



WRITTEN REPORT

FINAL ASSIGNMENT

STRATEGIC MARKETING MANAGEMENT

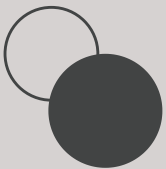




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I. History & Facts

Zara a Spanish company and is one of the leading international fashion companies. It belongs to Inditex, one of the largest distribution groups in the world. It was founded in 1975 by Amancio Ortega Gaona and Rosalía Mera. There are 2,270 Zara stores in across 96 countries. By the end of 2018, there were 171,839 employees.

Here are some numbers about Zara:

- Capitalization: 84 billion € (October 2019)
- Turnover: 25 billion € (2018) Net total: 3,4 billion €
- Number of shareholders: 10

Zara segments their product line by women's (60%), men's (25%) and the fast-growing children's (15%) department. They target all ages consumers but mostly 15-40 years old. Their consumers are fashion conscious, educated and fall in the middle-class category. The brand preserves its positioning as a quality at an affordable price brand.

The customer is at the center of their business model, the latter including design, manufacturing, distribution and sale through a large network of brand stores.

Over the last decades' clothes retail stores, Zara became one of the most popular and loved all over the world.

II. Zara's Mission

Zara's mission statement is: "Give customers what they want, and get it to them faster than anyone else."

- Zara is more concerned with the likes and interests of its clients rather than simply pushing fashions in the market.
- Shops all across the world are careful about noticing what their customers request.
- Zara works with productions sites closer to the final retail point to more quickly serve their customers.
- Zara was given the title of "Founding father of fast-fashion."
- Such a simplistic, concise, and straightforward statement shows why this company has been so fruitful: through distinguished products and they wish to improve lives.

That is why the company dedicates more time to learn about these 'wants,' to inform the designs of its products. Unknown to many competitors, this is what makes Zara brand unrivaled. The company has also learned that by meeting the demands of the clients when needed, it improves their lives and creates loyalty. The unique supply chain adopted by Zara to increase the speed of delivering new products faster has made it a darling in the Spanish and global markets.

III. Zara's Vision

Zara vision statement is "to contribute to the sustainable development of society and that of the environment with which we interact."

- The brand's goal is to have not only a successful and sustainable business but also to take care of all the human beings and nature involved.
- Through its corporate social responsibility, Zara keeps demonstrating its responsibility to improvement of the lives of people.
- Zara also supports a wide range of environmentally-conscious programs to support the stability and preservation of natural resources.

Today Zara retail stores, and all of the Inditex retail brands are committed to integrate sustainability into every facet of operations from design concept to retail customer sales. That commitment is reflected in what Inditex refers to as its Mission Statement and Environmental Policy.

IV. SWOT Analysis

You can find below the elements of the SWOT Analysis.

A. STRENGTHS

- Leader on the market
- 8 brands (Zara TRF, Zara Man...)
- Large range of products (basics, fashion...)
- Global reach (over 2200 stores in 96 countries)
- Affordable pricing
- Fast changing collection
- Reactivity with a short manufacturing time (implementation of a new model in just 2 weeks) and quick decision making
- Good profitability (better than H&M): net profit for 2017 up 7% to €3.37 billion, almost triple
- Quality with ISO 9000 and ISO 14000
- Subcontracting network (integration)
- Good feedback between shops and HQ
- Low distribution costs thanks to low communication budget
- Family business (59.9% of the capital) with few stakeholders in the business therefore helps maintain sustainability

B. WEAKNESSES

- High operating costs: because Zara still produce in Spain (currency in euros)
- No advertising (good to reduce costs but it lacks visibility)
- Store opening slowdown
- Limited stocks
- Late launch of collections
- A little behind in e-commerce compared to other brands

C. OPPORTUNITIES

- Growing geographic markets: France (a few medium-sized cities) Eastern countries, Asia, India (growing middle class)
- No absolute non-consumers (all ages and genders)
- Growing distribution channel: electronic commerce
- Rising environmental issues
- Difficulties of certain competitors (Vivarte...)
- New technology: with digitalization
- New and growing communication with influencers
- Exchange rate when favorable

D. THREATS

- Very highly competitive intensity (H&M, Gap, Uniqlo, Primark...); medium companies (Mango...); supermarkets, etc.
- Competition from 100% digital players (Amazon, Wish, AliExpress)
- Unfavorable economic situation in Europe
- Rise in raw materials (e.g. cotton)
- Exchange rate when unfavorable

V. Marketing Mix

You can find below the elements of the marketing mix.

A. PRODUCT

- 8 brands
- Quickly response to the changing needs of customers
- Not outsource its manufacturing process: fully in control of the products it produces
- Create latest trends
- Immediate withdrawal of a product if no sale
- Cope up with the cultural needs in every country

B. PRICE

- Products at a reasonable price
- Referring to customers who would compare Zara with Hugo Boss or others
- Some are more affordable than others
- Premium pricing strategy, by optimizing development and training costs
- 65% of production is based in Spain

C. PROMOTION

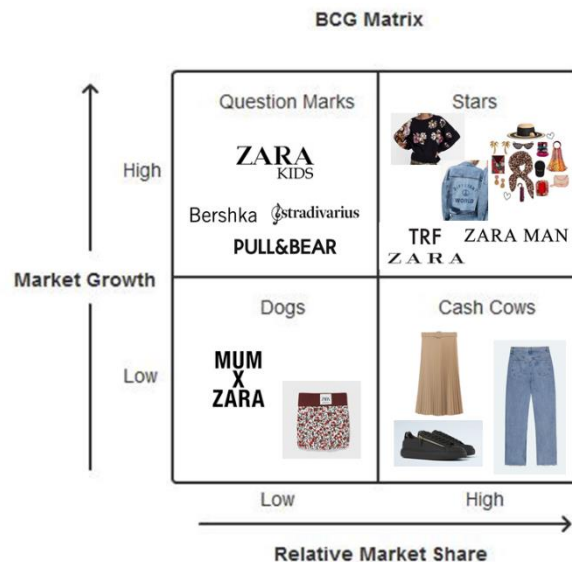
- Marketing policy of "Zero investment"
- 0.35% of sales expenses for the launch of sales
- Opening new stores with money not used in advertising
- Marketing strategy based on exclusivity, experience, differentiation and affordability
- Relies heavily on the word of mouth advertising
- Importance of the design of its showrooms

D. PLACE

- 90% of stores owned by the company
- Customers experience: same environment in every store
- Stores are spacious, well-lit, modern and predominantly whiter and walled with mirrors

VI. BCG Matrix

We created the BCG Matrix that you can find below with the explanation.



A. QUESTION MARKS

Zara's kid segment is the cash cow for the company with 21% of market share (Adam, 2018). Pull & Bear, Bershka and Stradivarius are also the question mark for Zara, which has 9.3%, 6.8% and 6% market share.

These products that have the low profitability than star products and cash cow but possess the potential for future growth, still the situation is uncertain. If market conditions are stable and favorable, these products then are able to grab the large market share to become the star item.

B. STARS

Fashion denim, Fashion jersey, and unique collection of bags and accessories of Zara are the star items. Zara TRF and Zara man are also the star items, with the estimated market share of 24% and 10%.

These products help in generating the enough revenues for companies to be known as profitable, but still have a chance for expanding as having star products.

C. DOGS

For Zara, its maternity wear and underwear are categorized in this quadrant, as there are many competitors in the industry which are dominating the market, and Zara is unable to make the space for itself.

Zara needs to invest more in this category to make it cash cow of the company, or should shut down its operations, so that funds could be used somewhere else.

D. CASH COWS

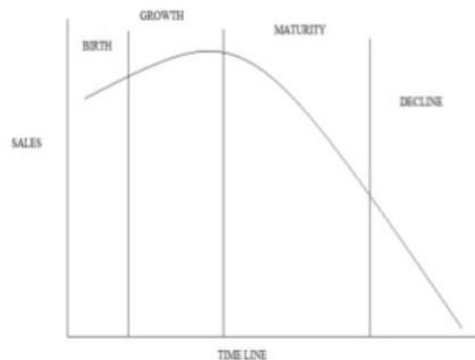
Trafaluc cloth range, Jeans, shoes and skirts are the cash cow of the Zara. Such products are successful in creating the strong market hold and successfully develop the high level of market demand. Such strong position helped the company in enabling the products for becoming the major source of revenue for the entity.

VII. Product Life Cycle

Zara's product life cycle includes the four basic steps but the timeline of the product in the life cycle is completely different. The organization manages in fashion industry and the changes regarding consumer's taste is very high. Therefore, the life of the trend or design is of maximum 5-6 weeks.

Shortening the product life cycle means greater success in meeting consumer preferences. If a design does not sell well within a week, it is withdrawn from shops, further orders are canceled and a new design is pursued.

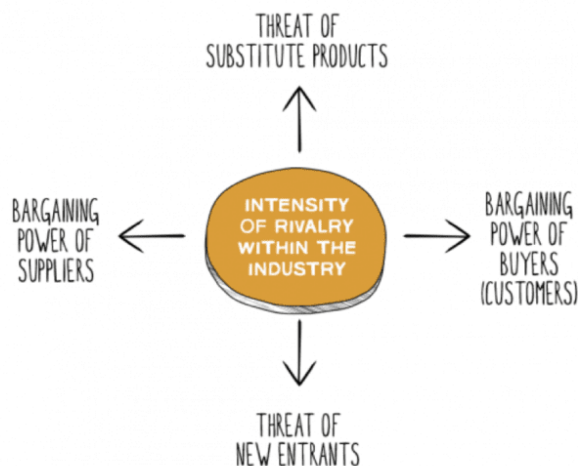
Thus, the graph below represents the PLC of Zara which is different than the usual:



VIII. Porter's 5 forces

You can find below the elements of Zara's 5 forces of Porter. The sign (+) means it has a positive impact on the company whereas the sign (-) means it is negative.

PORTER'S FIVE FORCES MODEL



A. THREATS OF NEW ENTRANTS

(-) cost of lateral diversification: low for companies already in the clothing industry and wishing to widen their target clientele

(+) growth rate of the sector (in Europe): low

- (+) productive investment: strong (factories, experience effect)
- (+) distribution network investment: strong (numerous shops + location)
- (-) intangible investment: low (no patent, no communication, no innovation)
- (+) tightly-knit group of designers, market specialists, production managers and production planners
- (+) rich information repository about customers

B. BARGAINING POWER OF BUYERS

- (+) for the end consumer (numerous / dispersed / target large clientele)
- (+) own distribution (weak customer bargaining power)
- (+) leading position
- (+) 11 000 new designs a year (only 2 000 - 4000 for its competitors)
- (+) Low inventory, so the customers buy what they like immediately because they know that next time, they come it probably will be gone
- (+) Laser technology to measure 10 000 women volunteers to determine the measurements of "real" customers

C. THREATS OF SUBSTITUTE PRODUCTS

- (-) all products different from those of Zara but meeting the same expectations, ie all clothing...
- (+) good value for money
- (+) meeting customer preferences for trendy, low cost fashion
- (+) the highest sales per square foot of any of its competitor
- (-) no advertising
- (+) only 10% of stock is unsold
- (+) very low inventory levels and new product need only 15 days from idea to shelves
- (+) extremely efficient manufacturing and distribution operations

D. BARGAINING POWER OF SUPPLIERS

- (+) controlled subcontracting: network of subcontractors
- (+) no rarity of the raw material
- (+) important customer for suppliers (volumes ordered)
- (+) computer-controlled cutting machine cuts up to 1 000 layers at a time
- (+) suppliers' work is relatively simple and many suppliers can do the sewing
- (+) the pool of suppliers is expanded and great flexibility in choosing companies
- (+) less dependent on suppliers (Zara dyes 50% of the fabric in its plant) and can respond more quickly to mid-season changes in customers color preferences

E. RIVALRY AMONG EXISTING COMPETITORS

- (-) many competitors
- (-) size: 3 level of competitors
 1. (-) Large retailers
 2. (+) Small retailers
 3. (-) Large distribution
 4. (-) Circular markets
- (-) market growth rate (in Europe) is low
- (-) nature of the offer: standardized products, same strategy (cost domination)
- (+) undisputed leader position (8 brands...)
- (+) extremely fashionable lines that are only expected to last for approximately 10 wears (so zara offers trendy, appealing apparel at a low price)

IX. Competition Analysis

There are 4 levels of competitors for Zara:

1. Large retailers: Large retailers are the first competitors of Zara. So, for example these are large retailers. Some examples: H&M, fast retailing (Uniqlo), Gap, Benetton, Primark...
2. Smaller retailers: They are also competitors because they are selling clothes and accessories and can attract Zara's customers. Examples of smaller retailers: Etam, Morgan, Promod, Camaïeu, Mango...
3. Large distribution: They are competitors because they are selling clothes but in a larger way and at a lower price. For example: Kiabi, Tex, but also supermarket like Carrefour...
4. Circular markets: They are competitors because it's a way of selling clothes already produced between individuals at a lower price. This is affecting more and more the market as the demand for these products is increasing. Some examples could be: Second Hand Shops, Vinted, United Wardrobe...

X. PESTLE Analysis

You can find below the elements of the PESTLE analysis.

A. POLITICAL

- Need to adapt to the policies concerning trade system in every country
- The financial regulations of a country: every nation and its government does not have the same outlook on business.
- Political disruption results in the disruption of the market because it affects the economy. Political turmoil can also disrupt the supply chain and then give rise to several difficulties for the brands. ZARA has overcome this difficulty by limiting its supply chain operations to its home country and neighboring nations.
- The industry accounts for 74% of the total exports of EU and hence it gives access to Zara to a broader customer base within all European countries without paying extra border tariffs which helps to boost its sales.
- European Trade agreements: makes it incredibly easy to import raw materials and export finished products within the European Union, but it also means that Zara can send its merchandise across the world with little effort and for a low cost.

B. ECONOMICAL

- Exchange rate may be positive or negative. Zara should be aware of interest rates, taxation changes, economic growth, inflation, exchange rates and tariffs.
- Even if the economic activity declines and people are cost cutting, they may switch away from the luxury brands but not from brands like Zara that sell at affordable prices.
- The Covid 19 crisis has already impacted the market and lowered the economy. Lower economic activity reduces the purchasing power of the customers who start cutting costs or are forced to do it. This can take a heavy toll on sales.
- Since Spain has one of the highest rates of unemployment and Zara is a Spanish brand, it enjoys the benefit of low cost of labor especially in comparison to other western European countries.
- The British exit from the EU, also known as Brexit has led to a decline in the value of pound resulting in high inflation rates and less disposable income in the hands of the consumers to spend on clothing. Thus, it has reduced the sales of Zara and overall sales of the clothing industry.

C. SOCIAL

- Zara needs to adapt constantly to the trend and to satisfy customers' demand due to change in generation choices.
- They have to work according to social trends, which are to be more responsible, sustainable, buy local...
- ZARA researches new markets and cultures before releasing any new product or investing in new markets. It eases a lot of risks for businesses. Zara does its research and makes products that rhyme with the local culture. It does not believe in experimentation and makes and sells fashion that is acceptable for local people.

D. TECHNOLOGICAL

- Online shopping, bar coding, computer aided designs: improvements to benefit Zara and its customers.
- The brand has the money as well as the customer base to extract the most out of the data. It invests huge amounts of money in order to understand and analyze huge data sets to find efficient ways to appeal to its customers.
- Zara partnered with Toyota in 2014 for the application of JIT and Lean facilities across its manufacturing operations.
- New technologies enable Zara to respond to customer demand quicker as well as coordinate its supply chain and logistics activities better.
- Zara has also implemented an RFID system for tracking inventory along its value chain. It enables the store employees to track inventory in the other stores or on Zara website and improve customer experience.

Thus, despite the Covid 19 crisis, Zara's website and other technologies will help into avoiding the worse situation and help into continuing the selling activity at a minimum.

E. LEGAL

- Inditex has implemented programs that guarantee living wages for its labor force, so Zara needs to comply to that requirement.
- For all fashion brands, copyright law is one of the scariest legal branches out there. Since Zara loves capturing hot clothing trends and making them more affordable, it's bound to run into some issues with copyright. In fact, the major retailer already has. It's been accused of stealing designs and clothing concepts from the likes of Adidas and Balenciaga. In past cases, Zara has largely been able to weave itself out of uncomfortable legal situations.

F. ENVIRONMENTAL

- Movements to environmental commitment to benefit Zara.
- Today's customers are growing more eco-conscious than ever so brands like Zara need to adopt sustainable ways in order to avoid the negative impacts.
- Sustainability that started as a trend has now become one of the most important concerns for businesses globally.
- Its parent company Inditex has pledged to make its stores 100% eco efficient by 2020. As a part of this plan, ZARA stores will consume less energy and water as compared to the ordinary stores. These stores will be equipped with energy efficient and better recycling features.

Zara has been preparing & planning to make all stores 100% eco efficient. The plan charts out various policies through which the brand focuses to reduce its energy and water consumption.

The brand has actively shown its commitment to climate change and energy, biodiversity, sustainable materials, animal welfare and other environmental issues in depth. The company has ensured to remove all kinds of hazardous waste from its supply chain system.

The company Inditex has also decided to join the pact to reduce their carbon footprint. They have decided to achieve 17 goals on Sustainable Development in order to overcome the problem of climate change. Issues related to poverty and inequality are also covered under the umbrella of these set goals.

XI. Porter's generic strategies

We have identified in Zara's strategy 2 of the Porter's generic strategies: cost leadership and differentiation. Here are the explanations:

A. COST LEADERSHIP

Zara provides high-quality products at a low price than the competitor. Moreover, it benefits from its production in Spain and has low costs (high unemployment in Spain makes the costs low). Its location in Spain also benefits Zara thanks to the European Trade agreements which lower the brand's costs. There was an external linkage with Toyota in 2014 for the application of JIT and lean facilities across its manufacturing operations. Furthermore, we think there is a learning effect and interrelationships as they pay attention to what the customers are buying and remove the less famous products to keep the efficient ones thanks to a good feedback between shops and headquarters. In addition, they have a limited storage which reduces greatly the costs. Finally, Zara being an international company, it has a large scale of production to satisfy the global market enabling it to enjoy large economies of scale hence is able to produce a large amount of products at low costs.

That is why we think we think the brand is applying a cost leadership strategy.

B. DIFFERENTIATION

We identified two dimensions in the differentiation strategy:

- Product differentiation:
Zara diversified its strategy first to sell clothes for men and children, then accessories, bags and shoes, and finally they opened Zara Home stores. They are in the fast-fashion trend and are changing collections every two weeks. (Based upon innovative technology and supply chain management it has been able to reduce the time between fashion cycles and that's why they can change the collection that fast). As they are changing their collections every two weeks, they are always looking for new trends in fashion. It has a team of dedicated designers who constantly produce new and innovative fashion designs rapidly.
- Promotional differentiation:
Unlike most of the fashion companies, they are not doing any advertising communications. What is "unique" about Zara's promotion is that they use their stores to do it. They make their shelves an exhibition, they display practically all their clothes on ceilings, and their stores look very neat and modern.

And that is why we think we think the brand is also applying a differentiation strategy.

XII. ANSOFF Matrix

In the table below, you can find the Zara version of the ANSOFF Matrix.

		ANSOFF MATRIX	
MARKET	PRODUCT	Existing	New
	Existing	MARKET PENETRATION <ul style="list-style-type: none"> • Cost reduction at all levels: purchasing, production, distribution and storage • Slight differentiation • Communication 	NO PRODUCT DEVELOPMENT
New	New	MARKET DEVELOPMENT <ul style="list-style-type: none"> • New geographic markets • Internationalization : partnerships, internal growth, organic growth • New distribution channel • Adapting the product to the market 	DIVERSIFICATION <ul style="list-style-type: none"> • Design, production, distribution of home equipment products (Zara Home) • Design, production, distribution of shoes, bags and accessories

Here are the explanations for each one:

A. MARKET PENETRATION

The brand is doing cost reduction at all levels:

- Purchasing = grouped purchases (multi-brand) / cheap raw materials / supplies to emerging countries
- Production = economy of scale / experience effect / synergies between brands / simplification in product design / copies of branded models / basic models manufactured by Asian subcontractors
- Distribution = cost control throughout the supply chain / proximity to Spanish subcontractors (lower transport costs) / high-volume sales (size of shops, opening rate of shops) / minimalist shop windows / sales standardization / presentation of clothes on rods / "global" restocking / no advertising (lower communication costs) / RFID chips (optimized work of salespeople)
- Storage = zero stocks in logistics hubs and shops

They show a slight differentiation:

- Renewal of products (turn over every week, creation of shortages, several collection plans)
- "Recycling" of products

They also made some choices concerning the communication:

- Renovation of the shops
- Location of the shops as a communication support
- New concept store
- Shop window

With these strategies choices it encourages more people to choose their product and so allows a market penetration.

B. MARKET DEVELOPMENT

They extended their market through:

- New geographical areas
- Internationalization:
 - through partnerships (e.g. India)
 - by internal growth: opening of "own" stores (NZ, Vietnam, Paraguay, Nicaragua, Aruba, etc.)
- New customer targets (sport - teenagers; seniors; CSP+):
 - through organic growth (creation of brands: Pull&Bear, for example)
 - by external growth (acquisition of brands: Massimo Dutti, Uterque)
- New distribution channel: development of online sales platforms; digital services (Zara AR application, "shop the look" experience)
- Adapting the product to the market: predominantly red collection for the United States (September 2012)

C. DIVERSIFICATION

Zara chose to diversify itself through the design, production, distribution of home equipment products via Zara Home. Moreover, they chose to design, produce, distribute shoes, bags and accessories which can be seen has a diversification.

XIII. BLUE OCEAN STRATEGY

We compared the red ocean strategy with the blue ocean strategy:

A. RED OCEAN

They are competing on the existing market with their fast-fashion competitive advantage. They are implemented a new model in only 2 weeks when its competitors need 6 weeks to do it. They are regularly changing their collection in store, so usual buyers are buying items immediately because they know next time, they will come it probably won't be here anymore. So, they are exploiting the actual demand of fashion at an affordable price but they add the fast character at fashion. This "fast-fashion" permits Zara to play on customers' feelings and favorize impulsive buying. The fact that they are leader on the market proves that they beat the competition.

B. BLUE OCEAN

In 2003, Zara was the first clothes retailer to implement new fashion stores with only home equipment products. They recognized the trend that was growing of arranging its interior in an aesthetic way to its own image. Thus, by creating and capturing a new demand they created an uncontested market space.

Zara Home follow Zara's functioning by updating its range twice a week with contemporary styles and news home's trends. They sell their products in 408 stores in 44 different countries. By pursuing a differentiation, they were made the competition irrelevant.

Thus, this was our analysis of the strategic marketing management of the company Zara. Thank you for reading.

XIV. Sources

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