May 2015 – Article – Zara's secret to retail success - its supply chain

At Zara, speed and responsiveness are more important than cost. Other brands churn out fast fashion; Zara, which is based in Spain and is owned by the distribution group Inditex, attempts the mind-spinningly supersonic.

The founder, Amancio Ortega, founded Zara in 1975 in order to better understand world markets for his fashion merchandise. A decade later, he formed Inditex as a parent company for Zara, as well as several other retail concepts and suppliers that he had built.

While Zara originated in Spain, it has stores in 86 countries today - in Europe, the Americas, the Middle East, and Asia. In 2012, Inditex reported total sales of US$20.7 billion, with Zara representing 66 percent of total sales (US$13.6 billion).

Zara's supply chain

The brand is renowned for it’s ability to deliver new clothes to stores quickly and in small batches. Twice a week, at precise times, store managers order clothes, and twice a week, on schedule, new garments arrive. The company produces about 450 million items a year for its 1,770 stores in 86 countries.

To achieve this, Zara controls more of its manufacturing and supply chain than do most retailers. For Zara, its supply chain is its competitive advantage.

Synergy between business and operations strategy

Zara’s overarching strategy is achieving growth through diversification with and vertical integrations. It adapts couture designs, manufactures, distributes, and retails clothes within 2 weeks of the original design first appearing on catwalks.

The company owns its supply chain and competes on its speed to market, literally embodying the idea of “fast fashion”.

Just in time production

The retail giant delivers fashionable and trendy numbers catered for different tastes through a controlled and integrated process – just in time.

Zara keeps a significant amount of its production in-house and makes sure that its own factories reserve 85 percent of their capacity for in-season adjustments. In-house production allows the organization to be flexible in the amount, frequency, and variety of new products to be launched.

The company often relies heavily on sophisticated fabric sourcing, cutting, and sewing facilities nearer to its design headquarters in Spain.

The wages of these European workers are higher than those of their developing-world counterparts, but the turnaround time is miraculous.

Zara's supply chain

Zara also commits six months in advance to only 15 to 25 percent of a season’s line. And it only locks in 50 to 60 percent of its line by the start of the season, meaning that up to 50 percent of its clothes are designed and manufactured smack in the middle of the season.

If a certain style or design suddenly become the rage, Zara reacts quickly, designs new styles, and gets them into stores while the trend is still peaking.

Store managers communicate customer feedback on what shoppers like, what they dislike, and what they’re looking for. That data is instantly funneled back to Zara’s designers who begin sketching on the spot.

Zara also has extra capacity on hand to respond to demand as it develops and changes. For example, it operates typically 4.5 days per week around the clock on full capacity, leaving some flexibility for extra shifts and temporary labor to be added when needed.

This then translates to frequent shipments and higher numbers of customer visits to the stores, creating an environment of shortage and opportunity.

This strategy allows Zara to sell more items at full price because of the sense of scarcity and exclusiveness the company exudes. Zara’s total cost is minimized because merchandise that is marked down is reduced dramatically as compared to competitors.

Zara gets 85 percent of the full price on its clothes, while the industry average is 60 to70 percent. Unsold items account for less than 10 percent of its stock, compared with an industry average of 17 to 20 percent.

“Most companies are riddled with penny-wise, pound-foolish decisions to reduce cost,” says Kasra Ferdows, a professor at Georgetown University’s McDonough School of Business. “Zara understands that if they don’t have to discount as much, they can spend money on other things. They can see the benefit of this certainty and rhythm in the supply chain.”

This is also the reason why Zara can afford the extra labor and shipping costs needed to accommodate and satisfy changes in seasonality and customer demand.

Inventory management

Zara is fully aware of the saying, “inventory = death”. It avoids piling up inventory in any part of its supply chain from raw materials to finished products.

Inventory optimization models are put in place to help the company to determine the quantity that should be delivered to every single one of its retail stores via shipments that go out twice every week. The stock delivered is strictly limited, ensuring that each store only receives just want they need. This goes towards the brand image of being exclusive while avoiding the build up of unpopular stock.

This quick in-season turnaround, from production facilities located close to Zara’s distribution headquarters in Spain, allows Zara to ship more often and in smaller batches. If the design Zara hastily creates in an attempt to chase the latest trend does not in fact sell well, little harm is done.

The batch is small, so there’s not a ton of unsold inventory to get rid of. And because the failed experiment is over in a jiffy, there’s still time to try a different style, and then a different one after that.

Zara's supply chain

Centralized logistics

“The secret to their success has been centralization,” says Felipe Caro, an associate professor at the University of California at Los Angeles’s Anderson School of Management and a business adviser to the company. “They can make decisions in a very coordinated manner.”

Zara sticks to a deep, predictable and fast rhythm, based around order fulfillment to stores.

Each Zara outlet sends in two orders per week on specific days and timing. Trucks leave at specific times and shipments arrive in stores at specific times. Garments are already labeled and priced upon destination.

As a result of this clearly defined rhythm, every staff involved (from design to procurement, production, distribution, and retail) knows the timeline and how their activities pan out with respect to other functions. That certainly also extends to Zara customers, who know when to visit stores for fresh new garments.

Solid distribution network

Zara’s strong distribution network enables the company to deliver goods to its European stores within 24 hours, and to its American and Asian outlets in less than 40 hours.

According to Nelson Fraiman, a Columbia Business School professor who wrote a 2010 case study about Zara, the retail giant can get a product out from concept to store in just 15 days, while the industry standard is 6 months.

Zara's supply chain

At Zara, change doesn’t disrupt the system; it’s part of the system.

This brand’s success story shows the strength of its operations. Its cross-functional operations strategy, coupled with its vertically integrated supply chain, enables mass production under push control, leading to well-managed inventories, lower markdowns, higher profitability, and value creation for shareholders in the short and long term.