APPLIED CORPORATE STRATEGY

By (Name)

Course

Professor’s Name

Institution

Location of Institution

Date

Applied Corporate Strategy

Zara is a Spain-based world largest clothing retailer. The retailer is owned by Inditex. Zara has been successful in fast fashion clothing as a result of its ability to provide customers with what they want in the fashion industry. Zara handles over 7000 clothing stores around the world (Inditex, 2018). The firm has a flexible supply chain and a technology-based approach that has helped it to attract a worldwide customer base for its products. The fast fashion industry is highly flexible hence the firm has to make new clothes available as they come into fashion. Fast fashion also requires faster marketing processes. However, Zara does not budget for television commercials, billboards or internet advertisements. Zara has refrained from the traditional advertising methods despite the cut-throat competition that exists in the industry. Zara thus reigns in the clothing industry through a focus on social media marketing strategy. The overall social media presence for the company includes Facebook, Instagram, Pinterest, YouTube, and LinkedIn. Zara uses Instagram and Facebook as its primary social media platforms due to importance of pictures and videos in the fashion industry. Most of the posts made by Zara are product-focused and thus provides its clients with a peek into their current product offerings. Facebook data indicates that the fan base of the firm mostly comprises young females. Zara’s strategic evaluation will thus comprise external, internal and strategic analysis.

External Analysis

External analysis involves identification of opportunities and threats to gauge the industry’s attractiveness. Analysis of Zara’s external environment will involve use of various tools that include PESTLE and Porter’s Five Forces.

*PESTLE Analysis*

Zara has grown into a big brand all over the world. Despite its global presence, it still continues to grow. Common political factors that have an impact on business include financial regulations of the nation that the business operates or wants to expand into (Cortez et al, 2014). Different countries view business in varying ways. When there is political disruption, the markets are also affected as well as the economy. Political disruptions can also lead to interference with the supply chain. However, Zara has found a way of managing the difficulties that may arise in the supply chain due to political disruptions.

The company has limited its supply chain to its home country and other neighboring countries. Besides, Zara carefully analyzes a country’s entire system thoroughly before expanding or opening business in its territory. It thus helps in anticipating any changes in policy and conduct an assessment of how negatively it can impact on the company. For example, Zara initially made a decision to expand its businesses in Europe due to the safe and predictable economic conditions in the European Union (Cortez et al, 2014). Zara has thus been able to predict its growth based on the market conditions as opposed to the European economy. The company also takes stock of the trade system of a country as well as well as related regulation and government policies. A more stable political situation favors Zara and it thus establishes its stores in the country. The company has taken advantage of stable political situation in North America, South America, Europe, Asia, and some countries in Africa to expand its business.

It is important for organizations to take serious consideration into the economic growth of a nation before they consider investing or expanding their business into it. The decision makers need to rely on concrete information and gather adequate knowledge about inflation rates to influence their decision-making. The business has to access the exchange and interest rates for them to establish how much it (Anwar, 2016)would cost them to import or export goods. Keeping track of interest rates allows firms to easily record the cost of capital. For instance, when a company is experiencing high inflation rates, it can be disadvantageous to a company to conduct business there because it would mean that its product or a particular brand may not be affordable to the public.

Zara understands the significance of economy for business and t has thus made it a habit to conduct evaluations on both currency rates and economic conditions in a country before venturing into its markets. Zara’s ultimate strategy is that it offers affordable clothing to its customers (Anwar, 2016). Therefore, when an economy goes through a recession period, consumers are bound to move from luxury brands to other affordable ones. However, the Zara brand is not affected because it offers its products at affordable prices. Such economic planning meant that Zara was not affected significantly by the recession that was experienced in 2011 (Frynas and Mellahi, 2015). Zara also ensures that it is not affected by dealing in safe and stable currencies that include the United States dollar.

Social factors have to be taken into consideration in the fashion industry. The most common factor is the spending habits of the potential consumers, which are elastic to economic conditions. During period of global recession, most individuals lose their jobs hence the demand for products of necessity and are more affordable goes up (Godhania, 2015). Zara is involved in fashion industry hence it needs to be more aware of the customers’ spending patterns as well as the ever changing trends in the fashion market. By establishing the population levels, the firm can understand the population that it needs to be more focused on when it comes to the production of clothes. For example, in cases where the population rates indicate high birth rates, the company will understand which type of clothes to produce to match the population structure.

Zara operates in the fashion industry through a proper research framework that allows it to consider factors that include location and race among others. Zara conducts preliminary research about its markets before venturing into them. The research mainly includes an in-depth assessment of the current market social trends and expectations. It also keeps in mind the culture of the nations (Meyer and Peng, 2016). Zara is thus able to cater for diverse cultures based on their expectation as influenced by their traditions and customs as well as expectations. Zara has managed to stay ahead of its competitors by following modern trends in the market and remaining innovative.

In terms of technological factors, Zara has remained loyal to technological advancements that affect the fashion industry. The advancement affects all the aspects that include communication and transport. All businesses utilize some form of technology in their system. The decisions to use technology are mainly based on careful data analysis to understand the impact that they will have on the firm’s business. Zara has taken advantage of the rapidly evolving technology to maintain its competitiveness in the fashion industry. In 2014, the company partnered with Toyota to implement Just in Time production and Lean facilities in its production processes (West, Ford, and Ibrahim, 2015). It has helped in enhancing its efficiency in production. Zara has also responded to its consumers’ changing preferences to organize its supply chain and logistics in a better way. Zara has also implemented radio frequency identification RFID technology for stock and inventory management thus allowing it to replenish its stocks in time. Online store locator is also proving to be an important tool as it allows customers to locate a store that is near them.

Law has an influence in every business. It is thus important to consider legal and ethical factors in business operations. Zara has complied through its parent company by implementing programs that match the wage requirements of the countries in which they operate. Zara has created an ethical image by complying with all the laws in its system of operation. The firm has made a priority to comply with all the local laws in its areas of operation.

A consideration of environmental factors helps to promote sustainability. Zara has thus made significant investments in sustainability. Zara’s parent company notes that the firm will be 100 per cent eco-efficient by 2020 (Chandler, 2016). Zara aims to reduce its energy and water consumption as well as eliminate any harmful wastes from its supply chain system. The company will invest in more energy efficient systems. They are also developing sustainable clothing through sustainable technology. Such clothes are produced from recycled wood and organic cotton. Zara has also specialized in providing clothes for normal weather to avoid production of clothes that are based on seasons.

The PESTLE analysis indicates that Zara will continue to be a fashion leader in the apparel industry despite the existing threats and weaknesses. The firm is efficient in terms of its unique supply chain as well as business operations. It thus sets it apart from all the other firms and brands in the global fashion industry.

*Porters Five Forces*

The barrier to new entrants in the fashion industry is high. There has been a relatively slow global apparel growth in recent years thus reducing the value of the industry. The industry thus remains unattractive to many new entrants. The big players in the industry hold a greater advantage brought about by economies of scale when negotiating with suppliers (Mukerjee, 2016). New interests with limited capital do not have such a capability. The industry is driven by brand equity, which is most valuable to most customers. New entrants thus require time and vast resources to develop brand equity. Setting up a distribution network in the industry also remains a big challenge to most new entrants.

The bargaining power of customers in the global apparel industry is high because they have insignificant switching costs and do not have any restrictions when it comes to choosing whom to buy from. Designer wear sales are driven by brand loyalty while the general apparel sales are affected by poor customer loyalty (Saraswat, 2018). The buyers in the industry are price sensitive hence firms must develop appropriate pricing strategies. However, buyer negotiating power is reduced since they purchase products as individuals rather than as a group.

The bargaining power of the suppliers is low in the industry due to the availability of contract-based production that ties most suppliers to a firm for a considerable time. Stitching functions are also readily available in the industry. Most of the local operatives also work without any contracts or labor unions.

The threat of substitutes is moderate in the industry. There are various competitors in the industry that consumers can chose from including Armani, H & M, GAP, and banana republic (Nishimura, 2019). Therefore, the buyer propensity to substitutes is high due to availability of options. Consumers also have low switching costs hence can easily substitute products. Customers can easily walk to alternative apparel stores and purchase their products. Different companies can also easily imitate styles of other stores thus attracting customers that do not mind low quality clothing. Zara has however gained customer loyalty due to brand.

The degree of rivalry in the industry is high. The industry has high exit barriers as a result high fixed advertising and in-store promotions costs as well as excess inventory. Fashion industry is high volatile hence a lot of capital is tied up in inventory that has run out of fashion. The industry has a high cost of advertising that is indicative of the enhanced level of rivalry.

Internal Analysis

Internal analysis involves an exploration of cost position, competency, as well as competitive viability in the market place. Internal analysis provides useful information about the company’s strengths, weaknesses, opportunities, and strengths. Establishing the strengths and weaknesses of Zara will involve conducting a SWOT analysis as well as using a VRIO framework in identification of core competencies of the organization.

*SWOT Analysis*

An internal analysis of Zara involves identifying weaknesses and strengths of the company. Zara is famous for its marketing activities in the fashion industry. It has specialized in fresh designs that match the ever-changing demands in the fashion industry. Customers prefer the Zara because they always get new designs in the store. On the other hand, the firm has a zero budget on advertising despite its powerful retail brands across the world.

*Strengths*

Zara firm is preferred by most consumers for its unique designs. The company holds an advantage over other apparel companies as a result of its abilities in design. The company employs various professional designers and incorporates them into the culture of Zara brand as well as the psyche of the clients that visit Zara (Yip and Huang, 2016). The firm has invested in elegant and superior clothing that have good finishing. The apparels also come in a lot of varieties that include office wear, casual wear, and party wear amongst others. Zara also provides accessories to match their clothing.

Zara has a strong presence across the globe, which it has kept on expanding. As of 2018, the company was already handling over 7000 stores worldwide with average annual sales of 22 billion dollars (Inditex, 2018). The survival of the retail company is dependent on expansion of its presence and Zara is exactly doing that. The stores are thus accessible to most of its customers from around the world.

Zara has a strong brand value and is ranked highly in Forbes brand positioning. The excellent brand equity has been influenced by various factors. One of the main positives is its consistent performance over the years. The company has specialized in unique designs and affordable pricing that has made it attractive to most clients across the globe (Yang, Qi, and Li, 2015). The firm has also maintained high quality clothing. The strong brand equity has also been driven by lack of controversy in its operations. The company has maintained a healthy culture that has contributed the brand being adored by its consumers.

Zara has established an elaborate and superb supply chain. The company develops its designs from conception to the stores in a period of two weeks while other competitors do the same in a period of six weeks. As a result of its rapid design, Zara has developed into the trendiest store in fashion industry. On average, the company designs around 450 million items annually (Inditex, 2018). The clients are thus motivated to visit the store continuously to check out for the latest designs.

*Weaknesses*

The fashion store specializes in generalized collection, which implies that it has everything for everyone. Most customers prefer stores that are specialized on one thing because it allows them to get a variety of the products that they desire (Du, Huang, and Liu, 2015). Zara lacks the immediate focus that some of its competitors have and thus loses some of its customers to them.

Zara does not advertise its products. While lack of advertising gives the company a cost advantage, it is a weakness because advertising can help the firm to double its sales and consequently its profits (Yip and Huang, 2016). Zara is known as a trendy fashion store and thus easily pulls clients to its brand even without advertising. The company could, however, take advantage of advertising to further enhance its brand and further promote sales.

Zara has a low safety stock as a result of its dealership in fast fashion. Fast moving stock is difficult to back up as they get out of fashion within a short period. Stocking large quantities can result in slow moving inventory thus holding capital that could have been used to stock other designs (Karray and Sigué, 2018). While low inventory is a strategy that ensures that customers get new designs every time they come to the stores, it can be disadvantageous when a particular design is a hit with the clients.

*VRIO Framework*

VRIO framework is a series that is used to answer four questions that include the question of value, the question of rarity, the question of imitability, and the question of organization. The fashion industry is characterized by rapidly evolving trends thus making the industry very competitive (Moutinho and Phillips, 2018). The organizational structure of Zara gives it enough flexibility that allows it to effectively respond, adapt, as well as deliver merchandize at a faster rate than its competitors.

*Value*

Zara utilizes vertical integration as its most valuable resource. The company does not rely on third parties and thus manages its design, warehousing, logistics, distribution as well as the logistics functions. The company is thus faster and flexible compared to its competitors, which is important to the apparel industry (García-Álvarez, 2015). The company also has a good organizational structure and values. Zara also provides its store managers with greater autonomy. These values are also important for future as it follows the latest trends in the apparel industry.

*Rareness*

An analysis of competitors reveals that most of them focus on distribution and retailing while they outsource production. The industry is considered labor intensive hence most fashion firms prefer to outsource production. Zara however produces its items and delivers them to their stores within a period of three weeks. It also produces 11,000 items within the same period compared to between 2,000 and 4,000 produced by other companies (Nishimura, 2019). The resource for Zara in this case is rare.

*Imitability*

It concerns examining the cost advantage of obtaining resources for new companies and those that already possess it. It possible to imitate everything today, however, its success is distinguished by the amount of time taken to imitate (Wang, 2016). Zara’s business model is difficult to imitate because it would involve adopting vertical integration. The process would take a long time.

*Organization*

Concerns investigating the organization of with regards to its capacity to exploit competitive potential of its resources. Zara has continuously had a growth in sales and profits. The success of the organization is as a result of good organization of the firm in terms of its structure.

*Strategy Evaluation*

Zara’s latest strategy focuses on pulling potential clients to it brand as opposed to pushing out the product to the consumers. The firm has implemented the strategy by introducing augmented reality displays, which is mainly targeted at luring the millennials to come to its stores. Augmented reality involves displaying models that are wearing some of the selected items when a mobile phone is held up facing a sensor in the store and it allows the clients to click through to buy an item (Danziger, 2018). The technology also allows models to pop up while displaying alternative outfits related to those delivered from online purchases. It is a pull marketing strategy that is aimed at raising the curiosity of the customers.

The first analysis involves a consideration of the cost effectiveness of the new strategy. The augmented reality adds to the social media strategy that the company has perfected over years by posting photos and videos of its products. Implementation of the strategy is cost effective because it majorly involves the development of the application and installing sensors on the clothing items (Sandler, 2018). The pop ups appear on the company website that is used to conduct online purchases.

The new strategy is customer friendly due to its ease of use. The clients will only have to download and install the application on their mobile phones. They can then point their phones towards the sensor to get images of models wearing the clothes. The process allows the clients to analyze the suitability of the products chosen. An analysis of the contribution of the strategy to the overall sales and profits of the company indicate that it has been effective. Most millennials have been attracted to the company products as a result of the new technology. The strategy helps to showcase new products and fashion designs thus capturing the attention of the clients. The millennials are able to observe how they would appear when putting on the same clothes. It increases their level of interest on the products. The pop up pictures provide the customers with new options that they can choose from. When interested, the clients are able to click on the photo and making an online purchase and await delivery.

Bibliography

Anwar, S.T., 2017. Zara vs. Uniqlo: Leadership strategies in the competitive textile and apparel industry. *Global Business and Organizational Excellence*, *36*(5), pp.26-35.

Cortez, M.A., Tu, N.T., Van Anh, D., Ng, B.Z. and Vegafria, E., 2014. Fast fashion quadrangle: An analysis. *Academy of Marketing Studies Journal*, *18*(1), p.1.

Chandler, D., 2016. *Strategic corporate social responsibility: Sustainable value creation*. Sage Publications.

Danziger, P. N. 2018, April 23. Why Zara Succeeds: It Focuses On Pulling People In, Not Pushing Product Out. *Forbes*. Retrieved from https://www.forbes.com/sites/pamdanziger/2018/04/23/zaras-difference-pull-people-in-not-push-product-out/#729df3eb23cb

Du, H., Huang, Y. and Liu, Y., 2015, April. The Analysis of the SPA Apparel Company Strategy. In *2nd International Conference on Civil, Materials and Environmental Sciences*. Atlantis Press.

Frynas, J.G. and Mellahi, K., 2015. *Global strategic management*. Oxford University Press, USA.

García-Álvarez, M.T., 2015. Analysis of the effects of ICTs in knowledge management and innovation: The case of Zara Group. *Computers in Human Behavior*, *51*, pp.994-1002.

Godhania, S.A., 2015. Fast fashion: the dynamic capabilities underlying project management in the UK fashion industry SMEs.

Inditex. 2018. Annual Report. Retrieved from https://www.inditex.com/documents/10279/18789/Grupo\_INDITEX\_09.pdf/64b4e624-5cb9-46bc-86a8-a533dd8a832e

Karray, S. and Sigué, S.P., 2018. Informational and/or transactional websites: Strategic choices in a distribution channel. *Electronic Commerce Research and Applications*, *27*, pp.11-22.

Meyer, K. and Peng, M.W., 2016. *International business*. Cengage Learning.

Moutinho, L. and Phillips, P., 2018. Strategic analysis. In *Contemporary Issues in Strategic Management* (pp. 46-79). Routledge.

Mukerjee, K., 2016. Factors That Contribute Towards Competitive Advantage: A Conceptual Analysis. *IUP Journal of Business Strategy*, *13*(1), pp.26-39.

Nishimura, A., 2019. Profit Opportunity, Strategic Innovation, and Management Accounting. In *Management, Uncertainty, and Accounting* (pp. 97-127). Palgrave Macmillan, Singapore.

Sandler, E. 2018, April 16. Zara Stores Target Millennials With Augmented Reality Displays. *Forbes*. Retrieved from <https://www.forbes.com/sites/emmasandler/2018/04/16/zara-stores-targets-millennials-with-augmented-reality-displays/#37e21d0d2315>

Saraswat, S., 2018. Strategies v/s Consumer Perception of Brand Zara-India. *IITM Journal of Management and IT*, *9*(2), pp.68-80.

Wang, Y., 2016, July. Dynamic pricing considering strategic customers. In *2016 International Conference on Logistics, Informatics and Service Sciences (LISS)* (pp. 1-5). IEEE.

West, D.C., Ford, J. and Ibrahim, E., 2015. *Strategic marketing: creating competitive advantage*. Oxford University Press, USA.

Yang, D., Qi, E. and Li, Y., 2015. Quick response and supply chain structure with strategic consumers. *Omega*, *52*, pp.1-14.

Yip, A.C. and Huang, M., 2016. Strategic values of technology-driven innovation in inventory management: a case study of Zara's RFID implementation. *International Journal of Inventory Research*, *3*(4), pp.318-336.