EFE) Matrix

|  |  |  |  |
| --- | --- | --- | --- |
| **KEY EXTERNAL FACTORS** | **Weights 0.0 to 1.0** | **Rating**  **1 to 4** | **Weighted Score** |
| ***OPPORTUNITIES*** |  |  |  |
| **1. Escalating middle class in Asia** | **0.10** | **3** | **0.3** |
| **2. Opportunity to make distribution centers in developing countries to lower costs** | **0.2** | **4** | **0.2** |
| **3. New designers for creating better designs** | **0.10** | **3** | **0.3** |
| **4. Rising environmental issues** | **0.05** | **4** | **0.2** |
| **5. International Recognition** | **0.20** | **4** | **0.8** |
|  |  |  |  |
| ***THREATS*** |  |  |  |
| **1. Vicious rivalry** | **0.2** | **4** | **0.8** |
| **2. Lawsuit related to sweatshops** | **0.05** | **2** | **0.1** |
| **3. Possible replication of goods** | **0.05** | **2** | **0.1** |
| **4. Intensity of Brand Equity** | **0.05** | **1** | **0.2** |
| **TOTAL** | **1.00** |  | **3.1** |

The Opportunities of ZARA:

**Escalating Middle Class in Asia** weighs as 0.10 with a rating of 3. In this case it is classified as highly-rated because from my point of view it is an important factor. There are two reasons for this classification; first of all, it is because Asia is a active continent in which there are densely inhabited countries with growing GDP, and another reason is because Asian people like what Zara offers on the market. Furthermore, young people are usually western leaning, which means that they like to pursue the trends that the western society has with the will to adapt those trends in the countries where they live. Rating for this factor is 3, which point out that the reaction is above normal because Zara is spreading aggressively in the rising markets of Asia, including India, China, and Indonesia.

**Opportunity to make distribution centers in developing countries to lower costs** weighs 0.2 because it is interesting in order to cut costs of distributing the finished products, even though there are problems that can appear, for example transportation problems in developing countries which actually obstruct the company’s professional supply and value chain. That is also the reason why we put Zara’s response as 4, because they are interested in this selection.

**New designers for creating better designs** weigh 0.10 with a rating of 3. It is essential because they are based on fast-fashion which they need to change products once in two weeks. As a result, exceptional group of designers is fundamental in this industry. In view of the fact that, Zara cooperates with many fresh designers, therefore their response is sort out as more than usual.

**Rising Environmental Issues** weighs a 0.05 with a rating of 4 which means that is classified as superior. They eager to have a good status of being an eco-friendly company, even more they have stated their mission because of this reason, unfortunately the customers very rare care about the eco-friendly subject, particularly consumers in Asian markets. All what they want is fashionable and stylish clothes.

**International Recognition** weighs 0.20 with a rating of 4 or superior reaction; without any doubt this factor is the most significant for Zara’s case because it is the essence for victorious development. Analyzing case of Zara, it is well-known all over the world with good name in many countries. For that reason, it is a crucial point for Zara to have that kind of brand representation in the global market.

The Threats of Zara:

**Vicious rivalry** weighs 0.2 with a rating of 4. This is one of the main threats because of innovative and reasonably priced products from diverse stores, for instance H&M and Forever 21, which can damage Zara concerning consumers’ faithfulness. If we make analysis as of Five-Forces we can conclude that this threat can shape Zara. However, Zara’s investments on advertising and promotion are not so high doesn’t affect the brand’s outstanding growth around the world.

**Lawsuit related to Sweatshops** weighs 0.05 with a rating of 2. This threat isn’t very influential threat since the cases were not highly exposed and because Zara has created an obligation to stop the practice of sweatshops in every country where they have production.

**Possible replication of goods** weighs 0.05 with a rating of 2. There is always the danger of the brand’s products being copied; it can be by their competitor or by careless people that practice imitation. On the other hand Zara targets the middle class which isn’t big concern; moreover Zara’s consumers are loyal to the brand.

**Intensity of Brand Equity** weighs a 0.05 with a rating of 1. This isn’t very important threat because it can’t decrease so much in the brand value. For that reason, Zara is putting into practice the best strategies to boost the brand equity.

To sum up, based on the EFE Matrix analyses Zara has a score of 3.1 which specifies a strong response from Zara towards the opportunities and eagerness of threats.

# IV Internal Assessment

## 4.1. The Internal Factor Evaluation (IFE) Matrix

|  |  |  |  |
| --- | --- | --- | --- |
| **Key Internal Factors** | **Weight** | **Rating** | **Weighted Score** |
| ***Strengths*** |  |  |  |
| Worldwide Outreach | 0.08 | 3 | 0.24 |
| Strategic Position | 0.08 | 3 | 0.24 |
| Allocation Strategy | 0.12 | 4 | 0.48 |
| Store Image | 0.12 | 4 | 0.48 |
| Fast Changing collection | 0.09 | 4 | 0.36 |
| Brand Image | 0.15 | 4 | 0.6 |
| ***Weaknesses*** |  |  |  |
| Limited supply | 0.11 | 2 | 0.22 |
| Price | 0.12 | 1 | 0.12 |
| Brand image closely tagged to competitors | 0.08 | 1 | 0.08 |
| Lack of Marketing | 0.05 | 2 | 0.10 |
| **Total** |  |  | **2.92** |

Table 1. IFE Matrix

### 4.1.1. STRENGTHS

**Worldwide Outreach** Currently Zara has more than 1,700 stores in precisely 86 countries around the globe. This is one of the most important strengths for this brand because it is on international market which is crucial for this industry. So, a weight of 0.08 would be sufficient for this feature. This strength is ranked 3 out of 4 since this feature is without doubt one of Zara’s strengths.

**Strategic Position** Choosing a location for the stores is one of the most important factors because we have to pay attention how to get to the direct contact with customers In every country that Zara opens a new store they use an exceptional approach in deciding what will be the good location. For instance, Indonesia has a high traffic every day so Zara locates the stores in big shopping malls because it is the major place for people to go shopping. From the other side, we have the example of France. Zara locates the store in city center and main streets as the local people usually go shopping. This factor has 0.08 weights taking into consideration the significance of expediency for consumers .Consumers like to find good and quality products in their favorite places for shopping.

**Allocation Strategy** This Company controls most of the supply chain and delivery of its products from the headquarters. Zara has core manufacturing place in three different locations. 50% are produced in Spain, 26% in the rest of Europe, and the rest 24% percent is produced in Asia and Africa. Zara’s distribution center, located in Spain exports products to Zara’s stores around the world. Since Zara’s distribution strategy is integrated by using new advanced technologies it helps in delivering of products in short period of time. The distinctiveness of Zara is the ability to adapt the newest trend in for a very short time which decreases the cost and time needed for production. This strategy has turned out to be the strength. A successful distribution has a advanced weight of 0.12.

**Store Image** The image of Zara is well known all over the world, it is stylish and exclusive brand which has amazing store image. Moreover, great environment in the stores and their exceptional customer services is the result of having loyal consumers. This industry is on very high competitive level so in order to succeed it is crucial to have consumer loyalty; for that reason Zara has high weight of 0.12 and rank of 4.

**Fast Changing Collection** This is the factor that makes Zara unique comparing to the other brands in this industry. This strategy creates refreshment in the collection in two weeks which makes customers go often in the stores, moreover it helps creating new designs and make stronger image of the brand .Therefore, for this strategy rating is 0.09 of weight.

**Brand Image** This is the most important strength of Zara. One of the proofs is that even tough brand doesn’t use all the time organic fabrics and materials or prices are high sometimes, still it makes people go and buy in their stores because by buying Zara’s product they get the image they want. The well-built brand image is admitted everywhere which helps Zara to maintain improvements and attain the sustainability

### 4.1.2. WEAKNESSES

**Limited Supply** However, Zara’s strength is to have fast changing collection there are items which are limited, which means either they are produced in limited number or they can’t be found in every Zara’s store. Zara implemented this strategy intentionally, but weak point is that some customers won’t be satisfied with the fact that they can’t buy specific item in the store in their town. Customer’s disappointment has an consequence for Zara, it can be risky, so ranking is 2 out of 4.

**Price** Zara’s products have different prices in Spain, where it is classified in the group of low-cost items; it isn’t the same case in other countries, for example Indonesia or Balkan countries where one pair of trousers cost around 2000MKD. This is one of the weaknesses for a successful brand, which can create doubt in customers mind whether to buy products with too high prices. Consequently, ranking is of 1 out of 4.

**Brand image closely tagged to competitors** Unfortunately in this industry is very easy to copy other designs (products). Since Zara has very beautiful item, every other brand that would like to go internationally is a danger for copying of designs. If it would happen to have similar products on the market, then customers would switch from one brand to another. To conclude this can be the major weakness of Zara we with rating 1 out of 4.

**Lack of Marketing** This represents Zara as very unique international brand. The lack of marketing and promotion of this brand is weakness which can create a disadvantage comparing to the other brands. It is very hard to see Zara’s logo or advertisements out of Zara’s stores. They rely on the brand image but this might be one day obstacle for Zara if the other brands continue with marketing strategies, especially in rising countries.

From the analysis above, including all the strengths and weaknesses with the result of 2.92. This is an average result from a perfect score of 4. Thus we can conclude that the efficiency in utilizing Zara’s strengths to cover the weaknesses is adequate.

# V Strategies in action

**Integration Strategies**

Zara has implemented forward integration type of strategy, which allows companies get control over distributors and retailers. In this case Zara is one of the companies who has control over the retailer and suppliers all over the world in their stores in order to standardize business presentation. As a growth strategy of Zara is applied, horizontal integration which is dealing with the control over the competitors of this brand or acquisitions, for example Stradivarius.

**Intensive Strategies**

Another type of strategy that is used by Zara is intensive strategy which deals with market penetration, product development and market development.. This type of strategy requires a lot of work because it concerns the company which would like to improve in product development and improvements .Zara is one of the example for rapid expansion all around the world, targeting the emerging markets which promise a lot, especially Asian countries, where you can find in every shopping mall Zara’s store. Currently two strategies are implemented market development and market penetration which include increasing the number of sales people and advertising expenditure. Knowing that Zara doesn’t invest so much in advertising, so they are trying to improve that as well as online shopping and giving better services t their customers.

**Diversification Strategies**

There are two types of diversification strategies, related and unrelated. Nowadays this strategy isn’t so popular because nowadays is much harder to control diverse businesses. A related type of diversification is implemented by Zara, through introducing the accessories in the stores, for example bags, jewelry, etc. From the other side Zara is implementing unrelated diversification, in the case of Zara Home which is introduced in 55 countries. This branch is selling accessories and ornaments that are used for house decoration and it is relatively expensive comparing to its competitors in that market.

**Defensive Strategies**

Since the establishment of Zara till nowadays, the company didn’t face with any crises, concerning cost reduction because company is very stable. For that reason Zara doesn’t implement any type of defensive strategy including divestiture or retrenchment

## 5.1 Michael Porter’s Five Generic Strategies

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **SIZE OF MARKET** |  | **GENERIC STRATEGIES** | | |
|  | **Cost Leadership** | **Differentiation** | **Focus** |
| **Large** | Type 1  Type 2 | Type 3Zara_Logo4.png |  |
| **Small** |  | Type 3 | Type 4  Type 5 |

Table 2. Generic Strategies, three bases

Cost leadership, differentiation and focus are three bases of generic strategies that re defined by Porter who claims that by having these three basis a company can have competitive advantage over its competitors. In Zara’s case, when it comes to cost leadership it implements both types, 1 and 2 which are both focused on large markets selling standardized products at the low cost and best value strategy. Another type of strategy is used, differentiation, which is used in large and small markets, in case of Zara is production of services for consumers that are price insensitive. So we can conclude that Zara is classified as Type 3 in both markets. Another concept can be included under differentiation that is fast fashion, or changing the collection after two weeks. The last base is focus, which means production of goods that are for small groups of consumers. In this case we have two groups as in cost leadership, low cost strategy so called type 4 and best value cost strategy type 5. In Zara’s case, customer focuses in on large market.

# VI STRATEGY ANALYSIS AND CHOICE

## 6.1 The Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix

|  |  |  |
| --- | --- | --- |
|  | **Strengths** | **Weaknesses** |
|  | Worldwide Outreach | Limited Supply |
|  | Strategic Position | Price |
|  | Allocation Strategy | Brand image closely tagged to competitors |
|  | Store Image | Lack of Marketing |
|  | Fast Changing collection |  |
|  | Brand Image |  |
| **Opportunities** | **SO Strategies** | **WO Strategies** |
| Escalating middle class in Asia | Open new stores in emerging countries in Asia (S1, O1) | Charge products at competitive price in Asian countries’ standards (W2, O1) |
| Opportunity to build distribution center in developing countries to lower costs | Build distribution centers in Asia to lower distribution costs for Asian countries (S3, O2) | Produce a signature collection (W3, O3) |
| Cooperation with new designers | Be the modernizer (S5, O3) | Improve the current brand image and company’s image (W4, O4, O5) |
| Rising environmental issues | Promote the company’s vision to be an eco-friendly company (S6, O4) |  |
| International Recognition |  |  |
| **Threats** | **ST Strategies** | **WT Strategies** |
| Vicious Rivalry | Expand in new market and be the first player in the market (S1, S2, T1) | Increase spending for marketing campaign (W4, T1) |
| Lawsuit related to sweatshops | Produce the new trends with higher turnover (S5, T3) | Enhance ZARA’s differentiation through its unique designs (W3, T4) |
| Possible imitations of commodities | Increase the brand equity through better service (S5, S6, T4) |  |
| Intensity of Brand Equity |  |  |

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