

Integrating Global Supply and Marketing Chains

15.220 Global Strategy and Organization

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History

- 1963.- Amancio Ortega starts a factory of women's dressing gowns
- 1972.- Confecciones Goa is constituted as a Factory to supply wholesalers
- 1975.- Zara, the flagship of the Inditex Group is created
- 80s.- Spanish Development
- 90s.- Internationalization
- 00s.- Sustained Growth and Development

Timeline of Inditex's Internationalization

1975	Spain	Argentina, United Kingdom, Venezuela, Lebanon, Turkey, United Arab Emirates and Kuwait	1998
1988	Portugal	The Netherlands, Germany, Poland, Saudi Arabia, Bahrain, Canada, Brazil, Chile and Uruguay	1999
1989	USA	Andorra, Qatar, Austria and Denmark	2000
1990	France	Puerto Rico, Ireland, Jordan, Iceland, Luxembourg, Czech Republic and Italy	2001
1992	Mexico	El Salvador, Finland, Dominican Republic, Singapore and Switzerland	2002
1993	Greece	Russia, Malasya, Slovenia and Slovakia	2003
1994	Belgium and Sweden	Hong Kong, Morocco, Estonia, Latvia, Hungary, Romania, Lithuania and Panama	2004
1995	Malta	Costa Rica, Thailand, Monaco, Philippines and Indonesia	2005
1996	Cyprus	Serbia, Tunisia and Mainland China	2006
1997	Norway, Japan and Israel		

Zara ?'s

- How well does Zara perform compared to its competitors?
- What are the sources of Zara's competitive advantage?
- Which of these result from the "Spanish diamond"?
- How well do the various elements of Zara's business model "travel globally"?
- Why might Zara "fail"?
- What are the best ways to grow the Zara chain?
- What are your top 3 recommendations to Inditex CEO Jose Maria Castellano re the internationalization of Zara?

Comparative Performance

	Inditex	H&M	Gap	Benetton
Op. Margin	21.7	13.8	1.7	13.6
ROS	10.5	9.6	-0.1	7.1
Working capital/sales	.6	24.2	7.1	28.7
PPE/Sales	41.1	15.3	23.1	34.4
Asset Turnover	125	196	182	74
ROA	13.1	18.8	-0.1	5.2
ROE	22.9	24.8	-0.3	11.9

Elements of Operating Margin

	Representative Competitor	Zara
Posted price - markdown	100 -10.5	100 -2.6
Retail selling price - man. Costs/selling price	89.5 -44.8	97.4 -51.1
Gross Margin - advertising	44.7 -3.1	46.3 -0.3
Adv adjusted Gross Margin	41.6	46.0

Zara's Competitive Advantage

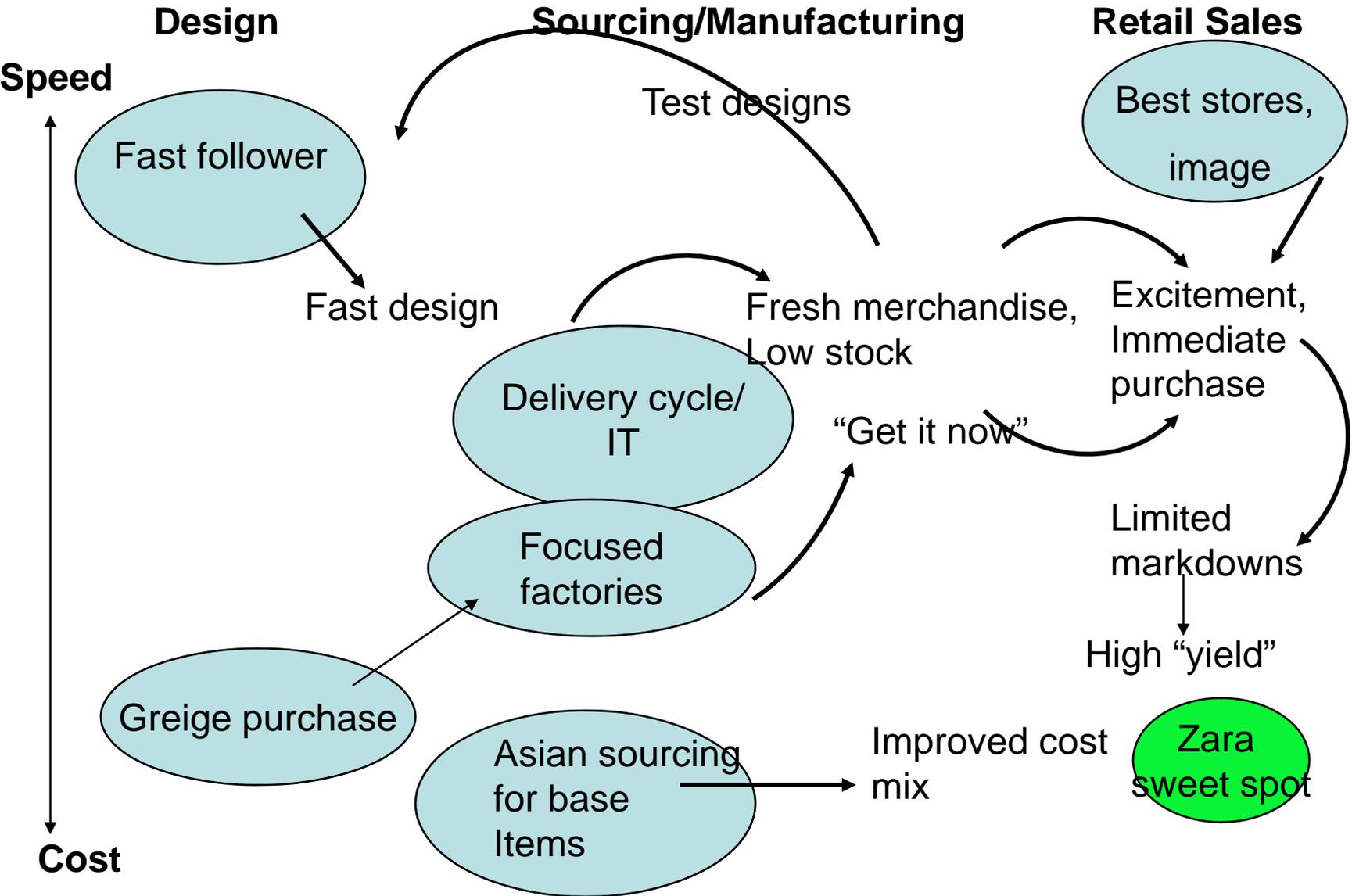
Centrally Managed Inventory: Controlled and timely delivery of clothing to all stores across the world • Reduced design cycle time: Timely response to items that sell well, ability to quickly alter/enter with new designs • Strong IT system: Allows almost immediate communication of sales and inventory information across enterprise • Logistics/Distribution: Clothes move within hours to their destination, efficient scheduling of shipments,>>**aggregation?** (Barry Bunn)

- The new business concept and marketing of “Fashionable but reasonable & convenient”.
- Very sophisticated supply-chain system based on their IT system, which enable them to manage “very quick lead time”, “reducing inventory risk”, and “keeping up with updated fashion”, and “keeping up with real market trend/needs”.
- Very sophisticated retail management system (its skill and knowhow) based on their IT system.
- Very well organized centralized design & product development system, by mixing Push-marketing and Pull-marketing.

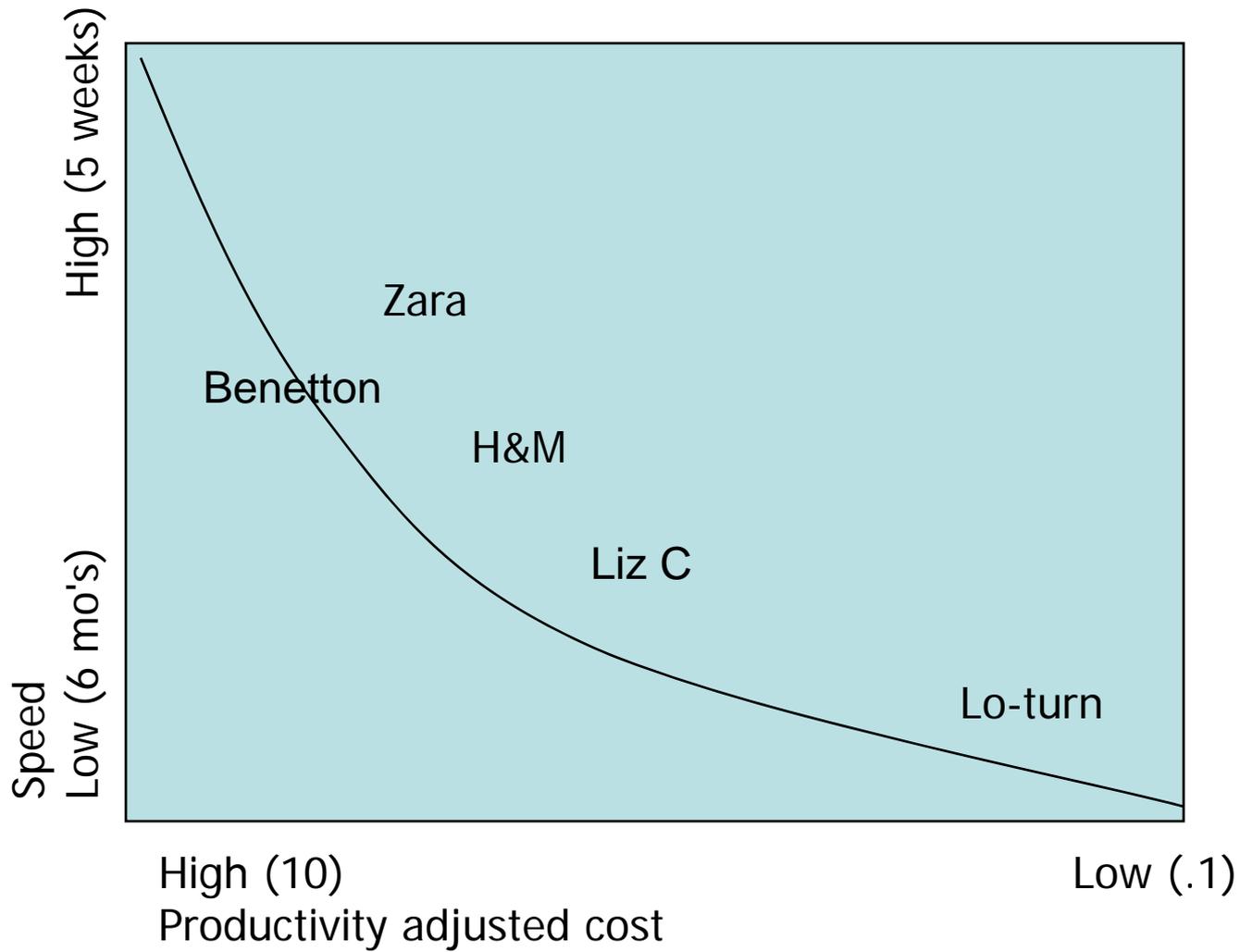
We feel that their business concept (brand concept), retail management system and design & product development system are scalable, given Zara's sophisticated communication and data gathering and analysis system..

(Fernando Diarte, Toshi Kajino, Devon Kinkead, Juan Carlos Munoz, Shuichi Yokoyama)

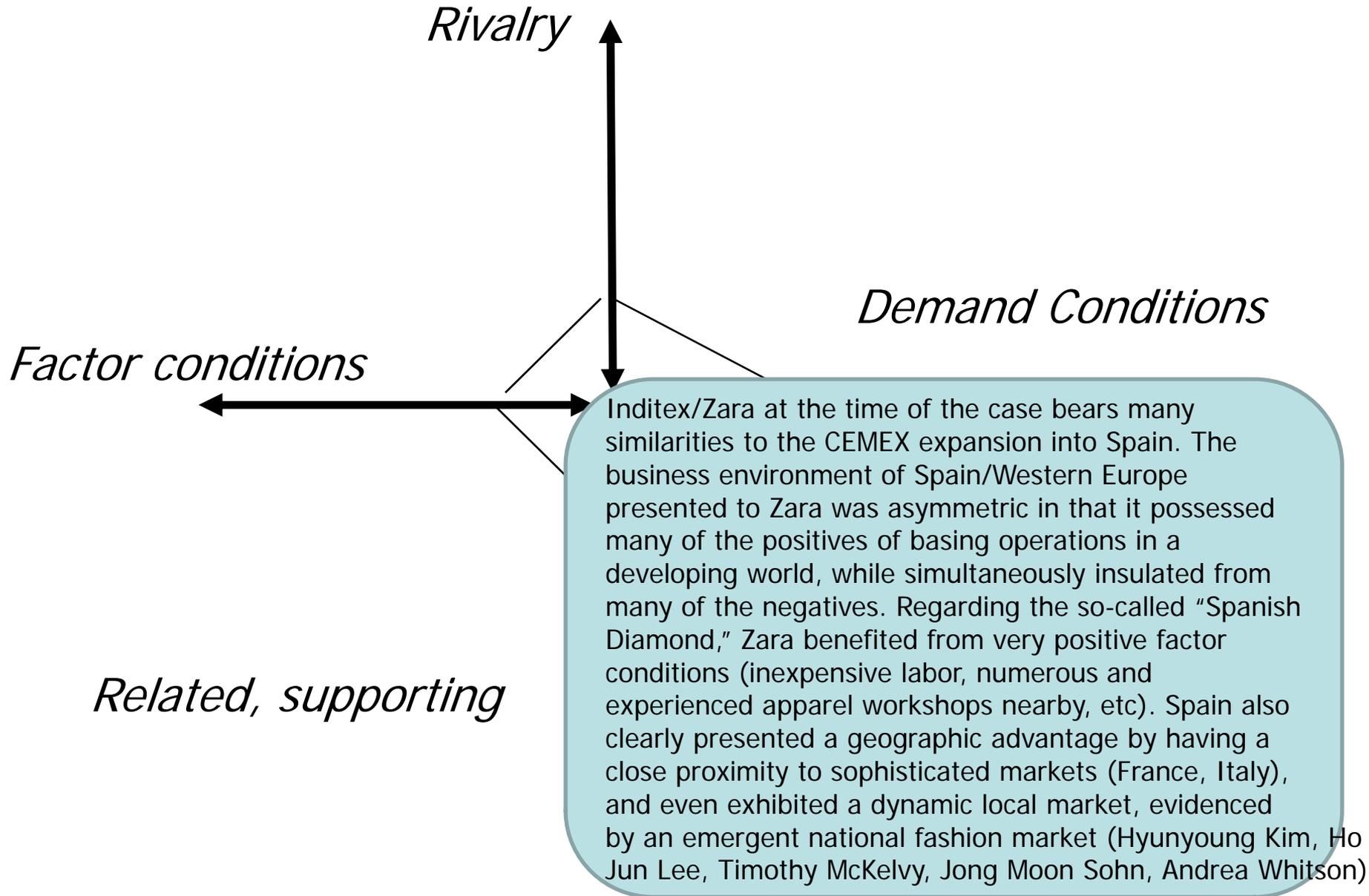
Zara Business Model



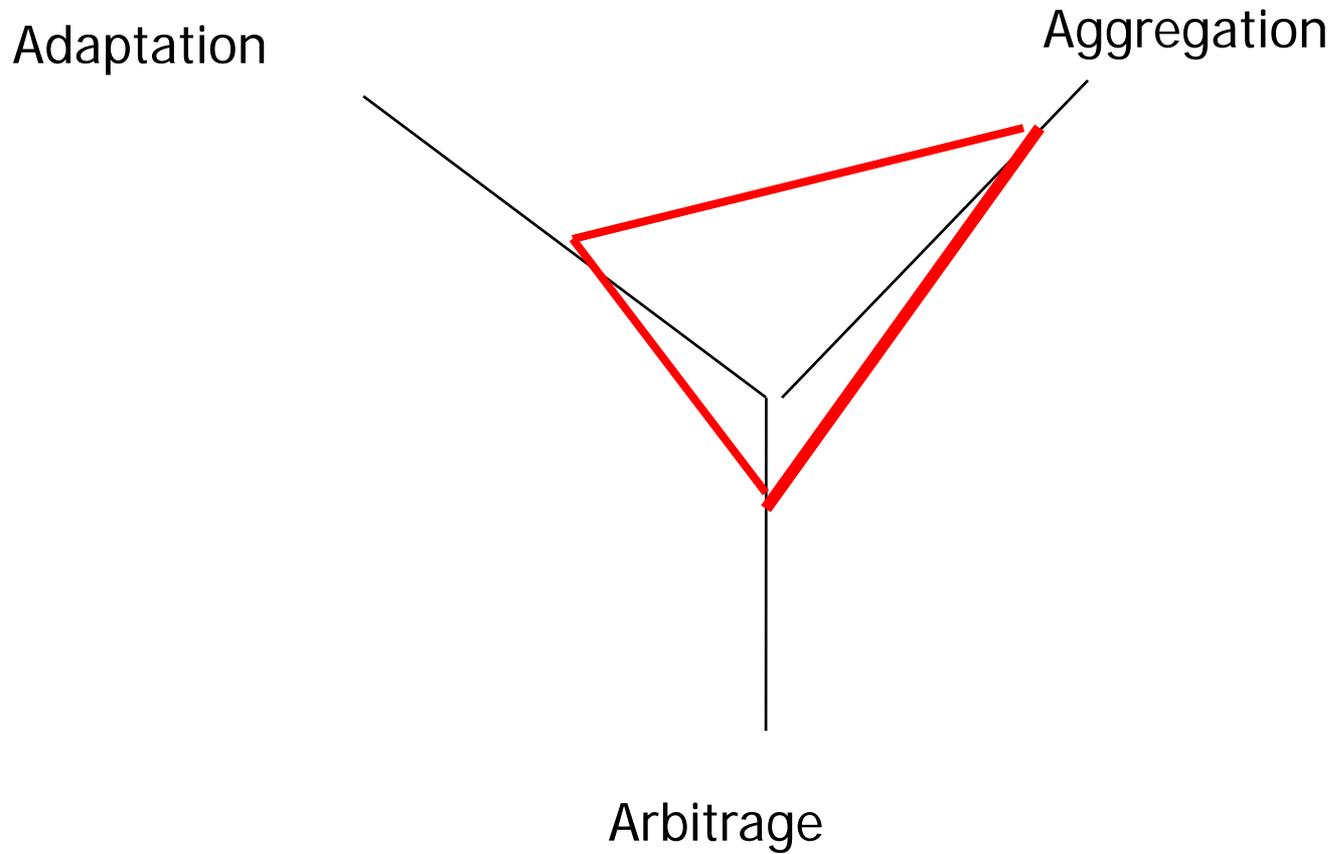
Speed vs. Cost



Home Advantages



Zara and the three A's



How might Zara Fail?

- Another firm might match speed (aggregation) with lower cost (arbitrage)
- Complexity of multiple lines, multiple regions
- Might not master real estate in new regions

How to grow?

- 1. Try to implant their supply chain system in Asia (basically in China) and America (basically in Mexico and Caribbean countries), and try to have 3 strategic production points for their global distribution, and try to use those production points for their basic items/products manufacturing for each market, Asia and America. (Let's say, 30-40% from current Spain manufacturing, the rest from localized manufacturing for basic/standardized items).

- 2. Try to accelerate their brand portfolio strategy and promote other brands as well at the same time. (Don't concentrate into Zara only)

- 3. Try to enhance their sophisticated design and product development system (as a super 'copy' (knock-off) machine !!). In order to do so, they should keep sending design staff to all important lead market and necessary trade shows, Milan, Paris, London, Tokyo and NY, and also maintain the communication system between design staff and each shops even in all over the world.

(Devon Kinkead, Fernando Diarte, Juan Carlos Munoz, Shuichi Yokoyama, Toshi Kajino)

RATs test

- How far do these models/advantages travel without a local distribution hub?
- How far do they travel without local production hub?
- How replicable is whole system?
- Which lines travel best?

How well does the model travel?

Relevance

Zara's value proposition of high velocity fashion appeals to a global audience that is fashion conscious and discerning in price. However, its relevance depends on the relative wealth of different countries, as well as the fashion culture. For example, the target class in Spain is 80% of the population while only the upper and middle class in Mexico can afford Zara.

Transferability

Zara has adopted several innovations that facilitate its transferability. These include:

1. Standardized store implementation – this enables Zara to maintain its global image and store quality and quickly allows new store managers to focus on activities that drive store sales.
2. Individual inventory response – each store's inventory is uniquely driven by the store clientele, thereby enabling each new store to maximize its value to its local target clientele.

Appropriability

Zara's power is not easily duplicated as they control a significant portion of the value chain. Even through Zara adopted alternative market entry modes such as joint ventures or franchises, the dependency on Zara's centralized system ensures that Zara can appropriate the most significant portion of available rents from their markets.

(Masaharu Aiuchi, Peter Curley, Tuang Liang Lim, Brian Wilson, Zhan Xu)

Where to Grow? (RATs)

	Eastern Europe	Latin America	North America	Asian big cities	China	Korea	Japan
Without dist'n hub							
With distn' hub							
With dist'n + prod'n hub							

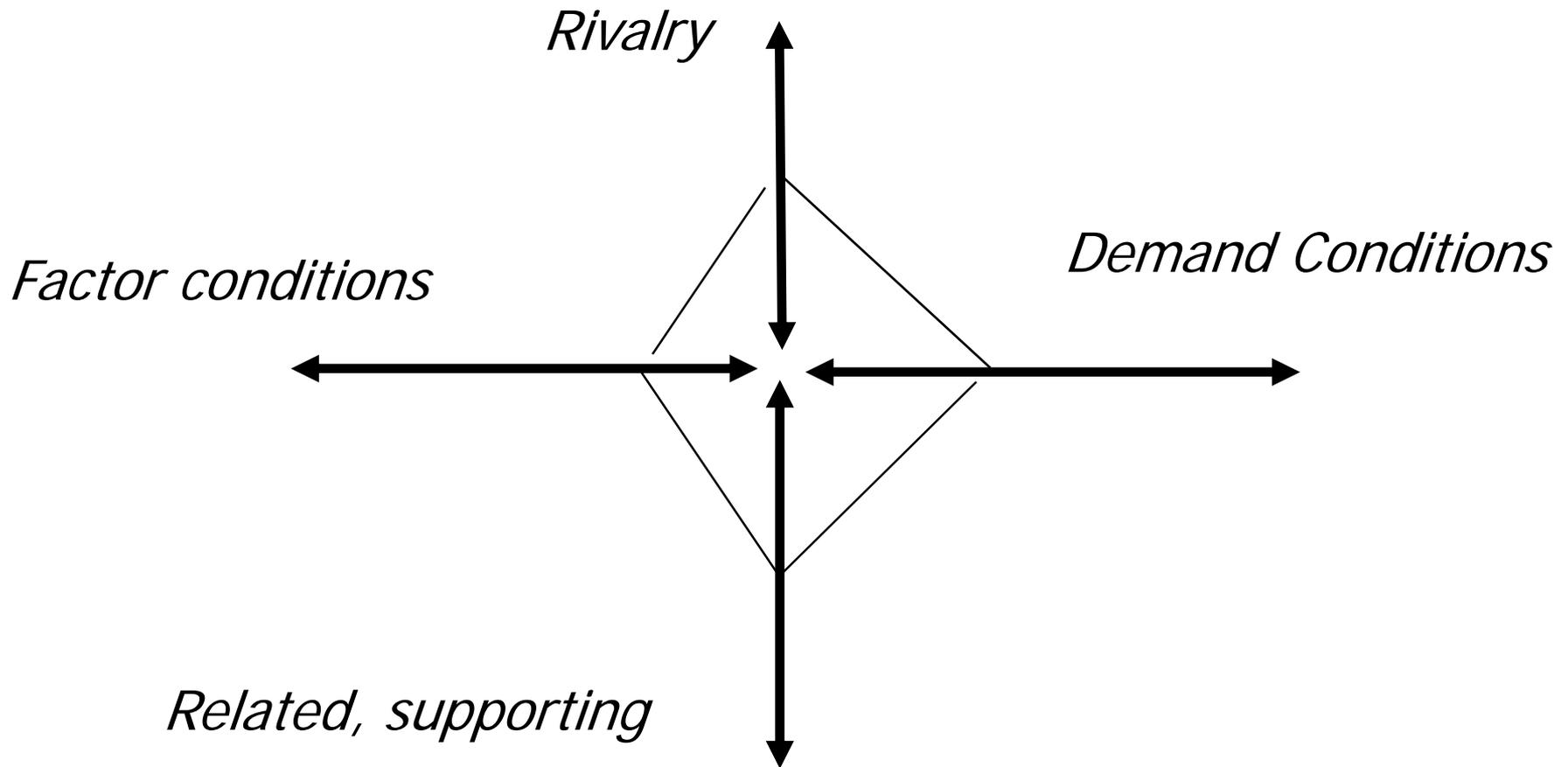
Where to Grow (How)?

Zara should consider replicating important elements of their “regional platform” and supply chain structure in North American and Asia if they are serious about becoming more than a niche player in those markets. Over and above tariff and logistical costs (which add roughly 25% to their FOB prices in the USA), Zara needs to become more attuned to fashion preferences and demand conditions in these regions as it is questionable whether cherry picking from their current collection will be as successful in non-European markets. This would imply that regional design capabilities would need to be developed as well as relationships with local suppliers and workshops for final stitching to decrease costs. Finally, in the generally more price sensitive North American and Asian markets, it is unlikely that the current strategy of leveraging the comparatively low cost of Spain to charge a premium in other European markets to support expansion will be transferable. (Martin Croot, Franco Herrera, Chihon Park, Diego Parlaghy)

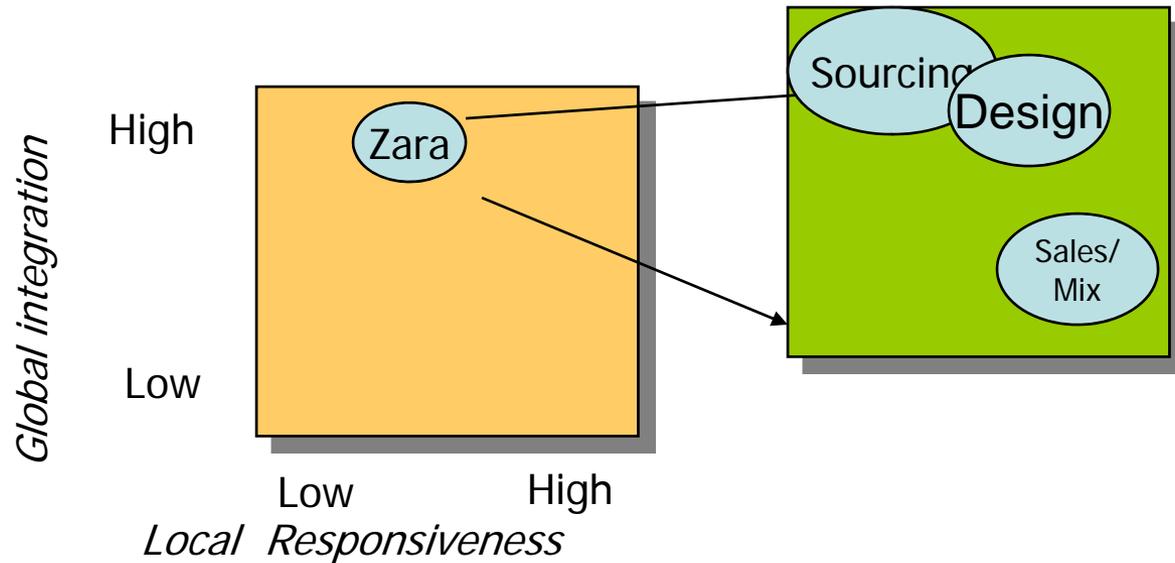
The game changing plan for successful internationalization starts with top management jettisoning underperforming/under optimized brands from Inditex. Second, management must aggressively search for a site for a second distribution center on another continent. Recognizing this is no easy feat, significant resources should be dedicated to not only finding a **suitable competitive second home base**, but also a potential acquisition target conversant in local laws, customs, etc. This **go big or go home strategy of seeking another likeminded, but locally knowledgeable firm** is critical for the Zara style model to be successful in geographic locations far away from Northern Spain (Mary Gallagher, Alexander Onik, Manjit Kalha, Jazlinawati Osman, Harry Schechter)

Where to Grow? Platforms/Arbitrage?

- Overcoming weaknesses of (threats to) home diamond?

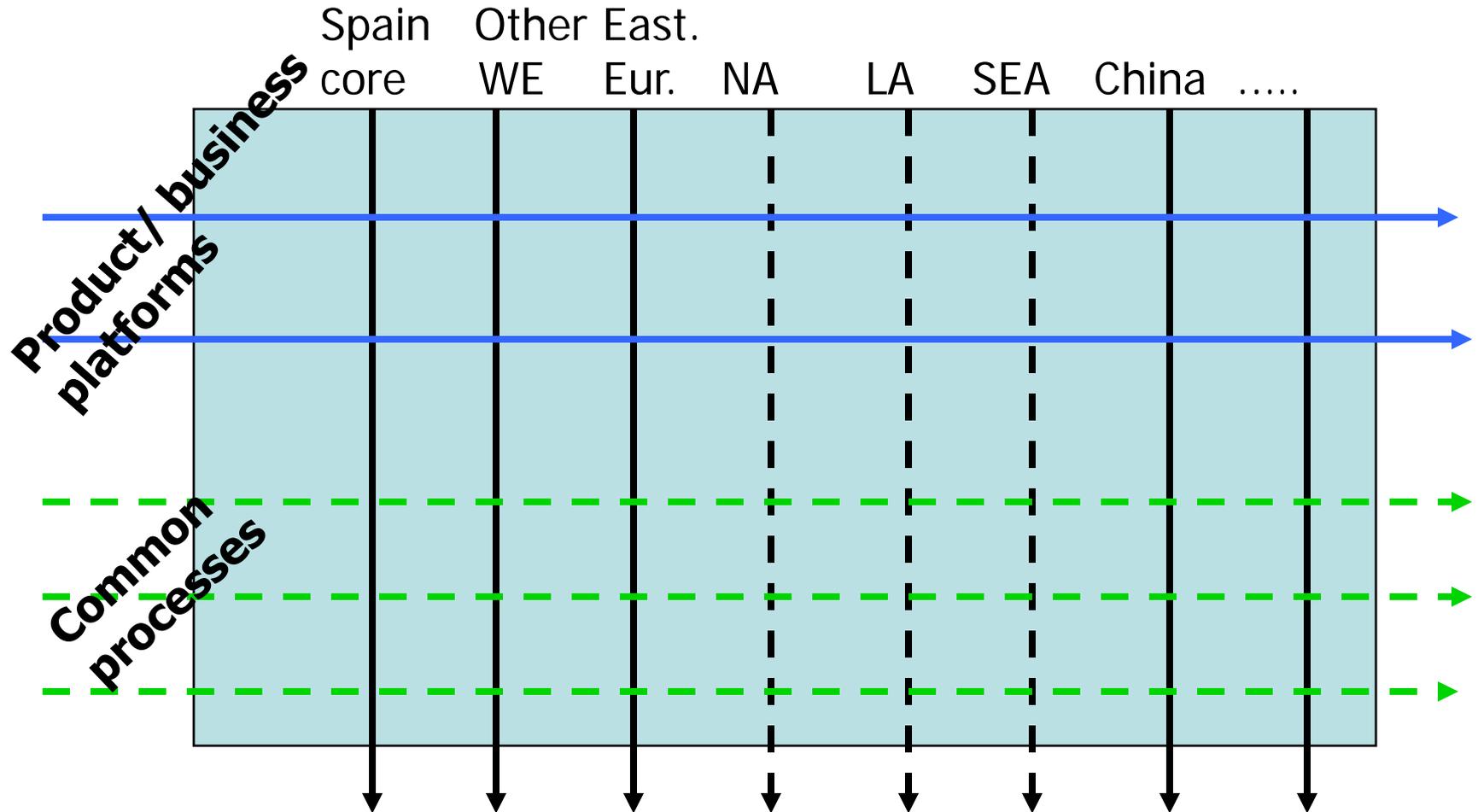


Zara GI/LR



..using the Bartlett and Ghoshal model, we see that Zara excelled on all 3 dimensions. On the **efficiency** front with its IT systems that were almost ahead of their time ..
On the Knowledge Leverage front, it kept a close watch on demand trends and performance for stores and products and used that information to make quick decisions about production needs and the ruthless removal of failed products.
On the Responsiveness front, Zara allowed store managers to make product restocking decisions and also allowed local markets to set price whereas it coordinated activities that benefit from economies of scale from the global level. This **dual model** allowed Inditex to do the appropriate thing in each market situation.
(Cristiano Malucelli, Venkat Rangamani)

Building GI and LR



Customer/Market focus right down to store manager

- Market (segment) profit focus
- Management autonomy (substantial on some dimensions, none on others, all within model)

General Takeaways

- Arbitrage (labor costs) do not drive everything!
- Cleverness (heterogeneity) still counts
- Aggregating (in key regions) still counts

- Common processes that deliver customer value are key
- Need to be aware of scale at various levels
- Need to be aware of which elements travel (how far)

- Great firms constantly seek to stretch diamond

Deep Dive

- BTC
- Web site by end of week
- Intro session after you return
- Presentations on April 4th
- Good to review over break, but concentrated work in early April.

Global Leaders

- Describe and evaluate Ghosn's key acts of leadership in the Nissan turnaround in terms of the Sloan Leadership Model (sensemaking, visioning, relating, inventing).
- To what extent do these behaviors correspond to Bartlett and Ghoshal's global leadership categories (global leader, country leader, functional leader)?
- What leadership elements most saliently reflect the global/international nature of the Ghosn's intervention?
- What benefit is Ghosn seeking for Nissan from the alliance with Renault?
- How is he doing this? If possible, please describe in terms of "global integration" and "local responsiveness/ embeddedness."
- Think about other Sloan Fellows in visible global leadership positions and relate their challenges and actions to the SLM. Think about your own Global Leadership position and style when you return to the "real world."