

**Indian Institute of Science
Bangalore
NPTEL
National Programme on
Technology Enhanced Learning**

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**Global Supply Chain Management
Lecture – 03
Zara fast fashion**

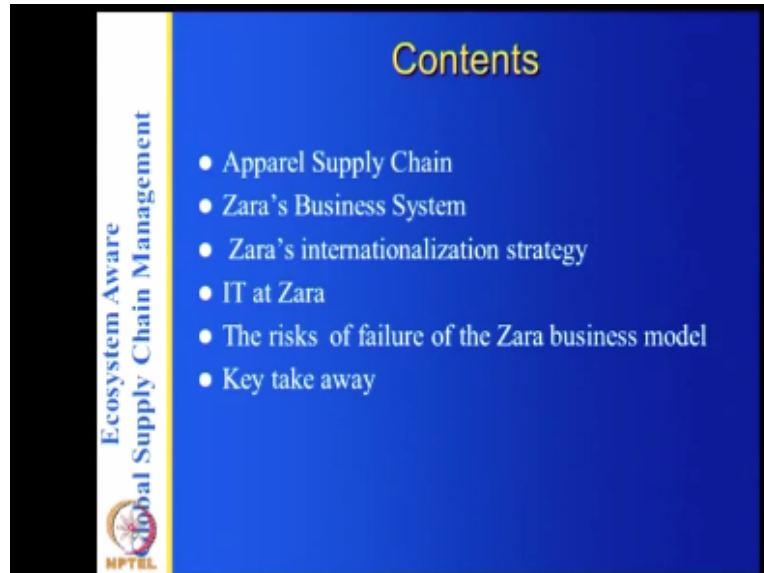
**Prof.N.viswanadham
Department of Computer Science and Automation
Indian Institute of Science
Bangalore**

We are good to do in this lecture the company called Zara this is a Spanish company which does fashion addresses for women children and men it is a very special company itself in fashion business and does very well and it is one of your role models so I did basically it is a company that does things in a very unconventional fashion and its supply chain is supposed to be excellent but it does not follow most of the principles that their competitors follow but still it does well.

And the it is very intuitive to understand how it does and but it is difficult to imitate the practices that surround us so it is very important that we studied Zara to understand the how the


management skills are more important than the others practices so let us look at the Apple supply chain which is the business in which Zara is.

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And what is the business system what is the internationalization strategy or what is the kind of IT uses and the risk of failure that is our a business one I mean one of the things that why we are talking risk of risks of failure of Zara business model is because if so easy to imitate this and it is so unconventional and people may think and it follows practices which other businesses would not so if people think that this can fail very easily but let us see how what are the things that make it fail and what did they take away from here so founded in 1963.

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ZARA

- Founded in 1963 by Amancio Ortega and First Zara shop opened in 1975 selling low price imitations of more up market fashion house.
- Zara is a part of the € 4 billion Inditex group and 100% owned company, based in Barcelona. Over 80% of the group's sales are contributed by Zara's 600 stores
- Women's, men's and children's wear, over 724 stores in 56 countries
- Ortega thought that customers would regard clothes as a perishable commodity - no different from yogurt or bread – to be consumed, rather than stored in closets.

By Ortega and first Zara shop opened in 1975 selling low price imitations more up market fashion house so it is low-priced or a medium priced but the market is up fresh and Zara is a part of Inditex group which is four billion dollars 100% bond company based in Barcelona and over 80 percent of the group sales are contributed by Zara 600 stores its international company woman man and children wear over 700 stores in 56 countries and I will take a thought that customers would regard clothes as a perishable commodity.

No different from yogurt or bread will be consumed rather than stored in closets so you should you should look at those Zara thinking it is not it is not a permanent asset.

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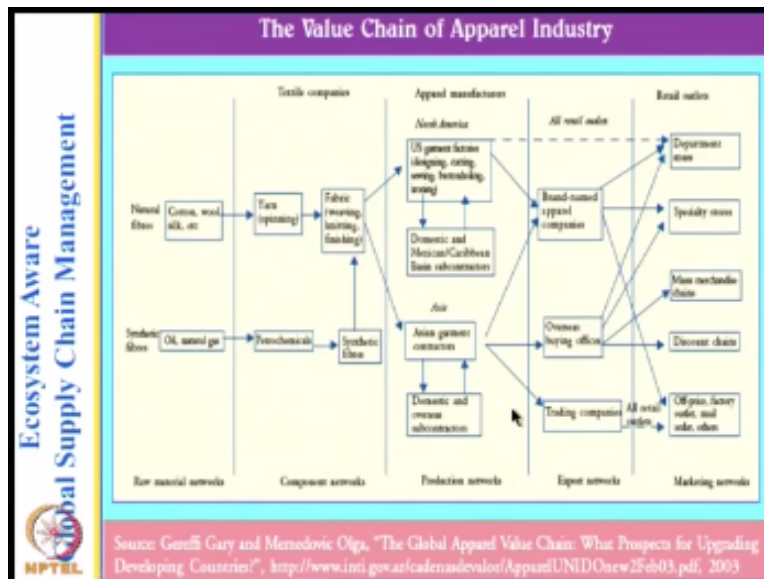
Lots of not and they just this one so let us look at the Apparel supply chain.

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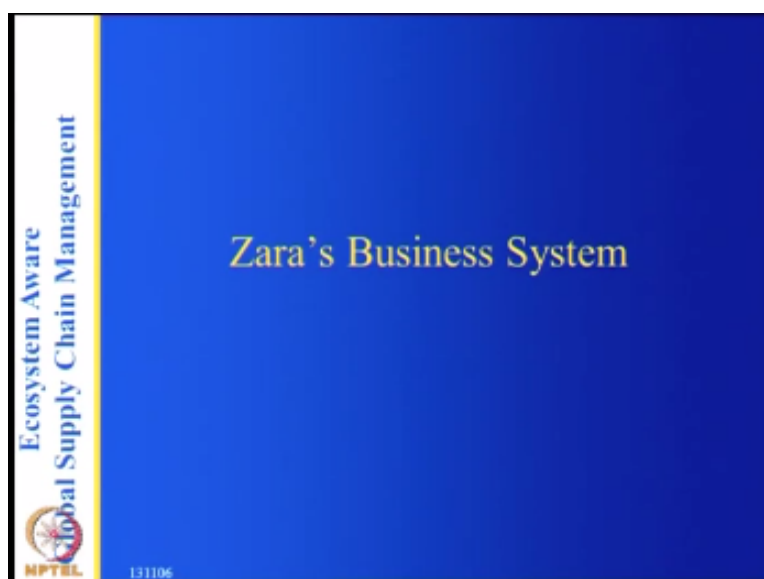
in global Apparel supply chains the channel masters could be retailers or brand masters or trading companies so for all the Apparel supply chain masters in this it could be retailers like Wal-Mart or Macy's or any of these people big retailers in the United States or brand manufacturers it can be Paulo or it could be anybody our trading companies like clay and form so these are all the global masters.

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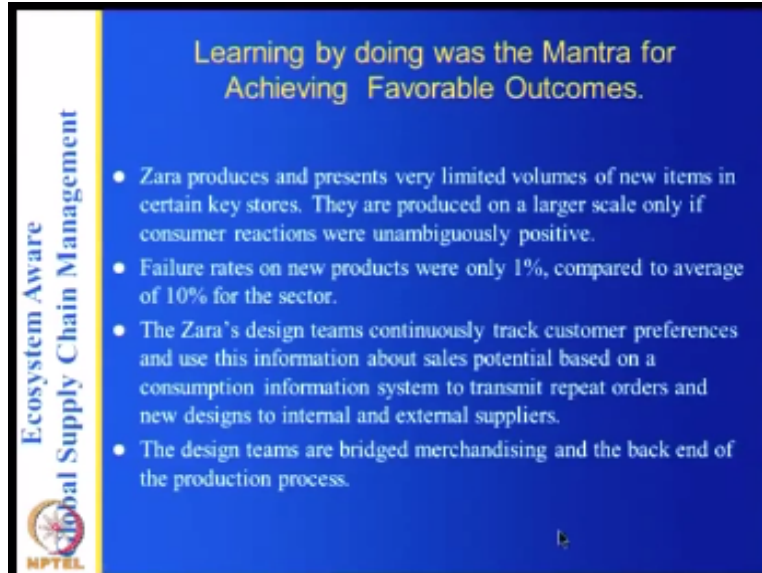
but if you look at the value chain you have cotton Lula silk you have oiler natural gas that goes into petrochemicals to make synthetic fibers and you have a Argon fabric that goes in and it goes to the apparel manufacturers and all retail store and retail orders goes to so you have basically raw materials composer networks production networks and export networks and marketing channels I mean this is a typical Arab supply chain.

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And what is it where is he where he is around this upon supply chain.

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**Learning by doing was the Mantra for
Achieving Favorable Outcomes.**

- Zara produces and presents very limited volumes of new items in certain key stores. They are produced on a larger scale only if consumer reactions were unambiguously positive.
- Failure rates on new products were only 1%, compared to average of 10% for the sector.
- The Zara's design teams continuously track customer preferences and use this information about sales potential based on a consumption information system to transmit repeat orders and new designs to internal and external suppliers.
- The design teams are bridged merchandising and the back end of the production process.

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And learning by doing with the mantra of achieving favorable outcomes see if you are in fashion business what is the first thing you do you do the designing you do the advertising you do basically you know low cost outsourcing and you put all your things on it on this one on time you have plenty of stocks in the stores that are available so that whenever whatever customer wants whenever he wants it is available these are all the usual things but Zara is different.

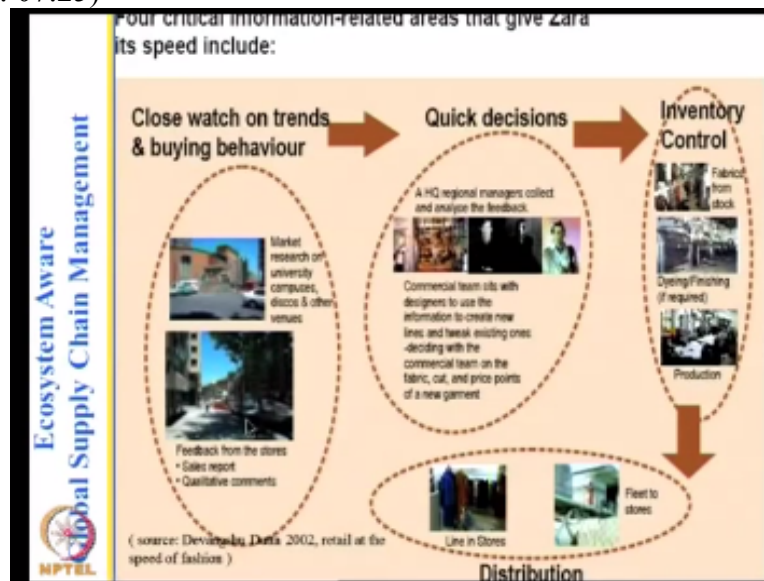
It wants to learn by doing it and Zara produces and presents very limited volumes of new items in certain key stores they are produced on large scale only if consumer reactions were unambiguously positive now what it does is looks at the market what people are wearing what people are liking produces sample items produce them less keep it for two weeks give the people a feeling that if they do not buy it now it may not be available next time and remove it after two weeks if it is not selling failure rates on new products was only 1% as compared to average of 10% on this sector.

And they design Terra design teams continuously track customers references and use this information about sales potential based on the consumption information to transmit repeat orders or new designs to internal and a blast suppliers all the retailers track the customers what Zara tracks are the customer preferences what is it that the customers are buying they talk to the

scene to the store managers they attend the fashion shows that and they talk to their customers they go to the schools and talk to the end people and so on.

So what Zara does is basically track the customers their preferences and the design teams are bridge much merchandising and the back end of the production process.

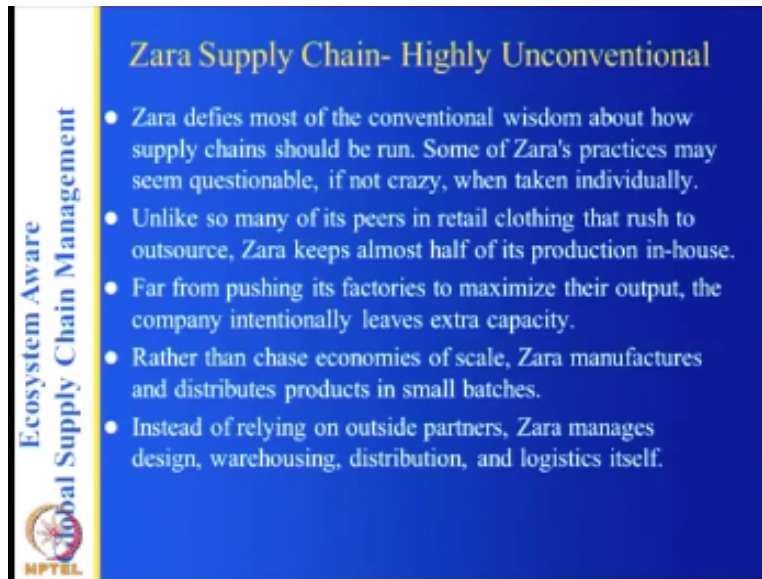
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So you have four critical information closely watch the trends of buying behavior closely watch the trends are buying behavior market research on University campuses this goes and other venues what is that people are wearing what color they will want feedback from the store sales report so once you look at it you take the headquarters regional managers collect and analyze the feedback and commercial seems it is with the designers to use the information to create new lights that is a quick decision afterwards.

You just take the inventory of what the fabrics that you have and you produce the products and send them to this stores now this is in contrast with what usually happens in a fashion business what happens is you design you have catwalks and all that and you manufacture put it in a high store like Macy's another source and keep them in large numbers so as people buy you tell them and if something afterwards you sell them on this card but what Charter does is it just it does not design things for the future but it just sees at the present what people are wearing and goes to the market what are the items that they have they design those use the products they have the cloth they have produced this and send it to the market.

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The slide features a blue background with a vertical sidebar on the left. The sidebar contains the text 'Ecosystem Aware' and 'Global Supply Chain Management' in white, with the NPTEL logo at the bottom. The main content area has a title 'Zara Supply Chain- Highly Unconventional' in yellow. Below the title is a list of five bullet points in white text.


Zara Supply Chain- Highly Unconventional

- Zara defies most of the conventional wisdom about how supply chains should be run. Some of Zara's practices may seem questionable, if not crazy, when taken individually.
- Unlike so many of its peers in retail clothing that rush to outsource, Zara keeps almost half of its production in-house.
- Far from pushing its factories to maximize their output, the company intentionally leaves extra capacity.
- Rather than chase economies of scale, Zara manufactures and distributes products in small batches.
- Instead of relying on outside partners, Zara manages design, warehousing, distribution, and logistics itself.

And so our supply chain is highly unconventional ratifies most conventional wisdom about how supply chains should be run so much Jerez practices may seem questionable it is not crazy unlike so many other peers in retail clothing that trust to outsource Zara keeps all the production in the house far from pushing factories to maximize their output the company intentionally leaves extra capacity rather than chase economies of scale there are manufactures and distributes products in small batches.

Instead of relying on outside partners GRI managers design warehousing distribution and logistics itself so you can see so many unconventional things there is no scale it does manufacturing everything by itself and it handles all the logistics the other thing itself and you still make profit how does it do it.

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Many of Zara's day-to-day operational procedures differ from the norm.

- Zara holds its retail stores to a rigid timetable for placing orders and receiving stock.
- It puts price tags on items before they're shipped, rather than at each store. It leaves large areas empty in its expensive retail shops. And it encourages, occasional stock-outs.
- Zara sends half-empty truck across Europe, pays for airfreight twice a week to ship coats on hangers to Japan, and runs factories for only one shift.
- Zara's senior managers have stayed the course and resisted setting performance measures that would make their operating managers focus on local efficiency at the expense of global responsiveness.

so many have taught us day to day operational procedures differ from the norm that Zara upholds retail stores to a rigid timetable for placing orders and receiving stock it puts price tags on items before they are shipped rather than at each store so the prices are not determined at the store there is no price change there are no reduction in the volumes in the price this one there is no discounting it is all decided at the headquarters it leaves large areas empty in its experience of retail shops and it encourages occasional stock-outs.

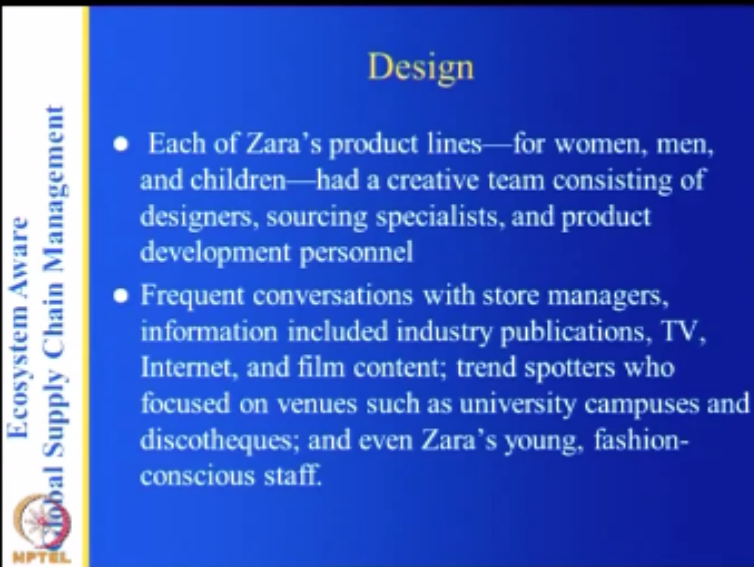
Not by buying encourage an operational stock-outs it creates a sense of insecurity in the of the customers if I do not buy it now it would not be available last when they come most of us they postpone the decision they think that you can buy it when you come later it is going to be there but in sorrow it is not going to be there so if you like something you buy it now otherwise it would not be there that is the kind of feeling that it gives to the customers.

Nice and soft empty trucks across Europe now what are going to do with this we are usually full of trucks people wait until they are full no trucks is there and it pays for is Right twice a week to ship coats on hangers to Japan and runs factories only one shift in other words it is going to be expensive with all these assets it only wants and it does not run them to full capacity it does not run them to full truckloads it does not keep in mind Pieta shops.

And it ships them by else right if it is needed that it says so whatever people are discussing in terms of keeping just in time in terms of the efficiency lean manufacturing they are all defied by Zara, Zara senior managers have stayed the course and assisted setting performance

measures that would make the operating managers focus on local efficiency at the expense of global responsiveness so what is important is to give the customers what they like at that time instant and they do not care for the efficiency so that the procedures that Zara Falls.

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Design

- Each of Zara's product lines—for women, men, and children—had a creative team consisting of designers, sourcing specialists, and product development personnel
- Frequent conversations with store managers, information included industry publications, TV, Internet, and film content; trend spotters who focused on venues such as university campuses and discotheques; and even Zara's young, fashion-conscious staff.

So if you look at design each of the Zara product designs for women men and children have creative team consisting of designers sourcing specialists and product development personnel and they have frequent conversations with managers information included in the industry publications TV internet and film content and transporters who focused on venues such as university campuses and discos and even Zara young fresh and consciousness so as we said earlier this is the information from which they Zara gets.

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Vertical integrated Manufacturing at Zara


- Internal manufacture was the primary responsibility of 20 fully owned factories located near Zara's headquarters.
- Zara's factories were heavily automated focused on the capital-intensive parts of the production process—pattern design, cutting, finishing and inspection.
- Cut garments were sent out to about 450 workshops with small operations specialized by product type.
 - Zara accounted for most if not all of their production; provided them with technology, logistics, and financial support; carried out inspections onsite.
 - The sewn garments were inspected, ironed, folded, bagged, and ticketed at Zara's manufacturing complex, before sending to the distribution center.

And contrary to what happens in other apparel manufacturers or other electronic manufacturers Zara is vertically integrated it is global but it is vertically integrated international manufacturing were the primary responsibility of 20 fully one factories located near Zara headquarters most of these manufacturing and distribution centers are in headquarters Zara factories were heavily automated focused on the capital intensive parts of production process pattern design cutting finishing and inspection these are the things that are that are heavily design.

Heavily automated and cut garments were sent out to 450 workshops with small operations specialized by product type so you have automated cutting and all that and then there is specialization purpose and sure I accounted for most if not all the production provided them with technology logistics financial support carried out inspections on site the suit garments were inspected I then fold it back and ticketed and Zara manufacturing complex before sending it to the distribution center.

So you can see that Zara follows vertically integrated system and it has quite a heretic in the sense of setting up the crisis and in terms of the quality and other things.

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Store Operations


- Zara's stores were located in highly visible locations, often in the premier shopping streets in a local market and upscale shopping centers.
- The stores functioned as both the company's face to the world and as information sources
- Zara actively managed its portfolio of stores and relocates in response to the evolution of shopping districts and traffic patterns.
- Older, smaller stores may be relocated as well as updated (and typically expanded) in new, more suitable sites.
- Zara invested more heavily and more frequently than key competitors in refurbishing its store base.

what about the store operations you are a store were located in highly visible locations often in the premier shopping streets in a local market and up side shopping centers so you will find all Zara stores in high streets they pay high rent and of course they get a lot of visibility so you can see that Zara follows all nontraditional this one they do not want to save on to protect themselves the fashion masters they are on high streets they produce they have manufacturing capacity which is left half empty.

And so on the store function both as companies face to the world and also as information sources so I act we managed its portfolio of stores and relocate in response to the evolution of shopping districts and traffic patterns well does smallest us may be relocated as well as updated in new and more suitable suits sites and Zara invested more heavily and more frequently than key competitors in refurbishing if the store space.

So the stores are concerned they are state of the art they are in High Street they pay huge trends and it is the face of the company and then people come there they basically think of Zara and also they supply a lot of information what are the trends on fresh.

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Three Principles of Zara's Supply Chain

- Transfer both hard data and anecdotal information from shoppers to designers and production staff quickly.
 - Track materials and products in real time every step of the way, including inventory on display in the stores.
- Stick to a rhythm across the entire chain: timing and synchronicity are paramount.
- Leverage the Assets: Zara produces roughly half of its products in its own factories. It buys fabric and dyestuff Inditex firms.
 - So much Vertical Integration is out of fashion in the industry; rivals like Gap and H&M, own no production facilities.

Three principles of Zara supply chain transfer both hard data and anecdotal information from sharpest to designers and production staff quickly track materials and products in real time every step of the way including elementary on display in the stores and stop tourism across the entire chain timing and synchronicity or paramount in other words there is everything across the chain whatever the customer wants you quickly find out you manufacture them and you send it to the store.

Right deserts Zara produces roughly half the product in its own factories it bites fabric and iced off in the intersect forms so much of vertical integration is out of fashion in the industry and I was like gap and H&M or no production facilities I mean you know if you take electronics I parole and so on there is outsourcing globalization and all that but Zara knows everything in its headquarters it would not have every piece it all still logistics it once the manufacturing it once all the automated equipment it wants all the shops in High Street.


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Zara's Competitive Economics

- Zara can sell some 80 % of its products at full price — about twice the industry average.
- The ability to avoid markdowns more than compensates for any added manufacturing and distribution costs




So what is the competitive economics this how does it make money still it does make money so I can sell some of 80% of the products at full price about twice the industry average so when it does all this it sells the products at the full price the ability to avoid markdowns more than compensates for any added manufacturing and distribution costs so that is the logic the larger case you say to save cause you outsource you put your stores in mediocre places and you mark down later.

Why are you marking down because things went out of fashion that is why is it there out of fashion from your design to this one there is an amount of lead time because of outsourcing and all that so what Zara does is from what the customer wants find out what the customer wants from that time within two weeks you supply it on the stores and I am a customer nervous whether if you do not buy it now it was it is not going to be there so because of these kind of feelings that Zara it is 30% of the products at full price about twice the industry average.

So you can see how much money it makes on that in other words says there are \$100 the sells at hundred dollars in the stuff at fifty dollars markdown which is 40 percent you can calculate how much money makes.


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Zara's product merchandising policies

- The Zara name had nevertheless developed considerable drawing power in its major markets
- Zara shoppers even knew which days of the week delivery trucks came into stores, and shopped accordingly. About three-quarters of the merchandise on display was changed every three to four weeks, which also corresponded to the average time between visits given estimates that the average
- Zara shopper visited the chain 17 times a year, compared with an average figure of three to four times a year for competing chains and their customers.

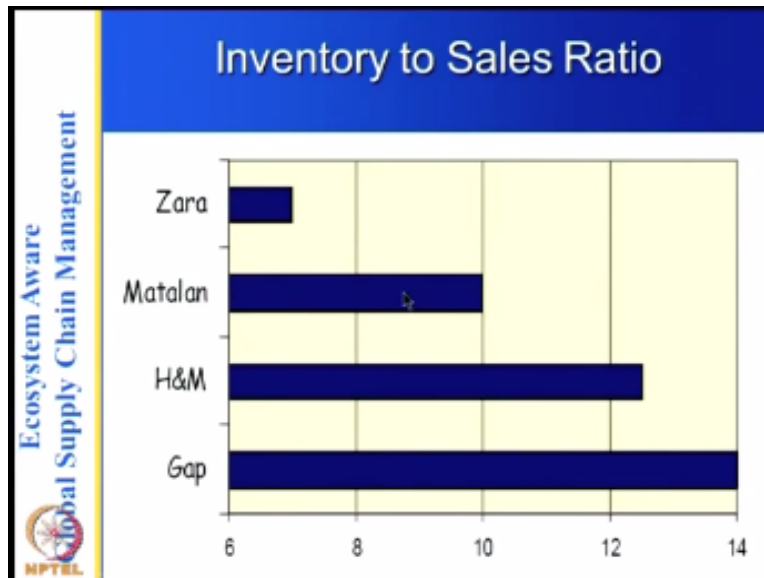


Zara product much a tiny policy Zara the others name had never the less developed constable drawing power in major markets Zara shopper even know which days of the week delivery trucks come came into the stores and chopped accordingly about three quarters are the merchandise on display was changed every three to four weeks which also correspond to the average time between visits given estimates that the average Zara shoppers visited the chain 17 times a year compared with an average figure of three to four times for competing chains on their customers.

So the feeling that that Zara gives is that if you do not buy it now it will go you may not get it again first thing second thing is it is going together to three weeks there is going to be change new fashion I comes in Zara so people if you want high fashion items so you go and visit Zara more frequently so that you get what is the fashion you can get it in Zara and the prices are not very heavy .

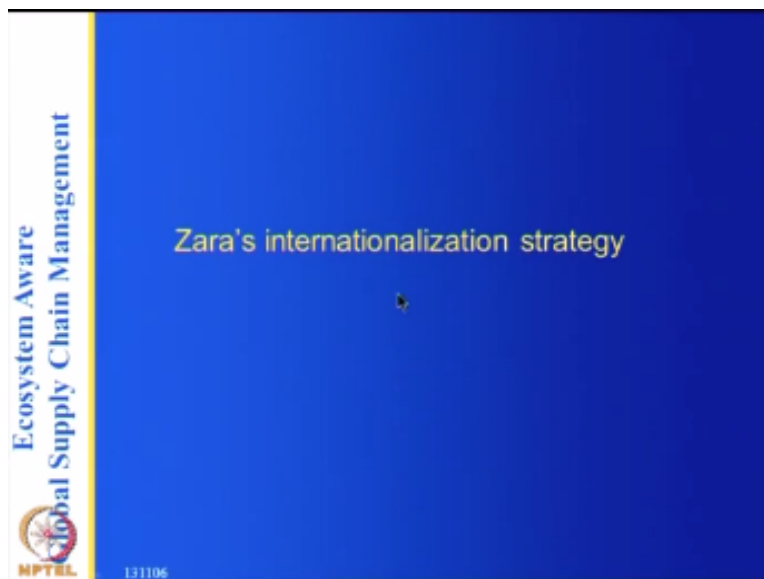
And you need not go to out of town to get them to go to Zara store it is in the High Street it is in the center of the town so that is how Zara makes money.

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And inventory to sales ratio is Zara here and gap here this is 14% and this is 7% so it is half of half of gap and so on.

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So what is the gel Zara internationalization strategy?

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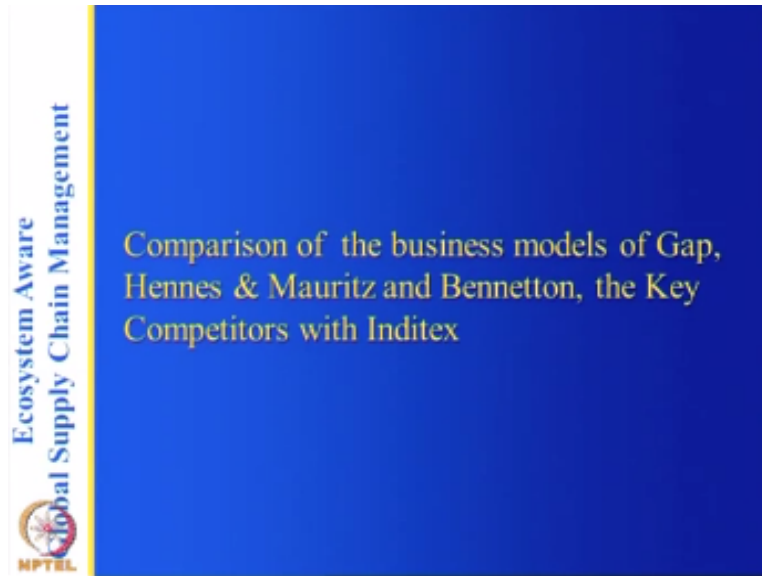
International expansion has adopted three different entry modes

- Zara had its **own subsidiaries** in most European and South American countries that were perceived to have high growth potential and low business risk
- **Joint ventures:** In Germany and Japan the deal was on a 50-50 joint venture. In Italy Inditex held a 51% share in Zara. However, Zara has recently increased its ownership to 78% in Germany, 80% in Italy and 100 % in Japan.
- **Franchising:** This strategy is chosen for high-risk countries such as Saudi Arabia, Kuwait, Andorra or Malaysia

International expansion has adopted three different entry models one is Zara had its own subsidiaries in most European and South African cities that were perceived to have high growth potential and low business risk so if this high growth low business risk you enter yourself and joint ventures in Germany and Japan the deal was on 50/50 joint ventures in Italy Inditex held 51% share in Zara however Zara has recently increased the ownership to 78 percent in Germany 80 percent in Italy 100 percent in Japan.

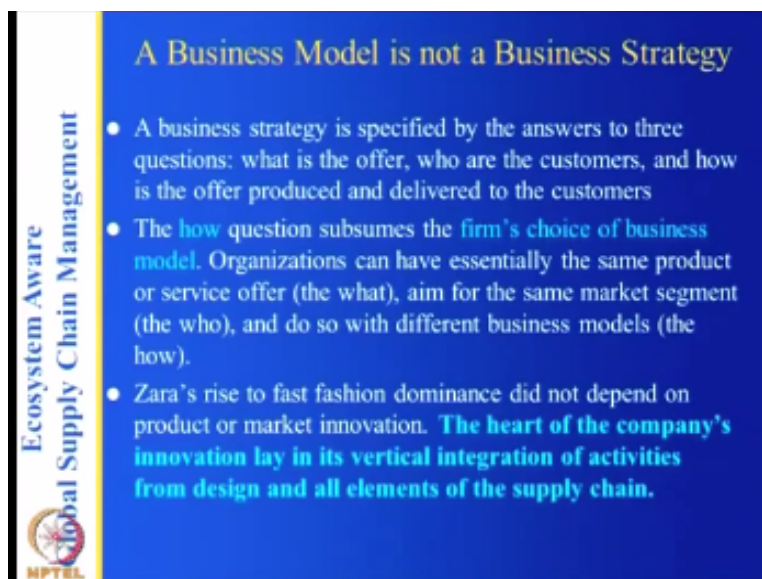
So franchising this strategy is chosen for high risk countries like Saudi Arabia Kuwait and Orion Malaysia so wherever there is high risk you have franchising you give your stuff to people they sell it on the other hand your joint ventures when you do not see a high risk and if you do not have any problem you it is a blow the business risk then you enter it yourself if it is observatory.

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So how do you control the business models have gap Hinnies and very tender and so on with Inditex is the global company of Claro so how do you compare the business models.

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Now well first model is not a business strategy a business strategy is specified what is they offer who are the customers and how they offer is produced and delivered to the customers now the how question is the one the forms choice of business model how do you deliver to many customers organizations essentially have the same product or service the aim for the same market segment and to do so in different business models they have.

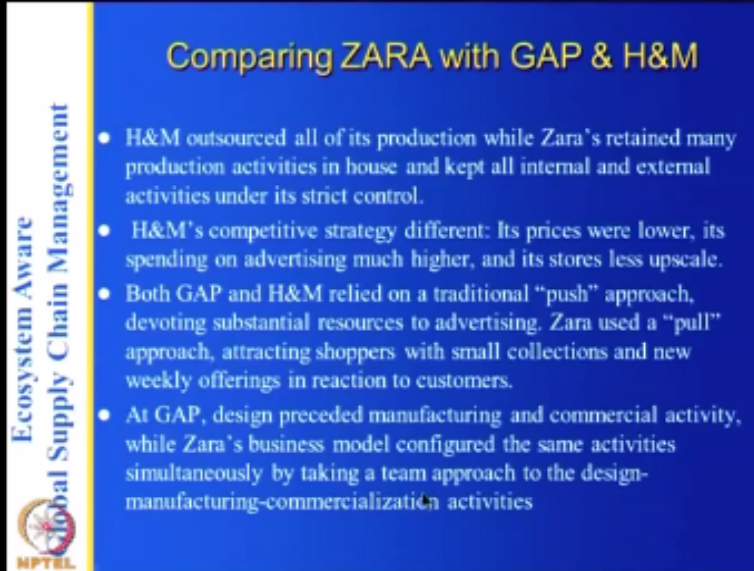
Now what is the business model that tells our follows so others rise to fast fashion dominance did not depend on the product or market in innovation the heart of the company innovation lay in its vertical integration of activities from design and all channels of the supply chain now it is the whole question that matters how are you offering it you know the market you know what you are offering then how are you offering an offering.

What sort of offer is they look at the customers what the customers want by a survey at this source or in TV channels at the university campuses and supply it within two weeks at stores which are in high streets in various city big cities that is the model how it applies so if basically whatever customers think that it is the it is a high fashion items they are available in the stores within two weeks so people go there and buy.

And here since China wants the entire supply chain that is what Kelly designed it designs it manufactures it wants all the things then it not only need not how to depend on outsiders for a manufacturer there is no question of capacity limitations of others that will affect your supply chain there is no limitation of multi fiber no limitation of my other countries restricting your entry and so on so it is basically you are avoiding all there is by warning this material.

So whatever losses you incur by her keeping the extra capacity you gain by having by not having the risk so if you compare go to draw at Gap H&M outsource all the production.

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Comparing ZARA with GAP & H&M

- H&M outsourced all of its production while Zara's retained many production activities in house and kept all internal and external activities under its strict control.
- H&M's competitive strategy different: Its prices were lower, its spending on advertising much higher, and its stores less upscale.
- Both GAP and H&M relied on a traditional "push" approach, devoting substantial resources to advertising. Zara used a "pull" approach, attracting shoppers with small collections and new weekly offerings in reaction to customers.
- At GAP, design preceded manufacturing and commercial activity, while Zara's business model configured the same activities simultaneously by taking a team approach to the design-manufacturing-commercialization activities

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Well Zara retained many production activities in-house and kept all internal and external activities under strict control and hmm complicated strategy is different its prices were lower its spending on advertising much higher and it stores less of the scale now sir art does not advertise there is no advertising expenditure that is in world and this and for a fashion retailer this looks like a surprise now it thinks by having a stores in the high street is an advertising itself is an advertisement by itself.


And when you are having things on this and when you are doing well and when everybody is writing about your business policy is it not advertising so this is advertising by doing well so new spec was right about you magazines right about you so that is what the business strategy or the advertising strategy of Zara both laug and H&M relied on traditional push approach devoting substantial resources to advertising.

Zara used a full approach that is attracting shoppers with small collections and new weekly offerings in reaction in reaction to customers so whatever are the offerings weekly offerings new weekly offerings or what the customers wanted because when they were interviewed by our staff they have expressed a desire to have they color the kind of fashion that they wanted and that is available after two weeks in the store .

So this is like made to order this made to order without commitment for the customer so that is the kind of cool approach that Zahra follows and at Gap the design proceeded manufacturing and commercial activity while Zara business model configured the same activity simultaneously by taking a team approach to design manufacturing or commercial a Jewish so everything is done in parallel your commercialization basically is your you asking the customers interviewing customers what they want finding out on campuses what the people are looking for.

And you who they design so you are manufacturing whatever people are asking for and you decide those things in the way they want and only manufacture it as I said before it is made to order without an order.

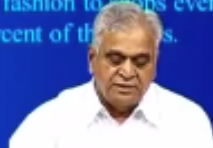
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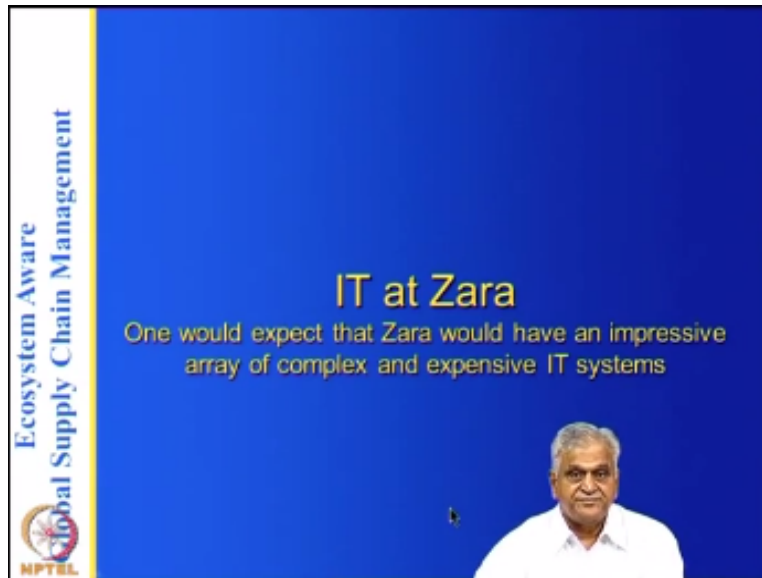
The Management Team

- The key governance team for orchestrating internal activities for each product line is a trio consisting of
 - the (final) designer (using CAD-CAM technology)
 - the commercial person (talking to the store managers and analyzing previous sales)
 - the supply chain person ensuring that the collection that would be agreed to on the table could actually be made in order to deliver new fashion to shops every week and change seventy percent of the stores.



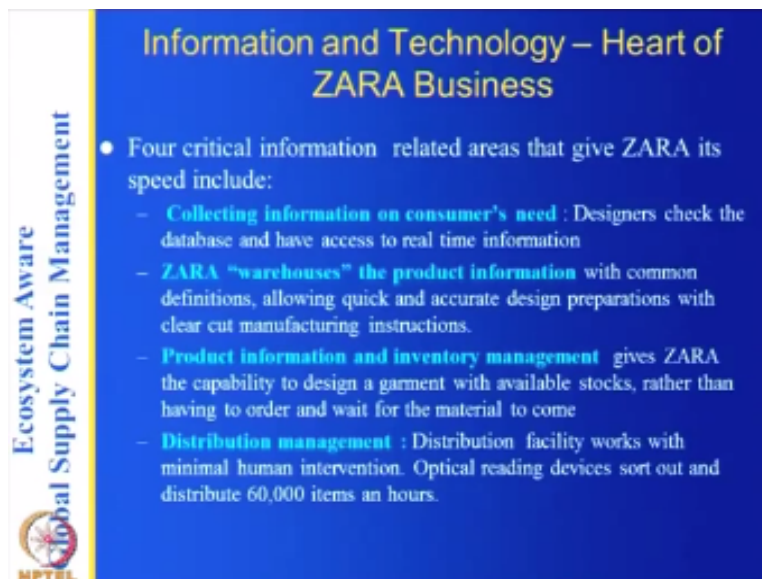
So what is the management team of Zara the key governance team for orchestrating internal activities for each product is at Rio who are the big people in Zara the designer because the designer who does this one he gets all the information what people want people are looking for and he designs it the commercial person who is talking to the store manager and analyzing the previous sales and the supply chain person ensuring the collection that would be agreed to be on the table could actually be made to order to deliver new fashion to shops every week and change 70% of the stores. So you have the designer you have the commercial person and your supply chain manager.

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So what we buy Zara one would expect that Zara would have impressive array of complex expensive IT systems but it does not.

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Third critical information related areas that Zara include collecting information and consumers need this ayah nurse check the database and Alexis store real time information Zara warehouses the product information with common definitions allowing quick and accurate design preparations with clear cut manufacturing instructions product information and

inventory management gives Zara capability to design a garment with available stocks rather than having to order and wait for the material to come.

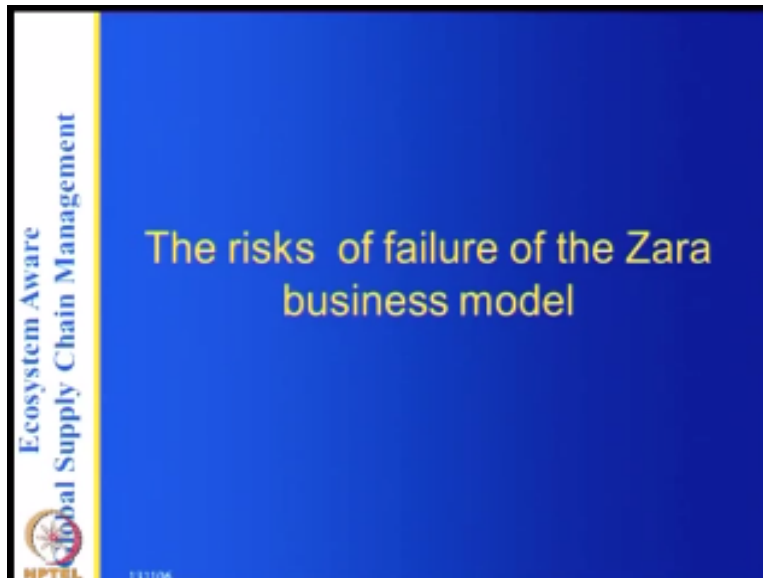
And distribution management distribution facility with minimum human intervention optimal reading device I sought out in distribute six hundred sixty thousand items in hours here it is you can see what is the kind of IT that they are using the idea is where the front end right like the design where do you store what are the kind of items that are used and so on the IT is not in stores management is how much it is all done all that they may not have the ERP systems and all that the IT that they have is basically to provide people what they want .

So to collect all the information accurately and process it so that the designer will get an accurate information of the customer requirements our customer tastes and what the customer intends to buy and you want to convert that what the customers intent into a design and a product and finally deliver it him at within two weeks now to tell you this product in two weeks you need the material if you go to the market or go to a Weber to weave this particular Club it may take time.

So if a particular product is made out of silk and silk is not available you make it with cotton that is a new product price it accordingly so you manufacture the product will make the product have the designs ready with whatever material that is available to you and submit it to this one so that is this information technology is basically is in the front end in the design and in the manufacture but most of the information technology in other source is going to be in the retail sector.

So much you had things what are the risks of failure of our business model.

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Now if you look at the what is a Zara business model it is our business model is it is very simple if you are in a fashion business go to the university campuses go to shops when people come interview them what kind of fashion they want what did you go in color now and whether they want to pockets one pocket whatever and once you have all this kind of information with the available material in your warehousing your people will design it and you have automated equipment to cut them and so on.

And afterwards their specialty Tailors who basically produce the goods they are ironed and sent out within two weeks now if you look at the entire procedure is there anything that ordinary fashion retailers cannot do in other words if going to the core competency of this so called core competency of this I mean people may say what is there you collect information you design accordingly or new send it to they send it to the market.

So people takes that there is a very risk of failure of people can imitate this particular business model and that is going to affect so are very badly so why might Zara fail.

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Global Supply Chain Management

Why might ZARA fail?

- How sustainable is its competitive advantage relative to the kinds of advantages pursued by other apparel retailers?
- Several different failure scenario/threats can be identified
 - Overinvestment made in Zara's capital assets
 - If Zara grows bigger, will the complex manufacturing and distribution system scale up
 - Is International expansion possible with its model of with high fixed assets, low advertising & low working capital.

How sustainable is the competitive advantage relative to the kind of advantages pursued by other a thoroughly traders what are the advantages pursued by other retailers a design advantage because they are going to then find out what is going to be the future passion future fashion not the current fashion what Zara does is what is that people want today and supply it. Immediately whereas most of these people they want to create fashion that is what the April this one several different failure scenarios can be identified.

One is lower investment made in capital assets now Zara has once lot of things it wants the manufacturing facilities it wants all the warehousing on others it wants all the trucks and it practices or basically you know half woven power investment in manufacturing to keep excess capacity and to fill half full trucks and if it is needed you send it this by earth right and all that without casting cost taking into cost and so on.

So it is highly a certain tension which people usually in the sense what happens is if the assets are there and the tomorrow the fashion changes and these asset specific investments can be a liability one of the reasons why it is also capital intensive you know spent a lot of money in this one of the reasons why people avoid a certain tension this one is because we as fashions change as the machine technologies and other things change you may become outdated.

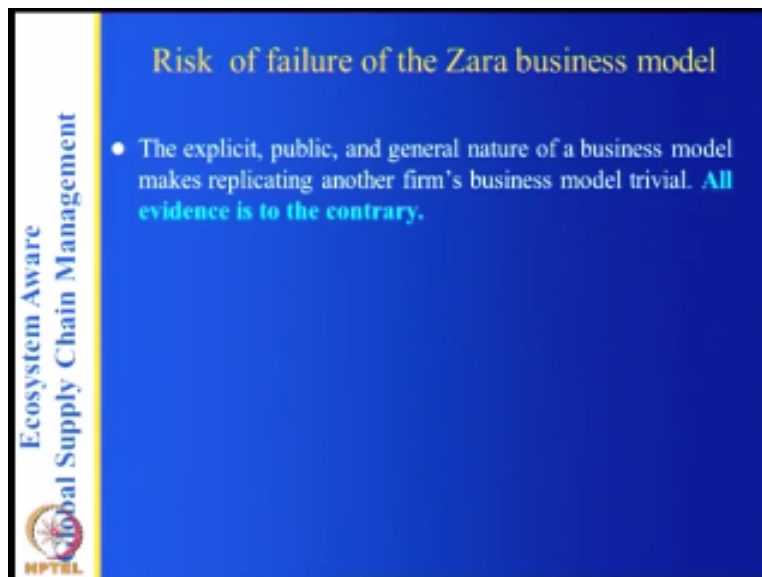
So to avoid that but Zara who says it does not care and it makes capital intensive this one it is not of course Bricker in other words supposing from 602 it goes to 3,000 stores it gets international and so on so what is going to be is the strategy when it bigger grows bigger it is

going to be complex manufacturing and distribution set up is it going to increase its manufacturing sighs follow the same principles leave half the capacity 1/2 excess capacity without work and send half the health a truck falls and so on.

So what happens is if the same practices are followed does it make profits his international expansion possible with the kind of this model kind of models with high fixit assets low advertising and low working capital they do not know advertising at all so how is it going to make money so it basically means two things here one is it does not follow the so called best practices of other companies outsourcing then you know full load trucks and full scale and so on it follows its own principles.

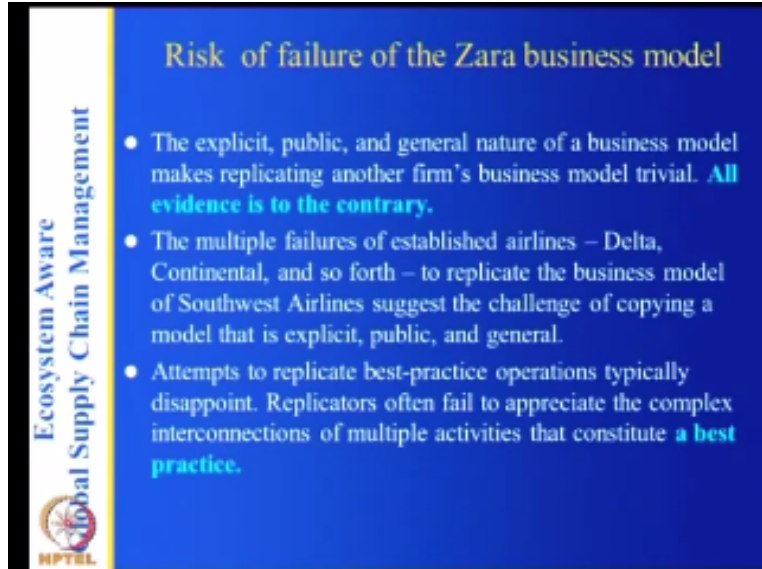
So is there a risk in such things so risk of failure of Zara business model the explicit public and general nature of the business model makes replicating.

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Another forms business model trivia all evidence is to the contrary what people think is that if your business model is explicit it is clear to others you can replicate it and as we seen Zara business model is explicit and it is easy to understand it is just in time model then you find out what people want and Stitch it and then supply it well is this is the kind of model that that can be easily be imitated somebody else can do it but that is what people may think but the evidence is to the contrary what is the evidence.

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The slide is titled "Risk of failure of the Zara business model" in yellow text on a blue background. On the left side, there is a vertical yellow bar with the text "Ecosystem Aware Global Supply Chain Management" and the NPTEL logo. The main content consists of three bullet points in white text:

- The explicit, public, and general nature of a business model makes replicating another firm's business model trivial. **All evidence is to the contrary.**
- The multiple failures of established airlines – Delta, Continental, and so forth – to replicate the business model of Southwest Airlines suggest the challenge of copying a model that is explicit, public, and general.
- Attempts to replicate best-practice operations typically disappoint. Replicators often fail to appreciate the complex interconnections of multiple activities that constitute **a best practice.**

The multiple sale use of establish lines like Delta continental and so forth to replicate the business model of southwest airlines such as challenge of copying model that is explicit public and general now if you know the Southwest Airlines it is basically a low cost airline in the United States it follows the principle of it does not own the aircraft it leaves us everything aircrafts and it has its own staff and you can buy the you can buy the etiquettes to make airline reservations on the web.

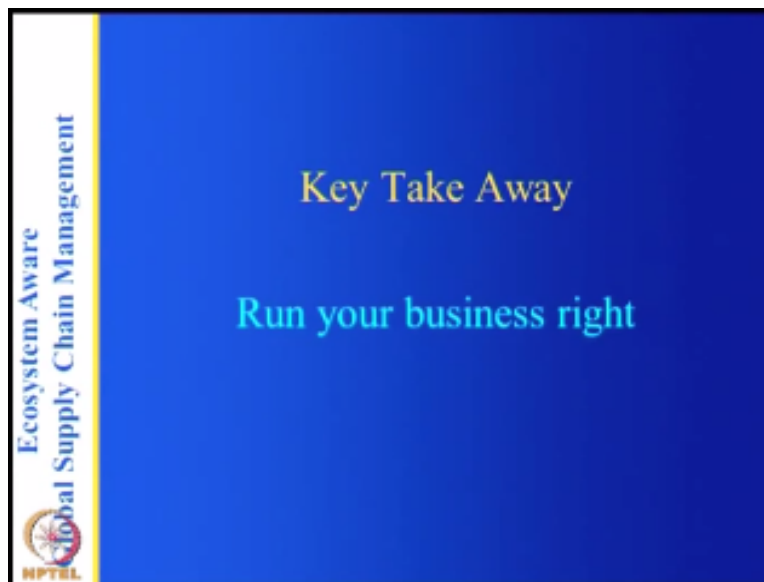
And basically runs like a intercity bus transport they have no waiting times as it comes to a particular place under ten she connects it does not follow the Hubbard spoke it has direct flights and so on so and it is doing very well so where it is doing very well other airlines like Delta continent and others they thought they will also follow the business model like the Intercity but they could not so.

Just because you understand the business model does not mean you can follow it imitate it attempts to replicate best practice operations typically disappoint replicators often fail to appreciate the complex interconnection of multiple activities that constitute a best practice what is the best practice what is it that Zara is doing here Zara is interacting directly with the customers interacting with the customers it is interacting through University campus interviews through TV buy participate by going to the high fashion shows and also in its store talking to customers.

And having it in high stores so that people can visit frequently at no cost they come through the high street for some other purpose they incidentally visit Java so it is no cost and when they visit Zara they frequently supply very critical marketing information and that anybody else can also do this it is not very difficult for somebody to do but it is very difficult to get into this kind of practice and also you keep all everything yourself and you buy the material you have elementary or the material and whatever is available you design and then you sell it.


So whatever they are the best practices that Zara has very simple practices they can be easily imitable but people fail to imitate.

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So having looked at the entire thing what is the key take a take away here because the key to key etiquette key takeaway is run your business right what is your business.

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ZARA Business Model : Key take away

- Selling "state-of-the-art" fashion though being a fashion follower
- Integration upstream to create competitive advantages downstream
 - Relation between distribution and product development
 - Evolutionary product development and sourcing
 - Product development and distribution instead of promotion underlies brand development
- Rethink the entire supply chain
 - Reduction in mark-down can more than make up for increase in labor cost
 - Planned shortages can induce more future demand
 - Good store location, layout and product display can substitute advertising
 - Faster response eliminates inventory risks

So sort of business model the key takeaway is running your business right and here selling state of the art fashion through being a fashion follower you are not a fashion creator you are a fashion follower this is the one that I mentioned earlier that it does not try to create fashion it tries to find out what is it that people want today what is people think is the fashion and just make it and then deliver it to the stores very first thing it does.

Second thing is integration of hot stream to create cooperative advantage downstream relation between distribution and product development now here you once you find out what the people want you integrate your upstream you are manufacturing your design product development and all that to computer to create competitive advantage downstream at the customer end at your retail end evolutionary product development at sourcing so you were proud you were sourcing product.

So this one since everything is manufactured all the Aprils are manufactured in Zara stores all that you require all the materials so the materials are or basically kept in stock and sourcing of those product development and distribution instead of promotion underlies brand development now it does not do promotion it does not do advertising so what is and I think that Zara has they said what I said that Zara does is to keep the product which the customer desires has only a mental picture of the product in the shelf within two weeks.

So product development and distribution instead of promotion there is no promotion that is involved so you integrate all the activities designed product development manufacturing and distribution very well and supply to the stores and to create competitive advantage downstream

the retailer where the retailer and the rethink of the entire supply chain what is your supply chain reduction in markdown can even more than make up for increase in the labor cost.

So you have increasing in the labor cost you are increasing unless you are markdown you said 80% at the at the full cost had only 20% or markdown and plants cottage shortages can induce more future demand I mean this is a big risk that they are taking use you basically keep some of the items the shelves empty they think that people visit more times and whenever they visit the boy and they have this fear that is created that if you go there you like something you better buy it now and these shortages are very well planned and of course good.

Store location layout and product display that can substitute advertising so do not I do ties oh and follow but then you have very good store location display and so on and faster response eliminates inventory res now here is the is the case you have huge inventory outsourced it to China or another place so it takes six weeks for your goods to come by sea but all that if you are lucky and that means you are keeping six weeks inventory.

And in stuff that if you have a system so if you are shortage if you are short you think if there is a shortage then you make a you miss the opportunity of making a profit and you are more and afterwards you basically sell them at discount it is just that so there are if there are pluses and minus so you say oh by outsourcing but you lose by selling at discount you say oh by not owning new your facilities but you lose by having extra stocks.

And having lot of neat times and keeping a lot of inventory but on the other hand if you have on-site manufacturing facilities first designers and so on then you gain you are you are not keeping the inventory and so on so if you carefully balance outlook look at the wattage gains and what are the what are the losses and have as our OS has and also other players then you can find it does not have advertising but its advertising is finding out from people what they want and keeping it on the stores at high stores.

So basically this if they look unconventional thinking but if you look at it carefully it has a logic but it is unconventional because you know people think different so that is where Laura has made a lot of profits and then it is a successful model that is the key take away from this so I think when you are telling looking at supply chain and outsourcing globalization and all that

Zara is certainly a counterexample you can run your supply chain at your house efficiently and satisfy your customers and be the world class company.

Programme Assistance
Guruprakash P
Dipali K Salokhe
Technical Supervision
B K A N singh
Gururaj Kadloor
Indian Institute of Science
Bangalore