ZARA'S CASE STUDY

The Leader in the Fast Fashion Concept

Author: Maria Joana Mascarenhas de Lemos

Advisor: Professor Pedro Celeste

Dissertation submitted in partial fulfillment of requirements for the degree of MSc in Business Administration, at the Universidade Católica Portuguesa, date 2013

Acknowledgements

This dissertation is the result of hard work and effort to obtain the information necessary for its completion. It was a challenge to develop a topic related to Zara and the Inditex Group, however, my personal goal was accomplished. I chose this topic having a sense of the difficulties I had to overcome as Zara follows a *low profile* policy which prevents it from transmitting any information regarding the company’s strategy. For this reason, it would have been much more difficult to conclude my master dissertation without the contribution of several people who enable and motivate me throughout its development.

First of all, I would like to start showing my acknowledgement for the support given by Professor Pedro Celeste, my dissertation’s advisor, who was always available to advise me and to answer my questions concerning my thesis.

From Zara, I would like to show appreciation for the help given by Pedro Vidigal, Marketing Director of Zara in Portugal, in the beginning of my thesis. Even though he could not give any information regarding the company’s strategy, he was available for a more informal conversation and provides me with general information about the company.

I would also like to thank the “audit team”, my group of friends from the master, with whom I had the opportunity to develop different projects and share experiences during the last year. In particular, Concha and Zé Maria, since we requested to conclude our dissertation in a previously agreed submission date, their help and motivation was essential to its completion. Withal, and also really important, I must acknowledge the support of my family and my boyfriend, António, who encouraged me through the entire period of my dissertation.

Finally, I would like to recognize the importance of those who answered my dissertation’s online survey, which was essential in developing a more complete market research.

Abstract

Dissertation Title: Zara's Case Study – Be Big with small things.

Author: Maria Joana Mascarenhas de Lemos

The evolution of technology and the consequent dynamism in present markets led to changes in consumption patterns and habits of consumers. These changes have given them the opportunity to be more informed, mainly across the internet, thus gaining power which creates a challenge in companies' way of competing. In the retail or, more precisely, fashion industry, companies are adapting their strategies to this new reality where Zara is seen as one of the most successful cases.

Zara is considered the best known brand in the Inditex Group, representing a success in terms of adapting strategies to market challenges. The real purpose of this dissertation is to provide an overview of how Zara achieved the fascinating success it is today. The brand is known as a monster in the fashion world, a pioneer in the fast fashion concept, which reflects the way Zara manages its supply chain and the perception of consumers about the brand.

In fact, Zara is defined by the rapid response it can generate and the way the brand implements the fast fashion concept, giving to consumers the perception that if they want or like something, they need to buy it now. Furthermore, Zara case study allows an overview on how good strategic decisions, product management and marketing management can be essential for a company's success; and these results will, for sure, be useful for other companies that are operating in the same market.

Resumo

Título da Dissertação: Zara's Case Study – Be Big with small things.

Autor: Maria Joana Mascarenhas de Lemos

A evolução da tecnologia e o consequente dinamismo nos mercados de hoje em dia levaram a grandes mudanças nos padrões de consumo e hábitos dos consumidores. Tais mudanças deram aos consumidores a oportunidade de estarem mais informados, principalmente através da internet, e ganharem poder criando um desafio na forma como as empresas competem no mercado. No retalho ou, mais precisamente, na indústria *fashion* as empresas começam a adaptar as suas estratégias à nova realidade, onde a Zara é olhada como um dos casos de maior sucesso.

A Zara é considerada a marca mais famosa do Grupo Inditex, representando o sucesso em termos de adaptação das suas estratégias aos desafios do mercado. O verdadeiro objetivo desta dissertação será proporcionar uma visão geral de como a Zara alcançou o sucesso fascinante do presente. A marca é considerada um monstro no mundo da moda sendo a pioneira do conceito de *fast fashion* refletido na maneira como a Zara gere e sua cadeira de produção e pela perceção dos consumidores sobre a marca.

Na verdade, a Zara está marcada pela resposta rápida que consegue oferecer e pela maneira como implementou o conceito de fast fashion gerando nos consumidores a perceção de que caso estes gostem ou desejam algum dos seus produtos, necessitam de o comprar já. Além disso, o caso de estudo da Zara permite uma visão geral da maneira como boas decisões estratégicas, gestão de produto, e gestão de marketing podem ser essenciais para o sucesso de uma empresa; e estes resultados serão, com toda a certeza, bastante úteis para outras empresas que operantes no mesmo mercado.

Content

List of pictures

Introduction

The current world where market retailers are operating in can be described in one simple word: dynamic. Everything can change from one day to another because consumers are changing their habits and consumer patterns. Retailers need to adapt to each change that can arise – by adapting their strategies, launching new products, creating a new promotional campaign, repositioning their brands, adapting their prices etc. Nowadays, the importance of consumers' shopping experience is one of the big trends, which in turn creates on the retailers the desire to improve their store image and productivity in order to inspire loyalty and improve consumers' perception of the brand.

Retailers need to be everywhere – where consumers are, they will be. They need to be adaptable to each change that can arise- adapting their strategies, launching new products, creating a new promotional activity, repositioning their brands, adapting their prices etc. Nowadays, the importance of consumers' shopping experience is one of the big trends that create on retailers the desire to improve their store image and productivity. In fact, this is a successful strategy in creating loyalty and improves consumers' perceptions about the brand and the store that can be an important asset when competing in a market like this - full of challenges.

Inditex is a successful example in terms of adaptability to market challenges, mainly in the last years. Founded in 1985 by Amancio Ortega, Inditex is a Spanish Multinational clothing company operating in the Retailing Industry. The majority of the company sales are represented by Zara, "possibly the most innovative and devastating retailer in the world"[1]. In fact, Zara - the first successful brand of the Group – is an example of success all over the entire world, not only because of the constant adaption to meet the challenges of the sector, but also because the way it can manage its supply chain. For example, it needs just two weeks to develop a new product and to get it into the stores, compared to the six-month industry average. It also launches around 10,000 new designs each year.

[1]Source: Louis Vuitton Fashion Director

Problem Statement

The aim of this research is to understand how Zara uses its strategies in an efficient way, which led the brand to become a leader in the fast fashion concept. It has included a deep study of thee actual profile of consumers allowing an overview of the fast fashion concept implementation and the influence in terms of Zara business model.

- **Key Research questions**

RQ1: In which strategy Zara was a pioneer? How it works?
RQ2: What is unique about the way Zara communicates?
RQ3: How is Zara using consumers to create value for the company?
RQ4: How are consumers evaluating Zara? What is their perception of the brand?

Methodology

In order to really understand the topic and answer the key research questions, I will use two types of data: **primary and secondary data**.

Secondary data corresponds to what has been already collected and published by other people – Inditex and Zara reports and documents, articles published in magazines or newspapers and all information collected from Internet that is related with my research proposal. It also includes information about the retailing industry and trends in the sector; consumer habits; distribution channels and strategies inside the apparel industry.

In terms of primary data it refers to what I propose to collect to deepen my study and that will make my market research something more consistent and different from other possible studies. I will start by doing an exploratory interview to the Marketing Director of Zara in Portugal, Dr. Pedro Vidigal, to better understand how the company, Inditex, and the brand, Zara, work and strategies that they adopt. In addition, a multiple choice survey was created with questions aimed at possible consumers. Its objective was to enable me to understand their perception of the brand in general and why they go to Zara instead of its competitors, and to clarify if their reasons are consistent with strategies adopting by the company.

1. Literature Review

This section of the dissertation can be view as an introduction to the Case Study section. In fact, the literature review presents some theoretical concepts that will permit a more complete understanding of Zara's Case Study. It will present an overview of three main topics: 1. Retail Industry – general overview, managing of retail brands, and challenges for retailers; 2. Consumer habits affecting retailing strategy; and 3. Fashion Apparel Industry where it will be included the concept of Fast Fashion. It starts from the most general to most particular topic, which will be the main focus of the next dissertation's part – the Case Study.

1.1. Retail industry

Retailing is an eventful journey in the life of a shopper. It creates a total customer experience by providing solutions, respectfulness, connecting with customers' emotions and convenience (Berry et al., 2002). If a business is to be classed as retailer, its core activity, which accounts for over half of its total revenue has to come from selling finished products or providing personal services to the final consumer (Dr.Mayank Sharma, 2009). Regardless of whether the firm sells to the consumer in the store, through the mail, over the telephone, through the Internet, door to door, or through a vending machine, the firm is involved in retailing, which in turn is the last step in the supply chain (Patrick M. Dunne and Robert F. Lusch, 2008).

Many observers of the American business scene believe that retailing is the most "staid and stable" sector of business. While this observation may have been true in the past, quite the contrary is occurring today. Retailing includes every living individual as a customer and accounts for 20 percent of the worldwide labor force, and consumer spending represents nearly a third of America's total economy. As the largest single industry in most nations, retailing, or spending by consumers, is necessary for businesses to "grow and hire again" (Patrick M. Dunne, 2013).

For the retailers, an effective brand management is really important when they are trying to create a sustainable competitive advantage in the market. Brand strategy is grounded on two factors: differentiation and brand-added value (Riezebos et al., 2003). Brand management is a complex task as it involves survival in global competition and constant growth over the world. Branding has become one of the most important aspects of a marketing strategy (Dr.Shivanan, M.Hungund, 2012). Profitability is directly linked with an organization's ability to differentiate and brand its products and one of the most important skills that marketing manager managers must possesses today, is his ability to build, manage and enhance the brand equity.

Dr. Gulnar Sharna, Ms. Meghashri Dalvi, (2010) consider that, in terms of Retail Marketing Strategies, is necessary to take into account three points: 1. interpreting the needs of consumers; 2. developing good assortment of the merchandise; and 3. presenting them in an effective manner so that consumers find it easy and attractive to buy; and these strategies involving types, distribution and composition of retailing is determined by two major factors: demographic trends and lifestyles trends. However, these points need to be always adaptable to changes in retailing that are arising day after day. Such challenges are going to be described in the next topic.

1.1.1. Challenges and trends in Retailing

"Today, retailing is undergoing many exciting changes and facing the question "What's Next?" in every single day" (Kotler 2010).

The success in retail industry is all about being better, leaner, and faster to adapt to changes. The retail strategy needs to be flexible so as to maximize profit in the globalized, uncertain world and having competitive pricing can make or break the business. Some of the challenges faced today by retailers' strategies are: individualistic consumers; globalization; complex pricing; supply chain management; online competition (Dr. Gulnar Sharna and Ms. Meghashri Dalvi, 2010).

According to Patrick M. Dunne and Robert F. Lusch, 2008, what is really undergoing in the retailing business is: e-tailing where retailers start experimenting various strategies, both in-store and online because the next generation of technology will change the consumers' expectations of what they demand from their retailers; price competition arising from the new tendency of private labels; demographic changes creating on retailers the need to be more service oriented; and store size where category killers start being more present.

In fact, Retailing is considered a dynamic industry, constantly changing due to shifts in the needs of consumers and the growth of technology. Therefore, in order to survive in retailing, a firm must do a satisfactory job in its primary role, i.e., catering to customers (B. Krishna Reddy, J.Suresh Reddy, 2010). Customer behavior has changed and nowadays buyers want to see frequently new stiles (Bruce and Dali, 2006). This is the result of the new buyers' behavior, clothes are not used anymore to protect the body from the cold, but to accompany a personal style and support aimed personality appearance (Caifeng, 2009).

In fact, consumers are tightening their belts, and retailers are feeling the pinch. But even in these tough times reflected in major changes for retailers, they can win new business and gain customers' loyalty by focusing on people who are not their best customers – and by making sure they offer what those customers really value (Ken Favaro, Tim Romberger and David Meer, 2009).

There are several trends for the retailers to overcome challenges that were previously mentioned. Retailers started to be more service oriented (Patrick M. Dunne, 2013) due to the fact that consumer spending on goods as a share of GDP tends to decline while spending on services grows disproportionately. The focus on customer experience started to be even more important since one of the leading problems faced by many retailers is a lack of differentiation among competitors which leads consumers to view store as commodities. One way to tackle this problem is to focus on improving the experience of consumers inside the store. Integrating multi-network operation is another trend that enables an expansion of the business to the virtual environment and the possibility to gain market share (Simona and Raoul, 2008).

Harvard Business Review in 2001 cited five rules for the retailers match the recession "1. Focus on customers who are loyal neither to you nor to your competitors; 2. Close the gap between their needs and your current offering; 3. Reduce the "bad costs" – those producing benefits customers won't pay for; 4. Cluster your stores according to local similarities and differences in customers' needs and purchase behavior; 5. Retool your processes – customer research, merchandise, planning, performance management, strategic planning – to better position their company". Ken, Tim and David (2009) mentioned that "Hard times can be an opportunity to win loyalty from more customers, increase productivity, and strengthen market position" and retailers are not an exception.

1.2. Store experience

Whichever the industry is, customer experience is a major tool for achieving competitive advantage. It is the sum total of feelings perceptions and attitudes formed during the entire process of decision making and consumption chain, involving an integrated series of interactions with people, objects, processes and environment (Carbone and Kaeckel, 1994; Berry et al., 2002; Mascarenhas et al., 2006; Meyer and Schwager, 2007). Positive customer experience leads to enhanced productivity, therefore the best way to achieve this in the retail industry is by starting to analyze customers' expectations (Journal of Marketing and Communication, 2003). Retailer practitioners have widely recognized the critical role of store design and invest considerably on creating attractive and pleasant shopping environments (Sitek, 2006). The greater the degree to which a customer experiences satisfaction with a retailer, the greater would be the probability to revisit (Wong and Shoal, 2003).

A retail store experience involves activities such as browsing, price comparisons, search for merchandise, evaluating product variety and quality, and interaction with store personnel (Terblanche and Boshoff, 2001). Colors, lighting, music, arrangements, ambient scents and layout influence consumer responses in a variety of ways (Michon and Chebat, 2004, 2007). Retailers should create a theatrical retailing environment; emphasize fun, excitement and entertainment; and encourage greater customer participation in the retail service experience. Retailers need to affect every aspect of customer experience by properly managing all possible touch points, store design and layout, package designs, product functions, employee training, and shipping and logistics method (Kotler et al., 2009). It has been reported that store atmospherics – ambience, design, social, sensorial, and functional elements have significant influence on shoppers' enjoyment, satisfaction, desire to stay and spend more, and states of mind (Kotler, 1973; Turley and Milliman, 2000, Baker et al., 2002; Andreu et al., 2006).

The right store layout might be more important than ever for brick-and-mortar businesses wishing to stay competitive with their online counterparts, a new study suggests. According to the study, the optimal layout of a store can sometimes be one that makes the shopping experience as easy as possible for consumers. In other instances, it can be a layout that makes it more difficult for shoppers that works best (Elizabeth, 2013). In conclusion, the layout of the store directly impacts how many people will come into your store, how long they will stay there, and how well they will move around the store and interact with the stock you have for sale (Fleming, 2007).

1.3. Fashion Apparel Industry

The fashion apparel industry has significantly evolved, particularly over the last 20 years, when the boundaries of the industry started to expand (Djelic and Ainamo 1999). The changing dynamics of the fashion industry since then, such as the fading of mass production, the increase in number of fashion seasons, and modified structural characteristics in the supply chain have forced retailers to desire low cost and flexibility in design, quality, delivery and speed to market (Doyle, Moore, and Morgan 2006). In addition to speed to market and design, marketing and capital investment have also been identified as the driving forces of competitiveness in the fashion apparel industry (Sinha 2006). Franks (2000) suggested 'sense and respond' as the key strategy to maintain a profitable position in this increasingly dynamic and demanding market. A key defining characteristic of rapid responsiveness and greater flexibility, in this context, is to maintain closer relationships between suppliers and buyers (Wheelright and Clark 1992).

Among the various reasons changing the dynamics of the fashion industry are the following: fading of mass production, modified structural characteristics in the supply chain, desire for low cost and flexibility in design, quality, delivery, and speed to market (Doyle, Moore, and Morgan 2006). This indicates that fashion retailers can gain a competitive edge in the market by allying speed to market with their ability to provide fashion trends rapidly to the consumers, resulting in adoption of 'quick fashion' to reduce the time gap between designing and consumption on a seasonal basis (Taplin 1999).

1.3.1. Fast Fashion Concept

In recent decades, retailers including Benetton, H&M, and Zara have revolutionized the fashion industry by following a strategy known as *fast fashion*. It describes the retail strategy of adapting merchandise assortments to current and emerging trends as quickly and effectively as possible. Fast Fashion retailers have replaced the traditional designer-push model – in which a designer dictated what is “in” – with an opportunity-pull approach, in which retailers respond to shifts in the market within just a few weeks, versus an industry average of six months (Donald Sull and Stefano Turconi, 2008).

Nowadays, the big fashion houses have main collections, pre-collections and flash collections. Style changes faster than ever and new trends spin quickly in and out of fashion consciousness, with a ready host of celebrities and public figures to buy and promote them. Globalization compounds these challenges as retailers from around the world compete with each other and race to shorten lead-times. Having new trends in the shops earlier is the key to scooping more customers.

For retailers that get fast fashion right, the benefits can be enormous. Fast fashion chains have grown faster than the industry as a whole and seized market share from traditional rivals. In a challenging European retail climate, these companies are expanding their sales and profits over 20 percent per year. Their share of the domestic apparel market (measured by sales value at retail) has grown from virtually nothing in the 1980s to over 20 percent in Spain and 5-10 percent in the United Kingdom, Germany and France. Fast fashion leaders typically earn higher profit margins than their old-guard competitors, averaging 16 per cent, versus 7 percent for the typical specialty-apparel retailer (Donald Sull and Stefano Turconi, 2008).

2. Case Study

2.1. Introduction

Amancio Ortega started in 1963 as a clothing manufacturer founding Inditex Group, a Spanish multinational clothing company headquartered in Spain. Over the span one decade, his business grew steadily and Ortega owned now several factories, which also distributed their merchandise to other European countries[2]. Zara was the first of the Inditex brands to become well known, when in 1975 the first Zara store opened in Coruña, Spain, where the company's headquarter still is (Exhibit 1). From this year on, Inditex kept on growing, opening new stores and creating new brands, never settling and always wanting to be better. Today, Inditex group is known worldwide and Amancio Ortega is the third richest man in the world. Everyone wants to know the secret that led the company to what it is today. The case study that is going to be presented intends to answer and understand how Zara is using some strategies to be the success it is today, and of course, how it also lead the entire company to the same level of success.

2.2. Inditex Group

Inditex Group, one of the world's largest fashion retailers was founded by Amancio Ortega in Coruña, northwest of Spain. Inditex is represented in 6.104 stores around the world and is composed by eight different concepts of brands: Zara and Zara Kids, Zara home, Pull&Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, and Uterque (Exhibit 2 and Exhibit 3).

Today, the group is present in the world's most important cities, always in major shopping areas and it is composed by more than 6104 stores in 86 markets worldwide (Exhibit 4). There are around 4,400 stores in Europe and almost 2,000 in Spain alone and Inditex's main rivals are way behind. For example, when compared with its big competitors, Arcadia Group, which owns Topshop, among others, has about 3,000 stores worldwide; H&M, based in Sweden, has 2,500 (when you include its smaller lines of stores); and Mango, based in Spain, 2,400[3].

---

[2] Source: Inditex official website, www.inditex.com
[3] Source: The New York Times, (2012). *How Zara Grew Into the World's Largest Fashion Retailer.*

The majority of Inditex's manufacturing is done in the factories it owns or close to the company's headquarters, in Europe or Northern Africa. The company owns factories in Spain and outsources production to factories in Portugal, Morocco and Turkey — typically considered to be costly labor markets. The rest of its clothes are produced in China, Bangladesh, Vietnam and Brazil, among other countries[4].

One of the main competitive advantages is based on the fact that the company controls the entire fashion process as well as retail. In the variable and fast changing fashion world, it prioritizes time-to-market through vertical integration, implemented in all the brands, and it is involved in all stages of the fashion process: design, manufacture, logistics and distribution to its own managed stores. The group designs and manufactures almost everything by itself and one of its points of differentiation is based on the centralization of its supply chain management.

Inditex has grown dramatically in recent years (Exhibit 5), achieving consolidated turnover of 15,946 million euros in 2012, and net profit of 2,361 million Euros. In September 2013, the group generated 10,000 new jobs creating a total number of employees of 122,579. An investment of €450 million in commercial and logistics areas alone created more than 1,500 jobs in Spain. The group has kept on growing and this is reflected by the opening of 95 new stores only in six months, achieving a total of 6,104 stores in the 86 markets it is operating[5].

Picture 1: Results of Inditex million of Euros (from 2008 to 2012)

Source: Inditex annual report 2012

[4] Source: The New York Times, (2012). *How Zara Grew Into the World's Largest Fashion Retailer.*
[5] Source: Inditex annual report 2012

In terms of sales, Zara's sales account for more than two-third of Inditex's sales and the number of Zara's stores represent one-third of the company total number of stores. It is not a secret that Zara, being the largest brand in the Group, represents a successful brand that serves as an example for the all other Inditex's brands. Hence, the next topics will focus on this 'big brand' of the Inditex group with one propose: understand what is the model used by Zara to reach the success it is today and if this model can be applied by other companies to achieve the same success.

2.3. Zara since the beginning

The journey of Zara began in 1963 when it began as a small women's wear manufacturer. The visionary Amancio Ortega, opened in 1975 the first Zara's store in the main street of Coruña, located in Spain. Zara was initially called "Zorba" after *Zorba the Greek*, a popular movie at the time but there was a bar with the same name whose owner implored Inditex's CEO to change it[6]. Ortega rearranged the letters and gave the name "Zara" to the brand – the first store offering higher fashion clothes and low priced products. Zara was born as a success and came to make the difference in the retail sector, more precisely, in the fashion industry where the brand main competitors are represented by H&M and Mango (Exhibit 6). Inditex has not had to do almost nothing for the brand start to be a success at a world level because Zara's growth was unstoppable since its first store was opened.

The store's success was so great that in less than 10 years other stores were opened in Spain's major cities. At this time the stores were already selling men and women collections aligned with major global trends, literally opening the world of haute couture to the wealthy social classes. In fact, the company began the process of changing the design, manufacturing and distribution in order to reduce production time, and thus respond quickly to newly emerging trends, which drew instant fashion.

The company had been growing with quietly advertising until the 80's when it began its international expansion, flooding the market with crisp modern design and affordable prices. In late 1988 the company opened its first store in Porto (Portugal), a year later jumped to New York, then came Paris (1990), Mexico (1992), Greece (1993), Belgium, Sweden (1994), Norway and Israel (1997), Germany, Holland and Brazil, all in 1999.

[6] Source: Flare, (2013), *Go Inside Zara's Locked Down Headquarters in Spain*

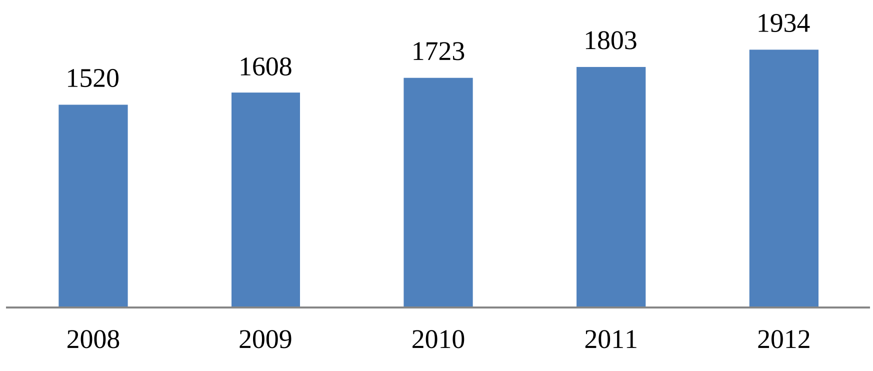
Zara's most important step towards international expansion was given on April 10, 2002, when it opened its first store in Milan, the world capital of fashion. A three-storey former cinema in the most commercial street of the city was chosen to open it. Success was immediate. Under the motto of being a fashionable and innovative brand with competitive prices, it prospered and became a giant in the retail sector, conquering markets in many countries, completely outperforming the competition. In 2005, Europe's chic principality of Monaco, surrendered to the charms of the Spanish brand - Zara - by winning its first store.

Recently, in 2010, Zara launched for the first time a website and facebook page to become a global e-commerce force (Exhibit 7). In the beginning, the brand opted to launch the website in Spain, France, Italy, Portugal, United Kingdom, and Germany since together they represent 40% of Zara's sales[7]. In the same year, Zara achieved for the first time more than 11 billion euros which can be consider a reflex of the brand's new strategy. In 2011, one year after the launch of the website, the online store was available in 16 European countries and, in 2013, it has achieved so far online sales of over 600 million euros, almost double that of 2012[8].

Nowadays, Zara, who became a marketing case unprecedented in the segment, is known as the machine that makes fashion. After 38 years, Zara continues to expand its empire, opening new stores in emerging markets and developing its digital strategy. In 2012, Zara opened 120 new stores, reaching 1,934 stores in 86 countries across Europe, America, Africa, and Asia[9].

Picture 2: Evolution of the number of Zara stores between 2008 and 2012

Source: Inditex Annual Reports, 2008-2012



7 Source: Inditex Annual Report 2011
8 Source: Inditex Annual Report 2011
9 Source: Inditex Annual Reports: 2008, 2009, 2010, 2011, and 2012.

It also launched its website across new important markets such as China, Russia, and Canada, operating now in 21 countries via online. Today, Zara is repositioning its brand which consists in change the concept of the stores to create a differentiated experience for the customers and match the brand competitors, mainly represented by H&M and Mango.

2.4. The secret for the success

2.4.1. Finding an opportunity

Today, consumers are no longer loyal to their things and easily change if they perceive that something is better. Any change in the market can also lead to consumers changing their demands. Nowadays, consumers are better informed, mainly across the internet, which allows them to compare everything they want in terms of prices and in turn to make better choices. Due to that, consumers started to be more selective about what they are going to buy, and this fact started to change the way companies reacted since they were losing power to the consumers.

Consumers, because of the power they are gaining, are also more time efficient. They are changing the way they view time. For them, time became a precious thing in everything they do and it created even more demanding consumers. When they want something, what they expect from the market is to have it in the smallest amount of time possible and through whatever channel they choose. This represents a challenge for the companies because if they cannot respond to their demands, consumers are willing to replace by those who can do it.

As we understand, consumer demands are no longer stable, on the contrary, they change as fast as technology allows. Consumers are using the easy access to information through communication technologies to transform the supply chain into a network of partnerships. Nowadays, consumers are constantly connected with the world and talking about their needs and desires. They talk about new fashion trends and eagerly wait for the next collection and share it into fashion magazines, blogs, social media (like facebook) and forums. Most of the companies usually use this information to adapt their collections but **Zara is doing it differently** because it finds an opportunity in consumers' habits[10].

2.4.2. Pioneer in the Fast Fashion Concept

Through these years of expansion, Zara has always kept its focus in terms of strategy. In fact, Zara has a commitment to itself: instead of being a high fashion brand, be a fast fashion brand that can quickly adopt the higher fashion styles at an unbeatable price. Because, the fast fashion industry is always changing and companies are facing increased challenges in terms of predicting what is going to happen in the market, Zara bases its strategies on being as quick as possible in terms of response to market and consumers' demands.

Inditex is one of the pioneers in the *fast fashion* concept, which essentially consists on imitating fashion trends, producing it rapidly and with a continuous innovation, which can generate an increase in the profits. Every single one of Inditex's brands, Zara, Zara Home, Bershka, Massimo Dutti, Oysho, Stradivarius, Pull & Bear and Uterqüe, follow the Zara template: inexpensive products when thinking in terms of price/quality, always trendy, sold in fashion and modern stores that are capable of creating the feeling of a different experience when customers are there.

Over the years, Zara started to be considered a leader in the fast fashion concept and in the industry because the brand began to change the fashion industry with a new concept: instead of designers predicting what the customer will want, the customer chooses what will be sold. Zara has more than 200 designers aware of the latest trends in the market, making international trips to understand what fashion trends are on a global scale. Zara's success is also related with the rapid response according to customers' trends in the fashion segment. Thus, Zara designs and produces a new collection twice a week, and distributes it to each single store in the world, spending 24h to arrive if the store is located in Europe and, 48h, if the store is located outside Europe. These collections are not big since the goal is to sell them as fast as possible to prevent pressure, by constantly promoting them and forcing consumers to go to the stores on a regular basis. Zara wants to give to its customers the perception that if they want or like something, they need to buy it now.

[10]Source: Consumer Channel Dynamics, (2013), The Secret Behind Zara's Success. Available at: http://consumerchanneldynamics.wordpress.com/2013/01/23/the-secret-behind-zaras-success/

"They broke up a century-old biannual cycle of fashion," Golsorkhi says. "Now, pretty much half of the high-end fashion companies" — Prada and Louis Vuitton, for example — "make four to six collections instead of two each year. That's absolutely because of Zara"[11]. In fact, when the concept of fast fashion arose, was not only Zara that had to change their way of competing. Other companies chose to adopt the same template, while others preferred to maintain the same business model. Because of that, the competition had changed. Benetton is no longer the biggest competitor, making H&M a more suitable competitor for Zara. That is why it is important to understand how Zara is using its business model as a way to compete and to maintain the lead in the fast fashion market.

Every day, more companies such as H&M and Mango are trying to follow Zara's template but the strategy used by the Inditex group is not limited to sell cheap and fast fashion clothes; it also involves a new concept that forces people to use their money with a different manner. Zara wants to create impulse purchases – forget when people used to save to buy a special clothing item at the end of the month, because that no longer happens. They cannot do that anymore otherwise they will lose that specific item since collections are ever changing. Consumers are one hundred percent engaged in the fast fashion concept and they are not buying something in Zara because they love it, they are doing it because it is cheap and they are going to lose an opportunity if they do not buy it now.

2.4.3. Manufacturing and Distribution

In order to maintain a competitive advantage, as opposed to other fashion brands that outsource their production, Zara developed a vertical integration model, that includes design, just-in-time production, marketing, and sales[12], and also by concentrating all distribution. 50% of Zara's products are manufactured in Spain, 26% in the rest of the Europe, and 24% in Asia, Africa and the rest of the world. This is what makes Zara different from the competition, which usually has the entire production in Asia. Zara makes the most fashionable items, which represent half of the company production, in Spain or Portugal. Only clothes with longer-period of life, such as basic t-shirts, are outsourced to low-cost suppliers in Asia.

[11] Source: The Sole PurseSuit, (2012), *Zara Named Number 1 Fashion Brand.* Available at: http://www.thesolepursesuit.com/home/category/Prada
[12] Source: The Economist, (2001), *Fashion Forward*

This model helps Zara to achieve the goals that it set for itself: having a system with short lead times; decrease quantities produced to decrease inventory risk; and increase the number of available styles and choices[13]. The vertical integration chosen by Zara is viewed as a differentiation factor because it creates flexibility and efficiency that helps with matching competitors and creates a unique value proposition: offer new clothing styles always inside the most fashion trends as its competitors, but being different in terms of speed and more accessible prices. Zara only needs two weeks to distribute a new collection – if the destination is outside Europe; one week if it is within Europe; while its competitors spend on average six weeks.

For Zara, what makes a collection unique is not the price but the short time it remains in stores. As it has already been mentioned, Zara is constantly updating its collections to create the desire for its consumers to go into the store; and through the vertical integration, Zara can combine efficiency in response times with low volumes of items in each collection which leads to lower costs and more efficient production. If a piece of a collection is a success and sells well, it does not mean that Zara is going to produce million of copies. Instead, this is what the brand does differently: Zara analyzes why this kind of item has pleased its customers and starts thinking about how to take advantage of it in a different version in a future collection.

In terms of production, Zara produces around 11,000 different items a year, whereas its big competitors produce between 2,000 and 4,000[14]. By doing so, Zara radically changed the way fashion brands operate and most of them understand Zara's strategy of "no longer revolving around key pieces, but a constantly updated flow of new looks" and they are also adopting it.

2.5. Communication Strategy

One Zara's biggest cost advantages while comparing it with its competitors is that it was to achieve the success and the lead without traditional advertisement. Unlike its competitors, like H&M, which uses common advertising claims with famous stars, Zara advertising is something that no one is accustomed to see, spending only 0.3% of total revenues on

[13] Source: (October 30, 2013), *Zara's Business Model, Information and Communication Technologies, and Competitive Analysis*
[14] Source: Danye Luo, (2008), *How to manage a brand to be strong: a study of Zara.*

advertising and marketing, which is considerably less than its competitors who spend on average 3-4% of their total revenues[15].

In fact, Zara centralizes its marketing in the stores themselves, locating its stores in strategically places - main streets or main centers – in order to create a more visible marketing; because it would not make sense to create adverts for each collection, as most of them have a duration of only a few weeks and are limited in number of pieces. In terms of traffic, the short product life cycles helps to increase the frequency in visits, because consumers are used to visit Zara stores on a weekly basis since the presentation of new items is a constant event. Zara is more worried about investing in store layouts to maintain the trendy image, which are tested in the pilot store, which will be referred to subsequently. In truth, Zara compensates for the lack of the investment in direct marketing with the effort to attract not simply customers but loyal customers, through the investment in image/brand marketing. According to Zara, consumers are loyal to the luxury brands and not, to the popular ones, and for this reason Zara believes that investing in the business makes more sense than investing in the brand.

It was only in 2010 that Zara launched its online store in Europe, as it was already mentioned. All products are sold at the same price as in the stores. Inditex's Deputy Chairman and CEO Pablo Isla highlighted "the strategic significance of this new commercial initiative, which is in keeping with our ongoing effort: to offer our customers the best service possible. Internet and the world of social networking are indispensable tools and extraordinary channels for communication, and fit perfectly with our Group's philosophy".

2.6. Store Management

The stores are one of the main competitive advantages of Zara that adopted a strategy where they are always located in the main streets or shopping centers to create visibility marketing. Decoration and architecture are fundamental since stores are the company business-card and the meeting point between the trend and the store is the decoration. Zara invests heavily in their store layouts to create the same layout worldwide, testing it always first in its headquarters in Spain. Zara has a pilot store (Exhibit 8) which serves as model to maintain all

[15] Source: Fibre2Fashion, (2012), *No advertisements strategies.* Available at: http://fashiongear.fibre2fashion.com/brand-story/zara/advertisements.asp

the stores with the same characteristics, decoration and architecture. Zara's designers conduct all experiments – lights' colors, clothes' positioning in stores, and departments' division - in this pilot store and take pictures of it to send to all stores. The goal is to create a standard in the brand whereby people recognize Zara as Zara whatever part of the world they are.

Zara changes every five or eight years the lines of its stores, repositioning the brand in terms of image. It was in 2012 that Zara started a new repositioning but, this time, the process was different. The brand used this as an opportunity to do a big investment and advertise the stores spectacularly. The new line of stores begin when Zara choose The Fifth Avenue, in New York, to opened the first store. It was, clearly, a marketing strategy that, of course, attracted a crowd of people. This store has 3000 m2 distributed in three floors and represents the largest store of Zara in United States.

This new concept of stores is based on improve the customer's experience and potentiate the product. Zara brought with the new image more clarity inside the stores through the use of the white color and by placing the products in clearly departments to allow the differentiation of collections (Exhibit 9). The brand expects to finish the process of repositioning in nine years which creates some challenges for the company. However, today, Zara is not worried about the future but in overcome the competition Mango is generating by reducing its prices.

2.7. Consumers as Feedback

This point could be mentioned just as a part of Zara's business model, but due to its relevance it deserves to be singled out. I am saying it because it can be considered a key success factor since Zara uses consumers as a feedback with one goal in mind: to be as good as possible in all the points that were mentioned previously.

Indeed, Zara sees customers as a source of inspiration since they know what they want and Zara simply follows these desires. In fact, they give the true inspiration to create fashion-trends. Zara's professionals also need to be in the trend of the moment, they need to talk the same language as their customers, and they need to understand exactly what they want even when it is only possible through client's observation. Zara's employees have a direct communication with the clients; they are always on alert in terms of what they look and what they want. The truth is that Zara's clients do not follow the normal pattern of consumption.

They go to the store on a weekly basis, looking for something new, since Zara is the brand where consumers go to ‘kill’ their desire of purchase something new.

To better fulfill this commitment, Zara uses clients as source of feedback to the company adopting the shape of the clothes to the profile of its clients. This feedback works on a global scale, almost like a web of information between all the different stores. Each store has the responsibility to gather the relevant feedback and information from its clients and two times a week they share with the other stores scattered around the world. This allows the company to increase efficiency each week because if Zara perceives that, for example, Portugal prefers one model of skirts a little bit shorter but Russia prefers the same model a little bit longer because its culture is more conservative, Zara is going to adapt this model of skirt to each country. What happens next is that it needs to be produced again, in Spain, and sent out to each country in 48h, maximum. This makes the clients the number one of the company and they feel it when they want or desire something and without realizing how, it appears in the store on week afterwards. This process is something amazing because not only helps the company to be more efficient and productive but also increases the loyalty of the clients and makes them feel good.

The importance given to customers as a way to understand how to be more efficient in Zara’s business model, gives relevance to the market research that will be present in the next chapter. Thus, the next dissertation’s chapter will show some results and conclusions related to customers’ perception about the brand, the strategies adopted by Zara and the competition as well.

3. Market Research

3.1. Samples Analysis

The survey was composed by 23 questions: 20 questions with close answer to achieve standard conclusions and 3 open answer questions when it is supposed to achieve specific conclusions. It was completed by 194 valid responses from a diversified universe. From this moment, the 194 responses will represent 100% of the consumers and all results will be presented in percentage because helps to compare results. In terms of characteristics of the sample, it is possible to conclude the following:

- 61% females and 39% males (Exhibit 10a);
- 6% were under 18 years old, 77% were between 18 and 25 years old, 6% were between 26 and 30 years old, 6% were between 31 and 40 years old and 5% were over 40 years old (Exhibit 10b);
- 70% are students, 3% are unemployed, 6% are self-employed and 21% are normal employed (Exhibit 10c);
- 90.57% are from Lisbon, 2.87% are from Coimbra, 2.5% are from Santarem, 2% are from Porto, 1.3% are from outside Portugal (Amsterdam, São Paulo, London) and 0.8% are from Setubal (Exhibit 10d).
-

3.2. Results

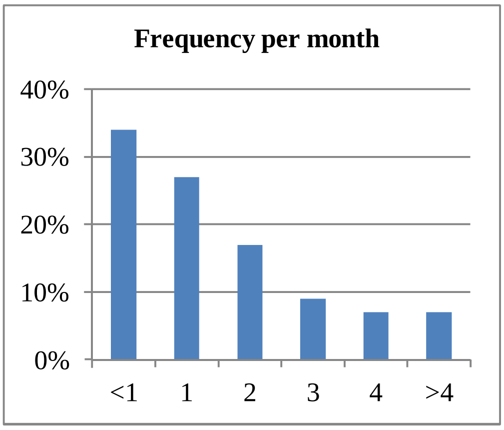
The results will be divided into three topics. The first one demonstrates conclusions related with customers’ habits in order to better understand in which categories they spend more money and how frequently they go to stores, the second one concerns the evaluation of the brand where customers were asked to answer some questions in terms of image, characteristics and experience inside the store. Finally, the third topic will compare Zara with general stores and with the competition, which will allow a better comparison with what has been mentioned in the case study approach.

3.2.1. Consumers' habits

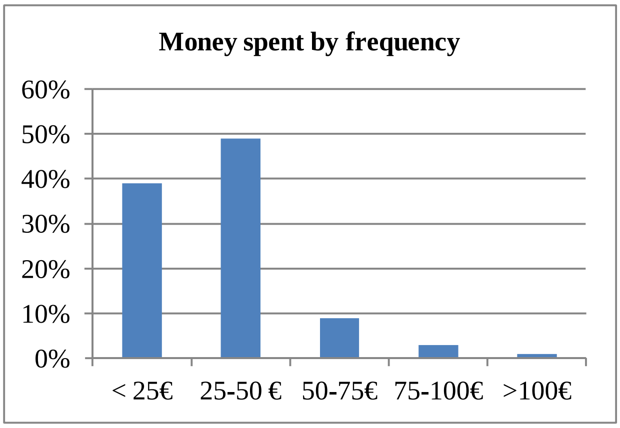
Before analyzing consumer habits in Zara concretely, the survey had a first question which aim was to understand where consumers usually shop. Actually, 66% of consumers prefer to shop in shopping centers, 28% in street stores and 6% on the internet (Exhibit 10e). In terms of consumption at Zara, some conclusions arise:

- 77% of the total consumers shop at Zara and from this total (Exhibit 10f):
  - 79% are women, which represent 96% of the total of women; and 21% are men, representing 40% of the total of men.
  - 56% consider Zara as the favorite store
  - 61% do not visit the website (www.zara.com); 35% visit the website but do not do shopping; and 4% visit and buy on the website (Exhibit 10g). These results were to be expected since the website is fairly recent, having only been launched by the brand in 2010.

Regarding the shopping exclusively done at Zara, which means that we are considering only 77% of total consumers, 80% usually shop in the woman segment, 23% in the man segment; and 6% in children segment (Exhibit 10h). In terms of shopping habits, some of the results will be commented and represented below:

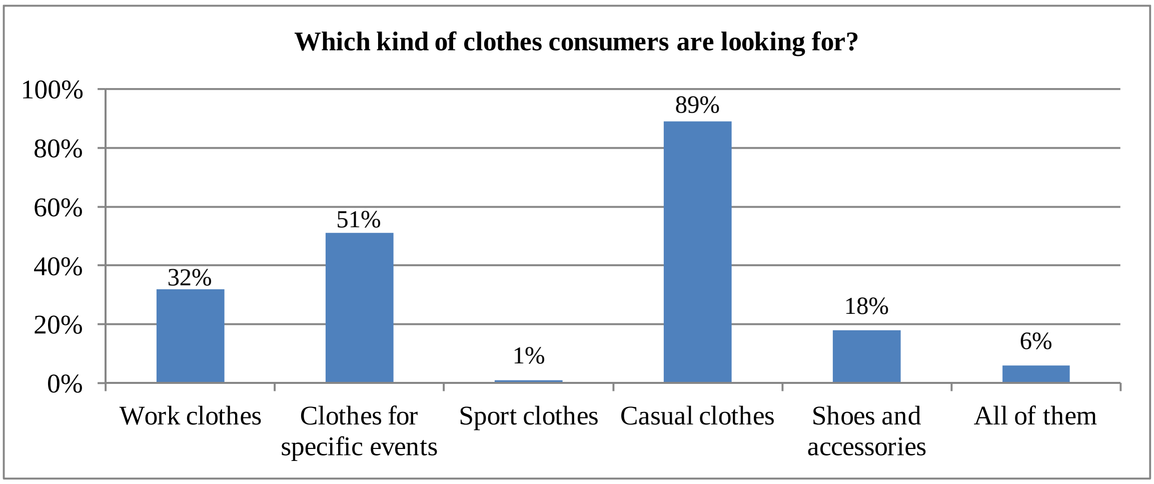


Picture 3: Frequency of visits to the store



Picture 4: Money spent by consumers per store visit

Even these results have been a surprise because Zara is suppose to be 'the store where customers go in on a weekly basis', it is important to have in consideration that almost all the public that answered the survey were Portuguese, and Portugal is undergoing a less positive phase where consumers feel compelled to change their habits and shop less frequently than usual. One thing that will never change is the wide range of choice in Zara's stores, where it is possible to find clothes for different occasions. Some are clearly aimed for consumers that can really relate to Zara, but others are not so obvious, such as sport clothes.



Picture 5: Type of clothes consumers are looking for at Zara stores

Something important to retain is the fact that Zara is growing in the professional sector, starting to compete closely with some of the brands that are more focused on this sector because consumers' perception about the quality of Zara's clothes is also growing.

3.2.2. Evaluation of the Brand

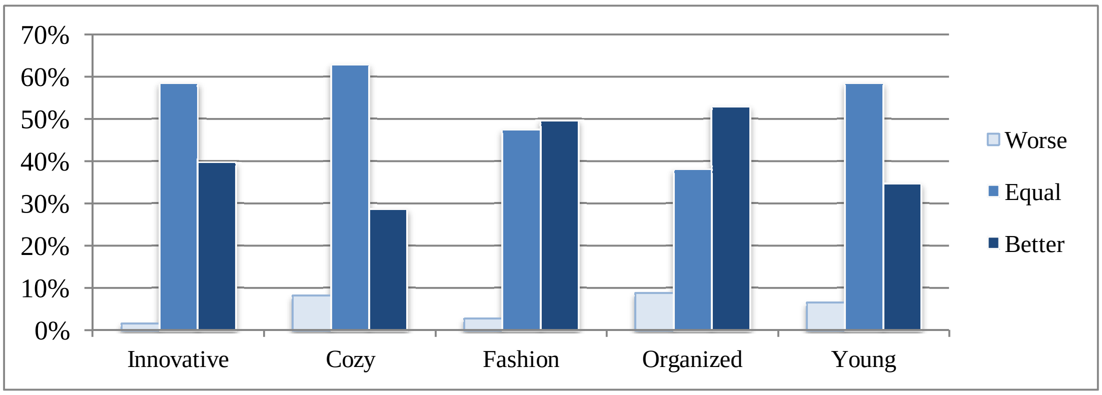
Here, consumers were asked to evaluate Zara's characteristics and image when comparing to other stores where they can answer that Zara is worse, equal or better than others. They were also asked about shopping experience, where they evaluated what are the most valuable components regarding their experience with Zara and which ones have room for improvement.

- **Zara's characteristics**

The majority of consumers consider that Zara is better regarding availability of trendy clothes (56% of consumers) and clothes to all occasions (65% of consumers) but it scores almost the same as others brands in all of the other characteristics. This means that Zara scores almost the same as far as the other characteristics are concerned: finding what they want, good service by employees, organization of the store/departments in the store, stores' design and constant update of new clothes or entire collections. Regarding the price and quality relation, consumers consider Zara to be worse than competition. Consumers are conscious about Zara as a fashion store but not so conscious in terms of one of the main value proposal of the brand – the constant update of clothes (Exhibit 10i).

- Zara's image

In this part, consumers were asked to answer, according to five different adjectives, concerning Zara's image as a brand, if Zara is better, worse or equal comparatively to other similar brands. The results, demonstrated in the table below, allow us to conclude that, in a general scenario, the Zara's image is good in the eyes of consumers, even when they value more the fashion design and the organization of the store.



Picture 6: Evaluation of brand image: Zara and general stores

From the total of consumers, 98% consider that the image goes according to what the brand wants to represent, which means that only 2% of consumers have a negative opinion about it. Although, they are of the opinion there is a need to improve some aspects of the image such as: organization/stowage mainly during promotion times; having more accessible prices; more personalized attendance; improving design, which is becoming less attractive with the black and white; have more variety in terms of ties and shoes for man; have larger sizes for heavier people; and be more innovative in the way they place the products.

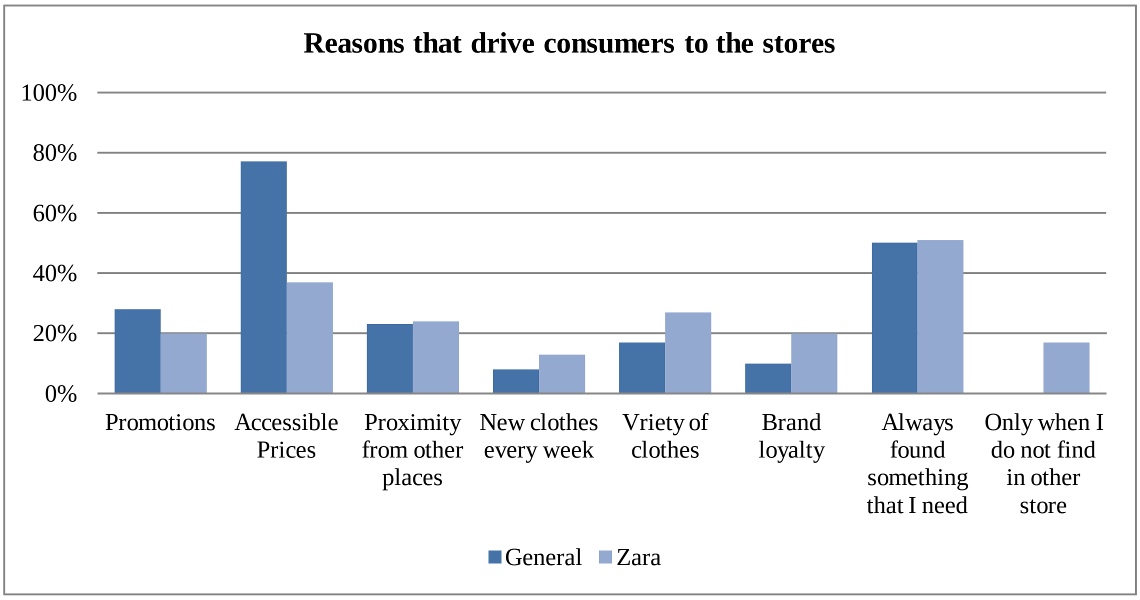
- Zara's shopping experience

The perception of consumers about one brand is always marked by the experience in the store: a positive shopping experience can greatly increase consumer spending in the store.

For Zara's consumers, the main positive characteristics in their experience are the success in returning clothes and the organization of clothes by departments. However, they continue to insist on improving the personalized attendance by employees and confusion of the store, mainly in sales period (Exhibit 10j).

3.2.3. Zara and the Competition

This part of the survey has a specific goal: compare what weighs on consumers' decisions to shop in general and in Zara stores and understand which the main competitors of the brand are. In truth, the major reasons that drive consumers to want to buy are the same in both scenarios but with different weights[16].

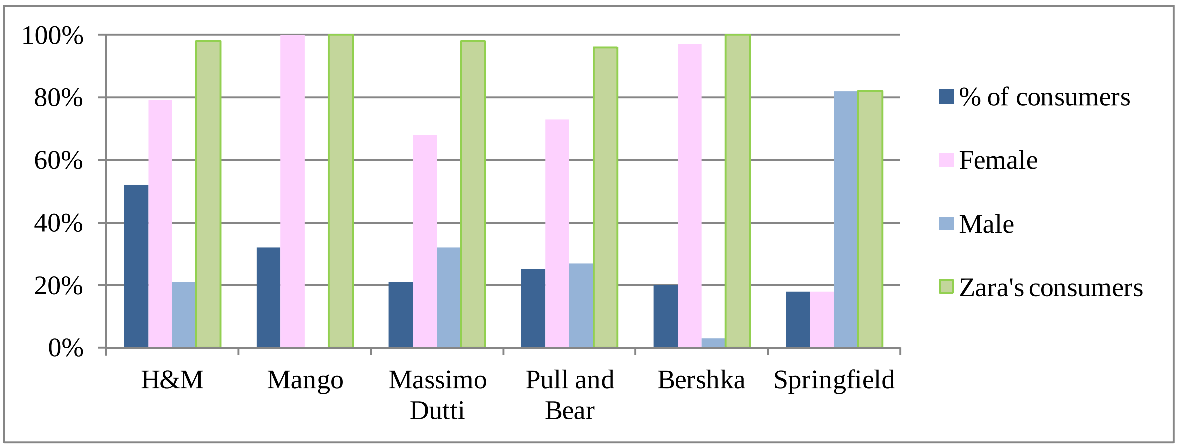


Picture 7: Reasons driving consumers to the stores: Zara and General Stores

Analyzing the table above it is possible to conclude that for consumers the existence of accessible prices and the fact they can always find something they want are the main reasons to shop in both situations. Once again, results show the lack of perception or little importance given to the update of clothes each week.

[16] Note: In this part of the survey consumers can answer two different hypotheses and a higher number of consumers answer each question comparing to the previous results.

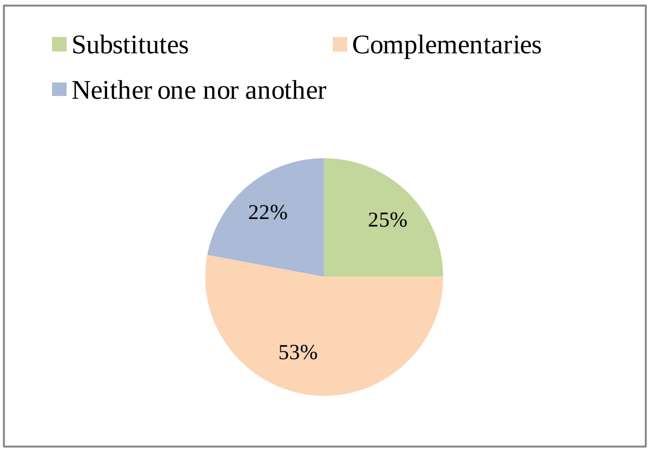
In terms of competition, the survey came to confirm same facts by asking consumers which are the main brands where they usually shop, not accounting for Zara.



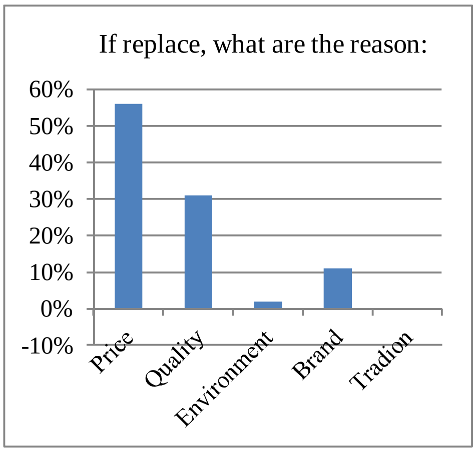
Picture 8: Zara main competitors – by gender and by Zara's consumer

Indeed, H&M and Mango are the main competitors for Zara and the point is that almost all consumers shopping in these two brands are also Zara's consumers. These are immediately followed by Pull and Bear, Massimo Dutti, Bershka and Springfield, where only one of these is a direct competitor since the other three are part of Inditex Group. Springfield reflects a threat in the man segment creating an opportunity for Zara to improve on it.

Because consumers of these other brands can be also Zara's consumers, there was a need to ask more questions. Graphics below allow a better understanding of the following point: if consumers consider other brands' clothes substitutes or complementary of Zara's ones.



Picture 9: Evaluation of competitors' brands



Picture 10: Main reasons for competitors replace Zara

4. Conclusions

Zara is one of the brands that compose the Inditex Group - one of the world's largest fashion retailers. The brand opened its first store in 1975 and was an immediate success with its fashionable clothes and a low price policy. Ever since then, it never stopped to growing.

Today, Zara is considered a reference in the fashion world and represents 60% of Inditex total revenues. This is due to the fact that Zara, to combat market challenges, started integrating the brand in the *fast fashion concept* through imitation of best known fashion trends with incomparable prices. With it, the big difference between Zara and the competition is the following: Zara, instead of investigating what consumers want, investigates fashion trends and follows them.

4.1. Main outcomes

The main objective of this dissertation was to understand which key success factors lead Zara to be a global leader in the fashion industry. In this case, being a leader is related to an imposing differentiation in terms of strategy by centralizing and having a well-organized supply chain. To achieve the dissertation objective and better understand the case study of Zara, I purposed to answer four key research questions.

Research Question 1: **In which strategy Zara was a pioneer? How it works in terms of production and distribution?**

Zara decided to be a pioneer in the *fast fashion concept* after it found an opportunity represented by the change in consumers' habits. It consists on imitating the best known fashion trends with incomparable prices and do this with a rapid response always according to what consumers want in that moment. Each one of Inditex' brands follows the template of Zara, being always trendy and capable to create a completely different experience for consumers. Today, Zara is consider as a monster in the fashion industry and also the competition, mainly H&M and Mango, are trying to follow the brand. They described the main advantage of Zara being its rapid response: Zara is capable to generate clothes, always according to consumers' trends at that moment.

In order to maintain a competitive advantage, Zara operates according to the vertical integration which represents one of the main advantages for the brand. Whereas, the competition usually has their production concentrated in Asia, outsourcing it, Zara centralized more than the majority of the distribution steps in the same physical space, Spain or Portugal. It allows the brand to be more efficient and flexible in three points: lead times, quantities produced and number of styles available.

In fact, Zara has 200 designers responsible for understanding what the global fashion trends are and for designing a new collection twice a week. Zara produces more than 10,000 different items a year, while competitors only have capacity to produce between 2,000 and 4,000. These designs are also distributed to each store, to different points of the globe, twice a week. After the implementation of *fast fashion* concept, for Zara it is no longer the price that makes a collection something unique, because short times in the business model come to substitute price's importance.

Research Question 2: What is unique about the way Zara communicates?

The way Zara communicates to the public is based on one thing: communication without traditional advertising. This represents a strong competitive advantage for the company since Zara only spends 0.3% of total revenues in advertising and marketing, whereas its competitors usually spend on average 3-4%,

In truth, the traditional advertisement is not a part of Zara's business model since the company centralizes the marketing in stores themselves, locating them in strategic places to create a more visible market. As far as Zara is concerned, it does not make sense to create advertising campaign for each collection given the short duration in stores and their constant update. Zara is more worried in creating an outstanding shop experience through the investment in everything related to the store, such as, design, colors, lights, and disposal of products.

Zara has already proven to everyone that consumers are used to visit the brand's stores on a weekly or monthly basis due to the constant update of new collections or items. At this point in time, Zara wants to increase the number of loyal consumers instead, and for the company "consumers are loyal to the luxury brands and not to the popular ones", which made the company believe that investing in the business makes more sense than investing in the brand.

In this case, it means investing more in the store experience for consumers than in advertising the product.

Research Question 3: How is Zara using consumers to create value for the company?

As far as Zara is concerned, consumers make the rest happen in the efficient way it was described. Consumers are even more important than implemented strategies or ways to compete, being the trump of the business. Zara uses consumers as a source of inspiration since what the company produces is dependent on what they want to see in stores. Consumers are the source of inspiration for the company, which allows it to create fashion-trends since Zara realized that to be a success in the eyes of others, they do not need to invent anything, only follow what the public wants from them.

In this process, the management of the stores requires a special attention because that is where consumers show exactly what they desire. Zara's employees are trained to be aware of consumers in their shop experience because what consumers ask, say or complain is important to what comes next. The feedback collected by employees in one store is supposed to be shared with all the other stores scattered around the world on a weekly basis, where each store works as a web of information. It helps the company increase efficiency by adapting models of each country to the feedback of consumers in the same country and their cultures and makes clients the number one priority of the company as they feel that Zara is 'their shop' because it offers what they want even when they are not expecting it.

Research Question 4: How are consumers evaluating Zara? What is their perception of the brand?

In the Market Research, 194 consumers were asked to answer a questionnaire where the main objective was to understand their perception about Zara and how they are evaluating the brand. The majority of consumers pointed as reasons to shop at Zara two characteristics: trendy clothes and clothes for all occasions. The question about the shopping experience at Zara was a surprise in terms of results because, for consumers, the main positive characteristics they chose were the success in returning clothes and the organization of clothes by departments, and a really small number pointed the constant update as an important factor.

In terms of brand image, which reflects the effort in communication between stores, 98% of consumers consider the image is according what Zara wants to transmit, while the remaining suggests some points that need improving, for example: having more accessible prices, more personalized attendance and less confusion during promotion times. From previous interpretation of the results, two conclusions can be drawn: consumers are always expecting more from the brand and they do not really perceive the constant update of clothes in the store. However, it can be part of the strategy, since Zara wants to create on consumers the felling of being special; the brand can also have the goal to not demonstrate why they feel so special.

For consumers, the two big reasons to shop in a general store are the same that lead them to shop at Zara, and these are: the fact they always can find something that they need and the practice of accessible prices. Regarding the competition, no doubts remained, because consumers confirmed that H&M and Mango are Zara's main competitors. However, it is important to mention that more than 94% of consumers shopping in the competition are also Zara consumers and regarding the remaining consumers, there are two things that make them chose another brand as a substitute for Zara: price and quality. In conclusion, consumers give more value to the quality of the shop experience reflected in its efficiency and time spent in the store but they are not giving a lot of importance to the constant update of clothes, since they start visiting stores less often than usual.

5. Limitations

The market research played a very important role in this dissertation giving the opportunity to draw relevant conclusions and understand how consumers perceive the brand. However, some limitations may have influenced the final results.

The first limitation is related to the fact that more than 90% of respondents are from Lisbon. The fact that all answers came from Portuguese people may have created ambiguous results since Portugal is currently going through a crisis where consumers do not have any power in terms of consumption. Then, despite efforts to reach consumers from different age groups, the survey was represented mostly by generation y, consumers between 18 and 25 years old, which have specific consumption habits.

The information acquired from the Marketing Director of Zara, in Portugal, also represents a limitation. In this case, the limitation relates to the small amount of information given, in terms of what was expected, since it was acquired through a single interview, in which he did not provide any more information that the one that can be found on the internet. The policy of Zara of not give any information was a surprise that made me think about changing the subject of the dissertation. On the other hand, even representing a limitation, for me this represented a challenge that I was forced to overcome.

6. Future Research

For future researches, it is important to have in consideration that Zara cannot provide information about the company's strategies or ways to compete. It is important to consider this limitation from the beginning to avoid lack of information in the middle of the process.

The second thing to consider in future studies about Zara is the need of new analysis to draw even better conclusions. In fact, there are some things which are important to have previously studied such as: the way the launch of the website will affect the marketing strategy of the company; consequences of Zara's present repositioning in the market; changes in consumers' perceptions or habits of consumption; and future challenges for the leadership of the brand.

7. Teaching Notes

7.1. Synopsis

Zara was founded in 1963 within Inditex Group, one of world's largest fashion retailers operating in the apparel industry. The first store was opened in 1975 in Spain and, since its beginning the brand Zara never stopped growing. Zara was the pioneer, and today it is the leader in the implementation of the fast fashion concept, which came to revolutionize the world of fashion and consists in imitations of the best known fashion trends with incomparable prices. The difference between Zara and its competitors is that is constantly adapting its strategies to what consumers really want, instead of requiring consumers to adapt to the fashion trends.

After 38 years, Zara continues expanding its business, opening new stores in emerging markets and developing a strategy to enter in the digital world, following present trends. Nowadays, Zara is represented by 1,934 stores in 86 different countries across Europe, America, Africa, and Asia and started allowing online shopping, having already its website operating in 21 countries. Zara is also going through a process of repositioning, reflected in its stores' design and disposition, which consists in renovating the image and creating a more clean design. The goal is to leverage the shopping experience of consumers and demonstrated that Zara is capable of adapting to the new market tendencies.

7.2. Teaching Objectives

Zara case study covers several topics such as innovation, product management, strategic marketing, efficient supply chain management, and market research. The approach of these concepts can be useful for undergraduate and master students mainly in courses of Strategy or Strategic Marketing allowing a better understanding of some of the important concepts related to these areas and overview of how companies can adapt their businesses to market challenges.

Students will have the opportunity to:

- Understand how one of the world largest retailers is divided in terms of brands and business model;
- Analyze how Zara is reacting to the present challenges in the market in comparison with its competitors;
- Understanding the concept of fast fashion concerning strategies and vertical integrated model in terms of marketing channels;
- Compare the way Zara is communicating and using consumers to acquire feedback for future collections and as a way of competing with other brands such as H&M and Mango.
- Reflect on all the reasons that led Zara to the success it is today;
- Connect the information provided in the case study and the one in the market research to answer some questions related to Marketing and Strategy. At the end, students should reflect and discuss the present strategy of Zara, represented by the launch of the website and the present repositioning strategy, exchanging opinions related to the sustainability and future challenges of both strategies.

7.3. Relevant Theory

In order to be really prepared for class discussion, students should take into consideration the case study, the market research and some additional articles. The following articles, which address the present repositioning process Zara is undergoing, should be given to the students, at least one week before of the class, together with case study and market research:

1. *Business Strategy Review*
   "Fast Fashion Lessons"
   Summer 2008

2. *Wharton, University of Pennsylvania*
   "Zara: Changes are in store, but what will they mean for the retail chain?"
   April 18, 2012.

7.4. Class Discussion

Before discussion in class or debate between students, a brief discussion about the case should take place with the professor, in order to verify that all students understand the key points referred to in the case and that the main topics are related to the following questions.

1. Explain how Zara became a leader on the fast fashion concept.

Fast fashion concept consists in a quick response in terms of designs to capture current fashion trends. Collections are an imitation of trends in the fashion world with two main differences: they are designed and produced much faster and cheaper. Zara started using this concept as the base of its business, and after proving its success, all Inditex brands started to follow Zara's template. One of the main competitors of Zara, H&M, also is part of brand implemented fast fashion concept in their businesses models, however, Zara identified some concrete points that allow the company to be the leader of this concept:

- Having a centralize supply chain

One of the main advantages in Zara's Business Model, since it is different from other fashion brands, is the use of a vertical integration model where Zara includes design, just-in-time production, marketing and sales, concentrating all distribution in one place. Whereas, some competitors concentrated all production in Asia, Zara only has 24% of production set in Asia, since the rest takes place in Europe. The fact that the manufacturing of the most fashionable items represents half of the company production and only basic clothing items like basic t-shirts are outsourced to Asia allows a more efficient supply chain. The vertical integration model is viewed by the company as one of the differentiation factors in following points: it allows cost reduction in terms of production and distribution because of its efficiency and flexibility that derives from its centralization; it also allows the production of decreasing quantities and, in consequence, decreases inventory risk; it allows increasing numbers of styles and choices; and it also allows to be better in terms of speed and accessible prices, since only a small part of production is outsourced.

- Give the fastest possible response

The concept of fast fashion implies companies give a quicker response to consumers' desires. Zara, through its centralized supply chain, described in the previous point, does this better than everyone. Zara has the capacity to respond to what is happening at the moment, designing and producing a new collection two times in the same week and distributing it to all of its the stores around the world. The maximum time it takes to get a collection to a store is 48h, if outside Europe, and 24h, if within Europe, whereas other fashion brands take weeks. In terms of production, Zara produces around 11,000 different items a year, whereas its big competitors produced between 2,000 and 4,000. The main goal of this massive production is to always be inside the consumers' mind and produce what they are waiting for every single time.

- Change consumers' way of shopping

For Zara, what makes a collection something unique is not the price, but the short period of time it is available in stores. This complemented by the short lead times mentioned above, Zara changes the way consumers shop, creating in them the perception that if they like something and do not want to lose it, they need to buy it now. With this, Zara wants to create impulse purchases whereby consumers are constantly visiting stores to check if something new has arrived. Zara uses the trump to update clothes and complete collections on a weekly basis to ensure consumers are visiting stores with the same frequency.

2. Consumers do not always perceive the brand in the same way Zara wants to be perceived. Comment this statement crossing information from both case and market research.

In fact, when analyzing the results from the market research, we found some things that go against the brand's commitment to "be a fast fashion brand that can quickly adopt the higher fashion styles at an unbeatable price". The following points list some of the conclusions from the market research and, afterwards, explain why they go against the way Zara wants to be known:

.The majority of consumers visit the stores one time per month, or even less.

-It goes against the fact that Zara wants to be perceived as the brand people always look for when they need something and to where they supposedly go and visit from weekly.

. The majority of consumers spend between 25 and 50 Euros, or even less.

-Zara wants to generate impulsive purchases through its fast fashion concept and constant update of clothes. These impulsive purchases, usually, reflect buying the double of things one was suppose to buy when go to a Zara's store. These results reflect that consumers visit the store to the store only to buy what they need at that moment.

. In terms of image, fashion and organized are the only characteristics consumers perceived as better at Zara than in general shops. In terms of being innovative, cozy and young, consumers perceive Zara and general brands to be the same.

-Up to a certain point, these results were to be expected, in fact, the brand wants to be perceived as fashionable and trendy but, on the other hand, it was not expected that consumers would perceive general brands as innovative as Zara.

. According to **Picture 7,** consumers value the fact they find something that they need and the existence of accessible prices, both in Zara and in general stores. Another important thing to retain is the lack of importance they are giving to the constant update of clothes.

It was mention more than once the importance, for Zara, of having new clothes every week because this is what makes them visit the store so often without advertising. Apparently, consumers do not perceive this update (as important) which may be the reason why visits to the stores are less frequent, or vice versa.

3. The fact consumers are going to stores with less frequently can affect one of the main brand strategies. Comment and explain the reason.

For Zara, consumers are the number one priority of its business representing an inspiration and a key success factor for the brand. Consumers are who choose the collection that will appear next in the store and serve as a feedback to understand which aspects of the business need improving. Zara only has employees that know how to communicate with consumers and how to observe them, in order to understand their desires. These employees collect information from clients each week and Zara spreads this information on a **global** scale. It allows the company to adapt collections or specific clothing items to consumers in one store, city, or country. In fact, Zara uses consumers as feedback which helps the brand to be more efficient and to better satisfy consumers, oftentimes, without themselves realizing that they are helping in the process of understanding what is suppose to be produced.

The results of the questionnaire came to show that consumers are visiting stores with less and less frequency and it will, of course, affect the strategy of using them as feedback to leverage the business, since the process of collecting information will be more difficult for Zara and its employees.

4. Group Discussion

Divide the class into groups of 5 students. The goal is to create a discussion/debate between the different groups about the present and future challenges facing Zara's business model. First, the discussion should occur inside each small group and, after some conclusions were taken, extend it to the whole class in order to be aware of the different points of view. Students need to consider the present and the future.

Challenges:

1. <u>Investment and time for the repositioning strategy:</u> Zara is a giant with stores spreading around the world, making the process of image's renovation a very long one. The estimation time to complete the update of the image in all stores is nine years. After more than nine years, the market will not be the same, and nothing guarantees that this change will continue to make sense.

2. <u>The strong growth in the Asian market</u>: Zara is trying to keep a step ahead in the Asian market in the next decade. However, since the repositioning includes a increase in price which will be perceived by the consumers, it is important to understand if consumers in that market will be favorable to pay a bit more for a new design.

3. <u>The New York market</u>: Zara is trying to enter this market by competing in prices with Gap, since it is what works in this city. But will not be easy for Zara to compete against this other monster, moreover starting this dispute in terms of price.

4. <u>Increase costs by increasing the business:</u> Zara already operates in the five continents, which increases the costs in operations and logistics. Zara's business model needs to be prepared to produce two completely different collections at the same time, since, for example, when it is summer in Portugal, it is winter in Brazil.

5. <u>Mango starts competing in prices:</u> Due to the current period of recession, Mango announced that will lower prices of its products by 20%. Today, Zara is improving the image of the brand through the repositioning strategy and is not prepared to compete in prices. However, in the future Zara will be increasingly pressured by Mango which wants to start a low-price war with the leader in the fashion industry.

8. Exhibits

Exhibit 1) Inditex head offices, Coruña, Spain

Exhibit 2) Number of stores around the world

Source: Inditex Report 2012.

Brands	No. Stores
Zara	1.936
Zara Home	363
Pull&Bear	825
Massimo Dutti	634
Bershka	910
Stradivarius	816
Oysho	533
Uterque	87
Total	**6.104**

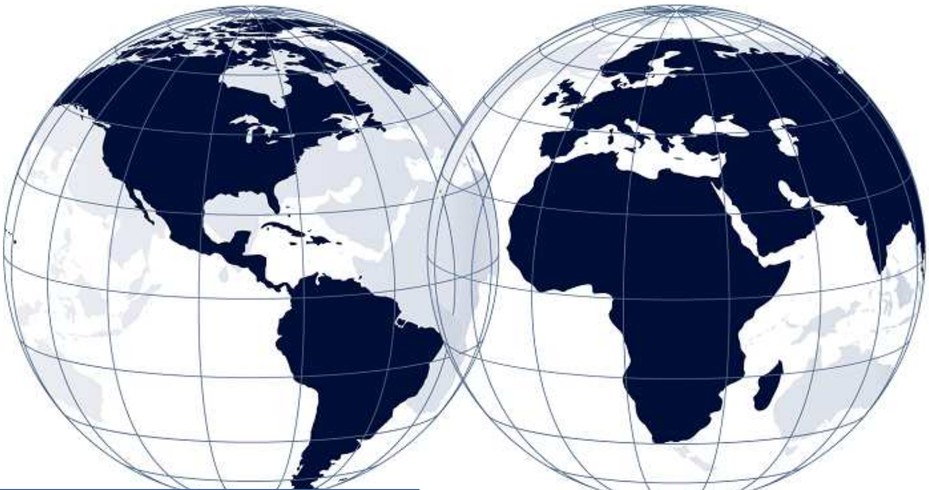
Exhibit 3) Contribution per brand for Inditex sales

Source: Inditex Report 2012

ZARA	PULL&BEAR	Massimo Dutti	Bershka
66,11%	6,81%	7,11%	9,31%
Stradivarius	OYSHO	ZARA HOME	UTERQÜE
6,03%	1,97%	2,20%	0,46%

Exhibit 4) Inditex International Presence and representation for sales

Source: Inditex Annual Report 2012



In store sales	
Europe	66%
America	14%
Asia and the rest of the world	20%

Exhibit 5) Sales per year, in million of Euros.

Source: Inditex annual reports, since 1996 until 2012.

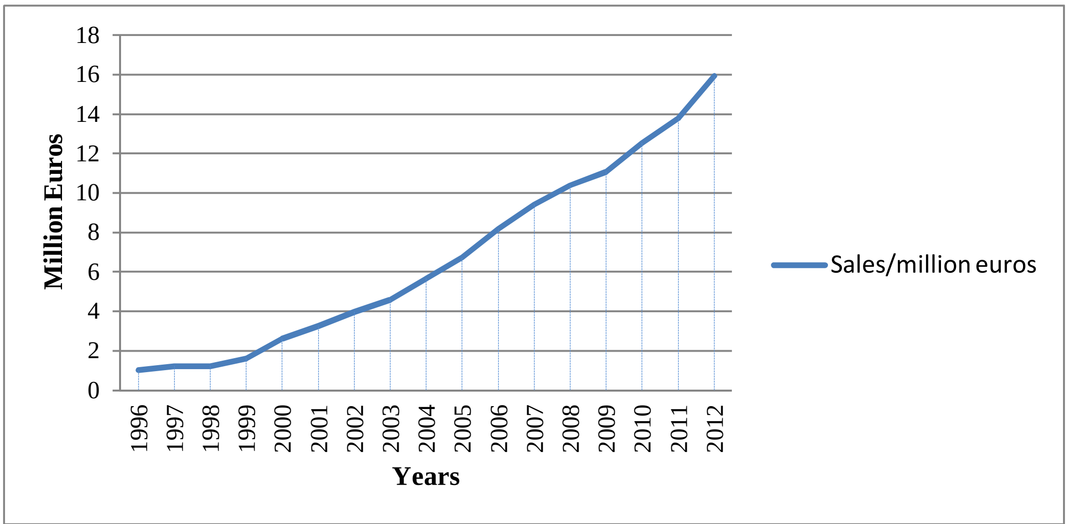
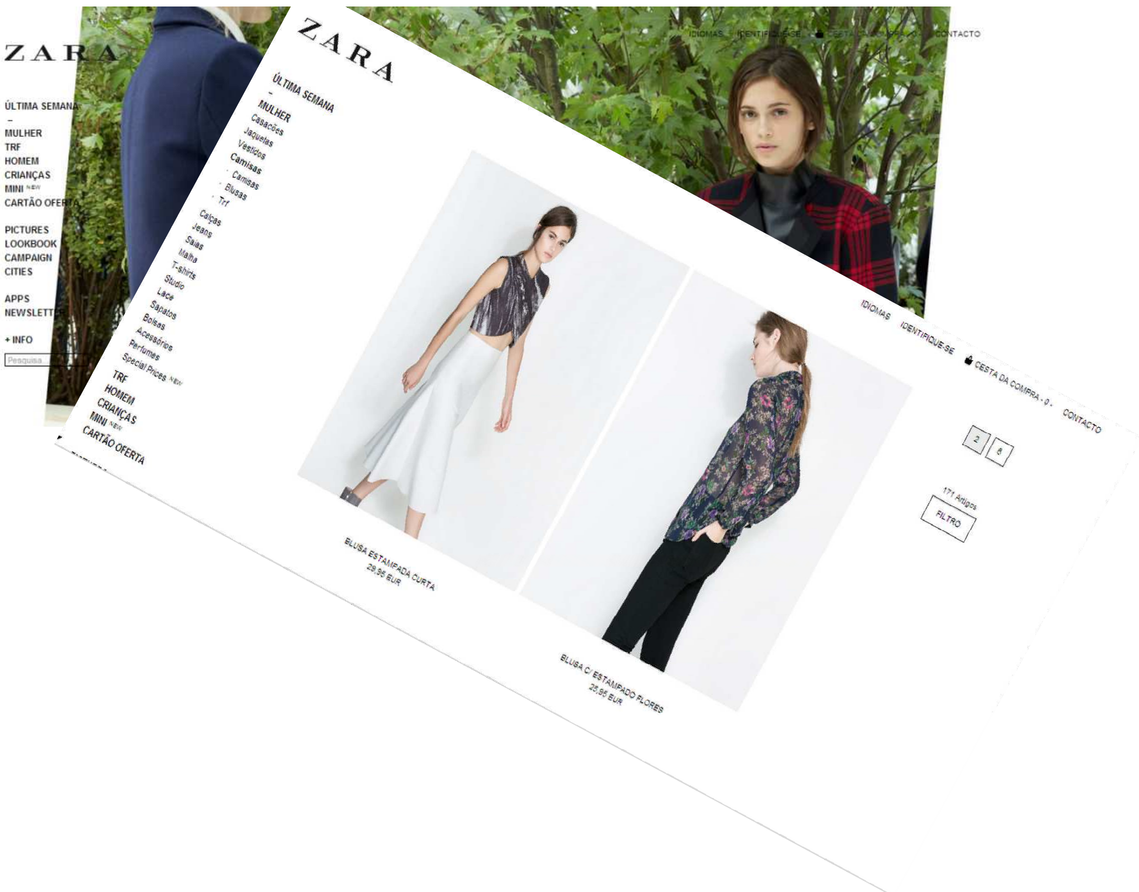


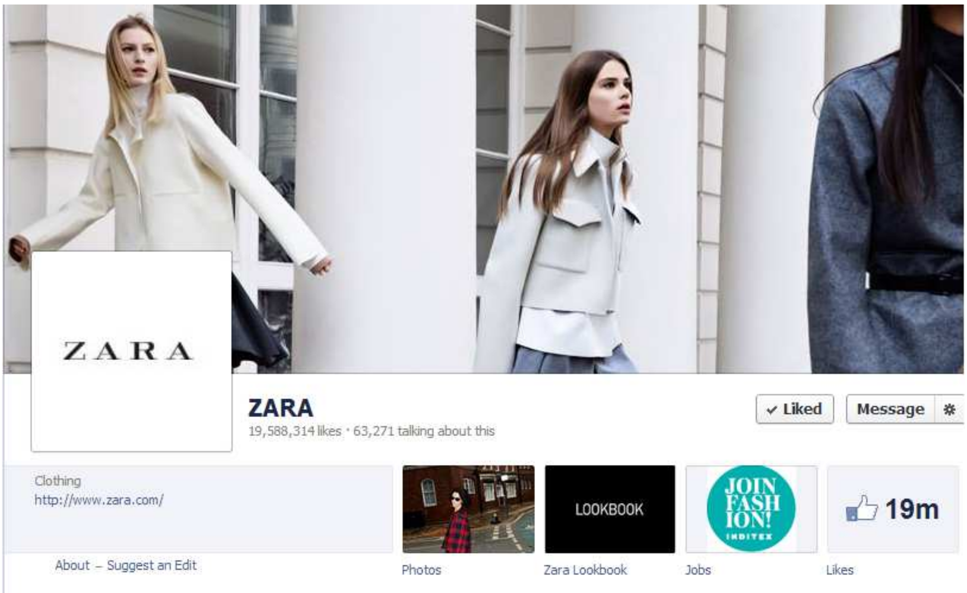
Exhibit 6) Zara main competitors' logotype

Exhibit 7) Zara in the e-commerce market

a) Zara website design



b) Zara's Facebook Page layout



c) Zara's applications for Ipad and Iphone

Exhibit 8) Store Pilot

- Store where designers do the combinations that, after concluded, go to real stores.

Exhibit 9) New stores, after repositioning the brand image

a) **Departments**

b) New design – Black and White

c) Storefront

- Simple clothes to be easy to change without compromise the collection

Exhibit 10) Survey Analysis Results

Exhibit 10a) Distribution of consumers by gender

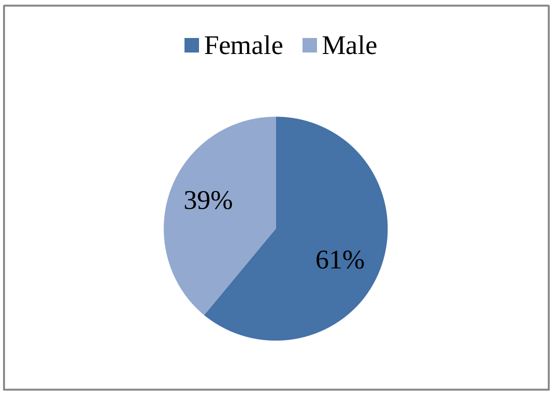


Exhibit 10b) Distribution of consumers by age

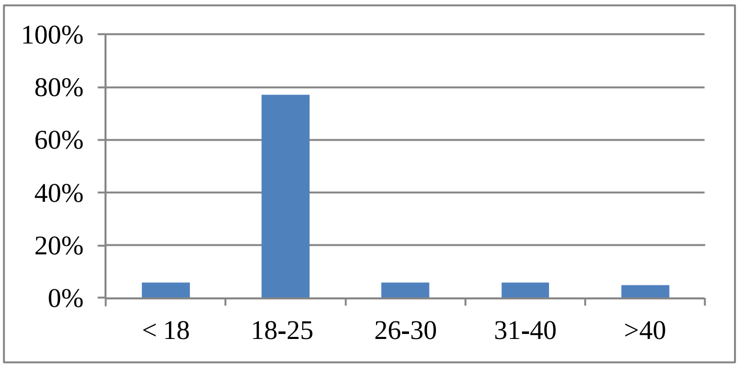


Exhibit 10c) Distribution of consumers by professional occupation

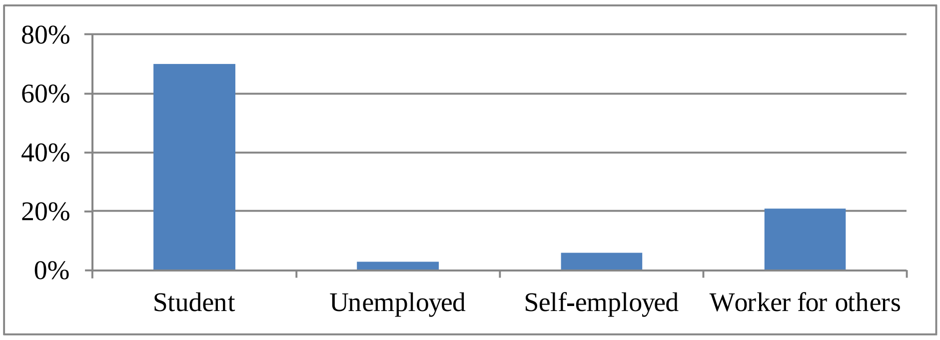


Exhibit 10d) Distribution of consumers by district where they live

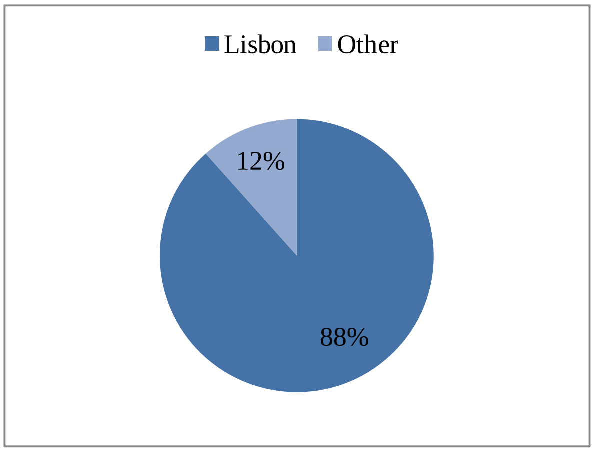


Exhibit 10e) Preferences of consumers in terms of shopping

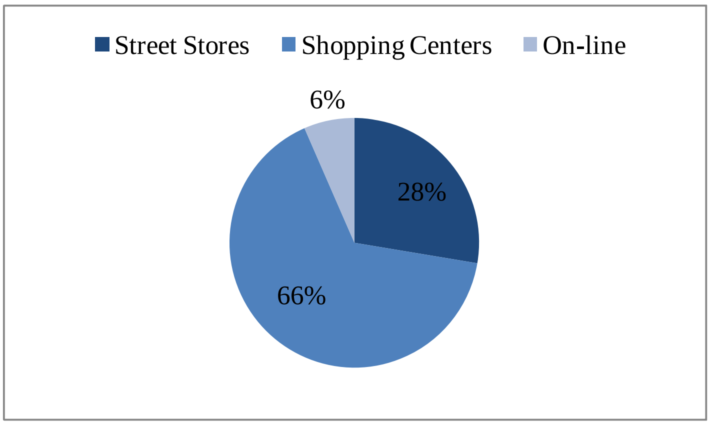


Exhibit 10f) Percentage of consumers shopping at Zara

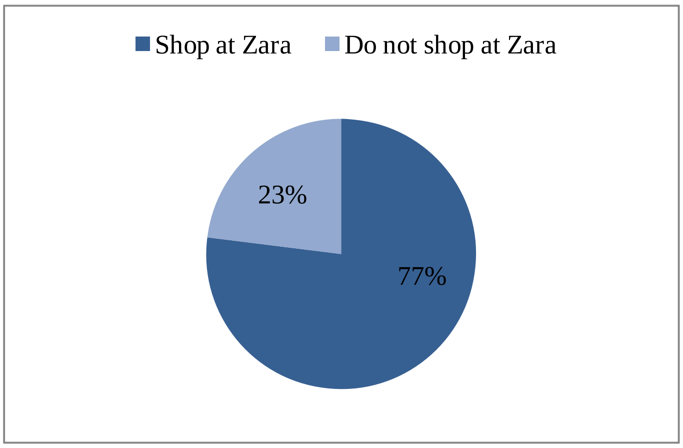


Exhibit 10g) Percentage of consumers that visit or shop in Zara's website

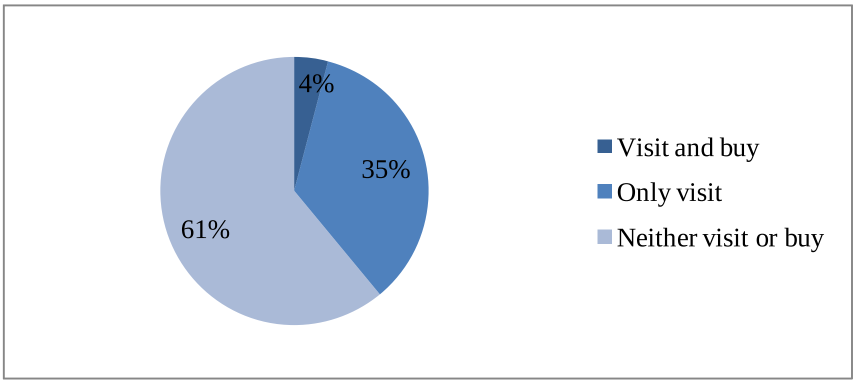


Exhibit 10h) Segments of the brand where consumers shop

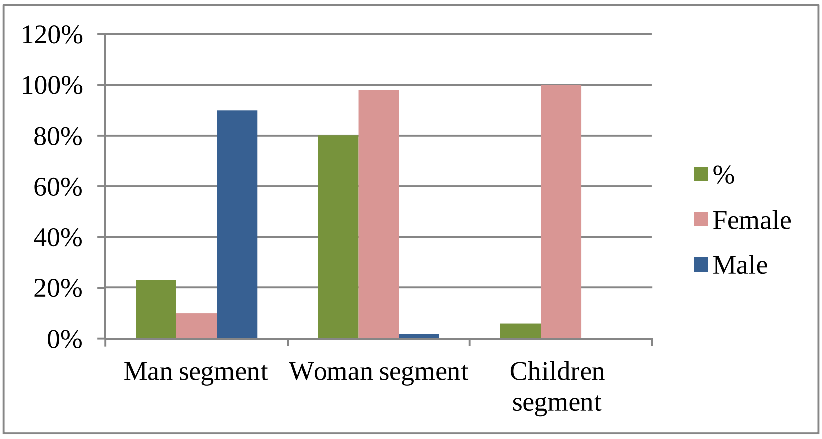


Exhibit 10i) Evaluation of Zara's characteristics in comparison to competitors

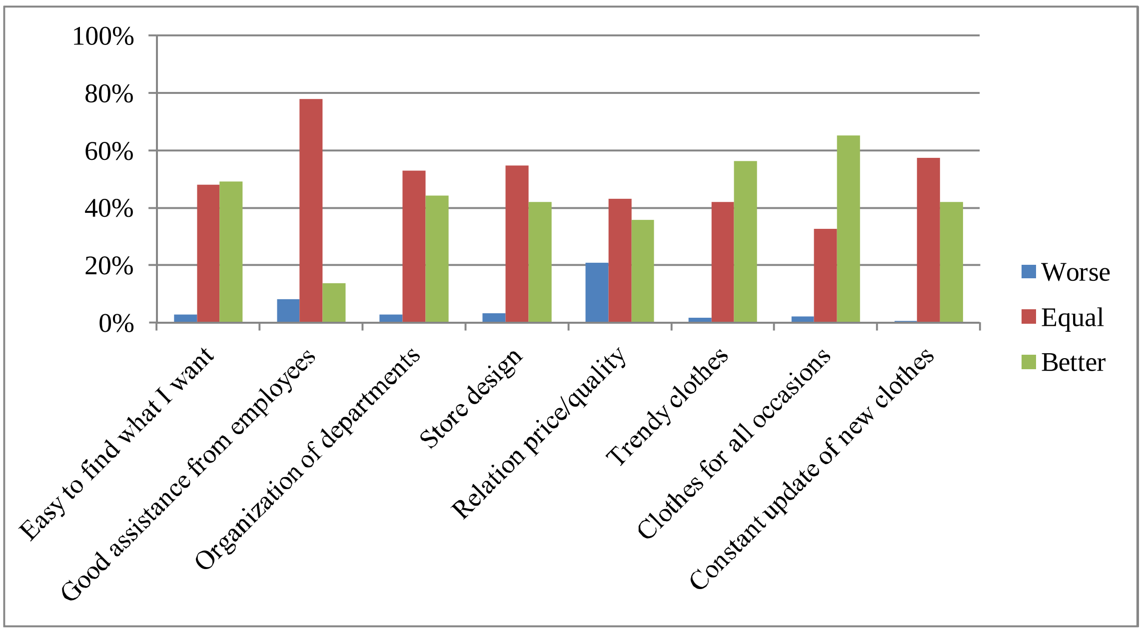
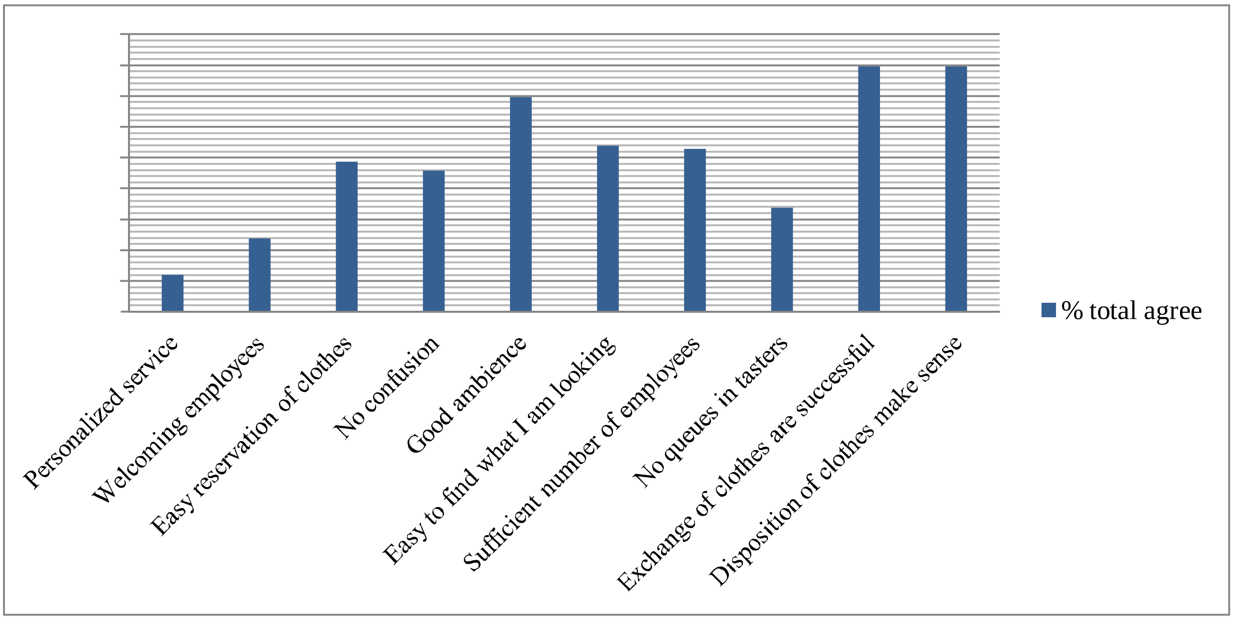


Exhibit 10j) Satisfaction of consumers in terms of shop experience at Zara



9. Appendixes

9.1. Interview Guidelines to Pedro Vidigal

Place: Zara offices in Lisbon, Portugal

Day: 22nd July, 2013

Interviewed: Pedro Vidigal, Marketing Director of Zara Portugal

1. Presentation and explanation of thesis objectives.
2. Presentation of the Interview Guidelines.
3. Main topics discussed:
    a. The Inditex group in general and the main competitors;
    b. Main points that distinguish Zara from other brands in the Inditex Group;
    c. Main competitors for Zara;
    d. Criteria adopted by Zara before opening a new store;
    e. Main differences in the brand from one country to another;
    f. Main factors responsible for the brand success;
    g. Challenges facing by the brand in the present;
    h. Financial report from last year, 2012.
4. Discussion about future meetings or additional information.
5. Discussion about confidentiality.

9.2. Survey

I am, in this moment, realizing my master dissertation in marketing, for Católica-Lisbon School, through an elaboration of a case study which main goal is to understand strategies that lead Zara to be the success it is today. Through this questionnaire I intend to study the perception of consumers with respect to the brand and, thereby, draw conclusions for one fundamental part of my thesis. This survey has duration of approximately 3 minutes and I start to thank you for your participation.

Q1: Where do you usually realize your shopping?

❑ Street stores
❑ Shopping centers
❑ On the internet (on-line)

Q2: Are you a Zara consumer (Zara home is not accounted)?

❍ Yes

❍ No

Note: if ‘no’ is selected, then skip to question 17.

Q3: In which Zara’s segments do you usually shop?

❑ Women/teenager
❑ Men
❑ Children

Q4: How many times per month do you visit Zara’s store?

❍ < than 1 per month

❍ 1 time per month

❍ 2 times per month

❍ 3 times per month

❍ 4 times per month

❍ > 4 times per month

Q5: What is your average cost per purchase?

❍ Less than 25 euros

❍ Between 25 and 50 euros

❍ Between 50 and 75 euros

❍ Between 75 and 100 euros

❍ More than 100 euros

Q6: In 'pronto a vestir', Zara is your favorite store?

- ❍ Yes
- ❍ No

Q7: When you go to Zara what are you looking for? You can choose more than one option.

- ❑ Clothes for working
- ❑ Clothes for specific events, like weddings
- ❑ Sport clothes
- ❑ Casual clothes
- ❑ Shoes and accessories
- ❑ All of them

Q8: How do you evaluate the characteristics of Zara, compared to other stores?

	Worse	Equal	Better
Easy to find what you are looking for			
Good assistance from employees			
Organization of departments			
Store design			
Relation price/quality			
Trendy clothes			
Clothes for all occasions			
Constant update of new clothes			

Q9: How do you evaluate the image of Zara's stores, comparing to competition?

	Worse	Equal	Better
Innovative			
Cozy			
Fashion			
Organized			
Young			

Q10: Do you consider the brand image goes according to what it represents?

- ❍ Yes
- ❍ No

Q11: Do you improve something in the image of Zara stores?

- ❍ Yes
- ❍ No

Q12: If you answer "yes" in the previous question, please write down what you improve.

Q13: Please answer according to your satisfaction in terms of store experience.

	Disagree	Somewhat disagree	No opinion	Somewhat agree	Strongly agree
Personalized service					
Welcoming employees					
Easy reservation of clothes between stores					
No confusion					
Good ambience					
Easy to find what I am looking for					
Number of employees is sufficient					
No queue in tasters					
Exchanges of clothes are successful					
Disposition of clothes make sense					

Q14: Choose two reasons that influence your decision to shop in a general store.

- ❑ Existence of promotions
- ❑ Accessible prices
- ❑ Proximity from other places
- ❑ New clothes every week
- ❑ Always find something that I need
- ❑ Variety of clothes
- ❑ Brand loyalty

Q15: Choose two reasons that influence your decision to shop at Zara.

- ❑ Existence of promotions
- ❑ Accessible prices
- ❑ Proximity from other places
- ❑ New clothes every week
- ❑ Always find something that I need
- ❑ Variety of clothes
- ❑ Brand loyalty
- ❑ Only when I do not find in another store

Q16: Do you usually visit or buy in Zara website (www.zara.com)?

- ❑ I often visit and purchase
- ❑ I often visit but do not purchase
- ❑ Not usually visit, I prefer go to the store and look the clothes.

Q17: Which are other brands where you also shop? Indicate the two most usual.

- ❑ Bershka
- ❑ Pull and Bear
- ❑ Mango
- ❑ Oysho
- ❑ Sfera
- ❑ Massimo Dutti
- ❑ H&M
- ❑ C&A
- ❑ Pimkie
- ❑ Stradivarius
- ❑ Uterque
- ❑ Benetton
- ❑ Cortefiel

- ❑ Caroll
- ❑ Gant
- ❑ Sacoor
- ❑ Globe
- ❑ Hugo Boss (woman and man)
- ❑ Lanidor
- ❑ Pepe Jeans
- ❑ Promod
- ❑ Salsa
- ❑ Springfield
- ❑ Stefanel
- ❑ Tiffosi
- ❑ Timberland
- ❑ Tommy Hilfiger
- ❑ Gardénia
- ❑ Guess
- ❑ Lacoste
- ❑ Dielmar
- ❑ Giovanni Galli
- ❑ Wesley
- ❑ Mr.Blue
- ❑ Other
- ❑ Name? ____________________

Q18: For you, these stores complement or replace clothes that you can find at Zara?

- ❑ Complement
- ❑ Replaces
- ❑ Neither one nor the other

Q19: If you answer 'replaces' in the previous question, which are the main reason?

- ❑ Quality
- ❑ Price
- ❑ Environment
- ❑ Brand
- ❑ Tradition

Q20: Gender?

- ❑ Female
- ❑ Male

Q21: Age?

- ❑ < 18 years
- ❑ 18-25 years
- ❑ 26-30 years
- ❑ 31-40 years
- ❑ >40 years

Q22: Professional occupation?

- ❑ Student
- ❑ Unemployed
- ❑ Self-employed
- ❑ Worker for others

Q23: District

10. List of References

- Academic Papers

- Burns, D.J; Neisner, L. (2006), "Customer satisfaction in retail setting", *International Journal of Retail and Distribution Management*, 34:1, pp.49-66;
- Bagdare, Shilpa (2013), "Antecedents of Retail Customers Experience", *Journal of Marketing & Communication*, Vol.8, issue 3.
- Beery, L.L; Seiders, K. & Grewal, D. (2002), "Understanding Service Convenience", *Journal of Marketing*, pp. 1-17;
- Bhardwaj, Vertica et al. (2011), "A case study on the internationalization process of a 'born-global' fashion retailer", *The International Review of Retail, Distribution and Consumer Research*, pp. 293-296;
- Buzila, Nicoleta et al. (2008), "Trends in Global Retailing", *Tibiscus University Timisoara*, Romania, pp. 1-7;
- Favaro, Ken; Romberger, Tim; Meer, David, (2009), "Five Rules for Retailing in a Recession", *Harvard Business Review*, pp. 66-72;
- Frow. P. and Payne, A. (2007), "Towards the perfect customer experience", *Journal of Brand Management*, pp.89-101;
- Jain, Rajnish; Bagdare, Shilpa (2009), "Determinants of Customer Experience in New Format Retail Stores", *Journal of Marketing & Communication*, pp.34-42;
- Kumar, Nirmalya (2005), "The Global Retail Challenge", *Business Strategy Review*, pp. 6-12;
- Kumar, Nirmalya (2006), "Fashion Sense", *Business Strategy Review*, pp.81-84;
- Reddy, B. Krishna; Reddy, J. Suresh (2010), *Mustang Journal of Business & Ethics*, Issue 1, p121;
- Sharma, Dr. Gulnar; Dalvi, Ms. Meghashri (2010), "Challenges in Strategizing Retail Market", *BVIMR Management Edge*, pp. 25-32;
- Shivanand, Dr; Hungund, M. (2012), "Brand Management Strategies"*: Golden Research Thoughts*, pp.1-3;
- Sul, Donald (2008), "Fast Fashion lessons", *Business Strategy Review*, pp.5-11;
- Younger, Darren (June 30, 2013), "Five customers behavior trends for 2013", *ipscape*

- Other Sources for the Case Study

- AlTai, Amina , (2011), "Zara Case Study - Spanish Retailer Finally Moves to Ecommerce. What Where They Waiting for?", *IMAGEMME;*
- Anaya ,Suleman,(2013), "Inditex E-Commerce Sales Soar", *Business of Fashion*
- Fox, Kenneth A., (2011), "Zara: A Global Success Story", *Graziadio Business Review*
- Hume, Marion, (2011), "The secrets of Zara's sucess", *Telegraph*
- McLaren, Leach, (2013), "Go Inside Zara's Locked Down Headquarters in Spain", *Flare*
- Mundo das Marcas (2006), "Zara", *Mundo das Marcas*
- Wharton, University of Pennsylvania, (2012), "Zara: Changes are in store, but what will they mean for the retail chain?"

- Books

- Sharma, Dr. Mayank, (2009), *Product Management, Product Lifecycles and Competitive Marketing Strategy*, chapter 3, pp. 55-59.
- Dunne, M. Patrick and Lush, F. Robert, (2008), *Retailing*, 6th edition,
- Dunne, Patrick M., (2013), *Retailing*, 8th Edition
- Varley, Rosemary, *Retail Product Management, Buying and Merchandising*, 2nd Edition
- Kotler, P. (2003), *Marketing Management*, (11th ed.), Prentice Hall;
- Kotler, P. (2003), *Marketing de A a Z*, Editora Campus Ltda;
- Blanco Xavier; Alvarez, Jesús (2006), *De Zero a Zara*, Editora Esfera dos Livros

- Dissertations

- Ghemawat, Pankaj; Nueno, José Luis, *ZARA: Fast Fashion*, Harvard Business School;
- Soloaga, Paloma Díaz; Monjo, Mercedes (2010), *ZARA CASE STUDY: The company where everything communicates*, pp.60-68;

- Websites

- Growth Champions (2003), Inditex:
http://growthchampions.org

- Inditex website
http://www.Inditex.com

- Flare, June 5, 2013, Go inside Zara’s looked down headquarters in Spain
http://www.flare.com

- Fast Fashion trend, December 7, 2012, *Zara competition*:
http://fastfashiontrend.wordpress.com

- Study mode website, *Zara main competitors*:
http://www.studymode.com

- Jornal Público, 30 May,2008, *O Rosto do sucesso da Zara*:

http://www.publico.pt

- Jornal Expresso, March 13, 2012, *Zara muda de imagem*:

http://expresso.sapo.pt

- Interbrand, *Best Global Brands*, 2013:

http://www.interbrand.com/pt/