

Research on ZARA's Business Environment and Marketing Strategies in China

Tao Ruan^{1, †}, Dongliang Sang^{2, †}, Qingchun Zeng^{3,* †}

¹ School of Management, The University of Sheffield, Sheffield, S10 2TN, United Kingdom, truan1@sheffield.ac.uk

² The University of Queensland, Brisbane, 4072, Australia, d.sang@uqconnect.edu.au

³ School of International Trading Economics, University of International Business and Economics, Beijing, 100105, China, 201901126@uibe.edu.cn

*Corresponding author. Email: 201901126@uibe.edu.cn

†These authors contributed equally.

ABSTRACT

Zara, as the leader among fast fashion brands, is deeply loved by Chinese consumers for its different styles, fashionable design, and rapid renewal speed. Therefore, the objective of this article is to understand the current situation of such a favorite brand in today's fast fashion industry. The paper explores three models to analyze ZARA from macro and micro perspectives, namely the PEST Model, Porter's Five Forces Model and 7p Model. Firstly, through the analysis of PEST Model and Porter's Five Forces Model, on the one hand, it is found that ZARA's early development in China market cannot be achieved without the help of external environment, such as political and economic factors. On the other hand, it is seen that ZARA has strong bargaining power in facing both suppliers and consumers, while its substitute and competitor threat are relatively weak. Secondly, the business process of ZARA in China is introduced using many graphs and charts, including the regional distribution of expansion and the opening of online stores. Thirdly, with the help of the 7p Model, the internal marketing strategies of ZARA, such as price setting and product features, are understood. Finally, the process of ZARA's sustainability and the social news caused by ZARA are also discussed. In conclusion, this study hopes to bring some reference to the growing local fast fashion brands through the specific analysis of ZARA, and to find out a unique path after learning the factors of ZARA's success to promote the development of China's apparel industry.

Keywords: Fast fashion, marketing strategy, PEST Model, Porter's Five Forces Model, 7P Marketing Mix

1. INTRODUCTION

As China's economy improves by leaps and bounds, the consumption level and purchasing power of Chinese residents have significantly increased, which has led to a surge in domestic consumer spending on clothing. This shows that the Chinese apparel market has great development potential. In order to share the huge profits of the Chinese apparel market, foreign apparel brands have accelerated the pace of developing the Chinese market. Since China currently has a large proportion of middle-income residents, low-price and fashionable clothing brands are favored by most young consumers. Since 2002, foreign Fast Moving Consumer Goods (FMCG) apparel brands, such as H&M from Sweden, Uniqlo from Japan, GAP from the U.S. and ZARA from Spain have rapidly entered the Chinese market, and opened both online and offline sales channels.

This has created different consumer markets, especially the garment industry. The famous brand ZARA enters the Chinese market according to the market trend. And made different strategic adjustments to China's situation.

In terms of production and design, Chen Xuejie et al. (2019) has mentioned ZARA's unique production process and "Trinity" design team in the paper "Research on Innovation supply chain Management in Fast Fashion Industry---A Comparative analysis of ZARA and H&M"[1]. ZARA's design team mostly gets inspirations from other well-known brands and make some changes as appropriate. In terms of production, most of ZARA's products are processed in the factories controlled by the group, rather than outsourcing. In terms of promotion, it was proposed by Carmen Lopez and Ying fan (2009), "Internationalisation of the Spanish fashion brand

ZARA"[2]. ZARA rarely makes advertisement and celebrity promotion. Store window display and interior design are its main promotion tools. In terms of logistics system and product transportation, Yin Hong et al. (2021) has mentioned in "Research on ZARA brand operation mode based on value chain and supply chain management". ZARA has its own production base, underground transportation pipeline, and the super logistics warehouse. Also, truck transportation and air transportation are both adopted according to the different distance of markets.

Compared with previous research, this paper has made discussions on some new dimensions, such as the UN 2030 Agenda for Sustainable Development, environmental protection under the background of COVID-19, and the quality and infringement issues of ZARA. In 2020, a year marked by the global COVID-19 pandemic, the company's priorities and efforts have been focused on protecting employment. In terms of environmental protection, ZARA has achieved some goals to protect energy and wild animals, and been firmly committed to organically grown cotton.

This paper mainly adopted PEST Model, Porter's Five Forces Model and 7P Model to analyze ZARA's external business environment in China and ZARA's internal marketing strategy. Most of ZARA's success is attributed to its precise and clear product positioning, advanced logistics and transportation system, and perfect supply chain management, in addition to the stability of the macro market environment. At the same time, ZARA has a strong sense of social responsibility, following the pace of world development and responding to the United Nations 2030 Sustainable Development Strategy with practical actions.

This paper proceeds as follows. Section 2 provides analysis of ZARA's marketing environment in China with PEST and Porter's Five Forces Model. Section 3 describes ZARA's business process in China. Section 4 presents ZARA internal marketing strategy analysis with 7p Model. Section 5 offers the discussion and Section 6 illustrates the conclusion.

2. ANALYSIS OF ZARA'S MARKETING ENVIRONMENT IN CHINA

2.1. PEST Model

2.1.1. Political Environment

After the period of reform and opening up, China's political environment, laws and policies have been continuously improved and developed, and its economic development has made a rapid leap. In recent years, China has increased its policy of opening to the outside world and introduced many preferential policies for foreign enterprises, such as preferential tax policies and

reducing tariffs on imported goods, which is a great advantage for many foreign-funded enterprises. Many foreign-funded enterprises have continuously entered the Chinese market in recent years and hope to have their own foothold in the Chinese market. The relationship between China and Spain has maintained a good development trend. Spain is China's sixth largest trading partner within the EU, and China is Spain's largest partner outside the EU. In 1981, the two sides established a mixed committee on trade, economy and industry, which has held 27 meetings so far. At the beginning of China's reform and opening up, the progress of China's industrial technology was helped by Spain, which played a positive role in China's economic development, and Spain provided support on the major issues of China's sovereignty and territorial integrity[3]. This also shows that the friendly development between China and Spain can make ZARA stable in China's market competition.

In addition, the new policy points out that the combination of "Internet plus" and textile and garment industry should be fully utilized, and the application of network information technology in the integrated link of garment design. ZARA has launched a concept store with the theme of "to the future" in recent years. Following the policy of "Internet plus" combined with the clothing industry, it used the cutting-edge system to find the location of clothes at any time and provide customers with the items they need in time.

2.1.2. Economic Environment

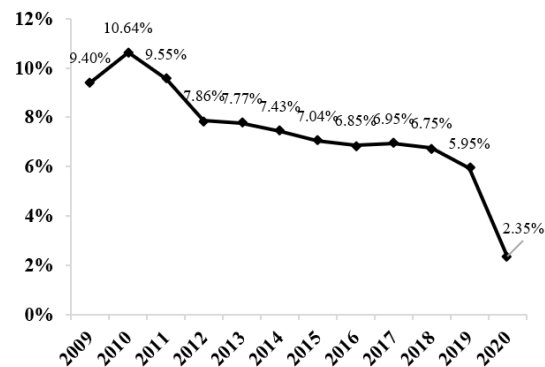


Figure 1. China's GDP Growth Trend

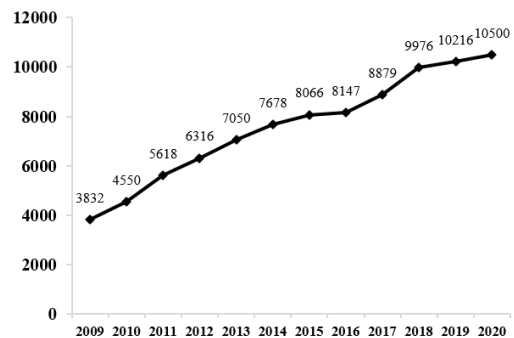


Figure 2. China's GDP Per Capita

Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health. Though GDP is typically calculated on an annual basis, it is sometimes calculated on a quarterly basis as well. In the U.S., for example, the government releases an annualized GDP estimate for each fiscal quarter and also for the calendar year. The individual data sets included in this report are given in real terms, so the data is adjusted for price changes and is, therefore, net of inflation. From 2009 to 2020, the trend of China's GDP is growth - stability - decline. In 2020, due to the impact of the epidemic, the GDP was 2.35% and 5.95% in 2019, with a large decline. However, from 2009 to 2020, China's per capita GDP continued to grow, from 3832 yuan in 2009 to 10500 yuan in 2020. Excluding other factors, the growth reached 2.74 times. China has a large population, which drives the consumption of various industries. Since the reform and opening up, with the continuous improvement of people's living standards, people not only pursue to solve the problem of food and clothing, but also begin to invest in enjoying consumption such as clothing, which requires not only keeping clothing warm or cool, but also the beauty and diversification of clothing, and pay more attention to the quality of clothing. Since Zara entered the Chinese market, people have seen that China's garment industry has great development potential. Therefore, Zara has adopted strategies such as "low price, fast and fashion" to meet the growing needs of consumers.

2.1.3. Social Environment

Clothing is one of the most basic living standards pursued by human beings. The development of the garment industry is inextricably linked with the social environment. People's living habits and the requirements for living standards make the garment industry change in various factors. With the impact of cultural level and age level, consumption concept is also changing.

First of all, with the development of time and the rise of the youth era, such groups have become the main consumer groups in the garment industry. This group is different from the consumption concept of their elders. Young groups like to pursue fashion and fashion trends. As the leader of fast fashion brand, ZARA focuses on the trend and quickly update products to cater to young people. Secondly, in different consumption areas, the consumption capacity of consumer groups living in cities is higher than that of rural consumer groups. Urban consumer groups not only pursue fashion and trend, but also have a certain guarantee for quality, which leads to the high price. Although rural groups are constantly pursuing the trend, they will still be restrained by the price. Therefore, ZARA has adopted the strategy of "low

price and fashion", which can not only maintain the fashion of clothing, but also take into account the stability of price. At the same time, ZARA will also launch different strategies according to the psychology of different consumers.

Now, with the prevalence of online shopping, consumers do not have to go to physical stores to observe the goods. Consumers can choose their favorite products through ZARA website. However, it is difficult for some elderly people to know and use online shopping. This phenomenon has created a situation where most consumers are of the younger generation.

2.1.4. Technology Environment

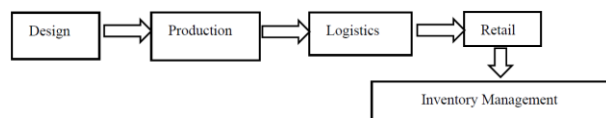


Figure 3. The Production and Sales Process of ZARA

A process is an instance of a program running in a computer. It is close in meaning to task, a term used in some operating systems. ZARA's production process includes five stages, namely design, production, logistics, retail and inventory management.

2.1.4.1. Design

In terms of design, ZARA follows the needs of consumer groups, uses ZARA's own design and its team to analyze what types of consumers in each country like according to consumers' preferences.

2.1.4.2. Production

ZARA enterprises use computers to carry out automatic production. ZARA usually carries out production first. For the parts without any difference, it uses automatic cutting, and postpones the production of the parts with differences as far as possible.

2.1.4.3 Logistics

ZARA timely follows the development trend of domestic e-commerce according to the development of the times, cooperates with Tmall, and sells online and offline at the same time, so as to improve its business.

2.1.4.4 Retail

ZARA has its own distribution warehouse with automatic management equipment. They will distribute different goods and find them from the inventory, and then send them to the sorting area by conveyor belt for packaging. After packaging, ZARA will use their transportation tools to transport to every ZARA store around the world.

2.1.4.5 Inventory Management

ZARA, as a fast selling brand, is famous for its fast sales of new products. In order to help different stores manage their inventory systems, ZARA began to use radio frequency identification technology (RFID) to implant technology microchips into security labels. The application of RFID technology can greatly shorten the inventory response time.

2.2. Porter's Five Forces Model

2.2.1. Threat of New Entrants

In this era of advanced information technology, many brands have long focused on the Internet, committed to creating a convenient and fast online shopping platform. Especially in the past one or two years, due to the impact of the epidemic, online shopping has naturally replaced offline as a hot new trend. The continuation of the epidemic has brought more challenges to ZARA.

On the one hand, although ZARA has both online and offline operations, the cost of offline stores is obviously much higher than online. In addition to the necessary labor costs aside, the rental costs of the stores will not be neglected, as each ZARA has a physical area of nearly 1,000 square feet and is opened in its busy commercial areas. Faced with this dilemma, in 2020 Inditex Group decided to withdraw all the offline stores of its three brands Pull&Bear, Bershka and Stradivairius from the Chinese market.

On the other hand, under the epidemic, there is a great breakthrough in the development of the emerging industry of live streaming, which also threatens the position of ZARA industry leader to a certain extent. First, the threshold to enter the live industry is low, as long as you have. Secondly, the dividends of the live-streaming industry are extremely high, taking the recent tax evasion incident of the head anchor "Viya" as an example, the total fine is up to 1.341 billion yuan. This is also one of the reasons why many celebrities are now transforming into anchors, the live industry is earning fast money. Finally, the epidemic makes people have more visions of entertainment activities. The atmosphere of the live broadcast room is relaxed and hot, and the freedom of speech just meets people's entertainment needs, while killing leisure time, which greatly increases the audience of the live broadcast industry. Driven by these three reasons together, the live-streaming industry came into being.

The first generation of web celebrity "Cherie", for example, accumulated fans by sharing outfits, and then created their own clothing brand, and diverted fans to the e-commerce platform, and successfully got on the fast train of the net popularity economy. By opening an online store in Taobao, "Cherie" saves a lot of fixed and

variable costs and caters to the current consumption habits of young people. With ZARA's marketing model is completely different, "Cherie" store will often live in Taobao with goods, she will also use her influential identity in the social media platform for her own clothing to do publicity and promotion. In the 2017 "Double 11" campaign, the store of "Cherie", Mrs. Qian achieved a one-day sales target of 300 million[4]. It is worth noting that the store grasped the essence of the fast fashion industry and compressed the inventory turnover time to 15 days by deepening the supply chain, which is dwarfed by ZARA's 7 days, but the figure is still amazing[4].

Nowadays, the transformation of netflix economy into fast fashion is a big hit, and many celebrities are competing to borrow this model to cash in on their fans. The entry of these potential competitors is a big challenge for ZARA, which hardly discounts or advertises.

2.2.2. Competition

ZARA's biggest competitors in the world are Uniqlo and H&M, both of which have strengths belonging to their respective brands. Although Uniqlo is not new enough, the fabric and material are comfortable and skin-friendly; H&M is like ZARA in that the style is new and the update is fast, but the price is lower and often discounted. Originally these three international brands in the Chinese market can be evenly divided, but because H & M published "boycott Xinjiang cotton" speech angered many people, making H & M stores directly off the shelves by Taobao. It is estimated that H & M in the first quarter of fiscal year 2021 loss of more than 1 billion yuan and closed about 20 Chinese stores.

In the incident of "Xinjiang cotton boycott" incident, a local brand Urban Revivo (UR), which was not competitive enough to threaten ZARA's leading position, has enjoyed the benefits of the younger generation of consumers without much effort. UR is a local brand that has been ignored by consumers because several major international fast fashion brands, including ZARA, have been occupying a large market share. In the "Xinjiang cotton" incident, H&M's act of lifting a stone to smash its own feet brought new opportunities to UR, as cultural confidence rose, and young consumers began to look for alternative local brands to replace "foreign brands". The UR brand has borrowed somewhat from ZARA's business model, but during continuous groping, UR has figured out a new way.

First, UR spent a lot of money on building offline stores and adding unique design elements to enhance store recognition and brand building. At the same time, UR has adopted a strategy of "a thousand stores with a thousand different styles" to encourage each store to have its own characteristics, to attract consumers to visit the stores. Second, UR has adopted more diverse marketing methods. For example, live broadcast in Taobao live

room and online small program platform. Compared with ZARA's small program platform with only a single shopping function, UR's operation in the private domain has more advantages. In addition to the shopping mall, UR's small program also has a content section such as "celebrity recommendation". Besides, it also uses the function of adding groups to send product and event information to customers, turning from product-oriented to user-oriented. Third, local brands are more in line with Chinese aesthetics and can keep up with trends. UR, a local brand, can do so because its fit and color palette are more in line with the petite Asian figure, and it can also design according to the changing trends, such as the previously popular "genderless" dressing.

Now, UR has a certain position in the Chinese fast fashion market, and with it comes rapid store expansion. With confidence in the national product and the rapid development of the brand itself, UR is about to become "the unique UR in the world". For ZARA, which has not opened a single new store in the first half of 2021, UR is already a rival that should not be underestimated.

2.2.3. Substitution

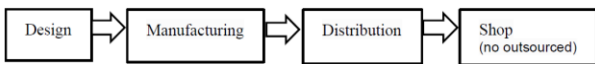


Figure 4. The Vertical Integration Model of ZARA

The threat of substitution in the apparel industry is weak due to the irreproducibility of ZARA's business model. Firstly, ZARA's core competitiveness lies in its vertical integration model. ZARA has invested hundreds of millions of dollars to build several capital-intensive manufacturing factories in Spain, with the latest equipment of dyeing, designing, cutting and garment processing in an "all-in-one" way, which is equivalent to monopolizing the most critical manufacturing process. This means that ZARA has the autonomy to control the production speed and shorten the production cycle to the maximum. This is also one of the important reasons why ZARA can put new products on the market in just 2-3 weeks. Other less well-funded rivals can only contract the most core parts of manufacturing and then outsource the labor-intensive steps to developing countries where labor is cheap. Second, ZARA has a large team of top designers, young designers who fly around the world to watch top luxury brands' fashion shows and new product launches and capture the current fashion elements from them to form their own designs. The speed of design is so fast that it is hard to be surpassed by others. These two points together contribute to the result that ZARA takes the shortest time from design to shelf.

Of course, the threat of substitutes is low for ZARA, a brand with unique advantages, but it will emerge with the intensification of the industry, such as the above-mentioned fast-growing local brand UR, which has a

strong design R&D system and a fast-reaction supply chain. UR's design team consists of hundreds of people, and like ZARA, it draws its design inspiration from watching exhibitions. In terms of product updates, except for the lead time of 60 days for planned items, UR's emergency and return items only take 7-10 days at the earliest and can be updated twice a week. In addition to a design team and comparable speed of new releases, UR is constantly adjusting its pricing strategy to the pace of its competitors, as well as expanding its advantages, such as regularly discounting sales at less than 40% off. This is undoubtedly a big threat to ZARA, which hardly discounts.

2.2.4. Bargaining Power of Suppliers

In general, the bargaining power of suppliers is weak, ZARA has strong bargaining power in front of suppliers, which will be elaborated by four points below. The first point is that ZARA has a manufacturing factory in Spain, so it can finish the most important parts of dyeing and cutting of garments independently. This means that ZARA only needs to look for suppliers of raw materials and can basically handle the remaining core parts by itself. On the other hand, textiles are very common, so ZARA can find many alternative textile suppliers in the market. Secondly, ZARA adopts a combination of internal and external supply: 40% of the textile materials are supplied by the internal group; the remaining 60% are outsourced to several suppliers near the headquarters, and the share of each supplier is limited to 4%. This approach allows ZARA not to be overly dependent on any one supplier and greatly reduces the voice of each supplier. The third point is that textile suppliers in the upstream of the supply chain do not have the control to raise the price, and they have very low input price and little unit profit, so they can only rely on the increase of order quantity to expand the total profit. Therefore, facing a large-scale company with stable and large order volume like ZARA, textile suppliers should rush to take this business under the premise of ensuring on-time delivery of orders. The fourth point is that ZARA has established an online financing platform through its strong and efficient capital operation ability, so when suppliers face financial difficulties, they do not need to borrow from banks, but can apply for loans by explaining their situation to ZARA headquarters[4]. In a word, ZARA has a great say in front of textile suppliers and suppliers have a weak bargaining power.

2.2.5. Bargaining Power of Consumers

Generally, consumer bargaining power is weak, which will be elaborated by three points below. First, ZARA is facing the younger generation of consumer group, which has a wide audience. Therefore, individual consumers or the purchase volume of each consumer cannot affect the total profit or total sales of ZARA at all.

Secondly, ZARA's consumers generally have lower and less stable income, so affordable brands like ZARA have stronger attraction to this group of people, and there are fewer alternative brands on the market like ZARA with the concept of "buying designer models at low prices". Thirdly, it is also worth noting that ZARA's sales strategy is "high amount and low quantity" to create a sense of urgency of limited supply by taking advantage of consumers' psychology of "rare" and "unique".

3. ZARA'S BUSINESS PROCESS IN CHINA

3.1. Increase in The Number of Stores



Figure 5. Number of New Stores and Total Stores of ZARA in China Market

As shown in the figure, the number of ZARA stores increased from 2009 to 2017, highlighting the good state of ZARA's development in China. Specifically, the three years from 2009 to 2012 can be said to be the craziest time in ZARA market. The sales volume of fast fashion brands increased and the profits increased rapidly. Even in 2010, ZARA brand expanded 40 stores in China. From 2013 to 2020, the growth was slowing down, and even the stores were reduced and closed. Due to the emergence of competitors and the global fast fashion industry was facing a "trend of closing stores" in 2015, the market was not optimistic. Facing this moment, ZARA reduced the market in China to maintain the stability of profits. Compared with the rapid growth of other fast fashion brands in China, ZARA has been in a "stable" state, which is in line with ZARA's own rhythm.

3.2. Store Entry Area Selection

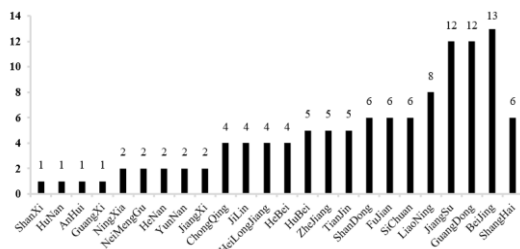


Figure 6. Number of ZARA Stores in China

According to the picture, in recent years, ZARA's stores are mainly distributed in the first and second tier cities. With the continuous growth of China's economy, ZARA has opened more and more stores in China and gradually expanded its marketing scope in China. ZARA attaches great importance to the construction and location of stores. Like luxury brands, ZARA places the location of large stores in areas with a large flow of people. Because ZARA's clothing is in line with the trend and there is a great gap between the price and luxury goods, it has won a huge advantage for ZARA and improved the popularity of the brand.

3.3. Main Product Lines in China

ZARA has three product lines: Women's clothing, men's clothing and children's clothing. And each product has an independent design team to design. In these three categories of products, women's clothing is the most popular product. Women's wear is divided into three series, such as women series, basic series and TRF series. Women series is ZARA designer, which brings together many international trend elements. As the most classic commodity of ZARA, they are placed in the most conspicuous place. Basic, as a garment in daily life, is one of the convergence of high quality and low price. TRF is designed for young women to meet the many needs of women. ZARA has customized different display locations for the popularity of different series. ZARA also sells accessories, bags, shoes and hats, which will be limited from time to time to attract people's attention.

3.4. Online Settlement Process in China

With the development of science and technology, Internet technology is also improving rapidly, which has changed the consumption mode of consumers. ZARA also followed the development of the times and started e-commerce business in 2012. However, unlike other e-commerce suppliers, ZARA has adopted the self built e-commerce model and opened its own e-commerce website. Although the advertisements on ZARA website are concise and clear, there is a lack of product style, size and comparison information. In addition, ZARA can't deal with the after-sales problems in time, resulting in lower online sales revenue of ZARA. Therefore, ZARA has cooperated with Tmall platform and achieved good results. In the first hour of "double 11" in 2015, ZARA's sales exceeded 100 million, which proved the correctness of ZARA's entry into Tmall.

3.5. Annual Turnover and Growth of Stores

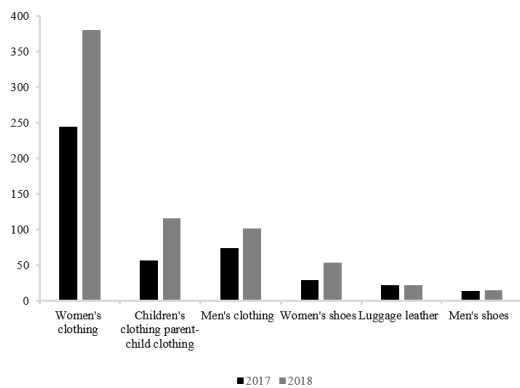


Figure 7. Zara Annual Turnover

In 2014, ZARA opened a flagship store in Tmall. ZARA was late in e-commerce channels, but it has been developing at a fast pace. As shown in the figure, ZARA's sales data in 2017 and 2018 were significantly higher in the first quarter of 2018 than in the first quarter of 2017. Thanks to the rapid development of the Internet and logistics industry, customers can buy not only offline but also online, indicating that ZARA's transmission speed on the network is higher than that of offline stores.[2]

Because offline marketing has cumbersome intermediate links and high costs, online marketing just solves this problem, which greatly improves ZARA's profits and reduces costs. ZARA has made a good improvement in online marketing strategy.

4. ZARA INTERNAL MARKETING STRATEGY ANALYSIS - 7P MODEL

4.1. Product

4.1.1. Target Marketing

4.1.1.1. Segmentation

Breakdown by age : The entire market can be roughly divided into the children's clothing market (less than 12 years old), the teenage clothing market (12-17 years old), the youth clothing market (18-34 years old), the middle-aged clothing market (34-54 years old), and the elderly clothing market (greater than 55 years old). Since children's bodies are in the growth stage, the actual demand in this market is great. The teenagers and youth are often more focused on chasing trends. Therefore, the clothing in this sub-market pays great attention to fashion sense and unique design. Customers in the middle-aged clothing market generally have the highest salaries and most stable sources of income, which can support their high spending on clothing, even some luxury brands. The least demand for clothing, on the other hand, is among the elderly population.

Breakdown by region: Clothing market is mainly concentrated in cities, according to the city's population and economic development, cities can be divided into first-class cities, second-class cities, third-class cities and fourth-class cities. Among them, the overall consumption level of consumers in first- and second-tier cities is high, and the design, quality, fabric and brand requirements for clothing are correspondingly high. Consumers in third- and fourth-tier cities buy clothing less frequently and have lower requirements for clothing quality.

Breakdown by clothing quality: According to the quality of clothing, the clothing market can be divided into high-end customized clothing, fashionable FMCG clothing and low-end clothing. Among them, the main consumers of high-end customized clothing are the upper-class people who often attend dinner parties or gatherings. The fast fashion industry, on the other hand, mainly caters to the middle class who are passionate about fashion, personality and quality. The low-end clothing is mainly aimed at the group with low income and more attention to the practicality of clothing.

4.1.1.2. Targeting

In terms of age of consumers, ZARA has chosen to enter the children, teenagers and youth clothing market, and has made the youth group aged 20-35 as its main target. The youth group paid much attention to the fashion elements, personality and unique design when consuming. In addition, most of the young generations were young wage-earners, who had a relatively stable source of income and could freely dispose of it. At the same time, the young generation was mostly influenced by the social trend of fast fashion and consumption, resulting in a more open-minded consumption concept comparing to the older generation. Therefore, youth was the main consumption force in the FMCG clothing industry. And this has largely influenced ZARA's market selection. The specific manifestation in ZARA's stores was that ZARA has divided stores into several areas such as WOMEN, MAN, BOYS, and GIRLS.

4.1.1.3. Positioning

ZARA had a clear market position, namely "affordable and limited fast fashion". First of all, ZARA's apparel was priced at a low level, which was affordable for the youth group. This increased customer loyalty and ZARA's competitiveness among similar clothing brands. In addition, the number of each clothing style in ZARA stores was limited, and the replenishment was rarely done. Such a hunger marketing model significantly urged customers to spend as soon as possible, leading to the increase in turnover of inventory. At the same time, ZARA's sensitive supply chain system greatly shortened the lead time, which kept the in-store product update cycle within 7-12 days. What's more, the clothes in ZARA were fashionable and individual, which has met

the preference of the young generation, as ZARA's designers were young, creative, and sensitive to fashion elements.

4.1.2. Product Features

4.1.2.1. Localization

When ZARA's flagship store in China first opened, many of its clothes were large for Chinese people because it did not take into account the difference between Asian and European figures. S and M sizes for Asian figures are often snapped up on the day they are put on the shelves, while the remaining plus-size clothing is slow to sell. In response to this situation in the Chinese market, ZARA Group headquarters reacted quickly. After a month or so, the situation was rapidly improved, and many models in ZARA stores were added size S and XS to meet the needs of local Chinese consumers to advance the process of ZARA's entry into the Chinese market[5].

In addition, in terms of product design, ZARA's flagship stores in China have also launched cheongsam-style clothing, combining traditional Chinese elements with current fashion elements. Apparently, ZARA's localization strategy not only caters to the needs and preferences of Chinese consumers, but also reflects its respect and understanding of Chinese traditional culture. This creativity has achieved a good promotional and largely won the favor of Chinese consumers.

4.1.2.2. Customization

ZARA officially launched the "Edited" series of customization service in 2019. 27 items are available for customization on ZARA website, mostly jeans, T-shirts and sweatshirts. After choosing the size of the garment, customers can press the "Edit" option to customize the text embroidery. The embroidered text is limited to seven English characters or four Chinese characters, and the embroidery is available in red, white, orange, pink, black and fluorescent green. Consumers can choose different embroidered text locations. For example, jeans are available in three locations to be embroidered: on the waistband, above the front pocket and above the back pocket, while denim undershirts are available in two locations: above the front pocket and in the center back[6].

4.1.2.3. Fashion Sense

ZARA's design is neither completely original nor completely copied, but selectively imitated. Members of ZARA's design team are always moving around the world's major fashion shows or various fashion venues, and then imitating, processing or modifying their design drawings according to the big fashion brands. They even take inspiration from the streets to keep up with fashion trends. Usually, the ZARA team presents similar designs

just as some of the top brands are putting their latest models on the windows. This design approach satisfies young people who want to buy big brand clothes but do not have enough financial resources, and it can satisfy consumers' vanity while reducing the purchase cost.

4.1.2.4. Diversity

Most of ZARA's production factories are set up in Europe, with nearly half of them in its headquarters in Spain, while only a small number of links are produced through outsourcing. Although this way of production may increase the cost, it can facilitate the production efficiency and allow ZARA to maintain a very fast up-to-date speed. In addition, ZARA's non-exclusive original design approach greatly reduces the time cost of design. ZARA's designers can design more than 50,000 styles per year, from which the best ones are selected to enter the market, allowing more than 10,000 new fashion products to be launched in the market each year. While other brands usually launch only 2,000 to 3,000 new designs per year[5]. Therefore, there is a big gap between the number of designs of other brands and that of ZARA.

Also, the replacement rate of goods in ZARA stores is very fast, and new products must be launched every week in each chain store. Every 3 weeks, all the goods in stores must be completely replaced with new ones.

4.2. Price

4.2.1. Low Price

4.2.1.1. Low Procurement Cost

ZARA's raw materials are mainly supplied from two sources, one is from the subsidiaries of its head group Inditex, and the other is from external suppliers. This composite raw material supply method is obviously more flexible than single reliance on external suppliers, and can respond to the unexpected situation in the market in time, such as a surge in the number of orders during holidays, or an unpredictable boom in the sale of a certain style due to an advertising campaign. In these sudden changes, it is possible for ZARA to purchase from the group, avoiding buying from external suppliers at high prices. At the same time, in cases where certain raw materials can be supplied by both the group and external suppliers, ZARA is able to purchase from within at a relatively low price. Therefore, the low purchasing costs can support ZARA's low pricing.

4.2.1.2. Low Design Cost

ZARA's designs are not completely original by the design team, but the designers take inspiration from international big brands, major shows and streets, capturing the latest fashion elements and reflecting them in their own designs. This design approach greatly

shortens the design cycle and reduces time costs. At the same time, ZARA's design team works backwards to calculate the maximum production cost based on the target price that consumers expect. They will eliminate the costly elements from the design drawings to make the design cost lower so that the price of the final products can meet consumers' psychological expectation.

4.2.1.3. Low Transportation Cost

ZARA chooses to use different shipping methods for products sold in different regions. Since ZARA is a local brand in Spain, the transportation of finished products in Europe is usually done by truck with low cost, high volume and high speed. The goods can be delivered to the retailers in Europe within 48 hours. ZARA has also established two air freight bases to ensure that the latest season's finished products can be delivered to stores around the world within 48 hours. Although air freight is much more costly, it can greatly reduce the waiting cost for customers. Therefore, the increase in sales actually compensates for the transportation costs[6].

4.2.2. Market-oriented Pricing

In terms of pricing strategy, ZARA chooses to use market-oriented pricing and then go back and adjust the cost structure instead of cost-based pricing. The specific steps are that ZARA first obtains the sales price and sales volume of similar brands in the market through the unique information database owned by the company. This can help ZARA have a general understanding of consumers' expectation of price. After that, a target price is set based on the price that consumers are willing to pay, and the product cost is adjusted accordingly. After this adjustment, the price can be accepted by the majority of consumers[2].

4.2.3. Differentiated Pricing Strategy

Considering the high cost of transportation and import duties in distant sales regions such as North America and Asia comparing to Europe, ZARA chose to adopt a differentiated pricing strategy, which means setting different prices in different sales regions[3]. ZARA's sales prices are the lowest in Spain, where its production headquarters are located, mainly due to the lower transportation costs. The selling price in France, Italy and Germany is closest to the local Spanish one, only 22%-24% higher. The highest selling price is in the Korean market, which is as much as 96% higher than the local Spanish market. The second and third highest are the U.S. market and the Chinese market, which are 92% and 78% higher than the Spanish market, respectively. The Mexican and UK markets are about 50% more expensive than Spain.

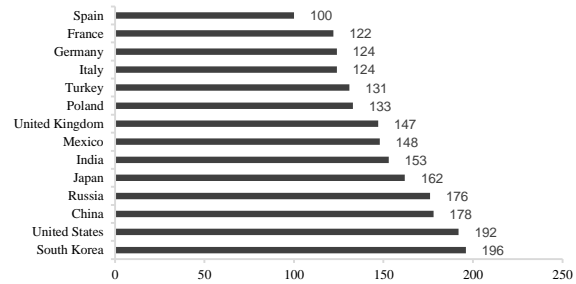


Figure 8. ZARA's Global Pricing

As you can see through Figure 6, although ZARA's pricing in the Chinese market is 78% higher than Spain, this price is still affordable for Chinese young white-collar workers, who are the target consumers for ZARA. Therefore, ZARA still has a great competitive advantage in China. At the same time, it also can be seen that ZARA not only concentrate on low price competition, but also compensating for the high transportation costs spent in distant markets by increasing the selling price. Fortunately, thanks to its excellent cost control techniques, ZARA actually has a lot of room for price adjustments, allowing it to balance profitability with the low selling price. This has also laid the foundation for ZARA's differentiated pricing strategy.

4.3. Place

4.3.1. Offline Stores

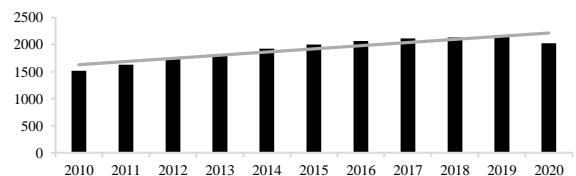


Figure 9. The Number of ZARA Stores

According to Figure 7, the number of ZARA's offline stores showed a constant rising trend in the vast majority of years. The sales were negatively impacted by the COVID-19. Therefore, the parent company Inditex decided to close more than one hundred ZARA offline stores worldwide. However, it seems that the number of ZARA offline stores still shows an overall upward trend. So far, ZARA has entered 77 countries and regions around the world.

In terms of store locations, ZARA only chooses the prime locations in cities. Its offline stores are usually located next to international luxury brands, such as LV, Chanel, Christine Dior, Prada and George Amarni. In New York, ZARA chose to open a store on Fifth Avenue. In Paris, it chose the Champs Elysees. In Tokyo, it chose the Shibuya shopping district. In Shanghai, it chose the most prosperous Nanjing Road to open a store. Such a location selection can establish a high-end image for

ZARA. At the same time, it gives consumers a psychological implication and makes them enter ZARA stores to shop under the drive of vanity psychology because they believe that ZARA is an international high-end brand.

4.3.2. Online Stores

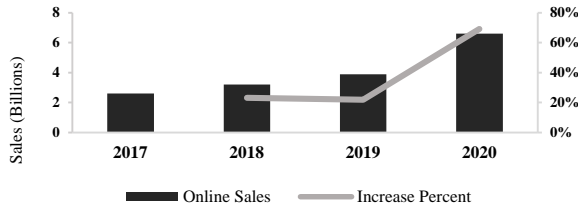


Figure 10. Online Sales and Increase From 2017 to 2020

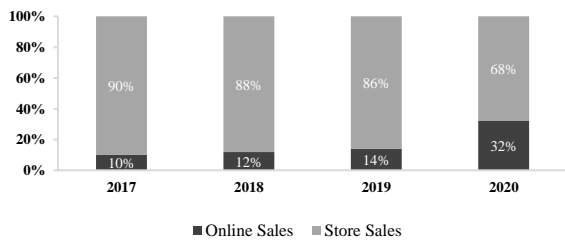


Figure 11. Proportion of Online Sales and Store Sales From 2017 to 2020

In recent years, with the rise of online shopping, ZARA has also developed online sales channels in response to consumer demand. In China, ZARA has been stationed in online shopping platforms such as Taobao, Tmall and Vipshop, and has actively participated in major shopping festivals such as Double Eleven and Double Twelve in China, creating substantial operating profits in online platforms. From Figure 8, it can be clearly seen that ZARA's online store sales showed a trend of continuous growth, and the proportion of online turnover to total turnover was increasing. Especially in the period of COVID-19, the sales of ZARA's stores suffered an unprecedented impact. At this time, the advantages of online stores were presented. During the epidemic, more consumers chose to shop online during home quarantine. As a result, about one-third of ZARA's turnover came from online stores last year, and the online turnover surged by 69.23% comparing to 2019.

In addition, ZARA also uses the online platform to provide consumers with virtual consulting services and virtual fitting services, which improves the efficiency of shopping. If consumers need to return or exchange goods after shopping from ZARA online stores, there are two way available: home pick-up or going to offline stores. In terms of price, ZARA insists on uniform price for online and offline, because it can avoid the psychology of price discrimination to consumers.

4.4. Promotion

4.4.1. Advertising and Marketing Strategy

ZARA spends only 0.3% of its annual sales on advertising, which is far below the industry average of 4%. At the same time, ZARA also spends little on celebrity spokespersons and brand ambassadors. However, in recent years, ZARA's stores in China have gradually adopted the celebrity endorsement, using the powerful fan appeal of celebrities to increase sales. For example, on September 19, 2018, ZARA announced 2 brand ambassadors for Greater China, Wu Lei and Zhou Dongyu, through its official microblog. This invitation represents that ZARA has changed its previous marketing strategy in China.

4.4.2. A Small Number of Items, Creating a Sense of Scarcity

ZARA seldom provides discounts, but uses a marketing strategy of more styles but less quantity. There are two main reasons for this. The first is to create a sense of scarcity, so that consumers can reduce their hesitation and be urgent to buy in a limited time. The second reason is that ZARA's selling price is low and the number of each style is small. Usually, there are at most two to three pieces of each size of each style. And ZARA rarely replenishes the goods. Even for some popular styles, it only replenishes twice at most. Therefore, the new products will be snapped up in a short time, and there is no need for discount promotion.

4.5. Process

4.5.1. Supply Chain System

Table 1. The Suppliers and Factories of ZARA

	Suppliers	Factories
Spain	198	447
Portugal	161	1344
Morocco	130	310
Turkey	177	1459
India	131	382
Bangladesh	114	296
Vietnam	5	145
Cambodia	2	127
China	425	1866

Argentina	37	67
Brazil	12	44
Pakistan	45	107
Total	1437	6594

57% of ZARA's suppliers are based in Spain, near the neighboring countries of Portugal, Morocco and Turkey. According to ZARA's official website, there are 1,437 suppliers and 6,594 factories in 47 countries with 1,824 suppliers supplying products and services, mainly in 12 countries. ZARA adopts a combination of external and internal supply: about 40% of the textile materials are supplied internally, the remaining 60% are from 260 suppliers near the headquarters, avoiding over-reliance on one supplier to ensure the flexibility of supply[1].

In addition, most of ZARA's main suppliers are concentrated around the headquarters to improve production efficiency. Firstly, the design team completes the design drawings, then the purchasing department purchases textile materials from nearby suppliers, and then it is handed over to the production department for processing. After the samples are made, the models are tried on. Then the design department further improves the drawings, and the production department re-processes them. The whole design-purchase-processing-improvement process is fast and efficient.

4.5.2. Design and Production

In terms of design and production, ZARA applied international advanced Computer Aided Design (CAD) and Computer Aided Manufacturing (CAM) system, and set up a information collection team which is responsible for collecting consumers' preferences. ZARA also innovates a unique "trinity" design and order management model. The entire team consists of designers, marketers, buyers and schedulers to ensure time saving and efficient work.

Usually, design work is mainly done in-house in the fast fashion industry, while low value-added production activities are often outsourced externally. ZARA, however, adopted a different production approach. About 80% of its products are manufactured in Europe, with half of the them being processed in the group's own factories or in factories controlled by the group. There are three important processes in the whole garment manufacturing process of ZARA: dyeing, cutting and sewing. ZARA has established 20 modern factories dedicated to dyeing and cutting in order to improve production efficiency, while the sewing process was outsourced to 400 traditional small factories in Spain. The cost of this production method is about 20% higher than complete outsourcing, but it ensures production efficiency[1][3].

4.5.3. Distribution and Transportation

ZARA has a strong internal logistics system. In order to realize the convenience and efficiency of production, ZARA has constructed 200 kilometers of underground transportation pipeline, which can break down tens of thousands of clothes in an hour. In terms of transportation of finished products, with the cutting-edge optical sorting equipment, ZARA can sort 60,000 pieces of clothes in one hour and pack and distribute them to each store by logistics personnel. Meanwhile, ZARA makes use of its unique intelligent management system to smooth information transmission, making the whole distribution network fast and efficient[7][8].

4.5.4. Sales and Inventory Management

The details of daily sales and inventory quantity of each store are kept in the data management system of all ZARA stores. And the information needs to be reported to the headquarters daily so that the headquarters can replenish inventory according to the situation of each store to avoid extra out-of-stock costs. In addition, ZARA has developed an information system that can link all the data of procurement, design, production, distribution and sales. Managers can not only monitor the inventory of finished goods to make timely replenishment, but also manage the inventory of raw materials, and the sales of each product in order to allocate resources more efficiently[6].

4.5.5. Customer Feedback

ZARA collects feedback from customers by phone and email and produces products according to customer's needs. In addition, all stores are required to report sales and inventory quantities to the headquarters on a daily basis. Based on the feedback from each store, the professional marketers will make analysis and find out which styles and elements are the most popular in the market, and then provides suggestions to the design department. In this way, ZARA's products can quickly respond to market changes.

4.6. Physical Evidence

4.6.1. Store Design

ZARA stores are generally large, usually around 1,000 to 2,500 square meters. If the store is located inside a shopping mall, it usually has two to three floors. However, ZARA does not use all the space for closets or fitting rooms, but leaves some open spaces to increase consumers' activity rooms and shopping experience[2]. In addition, ZARA stores also adopt the minimalist decoration style with mostly white colors to expand the visual area of the store.

The window design significantly shows the taste of ZARA. Usually, the clothing showed in ZARA's window is the latest fashionable style and changed frequently, which is consistent with ZARA's trendy and fashionable positioning and provides consumers with the latest matching guiding[9]. In addition, ZARA also creates a cozy shopping atmosphere through the background music in the store. It most frequently plays some dynamic music such as European and American pop music, jazz and metal music, reflecting the fashion concept of ZARA[10][11].

4.6.2. Merchandise Display

The internal classification of ZARA stores are complete and clear. The store has created three sections of MEN, WOMAN, and KIDS according to different age and gender of consumers. Such divisional design not only helps customers save time in searching, but also helps divert the target customers in different areas, which makes it easy for staff's work. At the same time, ZARA also adopts ingenuity in the way of merchandise display. Basically, each section is divided into five popular themes according to the colors or fashion elements. Consumers can choose their favourite after a cursory browse in the aisles. At the same time, in each theme area, the clothes are displayed in complete sets, putting jackets, shirts, pants and skirts together, to give consumers matching guiding, so that consumers are more likely to buy a whole set on impulse[12].

4.7. People

4.7.1. Store Staff

ZARA adopts self-service shopping. There is no shopper following every customer in the store, providing enough private space for consumers. ZARA's store staff are of high-quality. They constantly study internal materials to improve their knowledge of ZARA's products, in order to provide customers with professional advice and service. They also learn to observe customers' reactions to gather their preferences. In addition, ZARA is now mainly recruiting local staff who have better understand of local consumers' preferences to provide targeted services[2].

4.7.2. Design Team

ZARA has a young design team of more than 200 people with an average age of 26, which is enthusiastic and creative[1]. These designers are usually moving around the international fashion to capture the most popular elements with keen observation and then reflect them into the new product design. At the same time, ZARA design team pays close attention to customers' needs and makes permanent contact with stores and online teams through product department in order to

understand customers' preferences and provide customized designs to meet consumers' needs.

4.7.3. Flat Management

A remarkable feature of ZARA's organizational structure is the decentralization from the headquarters, which gives store managers a very high level of authority. Usually, ZARA store managers are highly educated and proficient in foreign languages, as they need to communicate directly with the Spanish headquarters every week about the sales of the store. They are not only responsible for managing the stores, but also for holding regular meetings with the design, marketing and buying teams, and giving feedback to the headquarters when problems arise. This corporate structure helps ZARA improve communication efficiency to respond quickly to changes in the local market and to make strategic decisions.

5. DISCUSSION

5.1. ZARA's Sustainability Strategy

Inditex, the parent company of ZARA, has strictly adhered to the 17 development goals of the UN 2030 Agenda for Sustainable Development in its development process and has established a Sustainability Committee. In fact, there is a clear interconnection between the 17 Sustainable Development Goals (SDGs), which cover all three dimensions of sustainable development: economic growth, social inclusion and environmental protection. In terms of economic growth, ZARA's supply chain is characterized for its sustainability, agility and flexibility. In terms of social inclusion, Inditex is committed to providing a stable and secure work environment, equal opportunities and professional development. In 2020, a year marked by the global COVID-19 pandemic, the company's priorities and efforts have been focused on protecting jobs. In terms of environmental protection, Inditex has already achieved some of the goals set for 2025, such as ensuring that 80% of the energy consumed in its facilities comes from renewable sources. The Group is strongly committed to organically grown cotton as it is grown with more sustainable practices and uses only non-genetically modified organisms (GMO) seeds. At the same time, ZARA has a policy of being kind to animals. And ZARA guarantees that all animal materials such as leather and inner skin used in the production of all garments sold are taken from livestock raised on farms, and that no wild animals are sacrificed for sales.

The above series of sustainable development measures are in line with the world trend of garment manufacturing and the eco-friendly standards set by international organizations, which will further protect the long-term development of ZARA.

5.2. Current Problems of ZARA

It is worth noting that ZARA has been in the social news in China frequently in recent years. For example, in January 2018, ZARA was ordered to change the name of Taiwan as "country" on its website and issued an apology statement. For example, in March 2021, after the public outrage caused by H&M's boycott of Xinjiang cotton, it was found that ZARA also issued a statement of "boycott of Xinjiang cotton" as early as July 2020. In addition, in recent months, it has also been exposed that many piles of ZARA products have problems with quality control. For international brands to survive in overseas markets for a long time, the first key to be loved by the public is that they must not offend the political stance of the country, and these operations of ZARA in recent years are gradually chilling the hearts of Chinese consumers who love the ZARA brand.

6. CONCLUSION

ZARA, as a leading FMCG fashion apparel brand, has achieved a very favorable business environment in China with the gradual increase in China's opening up to the outside world, the continuous development of the economy and technology, the improvement of the residents' consumption ability, and the consequent change of the consumption concept. The operation of ZARA's offline stores in China has also shown a positive trend in recent years. This is mainly reflected in the increasing number of stores in China, the increase of depth and breadth of its market entry. Moreover, ZARA has made full use of the opportunity of Internet plus development in China and adopted various advanced technologies, such as intelligent logistics system, cutting-edge optical sorting equipment and intelligent information management system.

Through the analysis of Porter's Five Forces model, it can be seen that ZARA is currently facing fierce competition from both online and offline in China. Among them, UR, a local Chinese FMCG fashion apparel brand, is one of the strong competitors. In the marketing process in China, ZARA utilizes the 7P marketing theory. In terms of product and price, ZARA has positioned its products as "fast, fashionable and affordable". In terms of place, ZARA has further expanded the sales channels by setting up offline physical stores and also by entering online shopping platforms such as Taobao and Tmall, which are popular among Chinese consumers. In addition, ZARA also builds a premium and luxury brand image through specific location selection. In terms of promotion, ZARA seldom does advertising and marketing, and rarely invites celebrity spokespersons and brand ambassadors, but uses the influence of the brand itself to attract consumers. In terms of process, ZARA has an efficient vertical distribution system, which makes the supply chain

precise and fast, and the inventory turnover period is maintained in a very short time. In terms of physical evidence, the unique window and store interior design brings consumers a comfortable consumption experience. In terms of people, the young designer team and flat management structure are both the characteristics of ZARA.

By analyzing the current marketing situation and studying the successful marketing strategies of ZARA, this paper aims to provide a reference that how to stand out in the highly competitive FMCG apparel industry for Chinese local FMCG apparel brands. Drawing on ZARA's experience, grasping the right product positioning, strengthening supply chain management, and cultivating design talents are all key factors for success. However, there are some limitations in the study of this paper. One is that some strategies adopted by ZARA, such as the production method that most products are processed by the group's internal factories and only a small part of the processing is outsourced will lead to the increase of cost, which may not be feasible for most small and medium enterprises (SMEs) or emerging apparel enterprises. Secondly, this paper only analyzed and discussed ZARA's marketing strategy, but did not compare it with the current situation of Chinese FMCG apparel enterprises.

This paper concludes from the analysis that ZARA still has a strong potential for future development. The main reason is that ZARA has a strong social responsibility and has made an exemplary role in sustainable development and environmental protection, which is very necessary in the special context of the epidemic and makes ZARA have the long-term development momentum. But at the same time, ZARA should be more cautious in terms of product quality, design infringement and issues related to national politics in the future development, in order to maintain a good corporate image and look at the long-term interests of the corporate.

REFERENCES

- [1] X. J. Chen, Q. Chang & G. H. Zhu. (2019, August). Research on innovation supply chain management in fast fashion industry—A comparative analysis of ZARA and H&M. In Proceedings of the 3rd International Conference on Education, Culture and Social Development (ICECSD 2019), Guangxi, China (pp. 29-30).
- [2] C. Lopez & Y. Fan (2009). Internationalisation of the Spanish fashion brand Zara. *Journal of Fashion Marketing and Management: An International Journal*.

- [3] W. C. Li (2019). Research on the marketing strategy of fast fashion brand ZARA in China (Master's thesis, Jilin University of Finance and Economics).
- [4] S. Li (2019). Research on the Marketing Strategy of ZARA in China (Master's thesis, Jilin University).
- [5] D. Y. Hu (2021, April). Research on ZARA Strategy from the Perspective of SWOT Analysis Method. In 2021 6th International Conference on Social Sciences and Economic Development (ICSSSED 2021) (pp. 201-205). Atlantis Press.
- [6] C. L. Lai (2020). Analysis on the Marketing Strategy of Fast Fashion Brand Zara Based on 4c Theory.
- [7] Y. C. Liu & J. R. Sun (2016). Analysis of marketing strategy of "fast fashion" brand ZARA. *Journal of Jilin Institute of Chemical Technology*, 33(12), 5-7.
- [8] X. X. Cui & C. M. Zhang (2016). Study on Form Design of Fast Fashion Store. *Journal of Apparel*, 1(2), 245-248.
- [9] F. Zhang (2014). Studies on Marketing Strategy of Fast Fashion Clothing Brand—Illustrated by the Example of ZARA (Doctoral dissertation, Guangdong University of Foreign Studies).
- [10] H. Sun & P. Yan (2015). Application of visual marketing in promotional discount for international fast-fashion clothing. *Journal of Textiles*, 36(09), 129-134.
- [11] J. J. Bai & W. Lv (2007). Long-tail positioning, model innovation: An analysis of the marketing of ZARA and H&M. *Marketing Guide*, (5), 60-63.
- [12] X. Wang, T. H. Tan, S. F. Kao, Y. T. Tao & F. M. Shen. ZARA Synopsis.