

# Value Creation Strategy Analysis of ZARA since Internationalization

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**Abstract:** *"Less variety, large batch" belongs to the conventional manufacturing industry, but for the "long-tail market" nowadays, "more styles and small quantity" has become a common business model. Zara, with its "multiple styles and small quantities", has already been a fresh model in the long-tail market, which consciously "creates shortages" in production. Even though it can produce almost tens of thousands of items per year, the number of item is quite small. Zara only sells a limited number of items, even for popular items, which is a way for the company to get consumers into the habit of coming back regularly. Just as the limited editions of stamps increase the value of stamp products, Zara in this way satisfies a large number of personalized needs and cultivates a large number of loyal fans. "Multiple styles, small batch" enables Zara to achieve a breakthrough in the business model of clothing enterprises.*

**Keywords:** *Value Creation, ZARA, Business Model*

## 1. Brief Introduction of ZARA Company and Key Milestones since the Start of Internationalization

### 1.1 Company Profile

ZARA is a subsidiary of Inditex, which was founded in Spain in 1975. Inditex is not only a clothing brand, but also a retail chain specializing in ZARA brand clothing. ZARA is currently the third-ranked largest clothing company in the world and the number one in Spain. It possesses 2270 stores in 202 markets around the world. ZARA is popular with fashion fans around the world because of its designer brands' lower prices, which simply means that ordinary people embrace high fashion. ZARA's brand approach could be said to be another choice in the vogue clothing industry. It has pioneered a precise vogue direction between traditional top clothing brands and popular brands. As precision fashion becomes the mainstream mode of vogue clothing industry, ZARA brand is also highly respected. Harvard Business School rated ZARA company as the most research-worthy brand in Europe, and the Wharton School of Business sees ZARA as a model for studying the future of manufacturing. As the company leading the trend of the future, ZARA brand has become the leader of the vogue clothing industry.

### 1.2 Key Milestones since the Start of Internationalization

The first oversea ZARA store was set up in Porto, Portugal in 1988, marking the first step of the company's overseas expansion strategy. It established the first shop in New York, USA in 1989, and successfully went into the American market to obtain two major apparel markets with demanding fashion requirements, which enabled ZARA's vogue concept to be further promoted worldwide. In 1990, opened its first store in Paris, France, and entered the French market. In the year of 1992, the first Greek store was opened, and the group started to set foot in some distant markets in Europe. Especially on May 23, 2001, INDITEX Group that holds ZARA went public. In 2002, a new logistics center was built up in Zaragoza, which was further promoting its own logistics and distribution capabilities. In 2004, INDITEX opened the group's 2000th store in Hong Kong, China. The group's sales stores have spread across 56 countries in Europe, America, Asia and Africa. In 2006, the group opened a store in mainland China. In 2019, ZARA ranked 29 in the top 100 global brands.

## **2. ZARA's Steps of the Value Chain**

### ***2.1 Design***

ZARA's process of design is usually actuated by over 800 stylists who are the basement of the creative power that makes ZARA model different from others. Working with ZARA's global sales careermen, they pay much attention to analyzing customer preferences and underpinning ZARA's commitment to sustainable development by choosing the right processes and raw materials. This type of creativity is quite tangible in ZARA's products, which are with up-to-date features through the whole season.

With constant contact among ZARA's online teams, offline stores and its designers plus with a sense of responsiveness, it enables ZARA company to find and respond quickly to consumers' preferences as they change. Designers actively seek out more sustainable raw materials and production processes that help raise quality standards of product and lead the ZARA company toward a recycling development model.

### ***2.2 Manufacturing and Supply***

This ensures the flexibility which is demanded to adapt production process to customer needs as the goods are produced primarily near ZARA's design factories in Spain. ZARA has the capacity to readjust its mercantile offerings to any possible trend changes through instantly adjusting the quantity of goods to satisfy real needs. This is not only to meet ZARA's sales targets, but also to achieve ZARA's sustainable development goals.

### ***2.3 Logistics and Distribution***

This phase requires constant adjustment to accommodate decisions for sales. Centralized logistics facilities are running by itself, receiving and storing inventory twice a week for distribution to stores including online shops around the world. This type of effective integration of ZARA's stores and online running together with ZARA's storage, shipping and distribution processes is due to a professional inventory management system that is enabled by radio frequency identification (RFID) technology to trace each garment item. This technology makes ZARA's guests to consume without limitations, offline in-store or online, and enables them experience an integrated way of shopping that is characterized by constant technological innovations to meet their demand.

### ***2.4 Stores/Online***

Whether shopping online or in a physical store, the choice of product is mainly based on the quality is good or bad. More specifically, ZARA's bricks-and-mortar stores aim to give customers that experience in the finest locations on the world's most popular shopping streets. They attach great importance to the architectural design style and services to consumer in ZARA's physical offline stores. When shopping online, it strives to provide the same shopping experience through mobile devices, any time and any place, through mobile devices, giving guests the choice that works best for them, whenever and wherever they want.

The main objective of the design and adoption of this complex system is aimed to provide high quality, up-to-date and relatively convenient capabilities by sustainable development and product safety framework of the highest standards. All of this is ZARA's commitment to promoting human rights and achieving the United Nations Sustainable Development goals, as well as ZARA's commitment to transparency and ongoing dialogue with stakeholders. ZARA's eventual idea is to produce a positive impact to its guests, human society, fast-selling industry, as well as community and environment.

## **3. ZARA's Value Creation Strategy in the International Market**

### ***3.1 Differentiated Market Positioning***

When it comes to differentiated market positioning, generally this strategy refers to establishing a particular selling feature and market positioning for its affiliated goods to differentiate itself from other competitors, so as to make itself superior or occupy an especially irreplaceable position. It is the

process and result of building a distinctive brand image. The differentiated market positioning strategy of ZARA in simple terms is "high-end, low-price, many design styles, and small quantities" to successfully differentiate it from other fast-selling companies. Among these features, "high-end" primarily means founding offline stores located in commercial centers, which are decorated with high-end and fascinating atmosphere, even including the display on the windows changed at special time in terms of the newly listed styles, keeping fresh every day; neighboring luxury brands to improve the grade. "Low price" sets relatively low prices which in some degrees mean relatively low quality, meanwhile it adopts some selling strategies with low profits but fast turnover, these could cover consumers who are at different consumption levels. Despite ZARA's target consumers lie in mid-to-high-end level, its adoption rate is quite high. On the other hand, a number of other consumer groups are attracted by it as well. "Many design styles" and "small quantities" are aimed at meeting the dissent psychology of mass consumers and the exclusive concept of self-exclusiveness. The similar design style is ubiquitous in some other clothing products, as a result it is usual to wear the same clothes. Under the current circumstances, most consumers have more intense desire for self-expression and differences. And ZARA is capable of responding quickly to consumer psychology and emotion on the basis of its most unlimited vogue, which in turn is better at stimulating consumption as well.

### **3.2 Global Operations Research**

Selecting relatively cheap raw materials in different optimized geographic places around the world is the core of global operations management, sufficient manufacturing capacity, low labor costs, and the most popular sales markets to get the greatest combination to make sure the highest yield. This process is absolutely a transnational resources integration. Managers are able to control production lines and companies' operations in multiple countries at the same time to achieve more profits and revenues through decreasing costs and lifting market competitiveness. For operation, ZARA brand primarily selects inexpensive production resources, labor force and bustling geographical locations, and particularly produces in countries with lower manufacturing costs such as Spain and Portugal. ZARA company is fond of adopting production methods of just-in-time production in order to promote production efficiency. In terms of the required production quantity, ZARA is capable of making the required products produce and keeping pace with the vogue trends so as to offer guests popular products in time.

### **3.3 Innovative Marketing**

Innovative marketing is the key to the success of an enterprise. This innovative marketing is mainly reflected in what others don't have, and what others cannot easily copy, including marketing ideas, products, strategies, organization and technology. The important thing is to seize the opportunity. ZARA's principal strategy of marketing is directly playing intent cards. As is known to us all, Europe is famous as the earliest and best performer in high fashion clothing area. Many people also believe European clothing brands in some extents are equivalent to high fashion brands. Representatives are like crossing classes. ZARA makes a hit in promoting consumers to buy its goods by focusing on "Made in Europe" marketing methods, in other words by meeting their desire for high luxury products. Hundreds of young guests chase vogue, but they do not possess the financial ability to purchase absolutely luxury clothes. For the sake of satisfying the demand of these type of consumers, ZARA is intended to be a representative of high-end fashion clothing to open the market. Secondly, ZARA continuously boosts guests' desire to consume through giving consumers special and unmissable hints of its products by a "more styles, less quantity" marketing method which is similar to hunger marketing. Besides, the huge and timely feedback, collection, and organization chain of information that ZARA uses high-tech connections is unmatched by many clothing brands or fast fashion brands.

## **4. Analyze ZARA's International Value Creation Business Model Based on the SWOT Model**

### **4.1 Advantages/Positive Elements**

#### **(1) Cost**

By reason of that ZARA's design style is usually an imitation of other popular brands' products, innovations which are on this basis have let ZARA make a huge savings in design costs. Though there are some compensation needs to be paid every year on account of design property litigation, this part of cost is in a controllable range. Besides, the savings of advertisements are also main reasons for its

relatively inexpensive prices.

#### (2) Inventory

Inventory advantage for ZARA is properly essential, by reason of the various design styles, it boosts ZARA's merchandise flow reasonably quickly. On the other hand, small inventory backlog decreases the risk as well. The products that ZARA cannot have these sold generally merely occupy 12% of the whole inventory products, however, the fast-selling clothes industry average level usually reaches to 18% even 22%. In addition, the number of its design styles is artificially decreased, which makes guests feel different from other brands, satisfies their own needs, in order to promote guests to instantly purchase new clothes they are fond of.

#### (3) Design Aspects

ZARA brand owns a huge team of hundreds of stylists. The stylists keep a acute insight and deep going understanding of vogue elements, using all kinds of fashionable symbols to design a variety of styles. Almost more than 10,000 fresh vogue products are launched by ZARA brand every single year, in addition, the design styles it put forward will be as many as 45,000, from which it could make choices of great products and then sell them to the market. For this aspect, a different gap lies in ZARA and other fast-selling brands, the latter usually launch merely approximately two thousand new design styles annually. Normally it only takes ZARA two weeks in the completion for putting the fresh designs into display in the offline store, which provides ZARA with distinct advantages compared to the long time of 4-12 months for conventional production.

#### (4) Price

ZARA Company persist in producing first-level design style, second-level product quality, and third-level product price. The target guest group is those young human beings who chase vogue styles but still lie in moderate level of consumption. With styles which are similar to internationally renowned brands and affordable clothes prices, they definitely attract young fashion suitors 'heart and make them rush.

#### (5) For Shops

Every ZARA store owns its self-governed system of information. The data are exchanged between the ZARA headquarters and every offline store every day in Spain, so as to align popular styles and consumer needs perfectly. After that, each sector would analyze the relevant data information and then reacts according to each region's current market situation. Stylists would also draw upon trendy information from it and put forward homologous comments to the design project. In addition, the offline store could diametrically sign an order through the PDA with the headquarters, and eventually get the products that consumers need. In the offline store, most products will be replaced with new ones every three or four days, as a result, guests could often keep a sense of freshness when shopping in offline stores.

### ***4.2 Weaknesses/Negative Elements***

#### (1) Cost

Though some savings in design costs may occur, because of a huge quantity of fresh styles of product, which cause the process of production and technical pressure, and the production cost continues to increase. Sophisticated procedures also demand higher requirements for the professionalism of workers, which makes the employee training cost rise, which also lifts the operating costs of the enterprise in turn. For the running of offline shops ZARA has paid much attention to, as we all know many of these offline shops are set in the commercial centers of big cities in different countries, which mainly lifts the operating costs as well.

#### (2) On the Marketing Model

ZARA Company takes a direct and simple marketing model, and the products are spread out by the headquarters directly. Normally such a vertical economic pattern usually fails to make scale economy come true and cannot extend its business influence in a better way. On the basis of promotional methods, because of the quantity of new goods is small and the relatively need is large, a huge number of products would be sold at initial price, and discounted goods does not exist. As a result of ZARA's relatively simple promotional strategies, which is mainly relying only on the store to draw guests' attention, so this pattern would be restricted when expanding the customer base as well.

### (3) Product Quality

In terms of related investigation reports, in April 2012 Greenpeace got almost 141 samples of garment around the world, including some famous brands such as Victoria's Secret, Armani, Calvin Klein, ZARA etc. The results show that ZARA's clothes contains the most kinds of harmful materials among these clothing samples.

### **4.3 Opportunities**

On the basis of target consumers, the life quality of people has been improved in some extent with the sustaining economic growth. Among the target consumers, the middle-class people have been the major consumers. Though these people do not own enough economic support to purchase luxury products, but the demand of pursuing fashion is also high. Social environment like this offers ZARA a comfortable development space for fast fashion. The fast development and progress of modern mobile Internet also creates fit conditions for ZARA to collect information and feedback. Meanwhile, it boosts the diversification of selling channels and business methods as well.

### **4.4 Threats**

#### (1) Threats from Competitors

As we know, ZARA holds a wide variety of products, except clothes for the elderly, almost including all types of product, such as women's styles, men's styles, infant styles, maternity styles as well as accessories. This company strategy has also caused ZARA to have some of the competitors in the clothing market, and almost every clothing company will be in a competition with it. The Swedish Fashion Company H&M holds the most similar features to ZARA among these rivals, and it is naturally the most threatening opponent brand. In addition, for advertising campaigns, ZARA depends more on its own storefront to attract target guests offline. But its opponents put more money in media advertisements and outdoor advertising activities than it does. Under this background, ZARA may lose customers due to lack of publicity.

#### (2) Threats Caused by Brand Loyalty

ZARA, as we all know, is one of the fast-selling industry's principal vogue finery brands. At the start of ZARA's entry into the Chinese market, the advanced vogue elements and the friendly product price fast attracted guests. However, with the arising of other main international rival companies UNIQLO H&M, and GAP, which pay close attention to the Chinese fast-selling market as well as accelerate their domestic product development, the competition among them has now become a fierce stage. ZARA's main target guest group lies in young people who own a higher degree of education with age between 20 and 35. As we all know the young are fond of pursuing fashion, adapting to trendy elements quickly, and having a high recognition of vogue products. But this target group is kind of same to the groups other brands have set. Particularly students in college, these human beings own fewer expenses items for living, have more money to spend on their own clothing, and are more sensitive to vogue elements and styles, but it is precisely this that reacts quickly to new products. If ZARA does not own its special brand features, and just follow the trendy styles put forward by other brands. Attention from college students to ZARA brand maybe go weaker, lack of brand loyalty, and instead pursue a series of emerging brands. ZARA's future development and survival will be threatened by these situations.

## **5. Suggestions to Strengthen Value Creation for ZARA**

### **5.1 Product Aspects**

The product designs of ZARA nearly follows the vogue trend, after a short period of delivery and with a quick update pace, ZARA allows guests to own more and more choices. The use of a marketing strategy with a large number of styles and a small quantity can allow consumers to satisfy their own demands for following vogue trends, boost a tailor-made feeling, and finally stimulate consumers to consume. But when constantly "plagiarizing" big brands, it is as well as a fact of ZARA's own lack of cultures. Products which are short of their own style and characteristics will not allow consumers to feel deep recognition and brand loyalty. So as far as I am concerned ZARA could set a category to produce clothes of its own designs so as to impress consumers with the brand image. The general

design is still mainly casual, which will not produce conflict with the original design, yet still can deepen its own brand image.

### **5.2 Quality**

In most consumers' eyes, the product quality of ZARA is not as high enough as that of its competitor H&M, in addition H&M's pricing is relatively cheaper. This point may let guests feel that the value and pricing of ZARA's clothes do not fit, even will make guests be resisted in the following shopping. But ZARA is stronger than its rivals according to designs and innovations. However it is a bit inferior in product quality, which makes a number of guests feel disapproved. Hence, from my point of view ZARA could select better product materials when processing, and it could be equivalent to the competition brand.

### **5.3 Implement the Value Sharing Concept**

Business model innovation emphasizes that stakeholders should embed their core resources or capabilities into the value network. In the period of accelerating merging of the real world and the digital world, people find it difficult to meet the needs of consumers without the help of external partners to control the entire supply chain demand. In order to achieve sustainable development, Zara should actively seek strong domestic and foreign partners, continue to expand new businesses, and realize value creation and sharing.

### **5.4 Channels**

In the general operations of ZARA, not limited to 85% are principally diametrically running shops, and the shops are almost relatively flourishing business districts in metropolis. The overall arrangement inside and outside the shop is as well as very exquisite, which is allowing clients to experience ZARA's culture and field of vision more in the process of consuming, foster their feelings, deepen the consumer experiences, and be capable of better understanding ZARA and falling in love with ZARA. With the advent and development of the Internet, an increasing number of young human beings prefer to buy goods online, and for the young and middle-aged ZARA's target consumer groups, these people don't own enough time to shop offline due to much work. As a result they maybe purchase their fond products through the internet, which requests online consuming experience to impress target clients, and the quality and after-sales services are also the points of client choices.

### **5.5 Build a Product Ecosystem**

ZARA's empire's finery area has been into a period of weakness, and the comprehensive rate of increase of the area has slowed down these years. For an imported firm, Zara ought to hold a deep perception into the business and market tendency, adjust the industrial structure in time, and make strategic deployments. While consolidating the existing source of value, in the future, we can broaden ZARA's business scope through mergers and other means, extend the "clothing + home" industry chain, tap new profit growth points, and consolidate efforts to build a product ecosystem to capture the market in the ever-changing cross-border field.

### **5.6 Enhance Business Innovation Awareness**

Business competition has gradually entered a period of model competition. The business model with strong value creation ability in the industry is bound to be copied. Market competition is intensified and consumer demand is complex and changeable, which will cause the business model to not always maintain a high level with the status quo consistently, the business model is a process of continuous improvement. Zara should always maintain a sense of innovation, be good at identifying the limitations of existing models, select appropriate innovation rules, strengthen dynamic strategic capabilities, achieve business model innovation, and drive corporate value creation.

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