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‘Fashion is the imitation of a given example and satisfies the demand for social adaptation... The more an article becomes subject to rapid changes of fashion, the greater the demand for cheap products of its kind’

—Georg Simmel, Fashion (1904)
This report aims to provide an analysis of the fashion retailer Zara, one of the leading brands within the fashion industry. The methodology used to analyse the brand includes models such as a PESTLE and SWOT analysis and Michael Porter’s Five Forces (1980) as well as both secondary and primary research, such as comparative shopping and observational research.

Zara is a Spanish retailer established in 1975 by Amancio Ortega, and since then it has experienced a strong national and international expansion; currently the brand operates in 87 countries with more than 1,830 stores centrally located. It is the flagship store of Inditex (Industria del Diseño Textil, SA), one of the largest world’s corporations, headquartered in La Coruña. In addition to Zara, which accounted for 64,9% of the group’s 2011 retail sales (Annual report, 2011), Inditex owns seven other retail chains: Pull and Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe.

Its vertically integrated business structure allows the brand to control most of the steps on the supply chain: it designs, produces, and distributes itself and most Zara stores are company-owned, which enables a quick response to consumers’ changing demands and a greater flexibility.

Zara’s aim according to Amancio Ortega is “to democratise fashion by offering the latest fashion in medium quality at affordable prices”.
MARKETING ENVIRONMENT

POLITICAL FORCES

• Government: An organization must be able to consider issues such as how stable the political environment is and what government regulations influence the policies that regulate or tax the firm. Zara having a global presence, they must take this into account when entering a new market.

ECONOMICAL FORCES

• Recession: Inditex sales in Spain in 2011 accounted for 25%, which was 6.8% less than in 2009 (Inditex annual report). However, thanks to its global presence, the firm has been able to offset the slowdown in Spain (El País, 2011). The Spanish company is increasingly aiming at the global market because of stagnant results in its mother country due to the heavy recession in Spain.

• Price: Differences in prices between establishments of the same brand from one country to another and the likely response of local customers, for example Zara Japan and Zara Spain.

• Difference in income per capita across countries in which Inditex operates.
SOCIOLOGICAL FORCES

• Zara being a global brand, it operates in countries with strong cultural and style differences. Socio-cultural factors are extremely important when entering a foreign market. For example, people in Bangladesh do not change their wardrobe too often and a strong preference for bright colours dominates, as opposed to blacks and whites, more worn in Europe.

TECHNOLOGICAL FORCES

• Social media: Having a presence in social networks such as Twitter or Facebook allows access to live information involving the consumer and making him/her feel more connected to the brand.

• Online presence: Zara.com has become one of the brand’s most popular storefronts thanks to their permanent sections such as Lookbook, where the latest of the chain’s articles are shown, or People!, an initiative in collaboration with the customers, who send photos of their own fashion displays from the latest Zara trends (Inditex, 2011). This involves the customer emotionally and creates a more interactive way of shopping.

• New technologies: Information and communications technology is at the heart of Zara’s business. Information on customer needs and demands flows daily and is fed into a data-
LEGAL FORCES

- Plagiarism: High street retailers create affordable garments inspired from the catwalk and luxury brands. However this is sometimes a concern for the latter. Zara was sued in 2008 by Louboutin for selling an open-toed red-soled shoe which it claimed was similar to its Yo Yo model (Retail Week, 2012).
- Sweatshops: In August 2011 Zara was accused of sweatshop factory conditions and the employing an underage worker (The Guardian, 2011). This might have an extremely negative impact in the brand’s image.

ENVIRONMENTAL FORCES

- Sustainability: People are increasingly aware of problems caused by pollution so in 2007, the firm’s CEO unveiled an environmental strategy that included the use of renewable energy systems at logistics centres and the introduction of biodiesel as fuel for the firm’s trucking fleet (Palladino, 2010). Zara is also opening some eco-efficient stores. This company’s environment-friendly image may attract more customers.
MICRO ANALYSIS

In terms of revenue and growth Zara’s main competitor is the Swedish firm H&M who, unlike Zara, outsources all of its production to developing countries with low labour rates. While H&M has 900 suppliers and no factories, nearly 60% of Zara’s merchandise is produced in-house (Gallaugher, 2008). In terms of customers, Zara is facing all the trendy and fashion clothing designers and has positioned itself as the smart choice of those who want to combine fashion with affordable prices.

To avoid multiple intermediaries and time waste Zara deals directly with its network of suppliers. The same happens with the distribution; the brand wants to keep control and owns almost all of its stores, all placed in strategic locations.

‘Inditex selects suppliers all over the world to produce its collections and has an extensive supply chain with a presence in over 40 countries. The fact that a significant part of its supplies are carried out in areas close to the headquarters of each of the chains makes possible a rapid and flexible response to the market.’ (Inditex, 2011)
PORTER’S FIVE FORCES MODEL APPLIED TO ZARA (MICHAEL PORTER, 1980)

Porter’s model identifies five forces that impact the competitive power and probability of a business within a particular industry (Harriet Posner, 2011). The diagram shown in Figure 1 examines the current competitive environment of Zara within the fashion industry.

• Intensity of rivals:
There are a high number of competitors with a strong rivalry among them as they have to fight for market share. Zara competes with international retailers such as H&M and Gap but also national brands that advertise lower prices, like Primark, now that the economy is faltering (Gallaugher, 2008).

• Threat of substitutes:
The threat of substitutes is low because it is a basic need to be dressed and clothing products cannot be replaced. However, vintage and handmade clothes might act as a substitute.

• Threat of new entrants:
The threat is medium to low because there are many entry barriers and a high initial capital is needed to start up in order to cover creation, production and distribution costs. Furthermore the new entrants wouldn’t be able to compete with the offer of the established retailers.

• Bargaining power of suppliers:
Zara has bargaining power over its suppliers as it is part of Inditex. Being vertically integrated means that Zara designs, produces, distributes and sells by itself, although at the moment, due to its expansion, the brand counts on some independent suppliers.

• Bargaining power of buyers:
The bargaining power of buyers is low because customers lack the ability to bargain for high quality products at lower prices and the purchase volume per customer is really low.
SWOT ANALYSIS

Strengths:
• Vertically integrated system
• Fast Fashion/ Ability to recreate fashion
• Many stores around the World
• Strong supply chain and distribution channels
  • Diversified product range
• Each store wants customer comments and opinions.

Weaknesses:
• Centralised production
• Tagged as imitators
• Euro-centric model
• Lack of advertising

Opportunities:
• Designers’ collaborations could expand the company into new markets
• Zara’s brand awareness
• Emerging markets (BRIC countries)

Threats:
• Rivals may copy Zara strategy
• Manufacture based in Spain is becoming expensive
• Potential oversaturation in Europe
• Competitor H&M is doing great with designer collaborations and a broader target market (ex: Maternity)
Zara seems to have a wide range of target markets, from kids to teenagers to women and men. However, the core customer tends to be a woman aged between 15 and 35. A typical Zara customer is a person that wants fashionable, trendy and unique outfits at affordable prices. As Zara has its origins in Spain and is primarily a European fashion brand, its consumers are also heavily influenced and moved by European fashion. Aside from that, the customer may belong to any social stratum or demographic segment as Zara caters to a wide range of tastes.

The market segmentation strategy employed by the brand is based on the demographic and psychographic variables like gender, age, generation, lifestyle and social aspirations. However, aside from this the company also targets customers based on their sense of fashion and style e.g., contemporary, trendy, classic, etc.

The brand uses a differentiated market strategy as it aims to target various segments. Zara situates its stores in high profile locations and provides customers with a turnover time of 4-5 weeks for its new collections, made available at very affordable prices. This, along with the brand identity, the clothes and accessories collection and the limited production run, attracts the target markets to Zara stores. The average Zara customer visits the store 17 times per year, compared with only three annual visits made to competitors (Gallaugher, 2008)

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<th>ZARA:</th>
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<td>Woman</td>
<td>Females</td>
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<td>Trafaluc</td>
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<td>Man</td>
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<td>Kids</td>
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Lucía is a 19-year-old Fashion Journalism student in London College of Fashion. She is originally from Madrid in Spain and moved to England to attend University. Now in her second year of study, she has rented a student flat with three friends. She is a very sociable and lively person that loves going out to bars and night clubs and try new things. She is looking to fit in with the current trends by purchasing garments that are both fashionable and affordable because she doesn’t have a vast amount of money at her disposal. She is extremely fashion conscious so she likes to keep up with trends by reading blogs and fashion magazines. Her favorite blogs are ‘Style Bubble’ and ‘Becaria de la Moda’; she reads magazines like Vogue and Harper’s Bazaar. Her style icons are people like Alexa Chung or Olivia Palermo. She is a fashion follower and likes to shop at Zara so that she can look fashionable without spending a lot of money; however she also likes H&M (particularly their designer collaborations), Mango and Topshop. Even though she can’t afford it right now she purports to own a designer bag one day and buys into high luxury brands by purchasing, for example, a Chanel fragrance.
This Positioning map gives Zara an overview of its position in relation to that of competitor brands within the market (Posner, 2011). There is a very strong rivalry between competitors as firms have to fight for market share. Zara is perceived as being slightly more fashionable than its competitors.
MARKETING MIX AND BRAND STRATEGY
Zara has four main product lines; women, men, teenager (Trafaluc) and children (Zara kids) clothing. Each of them is subdivided in Lower Garment, Upper Garment, Shoes, Cosmetics and Complements. Women’s clothing accounts for 60% of Zara’s revenue (Bhagwat, 2011). It is the leading brand in ‘fast fashion’, it can not only offer up to 12 collections a year where its competitors can only offer 3 or 4 but the brand is also known for the average time it takes for them to go from an idea to the actual appearance of a garment in store, which is only 15 days. The brand adapts to customer wants: if it finds that they are coming in asking for a rounded neck on a jumper rather than the V neck on display, a new version can be in the stores within about 10 days (Tagliabue, 2003). Rather than creating trends the brand follows with designs where there’s evidence of consumer demand (Gallaugher, 2008) and provides a considerable number of products, approximately 30,000 items a year versus 2,000-4,000 items offered by big chain stores like H&M (Gallaugher, 2008).

The shorter the product life cycle, the more successful it will have been in meeting customers’ preferences, ‘If a style doesn’t sell well within a week, it is withdrawn from shops, further orders are cancelled and a new design is pursued’ (Roux, 2002). Another key element in the brand’s product strategy is manufacturing a limited production run which allows the firm to offer exclusivity and uniqueness to their consumers and also encourages the latter to buy right away at full price. The chain allocates 85% of the full ticket price to its merchandise, while the industry average is 60% (Kluyver, 2010). Finally this allows the firm to reduce the risk of making a mistake. These particular product strategies have therefore helped Zara to become a powerful brand in the fashion industry.
PRODUCT COMPARISON

£39.99

Although the Zara bag is 10 pounds more expensive than the H&M one it also looks more fashionable. The Zara bag is offered in two colours, black and brown. Although the H&M has a larger colour offer (Pink, White and black) this only makes it come across as very tacky. In this particular case the 10 extra pounds that Zara charges for its bag are completely justified. It is very elegant and looks expensive while the H&M one looks cheap and of poor quality. The bag has been so successful that Zara has created other similar ones. It has even been adopted by the “it” girl Olivia Palermo and the singer Mollie King and it has appeared in several fashion blogs.

£29.99
Zara is positioned in the premium price segment, which means its prices are slightly higher than those of its competitors.

Price varies by country depending on the purchasing power of the target market segment and on the margin the company wants to gain.

For example, higher prices are charged within the UK. Zara used to show the key European currencies on its price tags and the UK price was generally higher than elsewhere in Europe (Jackson et al., 2009).

Prices are, on average, 40% higher in Northern European countries than in Spain, 10% higher in other European countries, 70% higher in the Americas, and 100% higher in Japan (Palladino, 2010).

But how long Zara can go on charging such markedly varying prices in different countries? Japanese customers pay about half as much again as west Europeans but Luca Solca of Sanford Bernstein, a research firm, says consumers in China, where Zara also charges more, see high prices as part of a product’s appeal (The economist, 2005)
There are currently 1,830 Zara stores over the world: 207 in America, 1,280 in Europe and 243 in Asia and the rest of the world (Inditex, 2011). The Zara business model is characterized by a high degree of vertical integration, rather than other models developed by international competitors. It has a flexible structure and a strong customer orientation. To be as reactive as possible in this competitive market, Zara has chosen to privilege local production, indeed it has decided to group activities near its headquarters in A Coruña so as to gain time and get better control. Vertical integration allows it to have total control at all levels from suppliers to retail shops.

Zara has expanded internationally through company-owned stores but these stores entail a number of costs and management commitments. As a result, Zara is now using two other modes of market entry, franchises and joint ventures (Ghemawat et al. 2006).

Zara also uses the online channel. The brand opened its e-store on 2nd September 2010 and has managed to keep its spirit and convey it to the internet. Indeed, colours, font styles, everything in the online store is built on Zara’s trademark characteristics: luxury and simplicity.
Advertising has traditionally been the main method of communicating a brand image (Jackson et al., 2009). However, Zara spends on average 0.3% of its income on advertising, which is considered very low compared to the 3-4% typically spent by rivals (The economist, 2005). The fact that it spends so little has reinforced its identity as a clothing retailer that is low cost but high fashion.

One of the reasons for this non-advertising policy is the fact that Zara changes its collections very often, so it is obviously unnecessary to promote products that won’t be available a few days after the consumer has been in contact with the advert.

“The reason for not spending money on publicity is that it doesn’t bring any added value to our customers. We would rather concentrate on our offering in terms of design, prices, rapid turn-around of stock and the store experience.” says Carmen, a press officer at Inditex (Tungate, 2005).

The strategy adopted by Zara consists of investing in the location and visual merchandising of their stores. The company believes that its shop windows, the contents of which are decided in A Coruña, are all the advertising it needs. Displays are regularly updated since they are critical for Zara to remain visible and entice customers. The stores are large and appealing in their interior design, window displays and sophistication and are positioned in prime locations for more visibility.

For Zara word of mouth has also a great significance because despite the fact that the company has seldom used the media to advertise its products, Zara is still popular among the population at large, which proves that people talk about it. The Zara customer needs neither to be reminded of nor to know what is in the shop to come back. He does it because he knows he/she is going to find a product he/she is going to like. There is therefore no reason to do any promotion since customers go to the shops of their own accord.
‘The secret to Zara’s appeal is that, although shopping there is cheap, it doesn’t feel cheap’ (Tungate, 2008).

Zara imitates luxury companies: choosing the best locations in the main cities, showing a few selected looks in their windows and through a sophisticated merchandise display inside the stores. Occasionally stores have been opened in characteristic buildings of the city as is the case of ‘Palazzo Bocconi’, in Rome, or the ‘Convent of San Antonio El Real’ in Salamanca, Spain, which is considered one of the greatest restorations carried out by Zara, something that in terms of investment return will never be cost-effective and that was undertaken to strengthen the image of the brand.

The elegance transmitted by the logo is also found in the store interiors. The brand has adopted a strategy tending towards the resemblance to luxury brands. The stores are large, giving the customers room to breathe instead of overwhelming them; the sections are widely spaced in keeping with the spirit of luxury boutiques. When getting into a Zara shop we can also see that the goods are organized according to colours and sophistication. Inside Zara stores, the window displays and the internal arrangement of the product play a key role.

Zara’s famous dark blue paper bags are also part of the brand identity and they are a way of promoting it too, ‘dangling smartly from wrists on buses and trains and in the street, in every city, everywhere’ (Tungate, 2008)
Branding is really important within the fashion industry. Chanel, Gucci, Dior are all iconic brands that immediately convey a message about the style and quality of the products. Creating a favorable brand image is key in order to gain a larger market share but also to differentiate yourself from your competitors. Furthermore, fashion branded garments are better perceived by consumers than unbranded items. Branding will provide the business, among other things, with brand equity and secure future income as long as the brand is credible and relevant.
CONCLUSION AND RECOMMENDATIONS

Zara is nowadays one of the biggest retailers in the clothing industry, however the firm is still facing some challenges and further recommendations might help to improve its current business strategy. Zara’s just-in-time manufacturing model has some limitations. By moving all of the firm deliveries through just two locations, both in Spain, the firm remains hostage of any risk that could shut down operations (Gallaugher, 2008).

Another big question is how far Zara can go on growing from its home base. Now that 15% of its sales are in Asia, does it make sense to run product design and logistics just from Spain? (The economist, 2011)

Zara should consider slightly decentralizing its vertically integrated production and distribution chain in order to keep being cost-effective as well as opening plants in American and Asian countries to benefit of the lower production costs.

There are 1.938 Inditex stores in Spain (Inditex, 2012) which cannibalize Zara’s revenues and 335 Zara stores that can also cannibalize sales from each other, particularly if they are within the same location. Only in Madrid there are more than 40 Zara stores.

There are currently four Zara stores in Oxford Street, London; to decrease the competitive ‘cannibalism’ phenomenon among the stores the firm should offer a different range of products in each of them, thus encouraging customers to visit them all.

In regard to marketing issues Zara might consider adopting similar strategies to the ones employed by H&M and other brands, which take on designers’ collaborations. They could do it for example once a year, it would slightly increase the advertising budget but I believe it would report benefits and attract new customers that might not be familiar with the brand.

Overall Zara’s business strategy is very successful and has been studied by many other businesses (Gallaugher, 2008). It is a successful international retailer, which in 30 years has transformed itself from a Spanish local brand into a truly global firm.
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