

Degree in Management

Integrated Operations Management

Supply Chain Management

Case study
Zara

2013/2014

Zara

Zara is one of world's most successful and dynamic apparel businesses. It is the flagship of Inditex, a vertically integrated retail and manufacturing group based in Galicia. The first Zara store opened in the city of La Coruña in 1975. In 2005 the company already had more than 600 stores in 44 countries worldwide.

Zara produces and sells highly fashionable apparel for men, women and children. It offers its customers the very latest design trends at affordable mass-market prices. Physical product quality is good enough to see out the season, but not necessarily longer. Frequent shoppers visit a Zara store on average 17 times per year. To retain their interest, stock is constantly varied and updated. New deliveries arrive twice a week. Few products are available in store for more than a month.

The company does not seek to set new trends itself, just to be a very fast and flexible follower. It employs a large team of design staff who glean inspiration through visits to fashion shows, competitors' stores, university campuses, pubs, cafes and clubs, plus any other events relevant to the lifestyles of the target customers. These guidelines are further compared to regular inflows of sales data and other information from all of the company's stores and sites around the world.

Zara's main competitors are The Limited, Gap, Mango, Mexx, H&M and Benetton. All of them aim for fast responses to their stores. However, Zara's success in such competitive environment is testament to its ability to implement an operating strategy – based on the dual objectives of minimizing stock and responding quickly to market needs – even more effectively than its rivals.

The process of supplying goods to the stores begins with the cross functional teams – comprising fashion, commercial and retail specialist – working within Zara's Design Department at the company's headquarters in La Coruña. Fashion specialists within the Design Department are responsible for the initial designs, fabric selection and choice of prints and colours. It is then up to the team's commercial management specialists to ascertain the likely commercial viability of the items proposed. If the design is accepted – two-thirds are not – the commercial specialist proceed to negotiate with the suppliers, agree purchased prices, analyse costs and margins, and fix a standard cross-currency price position for the garment. Stores prices reflect the price position agreed for goods sold in Spain, plus the cost of distribution.

The size of the production run and launch dates (the latter vary between countries in accordance with the customer and climate) are also determined at this point.

Approximately 20 per cent of the merchandise – items with the broadest and least transient appeal – is imported as finished goods from low-cost manufacturing centres, mostly in Asia. Around 50 per cent of all Zara's merchandise is manufactured in-house using the company's own highly automated factories and network of small contractors clustered around La Coruña. The remainder is produced elsewhere in Spain or in other European countries.

Raw materials are purchased from countries all over the world. The global sourcing policy, using a broad supplier base, provides the widest possible selection of fashion fabrics, while reducing the risk of dependence on any source or supplier. Approximately half of the materials is purchased in “grey”, to be dyed or printed and finished by one of Inditex's other Galician subsidiaries. The turnaround time for this process is only one week.

Only those operations which enhance cost-efficiency through economies of scale are conducted in-house (such as dyeing, cutting, labelling and packaging). All other manufacturing activities, including the labour intensive finishing stages, are completed by networks of hundreds of specialized small subcontractors. These subcontractors work exclusively for Zara's parent, Inditex. Inventory costs are kept to a minimum because Zara pays only for the completed garments.

Finished goods are forwarded to the company's two distribution centres in La Coruña and Zaragoza where they are labelled, price-tagged and packed. From there they are carried by third-party contractors by road and/or air to their penultimate destinations. All deliveries are completed within 48 hours.

In an industry where lead times of many months are common, Zara outstands. The whole design, production and delivery cycle takes only four to five weeks. Design modifications and restocking of existing products, if required, is completed within 14 days. The system is flexible enough to cope with sudden changes in demand and shop-by-shop stock allocations are calculated centrally. True to its original objectives, the company has consciously opted for undersupply, viewing it as a lesser evil than holding slow-moving or obsolete stock.

Adapted from: Christopher, M. (2005), *Logistics and Supply Chain Management – Creating Value-Adding Networks*, Prentice Hall, pp. 57-60.

Questions

- 1) Draw a diagram with the entities and flows in the supply chain.
- 2) Identify the supply chain strategy used by Zara, according to Hau Lee's classification. Justify.
- 3) Why is the company using so many outsourcers instead of only a few major ones?
- 4) What would happen if the stores sent information only on a weekly basis? And once every two weeks?