



FAST FASHION – A CASE STUDY

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Introduction

Zara is a Spanish Multinational Retailer. It was started by Amancio Ortega in 1975. It is one of the largest constituent companies of Inditex which has Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home, and Uterque under its umbrella. Currently, Zara operates in 88 countries with 2220 stores worldwide. It specialises in clothing, accessories, shoes, perfumes and Zara home. It is double the number of Nike stores worldwide which is technically the second largest retailer with the number of stores worldwide.

The brand produces 450 M items per year. 500 new designs each week and has 700 trained designers. The most exclusive and notable point about Zara is that they have the capacity to bring clothing to shelves within three weeks from the drawing board.

Zara is the king of fast fashion, which is the most pocket-friendly way to afford the latest and trendy clothes. They have been following several strategies to be the most desirable retailer. Below are some of the points we have highlighted:

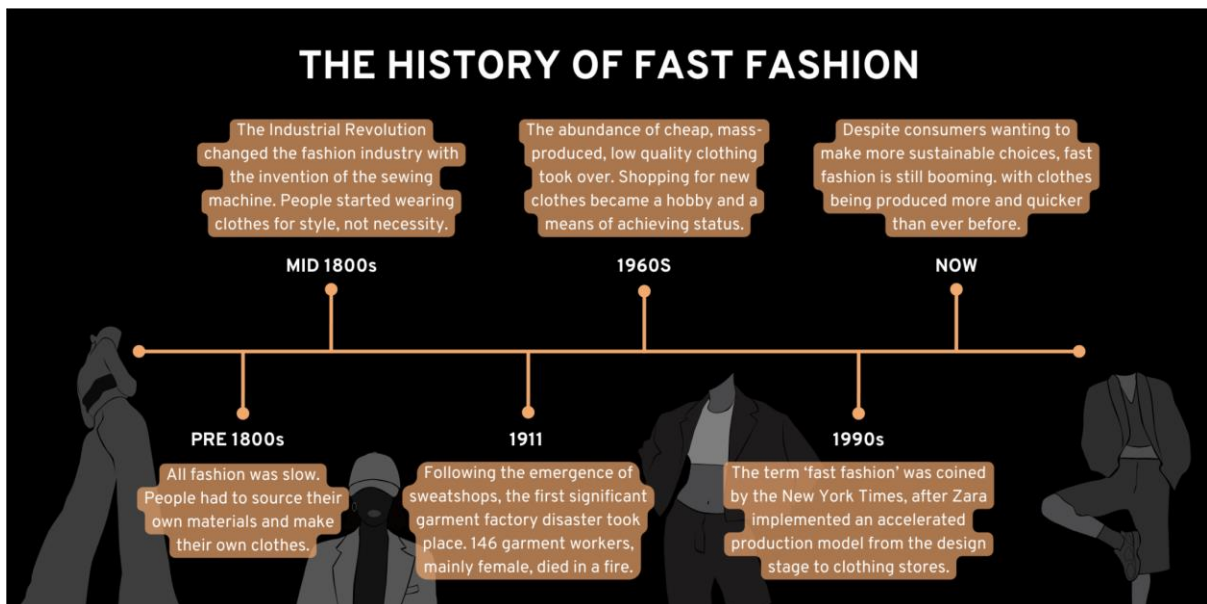
Current Strategies:

- New stores- ZARA has used the strategy of having its existence worldwide with opening new stores in various parts of the world. They have made sure they adhere to attention in each of their stores. Their main approach is based upon experience, exclusivity, affordability, and differentiation. They mainly choose locations that are the high-street retail areas of metro cities.
- Short lead time- The company has the most effective supply chain. While the turnaround phase for most fashion stores is three to six months, Zara breaks records. The brand can move a collection from the drawing room to the retail shelf in just two weeks.
- Low quantities- It is said that low availability always adds more desirability to a product. Well, Zara follows the strategy of artificial scarcity. It also helps the company to not bear losses if the style does not sell as predicted.

- Word of mouth- Zara's marketing strategy depends upon the most powerful way of marketing that is word of mouth. As its potential customers family and friends would highly be influenced by them.
- Year-round new clothing designs- The brand makes thousands of styles a year. With styles being sold out, there is always a new style waiting to be revealed. Zara lets the style be on their shelves for only three to four weeks and then upgrades the styles.

Strengths:

- Fast fashion- Zara is the pioneer of fast fashion. It all started back in 1990's when the brand implemented a production model of design stage to clothing stores. Only about 15% to 25% of a line at Zara is made in advance of the season, and more than 50% of its products are created based on what trends are the most in-demand during the season. The brand continued with the concept and it still remains to be the most desired fast fashion brand.



- Price value- Zara spends incredibly little on advertising and due to this its distinctive marketing approach, the brand is able to retain its low prices while still offering exceptional designs and garment quality.
- Customer loyalty- Zara has numerous loyal customers. As the brand provides new fashion rapidly with very little delay, the customers keep coming back as its loyal shoppers. It provides

what its customers desire. Celebrities such as Emma Roberts, Selena Gomez, Kate Middleton – Duchess of Cambridge are some of the loyal customers of Zara.

- Existence in several countries- Zara has its existence in 88 countries and it has it shapes its existence through various verticals. From designing to manufacturing and distribution, it handles all of the aspects in-house. It also sells online in several countries. Apart from having physical locations, it also has the leverage of shopping online and benefits its customers from finding the styles that are out of stock at the particular stores too.
- Buyer Research- Based upon the region and as per its climatic and cultural variations, Zara offers distinctive client demands and wants. In Japan, it offers smaller sizes; in Arab nations, it offers specific women's clothing; and in South America, it offers clothing with varying seasonality. The regular communication between Zara's local store managers and its creative staff enables these variances in product offerings across countries. Sales staff and store managers at Zara are given the authority to of customer research. They pay close attention to what customers say and note any suggestions for new lines, fabrics, or cuts. They also carefully watch for emerging trends that customers are sporting that could become exclusive Zara styles.

FAST FASHION CLASHES WITH SUSTAINABILITY

As we all know, a company's strength can also be its weakness. **FAST FASHION**, a strategy that became the company's competitive advantage for so many years, is fast becoming its weakness. The strategy clashes with the company's claims on sustainability and ethical production since the fast fashion concept presents several loopholes. Some of these loopholes include (1) higher environmental impact because it contributes to higher emissions due to the need to produce items at volume in record time, (2) it creates a waste problem because buying low-quality clothes that quickly wear out, go out of fashion and are discarded in favor of next season trend generates a large amount of waste. (3) the need to keep production costs at a minimum to sustain offering clothes at low cost. This led to a number of labor-related problems, not necessarily within the confines of the company but rather extending to their subcontractors and material suppliers. The illustration below shows Zara's parent company, Inditex, sustainability goals as approved by its board in December 2015, and beside it is the adjusted

sustainability road map as of November 2022. (Inditex, n.d.) This shows their struggle with sticking to their main strategy of fast fashion while moving forward with their sustainability goals.

Our Main Goals

2022 / 100% of our electricity from renewables

2023 / 100% free of single use plastics for all our customers

2023 / 100% more sustainable cotton (organic, BC, and/or recycled cotton)

2023 / 100% sustainable man-made cellulosic fibres from more sustainable sources

2025 / 100% more sustainable linen and recycled polyester

2040 / Inditex reaches Net Zero Emissions

ROADMAP		
Goals achieved	2022	2025
<ul style="list-style-type: none"> / 91% of renewable energy in all our facilities (headquarters, logistics and stores) / 47% of Join Life garments (exceeding the 40% target) / Eco-efficient store programme completed / Removal of plastic bags in all brands / Total rollout of our clothing collection programme / Zero Discharge Commitment: implementation of the best wet processes in the entire supply chain / Canopy Commitment: 100% certified forest friendly fibers / 100% of the designers trained and specialized circularity (Global Fashion Agenda Commitment) 	<ul style="list-style-type: none"> / 50% Join Life garments / 100% renewable electricity in our facilities (prior target of 80% in 2025) 	<ul style="list-style-type: none"> / Cutting by 25% the water used on the whole supply chain / 100% sustainable or recycled linen and polyester
	2023	2030
	<ul style="list-style-type: none"> / 100% more sustainable cotton (organic, BC, and/or recycled cotton) (2 years ahead) / 100% sustainable cellulosic fibers, supporting the Roadmap towards a responsible viscose / 100% single-use plastic free to customers 	<ul style="list-style-type: none"> / 90% reduction in our scope 1 and 2 emissions (compared to 2018) / 20% reduction in emissions from our supply chain (compared to 2018)
		2040
	<ul style="list-style-type: none"> / Green to pack: 100% of all packaging materials collected for reuse or recycling in our supply chain / Zero Waste from our facilities to landfill 	<ul style="list-style-type: none"> / Zero net emissions

Ethical Work Practices:

Inditex works with 1520 suppliers across 7108 factories. (Miteva, 2022) Although Inditex deserves credit for creating a rigorous code of conduct, a large gap exists in enforcing it. Reports as current as November 2022 found fast fashion brand issues on human rights for their production workers as well as environmental impacts, with recent information claiming that the fashion industry is responsible for 10 percent of total carbon emissions produced globally. (Yahoo Style [<https://twitter.com/yahoostyleca>], 2022) Their unethical practices extend to copying designs from independent designers, with several copyright infringement issues being hurled at them in recent years.

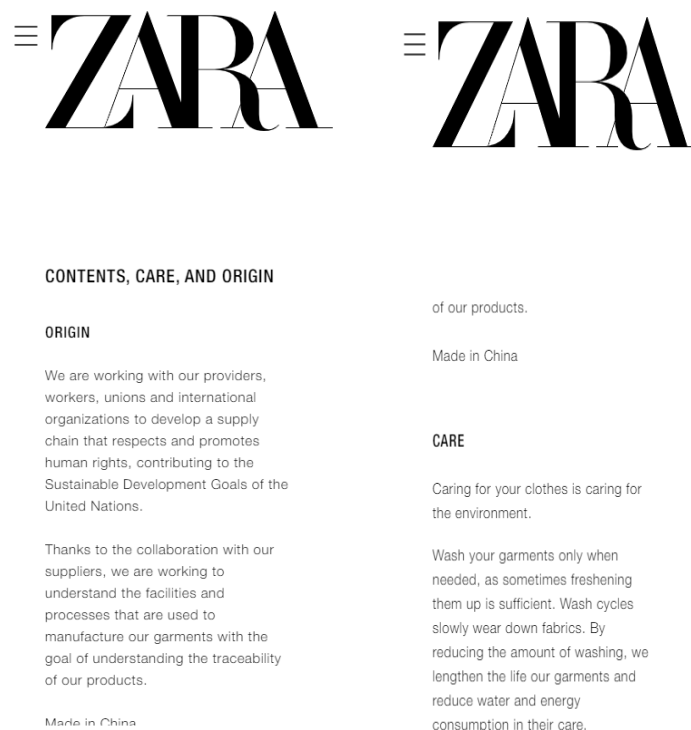
CLOSE TO NIL ADVERTISING

Having a unique strategy by using only a mere 0.3% of its sales on advertising campaigns makes Zara unique in a way that sets it apart from the rest of the industry, which utilizes at least 3.5% of its revenue in advertising. (*The Zara's 0\$ Advertising Strategy and Why It Succeeds*, 2022) Their strategy prevents them from reaching more consumers and correcting claims from their detractors. Their copyright infringement issues became very hard to navigate smoothly because they involved independent designers that used their influence, social media power, and popularity to gain more sympathy. This usually results in a social media backlash for Zara, which ultimately affects its credibility, brand trust, and consumer confidence. Having nearly no advertising strategy in the day and age where everybody

can be a writer or investigator and spread news without proper verification makes it very hard for Zara to combat these issues and keep its brand clean.

CONTRASTING INFORMATION

As a consumer, I feel like there is no alignment between what Zara tries to preach on their website and the recent news circulating about the origin of their products, the unsafe working conditions and unfair wage practices that their suppliers and contractors engage in, even up to the use of sustainable materials.



Once you browse and try to shop at Zara's website, you will notice the above statements in almost all the items of clothing they sell. It is a very generic statement trying to do damage control over several ethical issues hurled at them on many different occasions. Not only does this statement not provide detailed information on the product the consumer is buying in order to make an informed buying decision, but it also is not in alignment with the sustainability goals and practices that they claim in their sustainability report. Practice what you preach as we say, but articles upon articles about manufacturers of Zara's products prove that they are nowhere near complete control over their supply chain.

PRODUCT LICENSING

Zara does not spend money on R&D to be the first in the market; instead, it rides on the waves of what is currently trending in fashion and tries to offer a copycat version at the soonest possible time. (*The Zara's 0\$ Advertising Strategy and Why It Succeeds*, 2022) This strategy of fast fashion has caused them many disputes against other brands for product licensing issues.



OPPORTUNITIES

RE-SELLING OF PRE-OWNED ZARA MERCHANDISE

The resale market, which is currently worth \$28 billion, is expected to expand to \$64 billion in the next five years. (Maffre, 2022) Customers will be provided an opportunity to contribute to the sustainability efforts of the company while also giving them a chance to minimize waste with a resale plan in their present platform. This will align more with their environmental sustainability initiatives.

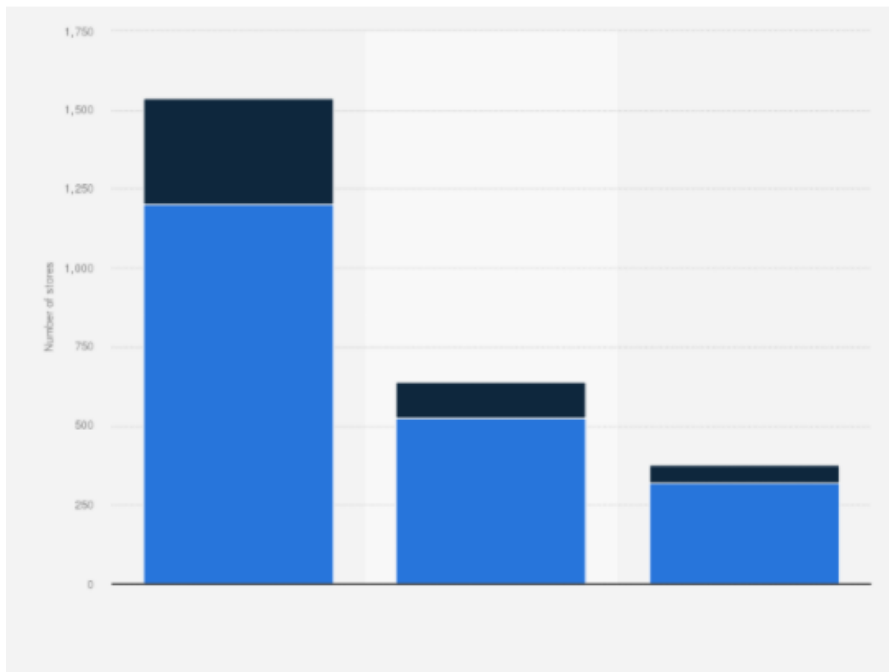
THREATS

External factors: price war between fierce competitors, brand loyalty decline, Covid-19 impact, and customers' attention to sustainability are creating obstacles for Zara.

Zara typically occupies the market with the core competitiveness of cost leadership, however, competitors in the same industry launch a price war. The niche market of Zara targets fast fashion products, which is vulnerable to imitators launching lower prices for competition. The price of H&M fashion has a 20% to 30% less than that of ZARA. In this case, ZARA is in a disadvantaged status in price competition (Chua, 2019).

Following its fierce competition status with other fast-fashion companies, there is a chance that the declining of brand loyalty. Since target consumer group of fast fashion is younger customers between the ages of 25 to 35, who are quick to adapt to trendy fashion elements and have a higher degree of recognition of fashion products. If ZARA lacks its price advantage, the price-sensitive of its target audience may pay less attention to ZARA and reduce loyalty to the brand. The enthusiasm of consumers is dispelled by faster and newer models such as fashion e-commerce platforms. The expansion of the online low-priced fashion brand Shein is a typical example. Growing up as the world's largest fashion retailer with a purely online presence nowadays, the Shein app had 10.3 million downloads in September 2020 (Dowsett & Yu, 2020). This largely robs the customer resources of other fast fashion brands such as Zara.

Affected by COVID-19, more than 88% of the stores of Inditex Group (Zara's parent company) were closed in 2020. As of the end of April 2020, the group had only 965 stores operating in 27 markets around the world, less than 1/7 of the total. To make matters worse, due to the Spanish government's lockdown measures, only three of the 13 factories were operating during the first few months of the pandemic. Zara's offline stores have been reduced from more than 1,500 in 2020 to 400 in 2022 (Smith, 2022).



(Data from Statistics.com)

The changes behind the closure of offline physical stores caused by the epidemic are more about the changes in consumers' lifestyles, that is, the further deepening of electronic and Internet consumption. According to Inditex Group's public relations officer, for instance, based on Zara's continuous analysis of the needs of Chinese consumers, the young brands under Inditex (parent company of Zara) will focus on strengthening e-commerce development response to Covid-19. Through the use of social platforms such as live broadcasts, WeChat App, and website online store, the e-commerce business of Inditex targeting young audiences will grow exponentially.

Customers are aware of fast-fashion products' impact on the environment and humans. With the common belief in sustainable development, the fashion industry has been pushed to the forefront, and brands are gradually looking for green innovations. From the huge consumption of fossil fuels to the pollution of water resources: Zara has faced criticism from all over society for the environmentally irresponsible state of its manufacturing process. Increasing brands nowadays are considering sustainable business development and are actively exploring recycle materials to achieve this goal. Therefore, Zara

is expected to promote fast fashion as an ecologically sustainable business to be in line with sustainability industry trends.

SOCIAL AND ETHICAL ISSUES:

P1: Labor Rights

The fast fashion industry chain connects many countries and regions around the world. Sales brands in developed countries save manpower and plant costs by outsourcing production links to sub-supplier companies in developing countries.

Due to the multi-level outsourcing of the industrial chain, many production suppliers in developing countries do not have the official authorization of fast fashion brands. This means that the brand does not assume any legal obligation to ensure the working conditions of downstream grassroots employees. Taking the production of tops as an example, the production target is 20 pieces per hour. For this reason, workers in some factories even work 140 hours of overtime every month, until 2 a.m. every day. Even in this scenario, 60% of Indian workers are still unable to meet production targets (War on Want, 2009).

P2: Copyright

In 2017, Danish company Rains filed an infringement lawsuit against Zara's parent company, claiming that they copied the designs of two iconic raincoats. Rains won the lawsuit and successfully obtained injunctive relief from the court, permanently preventing Zara from further encroaching on its designs (Fashion News, 2017). Although some consumers have accepted the fact that Zara's design is plagiarized, as the intellectual property system becomes more complete in the future, brand reputation will be affected by frequent plagiarism, which is not conducive to the healthy development of the industry.

P3: Carbon Emissions and Water Pollution

In terms of carbon emissions, more than half of fast fashion goods are discarded after one year of production, resulting in 12.8 million tons of clothing being dumped into landfill every year. This means that the carbon footprint of a T-shirt is approximately 20 times its weight. Besides, water pollution is also a part that should not be underestimated (Stallard, 2022). Fast fashion has polluted freshwater systems worldwide, especially in Asia where downstream suppliers are located. The production process of transferring raw materials into clothes requires as many as thousands of different synthetic chemicals, which harmful substances seep into the soil and flow into rivers along with the drainage pipes.

The improvement of consumers' sustainable awareness has put forward higher requirements for the brand's sustainable practice. At the same time, consumers have also used this to explore their real demands and think about sustainability. Sustainability is not just long-lasting use at the consumption level. It is a daily practice and transmission of personal practice.

Zara began to pay attention to the above issues, from the long-term design of products before consumption, to the improvement of utilization rate by reusing products during consumption, and to the recycling of products through second-hand exchange after consumption, but it is still committed to extending the entire life cycle of products. There is a long way to go.

CLIENT SERVICES CUSTOMIZATION

As Zara has little to no advertising and they prefer to interact more with its clients on through different platforms, it should maximize the latest technologies available to provide more customized client services. A customized approach to promoting their brand will work wonders for their image and will build stronger bond and trust with their loyal customers.

INFLUENTIAL MARKETING

Since Zara creates brand loyalists and uses the ability of its loyal consumers to promote its brand instead of direct advertising, it can pounce more on influential marketing not only to provide an additional boost to its brand but also to combat negative issues thrown at them. They should also be more active and maximize their presence on social media platforms where most of their clients are. Making products available for online shopping is a big step towards influential marketing. By selling its products online,

the company can tap into new markets and reach customers who might not otherwise have access to its products. Additionally, online sales can help Zara reduce its environmental impact by reducing the need to transport products to physical stores.

Financial Analysis and forecasting

Zara is part of the Inditex group. Inditex reports Zara's financials in its Segment reporting. This is why information regarding Zara's financials is limited and we have populated information as per availability. We captured Zara's historical financials for the last 5 years, since 2017. For our analysis here, we populated Revenue, Total Assets and ROCE.

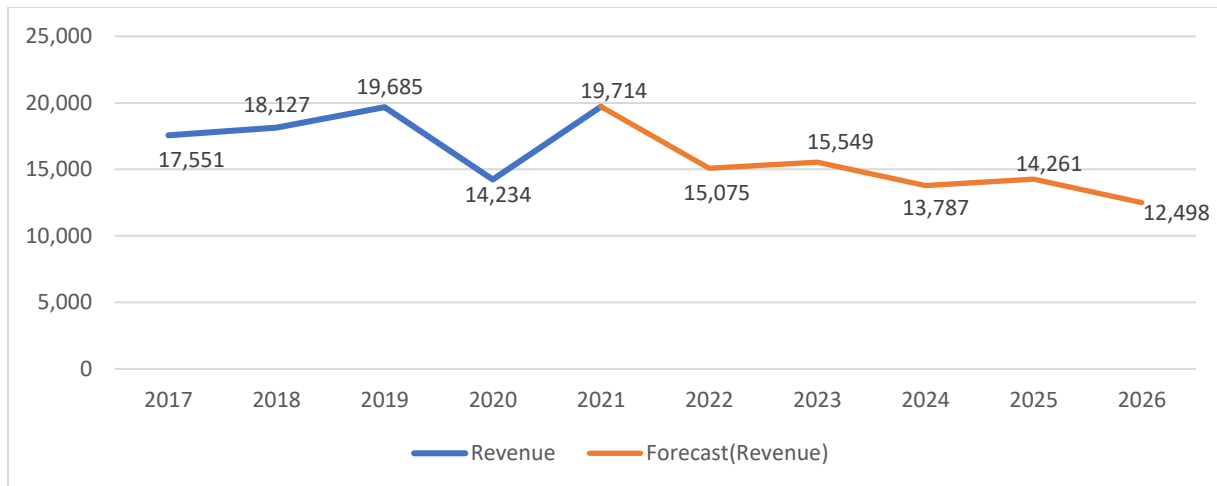
Amount in millions of Euro

Year	Revenue	Total Assets	ROCE
2021	19,714	23,693	25%
2020	14,234	21,370	9%
2019	19,685	22,707	30%
2018	18,127	17,345	28%
2017	17,551	16,023	30%

Source: Inditex Group annual reports

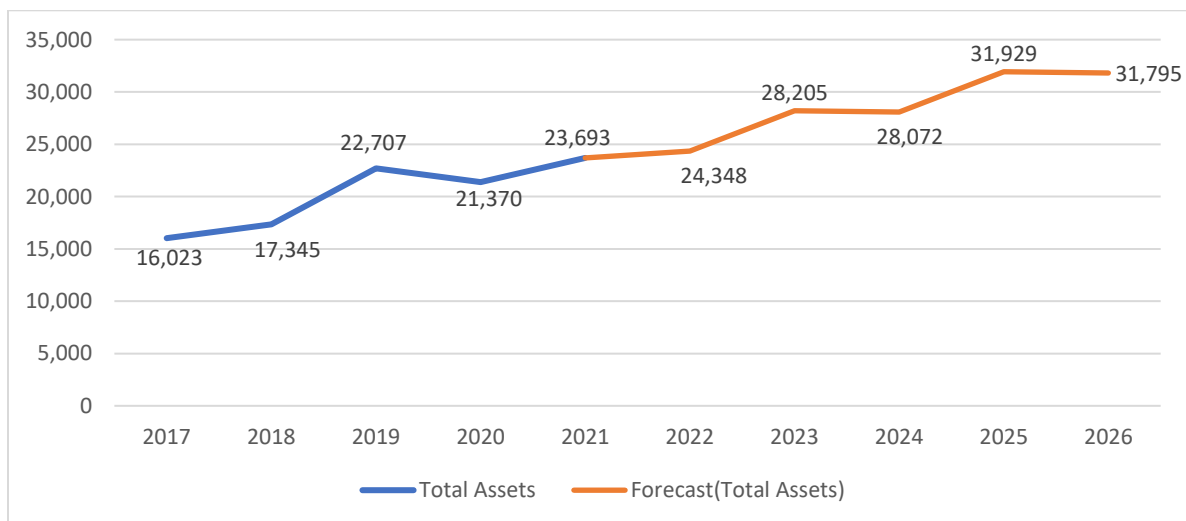
We analyzed the data and forecasted the figures for the period 2022 – 2026. The graphs below showcase the forecasted trend that the company is set to go through. The confidence level was set at 95% for all of the parameters.

Revenue



The company is set to see a declining trend in its sales for the period, with the ending value forecasted to be at 12.5 billion Euros. The declining trend can be mainly attributed to the fact that Zara does not currently focus on sustainability. Zara's offshore factories has a substantial carbon footprint. The company currently focuses on sales more than the environmental impacts its manufacturing facilities create. Another attribute that comes into play here is the customers' increasing dissatisfaction with Zara's product quality.

Assets



In contrast to its sales, Zara is set to experience an increasing trend in its assets. Zara's growing expansion efforts and technological implementation are the key drivers behind the increase in its assets.

As a result, we may see a decline in Zara's Asset Turnover Ratio (ATR) in the future. ATR is defined as sales over assets. Increasing assets coupled with declining sales are going to result in the decline in ATR. This means, provided the conditions remain the same, that the company will lose its ability to deploy its assets efficiently to generate sales. This is not a good sign for any investor.

Recommendations

Product quality: Zara's incredible supply chain and its ability to rotate its merchandise according to the latest season and trends come with a cost, and that cost is the quality of its clothes. To address the consumers' growing concern about the quality of the products manufactured in its overseas factories, Zara should implement stricter quality regulations for all of its manufacturing facilities, both domestic and foreign. In order to cut costs, the company currently prioritizes focus on outsourcing its manufacturing capabilities to countries like China and Bangladesh, with China being its biggest supplier (ESpeedPost, 2022). Zara, however, still produces its most fashionable clothes in markets close to its headquarters like Spain and Portugal.

Sustainable offerings: Zara is behind its competitors when it comes to sustainability. While companies like H&M have laid out plans to incorporate sustainability, with H&M aiming to produce clothes that are 100% made from recycled products (McCourt, 2022) by 2030, Zara on the other hand does not have such specific ambitions. While the company recently has publicly listed out its commitments to improve its environmental impact, the main issue that still exists is the absence of transparency regarding its initiatives (Marvin, 2022). An article by Eco-Stylist writer Lily Rosen Marvin provides greater details on the current gaps in Zara's endeavours to be a sustainable brand. The brand seemingly still sticks to its old ways of promoting mass consumerism which has a negative impact on sustainability.

Diversified Portfolio: Zara currently operates under a vertically integrated model. This means that the brand owns different levels of production which includes design, production, and shipment. Zara has been operating under this model since its inception. However, with the changing times and trends, the company needs to think outside the box and focus on innovative efforts to diversify its portfolio. One such way to achieve diversification is through horizontal integration. Horizontal integration means that the company ties up with other players in its industries to produce new products. Zara can partner with smaller players in the fast fashion industry to launch a new line of products to add to its portfolio. Doing

so would enable Zara to attract consumers by leveraging its existing brand image and for the other player to produce merchandise that it may already excel at.

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