

Amancio Ortega built the world's largest fashion empire through his Zara branded products and company-owned stores. Through his management approach, Ortega became quite wealthy. In fact, in 2015 he was the fourth wealthiest person in the world (with a worth of \$64.5 billion). This placed him behind only Bill Gates (the wealth of all), Carlos "Slim" Helu and his family, and Warren Buffet. Headquartered in La Coruna, in Spain's Galicia region, Ortega founded the Inditex Group with Zara as its flagship brand. Despite Spain's 24 percent unemployment rate and crippling debt, in 2012 Zara increased revenue by 17 percent. Also, in 2012, Zara averaged a new opening every day, including its six thousandth store launched on London's Oxford Street. Although the influence of the economic environment affects Zara's success, the way Zara uses its resources and capabilities as the foundation for core competencies demonstrates the value of understanding a firm's internal organization. Ortega built this successful business based on two critical goals: Give customers what they want and get it to them faster than anyone else. To do "fast fashion" as it is called, there are several critical capabilities that must be in place. The first critical capability is the ability to design quickly; the design pace at Zara has been described as "frantic". The designers create about three items of new clothing a day, and pattern makers cut one sample for each. The second critical capability is the commercial sales specialist from each region where Zara has stores. They provide input on customers' tastes and buying habits which are reported through store managers. Each specialist is trained to keep an eye on what people are wearing, which Ortega, as well, has personally since founding Zara. As such, Zara has a team approach to match quick and creative design with information coming in from the sales staff through regional specialists and sector specialists to operationalize new fashion ideas. Zara's supply chain is also managed much more efficiently than those of other companies. The logistics department is the essence of the company. Rather than waiting for cloth to come in after designing, Zara already has a large supply of basic cloth and owns its dyeing operation to maintain control and speed. Zara's objective is to deliver customized orders to every store in its empire within a 24-hour turnaround for Europe, the Middle East and much of the United States, and a 48-hour turnaround for Asia and Latin America. The frequent shipments keep product inventories fresh but also scarce since they send out very few items in each shipment. This approach compels customers to visit stores frequently in search of what they want and, because of the scarcity, creates an incentive for them to buy on the spot because it will likely not be in store tomorrow. Accordingly, Zara's global store average of 17 visits per customer is considerably higher than the average of three visits per year for its

competitors. Until 2010 Zara did not have an online strategy. Unlike most retailers, it has used very little advertising because it has focused on a rather cheap but fashionable approach. The fashion draws the interest of customers and, thereby, creates a huge following on Facebook, with approximately 10 million followers. This compares favorably to other companies such as Gap. The rarity of the individual pieces of clothing gives customers a sense of individuality. This creates a stronger potential for Zara to pursue an online strategy relative to its competitors. Most Zara stores are owned by the parent company, and many of its suppliers, although not owned by the company, are considered long-time, relationship-oriented partners. As such, these partners identify with the company and, therefore, are loyal. This approach also sets Zara apart and makes its strategy difficult to duplicate because all of the various facets and capabilities of the company fit together through a unified culture. As noted above, Zara also operates its dyeing plant for cloth, giving it significant control over its products. Likewise, it sews many of these garments in its factories and, thus, maintains a high level of quality control and an ability to make quick changes. Overall, the company has a unique set of capabilities that fit together well as it manages activities to produce “fast fashion”, which creates demand from its customers and loyalty from its partner suppliers.

### **Case Discussion Questions**

1. How does Zara’s value chain contribute to its competitive advantage in the fashion industry? How does Zara’s logistics system help it deliver products quickly and maintain “scarcity” in store?
2. Identify the VRIO (Valuable, Rare, Inimitable, Organized) framework elements in Zara’s resources? How have the external analysis and internal analysis tools enable Zara to build its business model and competitive strategies?