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Competing with Fast Fashion at Zara

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INTRODUCTION

Wearable Wishes[1] is a large retail clothing chain with a major presence in upscale shopping malls, primarily in the United States. The chain targets fashion conscious teens and young adults with a variety of chic clothes that range from the trendy and relatively disposable to durable classics. Sales have flattened during the past two years in all the firm's demographic groups and key clothing styles. The firm has found it necessary to shutter several underperforming stores and delay expansion in promising new markets. Management is concerned that the firm is losing touch with its primary customers and becoming less competitive.

Jennifer North, the CFO at Wearable Wishes, has decided to bring in a consultant to work with a team from the company's production, marketing, distribution, and financial functions to study the issues facing the firm and evaluate the value of borrowing ideas from a rapidly growing competitor. Jennifer has put together the following summary information to help potential consultants prepare their proposals.

Zara, a Spanish firm that represents about two-thirds of the Inditex group, is of particular interest and concern to Jennifer and Wearable Wishes. Zara was founded in 1975, and by 2002 had grown to more than 650 stores in 50 countries with revenues of more than 4.5 billion Euros and profits of nearly 500 million Euros. These numbers have since exploded to over 1,500 stores in more than 70 countries as of the end of 2008, with revenues in excess of 9 billion Euros and profits of some 1 billion Euros. The firm has overtaken the Gap as the world's largest clothing chain. Zara currently has a third of its stores in Spain, another 40% in Europe, and some 400 stores scattered throughout the world, including some 120 in North America. It is the small but growing number of Zara stores in upscale North American malls that most concern Jennifer.

WEARABLE WISHES PRODUCTION AND SALES MODEL

Historically, fashion collections have been seasonal and new designs would hit the market only four times a year. Major retailers work to keep costs low by using subcontractors in developing countries, and it takes months to bring new designs to market. Most firms lock in more than 50% of their production prior to the start of a season, hoping they guessed right on fashion trends. Wearable Wishes is an example of this type of traditional fashion company. It uses a multi-stage process to bring clothes to market with fashion themes built around the four seasons. Recently, the firm has been increasing the number of theme-related new product introductions it makes during each month of a season.

The marketing cycle process begins with design. Clothing design is a combination of art, feel, observation, and mimicry. Concept ideas are turned into samples based on what in-house designers feel customers in various demographic groups will like and buy. Sourcing follows once there is approval of design concepts. A planning team works with merchants (the people who run the stores) to estimate the quantity of each style to produce. Vendors with the capability to manufacture the necessary quantities of each style bid for the work and/or are selected by Wearable Wishes. Most of the firm's vendors are

[1] Wearable Wishes is a fictional company that faces issues similar to those of a variety of clothing chains that operate in the U.S. and worldwide.

in low-wage Asian countries. In-house experts work with the factories on when, what, and how to produce and deliver the completed merchandise. Full-scale production begins only after samples are completed and reviewed to insure that the product "fit" is correct. While product production is underway, the Wearable Wishes marketing group works with the firm's merchants to create a marketing plan for the design or group of designs. Store displays and advertising campaigns are prepared.

Vendors send completed merchandise to the Wearable Wishes distribution centers where all products and marketing display items are inventoried and made ready for delivery to individual stores. Once the merchandise reaches the stores, sales of each product are monitored weekly and stocks are replenished as needed. Because of in-season product introductions at Wearable Wishes, there is continuous activity in each part of the design-to-sales cycle. The firm currently brings approximately 3,000 product designs and color combinations to market each year.

At the end of each major season there is a comprehensive performance assessment. Predicting consumer tastes in advance presents inherent difficulties, and there is an ongoing risk of having large amounts of inventory that cannot be sold without deep discounts in price. Through heavy advertising and solid design decisions, Wearable Wishes has reduced the percent of clothing items it sells at a deep discount from the original market price to about 30%, versus the industry average of about 33%. However, this is still far worse than Zara, which sells almost 85% of its clothes at the original price.

ZARA'S PRODUCTION AND SALES MODEL

Zara is standing traditional fashion industry practices on their heads. The company is a leader in "fast fashion"—a model that makes the latest styles available to customers shortly after they appear on the catwalk or are worn by a trend setting celebrity. Zara excels in getting "must-have" merchandise to the market quickly at a cost low enough that consumers feel they can look for something new every week or two. It does this with continual information exchange throughout its supply chain. The firm receives extensive input from customers, through store managers, and from designers who attend must-see events. Zara emphasizes flexibility throughout its design, production, and distribution process and has aligned its performance measures and operational procedures to ease and encourage information transfer. By providing both low prices and up-to-the-minute fashion, Zara has been able to grown rapidly and is severely challenging traditional retailers.

A cadre of several hundred in-house designers develop clothes based on "copies" from the runway, emerging consumer trends, original company designs, and in response to customer requests, which are transmitted continually from Zara stores. The store managers flood Zara designers with ideas for new colors or patterns based on existing designs. Design teams study key "trendsetters" and can respond almost immediately to emerging consumer trends. Zara will generate more than 40,000 designs in a year and actually produces and sells more than 12,000 of these items. New designs can generally be in stores in less than two weeks, so stores are constantly able to display new products.

Zara controls large segments of its value chain—design, production, distribution, and the stores themselves. It controls prices by making a large percentage of its garments in its own factories located near its major customer base in Europe, which helps it minimize time to market. Designers, procurement personnel, and the production staff are grouped together by major product line. The physical arrangement of the facilities encourages impromptu reviews and comments on new designs, facilitates timely cost and capacity estimates, and allows cross-functional teams to review design prototypes and commit resources to production within hours. Computer aided design systems allow color and texture specifications to go directly to cutting equipment, and bar coding tracks clothing pieces through production, distribution, and delivery.

The firm's ability to quickly adjust production allows individual retailers to modify a large percentage of their orders each fashion season. This helps Zara avoid costly overproduction and reduces the need to price discount. To maximize flexibility, the firm holds fabric in stock, but cuts and dyes only at the last minute. It contracts in advance for work such as cutting, sewing, assembling, and shipping, but does not specify for which products, allowing the firm to effectively deploy capacity. Production facilities ship completed goods to a central distribution center, which almost immediately ships these goods to individual stores based on their orders.

To get goods to the store floor quicker, alarm tags are attached at the distribution center and clothes are shipped on plastic hangers that allow merchandise to go immediately to the store selling area. Regular customers know to look for these temporary hangers on "fresh" arrivals. Store deliveries occur twice a week and inventories are "turned" every two weeks. Knowing that the latest goods are only available for a short time and in very limited quantities provides customers with a sense of exclusivity. It also encourages Zara devotees to return to the store frequently and buy when they spot items they like, and it increases the likelihood they will pay the original price for these purchases. Stock-outs are a virtue because customers know that new products will be available in days. Zara has been able to avoid most traditional advertising because of the “buzz” created by word-of-mouth promotion of new designs and colors from customers who return regularly.

Store personnel monitor hot-selling items with hand-held computers and can reorder best sellers in hours. Additional stock and matching items arrive in two or three days. If a design does not sell it is quickly withdrawn and replaced with new designs. Items are moved around in the store, as store layouts and window displays are redone every two weeks. Store personnel are constantly monitoring customer feedback and sending ideas to Zara’s designers in Spain.

REQUIRED:

Jennifer North has asked you, as a potential consultant for Wearable Wishes, to prepare a document that summarizes your preliminary evaluation of the how and why Wearable Wishes can compete with the threat Zara poses to its U.S. market base.

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