

4. ZARA

Zara is one of the world’s most successful clothing retailers.

The founder, Amancio Ortega, opened the first Zara store in 1985 in Madrid. Its first store featured low-priced, look-alike products of popular, high-end clothing fashions. The store proved to be a success, and Ortega started opening more Zara stores in Spain. An article in *Businessworld* magazine said that it focused its attention through market research on understanding the fashion items that its customers wanted and then making them.

During the 1980s, Ortega started changing the design, manufacturing and distribution process to reduce the time it takes to get goods into its stores and to react to new trends in a quicker way - what he called “instant fashions”. Zara stores are company-owned, except where local legislation forbids foreign-owned businesses. In those cases, Zara operates by **franchising** the stores.

Zara is a **vertically intergrated** retailer. Unlike similar clothing retailers, Zara controls most of the steps in the supply-chain: it designs, produces and distributes itself. While some competitors outsource all production to Asia, Zara makes its most fashionable items - half of all its merchandise - at a dozen company-owned factories in Spain and Portugal, where labour is somewhat cheaper than in most of Western Europe. Clothes with a longer shelf life, such as basic T-shirts, are made by low-cost suppliers, mainly in Asia and Turkey.

Zara can offer considerably more products than similar companies. It produces about 11 000 distinct items annually compared with 2 000 to 4 000 items for its key competitors. The company can design a new product and have finished goods in its stores in 4-5 weeks; it can modify existing items in as little as two weeks, which means greater success in meeting consumer preferences.

If a design doesn’t sell well within a week, it is withdrawn from shops, further orders are cancelled and a new design is selected. Zara has a range of basic designs that are carried over from year to year, but others can stay on the shelves less than four weeks, which encourages Zara fans to make repeat visits.

(a) Explain why Zara prefers to operate its own stores rather than franchising them. [4]

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(b) Explain the benefits to Zara of being vertically integrated.

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(c) To what extent do you agree that Zara is more market orientated than product orientated?

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