Organizational Design Analysis: Zara
Samantha Ng, # 30621122
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Introduction: What is Zara?
Founded in Spain, Zara is a fashion and accessories retailer with over 2,000 retail locations worldwide. Owned by Inditex, Zara has become an extremely successful fashion brand, largely due to its’ intriguing supply and distribution strategy. This paper will provide insights on the organizational design of Zara and, by extension, Inditex; specifically, it will draw conclusions on Zara’s positioning in the strategy space, in the environment space, and on the organizational design space of structures for spanning geography. The analytical theories utilized in this paper are drawn from Burton, Obel and De Sanctis’ “Organizational Design: a step by step approach.”

Analysis on Zara’s Organizational Design
The Strategy Space – Analyzer with Innovation
Due to their great success in creating a new approach to production and distribution in the retail fashion industry, Zara and Inditex have become the focus of many business cases. Along with their efforts to increase efficiency in the supply chain, Zara has also explored new technology, restructured the way in which stores collect customer feedback, and taken advantage of technological processes discovered by competitors. Strategically, Zara focuses on both efficiency and effectiveness through maximizing their usage of resources and producing quality outputs that reflect the latest fashion trends.

The strategy of an organization can be categorized based on its approach towards exploration and exploitation of the market. High exploration is characterized by a great focus on finding new technologies, or changing the way that things are usually done in the industry. With a focus on innovation in terms of using new technologies and processes, Zara has demonstrated that their organization is high in exploration in these ways:

- **Exploration of New Technology:** In the last year, Zara has trialed self-service tills that allow customers to remove security tags. In addition, they are trialling digital mirrors that allow customers to virtually try on clothing without removing them from the shelf. Both of these technologies are new for this industry.

- **Communication of Customer Demands:** Unlike its competitors, Zara has created a global network of direct feedback from shoppers instead of relying solely on electronic sales data. Retail employees are tasked with collecting opinions from customers at the point of sale, and input this information into an internal communications system daily.

- **Production and Distribution Process:** Zara has revolutionized the production and distribution process. By updating collections much more frequently and stocking very little, Zara has innovated a new production process with different ratios of when clothing is produced. This is done by taking advantage of their supply chain, and allows them to keep up with fast fashion trends.

Exploitation of the market entails taking advantage of known technologies and processes. Moreover, high exploitation is characterized by firms taking advantage of their resource utilization and current market position. Zara is an organization that is high in the exploitation index: in addition to innovating new processes, Zara also adopts technologies after they have been successfully trialed by other firms. One such example is their implementation of RFID
technology. In 2012, retailers across different industries implemented radio frequency identification chips for inventory-tracking purposes. Many of these companies, such as JC Penney, experienced difficulties in the usage of this technology.

Two years later, Inditex—which is the parent company of Zara—announced that they had learned from their competitors’ mistakes and would be implementing the RFID technologies in Zara. In addition, exploitation involves efficiencies in the utilization of the organizations’ resources: this is exhibited in Zara taking advantage of its close relationships with its suppliers. Zara’s strategy of exploitation is also reflected in its tendency to produce refined designs similar to that of competitors’ successful pieces. Ultimately, Zara is situated in the strategy space as an analyzer with innovation.

The Environment Space – Locally Stormy Environment
As a firm in the dynamic fashion industry, there are many external elements that affect Zara’s performance. There are four crucial factors in Zara’s environment:

- **Customers:** The fashion industry is highly dependent upon the cultural trends and norms that prevail in the market. If Zara does not produce clothing pieces that correspond with the current trends, customers can easily find another fashion retailer to replace them. The ability of an organization to quickly respond to the right fashion trends is imperative in this industry.

- **Competitors:** Zara offers clothing lines for various demographics, including males, females, and children: because of this, there are multifarious competitors in Zara’s competitive landscape, ranging from lower-end retailers (such as H&M and Forever 21) to the higher-end stores (such as Banana Republic). In doing business, Zara must take into account the prices, type of product, and quality of product that its competitors are offering.

- **Economic Factors:** Organizations in the fashion industry, especially the high-end retailers, are greatly affected by economic booms and busts. During recessions, customers have less disposable income and are disinclined to purchase new clothing—especially high-end clothing. Bad economic periods consistently result in lower sales for clothing items, consequently driving up the costs of inventory for retailers.

- **Technological factors:** The availability of resources undoubtedly affects Zara’s financial performance. The price and scarcity of certain materials, such as cotton or leather, have a direct impact on Zara’s financial outcomes.

In the environmental space theory, the two dimensions of complexity and unpredictability determine the quadrant that the organization is situated in. Despite having a fair number of powerful forces in their environment, Zara is low on the complexity dimension because the interdependency of the environmental forces is low; however, a quick analysis of the factors, particularly economic trends and fashion trends, will reveal that the unpredictability of each factor is extremely high. For instance, customers are unlikely to directly influence or be influenced by the availability of resources; that said, the fashion demands of customers and the scarcity of certain material inputs are very difficult for management to forecast. The factors in the environment are relatively independent, but highly unpredictable: this means that Zara is in a locally stormy environment.
The Organizational Design Space (Spanning Geography) – International

With a vertically integrated supply chain, Zara has a differentiated method of sourcing its materials. Instead of taking advantage of cheaper labour in non-European countries, the vast majority of Zara’s clothing is produced in Europe and all pieces of clothing go through Zara’s distribution centre in Spain. This process may appear cost-inefficient due to increased labour costs, but it matches their strategy of keeping up with fast fashion: it consolidates shipping and saves Zara from having to mark-down items that have become unfashionable. Zara does not customize its operations in different local regions or offer unique products to meet the local preferences. In fact, Zara demonstrates complete consistency across countries with identical product lines, black and white store layouts, and even the same in-store music.

The two dimensions in the organizational design space of structures spanning geography are local responsiveness and optimal sourcing. The local responsiveness of Zara is low. It can be argued that Zara has a locally responsive supply chain, as its vertically-integrated supply chain allows it to respond quickly to replenishment demands of retail hubs; however, Zara offers the same products worldwide, no matter where the products are sold. This indicates that management does not differentiate local preferences into the manufacturing and distribution of products. Work practices across countries are also consistent with the way that the corporate headquarters wants work to be done.

Zara is high in terms of optimal sourcing, but close to the line between the “International” quadrant and the “Global” quadrant. Zara locate operations to maximize customer contact. Their retail locations are strategically placed: because they do not invest in commercial marketing of their brand, Zara carefully selects the best retail sites, considering shopper traffic and surrounding competitors to maximize customer contact. Conversely, the location of Zara’s production facilities are not cost-efficient, as labour costs are considerably higher in Europe than in Asia and the centralization of distribution causes higher shipping costs. However, the centralization of production brings lower overall costs to Zara because it allows the firm to follow fast-fashion and avoid markdowns. The cost inefficiencies inherent in the geographical design of Zara are a small price to pay for greater profits that are realized through their overarching, successful fast-fashion strategy. Being high in optimal sourcing and low in locally-responsive, Zara is categorized as “International” in this theory.

Conclusion: Fits and Misfits

From the analysis of their strategy, Zara pursues both efficiency and effectiveness. When looking at the fits and misfits table, it becomes apparent that the categorization of Zara’s environment and geographic distribution are incongruent with its organizational goals and apparent strategy. I would argue that the locally stormy environment and international geographic distribution are not misfits in Zara’s organizational design. Zara’s focus on supply chain efficiency and production innovation has made it an anomaly within its industry, as it has allowed the store to minimize the losses created by the unpredictability of the industry. Its geographic distribution strategy may be seen as a misfit from an outsider’s perspective, but is simply a small part that corresponds with their larger strategy of being consistent across countries and ever-changing in product offerings.