
World brand: Zara's business model

Zara has achieved excellent financial status due to its core competencies which provide the chain with a great competitive advantage over traditional retailers and other competitors in the industry. Generally, retailers outsource a major share of their production while focusing on retailing and marketing the goods. This is because the apparel industry is “highly-labour intensive” globally and not capital intensive. Fashion retailers and apparel manufactures always seek lowering costs by outsourcing production to developing countries that provide lowest labour rates. In contrary, Zara has developed an affluent diverse method of doing business in the fashion industry. Zara works through the whole value chain and is very vertically integrated and much capital intensive.

Vertical integration, a peculiar feature of Zara's business model, has helped the company to develop a strong publicizing strategy. This strategy allowed Zara to create an environment of scarcity, opportunity and a fast-fashion system. Zara manufactures more than 60% of its own products. As Zara owns its in-house production, flexibility in variety, frequency, and amount of the new styles produced is proliferated. Furthermore, 85% of this production is done throughout the season, which allows the chain to consistently provide its customers with trendy and up-to-date products. Traditional retailers lack such level of flexibility. Traditional retailers are bound to place production orders to overseas manufacturers at least 6 months in advance of any particular season.

Rather than pushing its factories to maximize produce, the company deliberately leaves extra capacity. Rather than pursuing economies of scale, Zara produces and distributes products in small batches. Instead of depending on outside partners for production and logistics, the company manages all design, distribution, and warehousing functions itself. Even its day-to-day operational procedures differ from the traditional players. Their retail stores hold a rigid timetable for placing orders and receiving stock. Price tags are put on items before They're shipped, rather than at the end stores. Large areas are left empty in its expensive retail shops. They tolerate, and even encourage, occasional stock-outs.

The logic behind Zara producing in small lots works brilliantly towards creating a sense of exclusivity. Customers need to make quick buying decisions as there is always a high possibility of a stock out the other day. So customers visit Zara's stores to see new products more often. This creates a huge amount of traffic and revenue. Each of their product development teams have their own designers, procurement, sales and production planners the same way as it is done in cellular manufacturing. This helps Zara to streamline internal communication by a large extent. Since Zara believes in time based competition, automation is the vital component that

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