

CHALLENGES FACED BY ZARA IN SUPPLY CHAIN MANAGEMENT

Zara is one of the world's largest international fashion companies. Zara belongs to Inditex, a company with humble beginnings in La Coruna, a small city in the far north-west of Spain. Zara was the largest division of Inditex, and cost was the winning criteria for Zara. With 1923 stores worldwide and presence in more than 88 countries Zara had mashed into the retail market with changing the consumer consumption pattern. Zara believed in "pull strategy" rather than "push strategy", Zara as a brand claims – "we don't sell what we make, we make what we sell". Like any other retail business, Zara also faced its own set of challenges like – unpredictable of market demand, tricky procurement process and limited space to display products.

Since the world was moving towards digitalization, Zara acquired a new channel – "Zara Online" and this model was not to kill the existing stores and retail model but was to make the customer experience better, easier, and more likeable. I personally feel that this business model is sustainable, chosen by customers and has infinite scope of growth which can result in more sales over the years through SWOT analysis (Exhibit 1) However, the challenges that Zara faced are-

Challenges in Demand Management – Zara introduced approximately 18,000 new products annually. La Coruna tracked the inventory at every store and generally determined which items should be replenished. The store manager could of course influence the process by providing better forecasts and qualitative information about the demand at their stores and the trends they had captured in the preference of their customers. Rapid movement of products through the store and knowledge that some of the products may not be replenished created an additional urge in the customers to buy the product on the spot. Most of the items did not stay in stores for more than 2 weeks. Having low level of inventory in stores meant that they relied on regular and rapid replenishment of their inventory. Additionally, reading the market trends and prototyping the outfit design according to the customer preference with the designers took a long wait and more processing than expected. Zara used only trucks and air for transporting orders from its distribution centers to stores.

Challenges in Procurement Management – The make or buy decision for the products were made by the buyers. The key criteria in making these decisions were having the capability and available capacity to meet the required speed, quality, and cost. Zara purchased its raw materials from suppliers worldwide. Some of the fabrics were purchased undyed and dyed in their desired color later in the production process. Procurement shipments were made from central warehouse which led to complexity of the software tracking. In addition, Zara also monitored contractors' operations closely to ensure quality, compliance with labor law and production schedule. Finished products procured from outside suppliers were also sent directly to one of the distribution centers in Spain. (Exhibit 2)

Challenges in Fulfilment Management – Inside of a Zara store, there was careful attention given to create pleasant, spacious, and uncluttered shopping environment that invited customers to walk around and browse the store, however there were times when Zara found it difficult to navigate that what exactly the customers need from instore. Zara refreshed the presentation of the store regularly, and the items that remained on the shelf for more than 2- 3 weeks were shipped to another store in the same country. Country managers had a responsibility to deal with specific number of stores in a country or a region, and they represented many countries and different languages from Mexico, Asian, Europe which made communication a difficulty task. Zara had only 3 distribution centers which handled over a million pieces. The fast-changing fashion garments represented the major share of these items, resulting in a very large number of stocks keeping units (SKU's) which created a lot of complexities in inventory management, order picking and fulfilment.

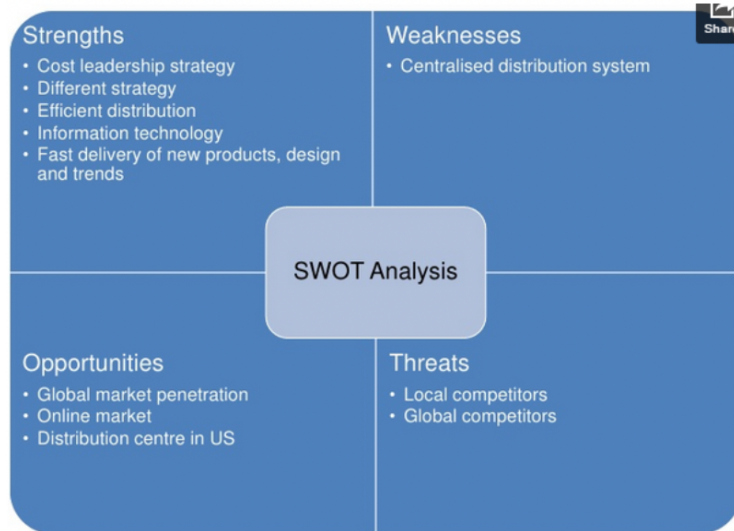


Exhibit 1 – Source - <http://cmuscm.blogspot.com/2014/09/zaras-strategyis-it-time-to-move-away.html>

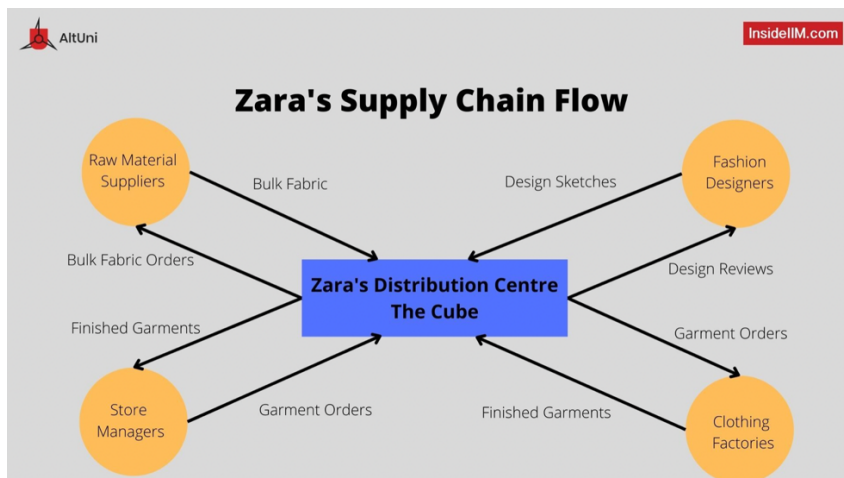


Exhibit 2 – Source - <https://insideiim.com/supply-chain-case-study>