Zara's Strategic Capabilities and Value Chain Analysis

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Strategic Capabilities

The strategic capabilities of firms can be understood in terms of two different types of capabilities: threshold and core capabilities. Such capabilities differ from resources, which are vital in supporting the implementation of strategy because threshold and unique resources underpin threshold and core capabilities (Johnson and Scholes, 2006). Nonetheless, this section focuses on strategic capabilities, which are central to achieving competitive advantages in firms (Barney, 1991; Grant, 1996; Teece et al., 1997; Grant, 2005).

Zara is ranked as one of the top 50 global brands in terms of brand value (Interbrand, 2009). Zara has achieved this despite proudly claiming that they have never spent a penny on advertising. Instead, the value of Zara’s brand comes from its supply chain and its ability to add value to every stage of the supply chain (Porter, 1985). Zara is the flagship company of Inditex, the global Spanish fashion retailer (Inditex, 2009). Zara operates a market-orientated business strategy that is based on satisfying customer needs. The highly vertically integrated company uses their ability to disseminate knowledge and communicate ‘up’ and ‘down’ the supply chain as its major strategic capability and source of sustainable competitive advantage. This is important because research shows that the achievement of threshold and core capabilities is often contingent on the firm's ability to leverage the knowledge that resides within its human capita (Becker, 1964; Nonaka and Teece, 2001; Grant, 2005). For example, Zara uses the information from individual stores to feedback to the production team what merchandise is selling and what isn’t. This allows the company to perfectly tailor its offering, down to the individual store to perfectly match the tastes and preferences of the customer. The customer essentially drives the design and production of Zara’s clothes that end up on the shelves (Tungate, 2005). This is achievable because of the way the supply chain network is configured. As such, Zara is able to create, design and deliver any product line and get it on the shop floor within two weeks.

When Zara started out, this process was truly revolutionary with the average turnaround time for stores to do the same thing being nine months (Lee, 2001). Zara set the industry standard and created a model that many others have now followed. Therefore, Zara’s capabilities were rare and unique but are imitable (Barney and Hesterly, 2008). Nonetheless, the knowledge that exists within the company, the organisational structure and culture enables Zara to
execute this strategy to perfection. This strategy has coined the term ‘fast fashion’. Given their ability to rapidly turn around product lines, not only can Zara supply more of those items that are selling well in certain areas and discontinue those that aren’t, but it can also tap into the ability to copy runway looks and celebrity trends and fashions in an instant. It highlights the potentially strong social capital that exists in Zara and how this helps the firm to leverage intellectual capital (Nahapiet and Ghoshal, 1998; Nonaka and Teece, 2001). In the light of consumer preferences, customers are no longer satisfied with a ‘top down’ approach indicative of the old fashioned clothing retail model that prescribed fashions on a bi-annual basis (summer and winter collections). Instead, customers dictate the fashion and Zara responds. This is essentially shifting the industry structure to a ‘bottoms up’ model. External influences such as magazines, events and celebrity trends can have a massive impact on fashion, with fashion now being more fast paced and dynamic (Tungate, 2005). In essence, Zara are able to identify and copy trends faster than any competitor can (Hitt et al., 2009).

**Value Chain Analysis**

Value chain analysis is an important part of the strategy process, especially within the positioning school of strategic management (Mintzberg et al., 1998). Value chain analysis involves primary and support activities. In term of of the primary activities that are examined, this involves an analysis of the inbound logistics, operations, outbound logistics, market and sales, and service based activities of the firm. It is used as a means of showing how these different aspects in the value chain create value for the firm and help it to achieve competitive advantages (Porter, 1980, 1985). Zara’s supply chain is vertically integrated. Zara maintains a tight control over its supply chain in both its downstream (production) and upstream activities (final point of sale). This means that Zara has control over its products from the initial product conception, manufacturing, distribution and sales. Whilst the value chain comprises primary and support activities, this section will focus on the vertical integration of the primary value chain in the case of Zara, since these are the areas that Zara has established itself as the industry leader in supply chain management and is a source of competitive advantage for the firm. The primary value chain comprises the following:

*Inbound logistics*
The majority of Zara’s production sites are based in Spain. Zara has resisted the trend to outsource to East Asia where costs of production are lower. Instead, in order to maintain tight control over its logistics, Zara’s major production facilities are based very close to the corporate headquarters, in a small town in Galicia. Around 50% of the clothes are manufactured in Spain, with the rest manufactured in neighbouring European countries. Zara handles the design, buying, making, pattern making and sampling in-house and employs a vast design team that can add up to 12,000 new products every year to Zara’s product line (Hitt et al., 2009; Harrington, 2006).

**Operations**

Zara has its central production unit based in Galicia, near the company headquarters that has a floor space of 480,000 square meters and that is capable of processing over 60,000 items an hour (Tungate, 2001).

**Outbound logistics**

Zara’s outbound logistics is based on a just-in-time, demand based system. As such, Zara is able to keep its costs lower by having only the minimum amount of inventory that is necessary. Documenting an interview with a Zara employee, Tungate (2005) states that the systems in place enable Zara to tell within a matter of only days whether or not a product line has been successful. If products are selling, more can be ordered, produced and distributed within 2 weeks. This can also be customised based on location. For example, if a product is selling well in a Paris store but not in a London store then Zara can continue to supply the Parisian store but discontinue the line in London. The ability to customise decisions to this level ensures that the customer orientated philosophy is fulfilled, both at an operational and strategic level (Peters and Waterman, 1982).

**Marketing and sales**

Marketing and sales is based around delivering products that match customers' tastes and preferences and exceed their expectations in terms of design, service and quality. The exchange of information between store managers who deal with the upstream activities and the designers and production staff that deal with downstream activities is crucial. The appropriate exchange of information and feedback is a vital ingredient to putting products on the shop floor that sell.
Service

The level of customer service at Zara is taken very seriously. Zara aims to provide a high-end store consumer experience whilst selling their clothing and accessories at affordable prices. The stores are always located in premium locations in major cities such as New York, Paris, Madrid and London (Inditex, 2009). Store fronts are always visually appealing, with care and attention to visual merchandising at the core of the company culture. The inside of the stores are clean, well presented and have appealing visual displays. The store experience is a crucial part if adding value in the value chain (Tungate, 2001).

References


