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Strategic analysis of ZARA

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Declaration of Authenticity

I hereby declare that the Bachelor´s Thesis presented herein is my own work, or fully and specifically acknowledged wherever adapted from other sources. This work has not been published or submitted elsewhere for the requirement of a degree program.

Prague, May 1, 2018 Signature

A c k n o w l e d g e m e n t

I would like to express my gratitude to my supervisor Ing. Ladislav Tyll, MBA, Ph.D. for helping and guiding me through the process of writing of this bachelor’s thesis.

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Abstract

The subject of the bachelor's thesis is the main brand of the fashion apparel retailer Inditex – ZARA. The purpose of the thesis is to execute a strategic analysis of economic activity of the company, assess the efficiency of the current strategy and elaborate on recommendations and suggestions aimed at enhancing the strategy of the organization. ZARA is fast fashion (clothing and accessories) retailer headquartered in Spain.

The bachelor thesis consists of two parts: theoretical and practical. The theoretical part involves the fundamental principles of business strategy, and methodological tools employed in conducting the strategic analysis. The practical part describes the organization, its economic activity as well as its financial performance. Additionally, the second part of the thesis includes the detailed strategic analysis of Zara based on methodology and strategic tools studied in theoretical part of the thesis.

Key words:
ZARA, Inditex, fashion retailer, strategy, strategic analysis

Content

Introduction

Relevance. The importance of performing strategic analysis in the modern companies is attributable to unstable economic situation on the market. Strategic planning – a process of creating and implementing strategies aimed at accomplishing organizational goals, not to mention, it helps an organization to maintain its business in the long-run and to properly allocate its resources.

Strategic analysis is considered to be a foundation of strategic management, which not only assesses the current situation of the company, but also reveals new opportunities to grow in the future.

The fundamental principle of organization's profitability within all the process in the company is establishing a sustainable competitive strategy.

Thus, strategic analysis can be considered a starting point in formulation and implementation of strategic management within all aspects and economic activities of the organization, providing evidence of relevance of the selected topic for the thesis.

The purpose of the Bachelor's Thesis is to formulate the strategy for Zara by executing strategic analysis of its activities. In order to accomplish this objective, it is necessary to solve the following **tasks**:

- Discover the essential elements of strategic analysis concept;
- Discover the theory of strategic analysis methodology;
- Draw up the organizational and economic characteristics of Zara;
- Carry out a comprehensive external environment analysis of Zara;
- Pursue the analysis of internal resources and capabilities of Zara;
- Formulate the recommendations to perfect the strategy of Zara.

The **object** studied in the Bachelor's Thesis is Zara, a subsidiary company of Inditex Group, whereas, the **subject** – research and implementation of different tools of strategic analysis in order to improve the strategy of the organization.

The **hypothesis** of the current research claims that performing the strategic analysis in practice by a business entity can be considered an analytical foundation for formulating its competitive strategy.

The following **research methods** were used in the writing of the thesis: comparison and reflection, analysis and synthesis, modeling, analysis of statistical data and comparative analysis were used in the writing of the thesis.

The volume and structure of the thesis. The Bachelor's Thesis consists of introduction, theoretical and practical parts, conclusion, list of literature and sources.

Degree of elaboration of the problem. The evolution of business strategy has been necessitated more by the practical needs of business than by the development of theory. During the 1950s and 1960s, executives of bigger organizations were having hard time coordinating decisions and maintaining control in companies that were growing in size and complexity. The new approaches of corporate planning were especially useful for developing and guiding the diversification strategies that many large companies were pursuing during the 1960s. By the mid-1960s, most large U.S. and European companies had set up corporate planning departments.

There are many acknowledged scholars who contributed to the development of strategic analysis, some of them are: P. Kotler[1] whose works on strategic planning are still used as a base for strategic analysis; M. Porter[2] with his studies about competitive strategy, M. Grant, G. King, G. Collins, R.D. Basel, I. Ansoff, etc.

[1] Strategic Marketing Management by Philip Kotler 7 ed. Published by Cerebellum Press 2012

[2] Competitive Strategy: Techniques for Analyzing Industries and Competitors by Michael Porter. Published by New York: Free Press 1980

1. Theoretical Part

Strategic analysis, in practice, is a time consuming and complex procedure. Mostly it is due to inability to access the necessary information that often is not disclosed or disclosed incorrectly. In addition, the information required for an execution of strategic development can be classified as a state or commercial secret.

However, obtaining the correct information is not enough, it is essential to be able to appropriately interpret and implement the given information. It applies also to the results of the strategic analysis: properly formulated conclusions and clearly stated strategic objectives, - are primary indicators of successfully performed work.

The research in the field of strategic analysis requires to assess the certain framework within which the analysis is performed; what approaches are undertaken in the analysis; what are advantages and disadvantages of the selected methodology; what conclusions can be drawn from properly performed strategic analysis; how the company benefits from these actions; how to maintain further control.

The development of the strategy serves as a base for management of the business entity. Therefore, establishing such a strategy ensures that organization would not operate in a chaotic manner, but according to particular strategic scenario. Essentially, strategic analysis utilizes systematic scientific approaches and methods for pursuing the analysis of business entity's main activities and it also accounts for all kinds of impacts of the environment influencing these activities.

In modern business world, both in theory and in practice, it is crucial to systematically manage and treat a business structure as an open system, closely interrelated with the external environment. This way, strategic analysis takes into account all impacts of the external environment and allows managers to determine the competitive direction the company should pursue. In the long run, the management of a business entity should understand what opportunities and threats surround the organization, and how to forecast the changes in the environment.

Undoubtedly, a unified strategic management coordinates the actions of all units within the organization and allows them to distinctly regulate their activities.
The main feature of the strategic approach is the target orientation, in other words, a merger into a single directed technological process of all components of activities, such as analysis, planning, organization, accounting and control etc. to accomplish organizational goals.

It should be noted, that conducted research concerns only business entities operating in the market (free) economy, and therefore, all described strategic tools and methods are considered only for companies operating under the appropriate conditions. A market economy is defined as an economic system in which economic decisions and the pricing of goods and services are guided solely by the aggregate interactions of a country's individual citizens and businesses. There is little government intervention or central planning (Investopedia, n.d).

1.1 The concept of strategic analysis and its essential elements

Origins and Military Antecedents. Organizations require business strategies for the same purpose that armies require military strategies – to provide direction, to allocate resources more efficiently and to coordinate the decisions. The majority of the concepts and theories of business strategy came from the military strategy. The term strategy derives from the Greek word *strategia*, meaning "generalship".
Strategic decisions both in military or business area have three basic characteristics:

- they are important
- they involve a significant commitment of resources
- they are not easily reversible (Grant, 2010).

What is Strategy? Strategic management and strategic planning of enterprises were studied by many scholars, such as: Ackoff, 1972; Ansoff, 1989; Porter, 1991; Mintzberg 1998 and others. According to Ansoff (1989), strategy is a set of certain rules for making specific decisions that provide guidance for the company and any other entity in the respective fields. Johnson, Scholes and Whittington (2008) defined strategy as a direction and scope of an organization over the long term, which achieves advantage in a constantly changing environment through its configuration of resources and competences with the purpose of fulfilling stakeholder expectations. Despite the fact that majority of academic works use the similar notions of the word "strategy", there is still a need for an unambiguous definition of this term.
Strategy is an integrated action model that is designed for achieving specific goals of an enterprise. The essence of the organizational strategy is a set of certain rules and necessary solutions used for defining the primary activities of the business entity.

The literature on strategic planning provides two absolutely different point of views on strategy. In the first point of view, strategy – is a formulated long-term plan of achieving necessary objectives, whereas strategy planning – is an action, as a result of which a certain goal is established and long-term plan is developed. Thus, this method is based on the fact that all changes arising during the process, are predictable, and the specific actions taking place obtain specific nature and are under control (Ireland et.al, 2009).

The second definition claims that strategy is a direction of organizational development that has a long-term and qualitatively defined character, affecting the areas, means and aspects of organizational activities, the system of internal relations, as well as the position of a company.

Corporate and Business Strategy. According to Grant, in an unstable and uncertain environment, a clear sense of direction is vital to the accomplishment of goals. As Michael Porter has indicated, strategy is not about doing things *better* – this is the concern of operational effectiveness – strategy is about doing things *differently*. Therefore, the essence of strategy is making choices. Strategic choices can be divided to two simple questions:

- Where to compete?
- How to compete?

The answers to these questions also determine the main fields of a firm's strategy: corporate strategy and business strategy.

Corporate strategy determines the scope of the firm in terms of the industries and markets in which it competes. Corporate strategy decisions consist of choice over in diversification, vertical integration, acquisitions and new ventures; and the allocation of resources between the different businesses of the firm (Grant, 2010).

Business strategy is concerned with how the firm competes within a particular industry or market. If the company is to succeed within an industry, it must set a competitive advantage over its competitors. Thus, this field of strategy is also addressed to as competitive strategy.

1.2 Strategic Analysis of an Enterprise

Strategic analysis serves to provide necessary information for managers in order to create a strategy for an enterprise. It seems quite clear and simple, however, in reality organizations face one of the most prevailing problems at the level of strategic management.

At the time when an enterprise is embarking on a strategic analysis, the question arises: what should include such an analysis; what sort of information is specifically needed by managers in order to create a strategy? An enormous amount of attempts were made to formalize this process and identify a standard form of strategic analysis, under which the company will accurately provide the necessary information to create and develop a strategy.

The main challenge lies in the fact that, there is a large number of instruments and tools for conducting strategic analysis. At the same time, there is no guarantee that an enterprise, using those strategic tools, will be able to work out some optimal and correct strategy. The methodology of strategic analysis can only assist a manager in classifying and bringing into the system an information that influences decision making, however, a manager first-hand needs to make a decision.

Strategic fit

Fundamental to this view of strategy as a connection between the company and its external factors is the definition of *strategic fit* (Grant, 2010). For a strategy to be a success, it has to be concordant with the company's external environment, and with its internal characteristics – its objectives and values, resources and capabilities, structure and systems. Evidently, many companies have failed due to the lack of coherence with either internal or external factors. For instance, General Motors was in a long-term decline due to a strategy that has failed to break away from its long-established ideas about multi-brand market segmentation and adapt to the changing automobile market.

Figure 1. The basic framework: strategy as a link between the firm and its environment (Grant, 2010)

The basic framework for strategy analysis (Grant, 2010) is demonstrated in *Figure 1* above. As it can be observed strategy plays a role of a link between the firm and external environment. The firm embodies three elements: goals and values (consistent long-term goals); resources and capabilities appropriate assessment of resources); and structure and systems (effective realization). The industry environment is determined by the organization's relationships with customers, suppliers, and competitors. The external environment of the firm includes economic, political, technological, and other factors that can directly affect the activities of the firm and its management decisions.

The way of viewing a strategy as a link between the firm and its industry environment is similar to broadly used SWOT framework that will be discussed later in the chapter.

It is essential to distinguish the difference between firm's resources and capabilities. Commonly, a resource refers to a company's most strategically important asset, whereas a capability refers to the basis of a company's competitive advantage over rivals.

The task of strategic analysis, then, involves determining how the firm utilize its resources to achieve its long-term goals, and how the firm is planning to implement such a strategy *(see Figure 3)* (Grant, 2010).

Figure 3. Common elements in successful strategies (Grant, 2010)

From Environmental Analysis to Industry Analysis

The business environment of the firm include of all the external influences that influence its decisions and performance. Due to the large number and range of external influences, it is a complex process to monitor, let alone analyze, environmental conditions.

The starting step is some kind of system or framework for organizing information. For instance, environmental impacts can be categorized by source – for example, into political, economic, social, and technological factors ("PEST analysis") - or by proximity – the "micro-environment" or "task environment" can be determined from the broader impacts that form the "macro-environment". Consistent, continuous monitoring of the whole range of external influences might seem desirable but such extensive environmental analysis incurs high costs and creates information overload (Grant, 2010). The premise for valid environmental analysis is to differentiate the vital from the merely important. To do this it is necessary to go back to first principles. A firm makes profit by creating value for its customers. Hence, the firm must understand its customers. Second, while creating value, the firm acquires goods and services from suppliers. Therefore, it must understand its suppliers and manage relationships with them. Thirdly, an ability to generate profits depends upon the severity of competition in the industry that vie for the same value-creating opportunities. Hence, the firm must understand competition. Thus, the essence of the firm's business environment is shaped by its relationships with three sets of players: customers, suppliers and competitors. This is its industry environment.

Macro-level factors such as general economic trends, changes in demographic structure, or social and political trends may be critical determinants of the treats and opportunities a firm will face in the future. The primary issue here is how these more general environmental factors affect the company's environment (see Figure 2).

Figure 2. From environmental analysis to industry analysis (Grant, 2010)

Strategic analysis tools

Among widely used tools for strategic analysis are the following:

- Assessment of vision and mission of the company;
- Stakeholder analysis;
- PEST analysis;
- Porter's five forces;
- Competitor analysis;
- VRIO analysis;
- Value Chain analysis;
- SWOT analysis
- Space analysis;
- Benchmarking;
- Performance analysis.

At this stage of the analysis, it is crucial for managers to avoid collecting both too much and too little information. Additionally, the time scale must also be taken into consideration. Practice shows that in some situations it is more important to make an immediate decision at a given moment rather than to waste time on a development of a right time-consuming decision, because the information may be outdated and, therefore, irrelevant for a successful strategy implementation.

Another crucial issue is following a certain order when implementing above mentioned analyses. Managers can't start evaluating competitive environment before they assess the external environment first. Hence, strategic analysis must follow a particular pattern.

First of all, it is necessary to provide description of the firm, define its mission and vision, and sets of goals. The next step would be to pursue a stakeholder analysis to define who is actually affected by the company and to what extent. After gaining more information about the company and its stakeholders, it is essential to carry out an external environment analysis which includes both macro and micro environments. The purpose of macro-environmental analysis is to predict future trends and recognize possible impacts of these changes on the firm and the industry. One of the most popular and simple to use within macro-environment, strategic tools is **PEST** analysis. Strategists, then, need to interpret the complexities of industry competition by executing **Porter's Five Forces** analysis. To understand and predict competitors' strategies and reactions to environmental changes and firm's own moves, a firm needs to be informed about them, hence, **competitor analysis** comes in handy.

After assessing both external and competitive environments, strategists would have to evaluate internal characteristics of the firm. Company's strategic position is defined by its resources and capabilities, therefore in order to evaluate the company's resources and thus the competitive advantage, analysts execute analytical technique called **VRIO** analysis. Now, when the firm's resources and capabilities are assessed, managers need to figure out what internal firm activities are the most valuable to the firm and which ones could be improved to serve as a competitive advantage, hence, the **value chain** analysis is performed. Further step in the analysis is to identify firm's internal strengths and weaknesses, as well as its external opportunities and threats, in other words to carry out **SWOT** analysis. This framework is widely used due to its simplicity and effectiveness: it helps managers to focus on the firm's strengths, minimize threats, and take the greatest possible advantage of the opportunities available to the company. When internal resources, activities, strength and weaknesses are assessed, an analyst is able to evaluate the firm's position on the market and determine strategic options for its development by performing **SPACE** analysis. Last step in the internal environment analysis is **benchmarking** that serves to help managers determine what and where improvements are necessary, to analyze how other companies accomplish their high performance levels, and to use this information to enhance the performance.

Finally, after assessment of both external and internal characteristics of the firm, managers need to measure the performance. **Performance analysis** is used for evaluation of performance in terms of direct economic outcomes and overall organizational effectiveness. Economic outcomes can be assessed through product markets, profitability, and financial market measures. Organizational effectiveness can be assessed through Balance Scorecard.

Since the linkages between analyses are clearer now and the logic behind its implementation is explained, the basic frameworks of above mentioned analyses are described next.

Assessment of vision and mission of the company

The vision, mission and values are, as a rule, set up when the organization is initially established and these statements are incorporated into the firm's strategic plan.

Establishing the vision, mission and values is an ongoing process of review to ensure that they are still relevant for the current challenges and environment. Many companies find it useful to review these at the start of their process of strategic planning.

While the most explicit statements of strategy are almost invariably confidential, most companies see value in communicating their strategy to employees, customers, investors, and business partners – and, inevitably, to the public at large (Grant, 2010)

Collis and Rukstad (2008) made a proposal of strategy statements hierarchy, as follows:

- The **mission** statement is the general statement of organizational purpose, it addresses *"Why we exist."*

A mission statement is a concise explanation of the organization's reason for existence. It serves as an explanation for the organization's purpose and its overall intention. The main objective of the mission statement is to communicate purpose and direction to employees, customers, vendors and other stakeholders. Mission statement must be short (not more than one sentence), precise, accessible, and distinctive.

- A **values** statement indicates *"What we believe in and how we will behave."*

- The **vision** statement projects *"What we want to be."*

A vision statement looks forward and creates a mental image of the ideal state that the organization wishes to achieve. It is inspirational and should challenge employees. Vision statements should be approximately one paragraph long, future oriented, clear and accessible.

Stakeholder analysis

Stakeholder analysis serves to identify whose interests should be taken into consideration when developing and/or implementing a strategy by consistently obtaining and studying information about them.

Stakeholders in a process are actors (persons or organizations) with a vested interest in the strategy being executed. These stakeholders, or "interested parties," are usually grouped into two categories: primary (key) stakeholders and secondary stakeholders. Primary stakeholders include: shareholders, employees, investors, suppliers, distributors, customers, and competitors. Whereas, secondary stakeholders are: local communities, local authorities, foreign governments, social/interest groups, media, public, entrepreneurial groups etc.

Managers can use a stakeholder analysis to identity the key actors and to evaluate their knowledge, interests, positions, alliances, and importance related to the strategy. This enables an organization to interact more efficiently with key stakeholders and to increase support for a given strategy. When stakeholder analysis is performed, before a strategy is executed, managers can identify and proceed to prevent potential misjudgments about opposition to the strategy.

One of the most popular methods used to perform a stakeholder analysis is stakeholder mapping. The purpose of stakeholder mapping is to deal with stakeholders' conflicting demands. Strategic mapping serves to determine stakeholder expectations and power and assist in setting priorities. The process includes making decisions on the following two issues:

- How likely is the stakeholder to exercise power?
- What amount of power a stakeholder holds over firm to impose its wants?

Mendelow (1991) proposed a method for mapping stakeholders that is demonstrated in Figure 4. The main objectives of this matrix is to assess whether stakeholder resistance is likely to prevent the strategy from succeeding and what policies may facilitate the acceptance of the strategy? The matrix is normally completed with respect to the stakeholder influence of a certain strategy.

The following strategies might be relevant to each quadrant:

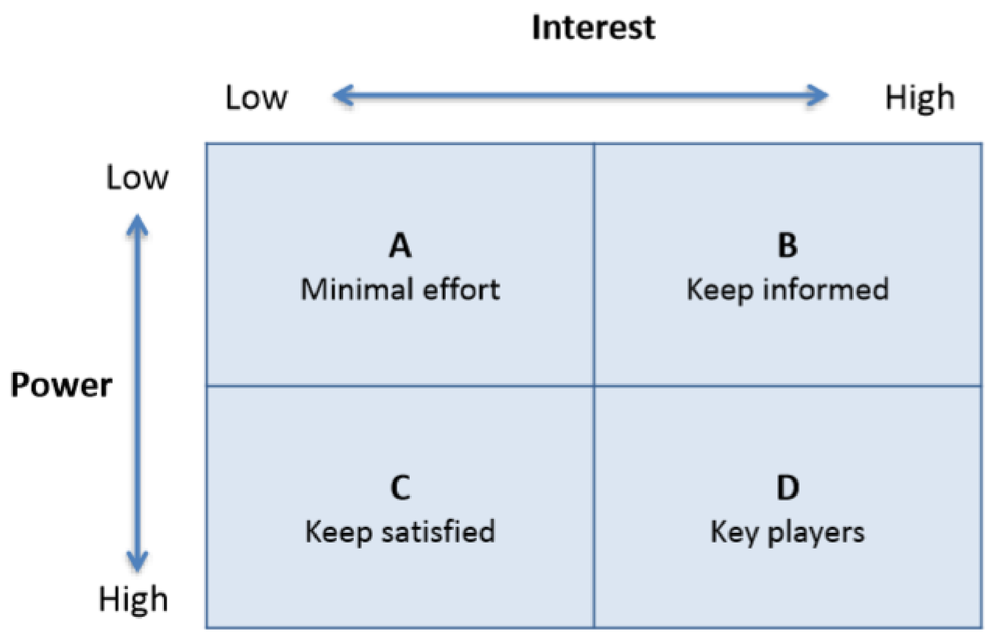
Quadrant A – Minimal effort
The stakeholders related to this group lack both interest and power, which makes them easier to influence. These stakeholders are more likely than others to agree with what they are instructed to do.

Quadrant B – Keep informed
These stakeholders have a high interest in the firm's strategy, however, they do not have the power to do anything. Managers should keep these stakeholders informed and convince opponents to the strategy to accept it, otherwise stakeholders from group B attempt to gain power by joining stakeholders from groups C and D.

Quadrant C – Keep satisfied
Stakeholders from category C lack interest in the firm's strategy, but can easily influence it due to their high power over the company. Therefore, management should keep these stakeholders satisfied before they gain more interest and move to the group D.

Quadrant D – Key players
These stakeholders require the most attention due to their high interest in firm's strategy and high power. Hence, managers have to announce their plans to them and discuss execution problems.

Figure 4. Mendelow power/interest matrix (Mendelow, 1991)

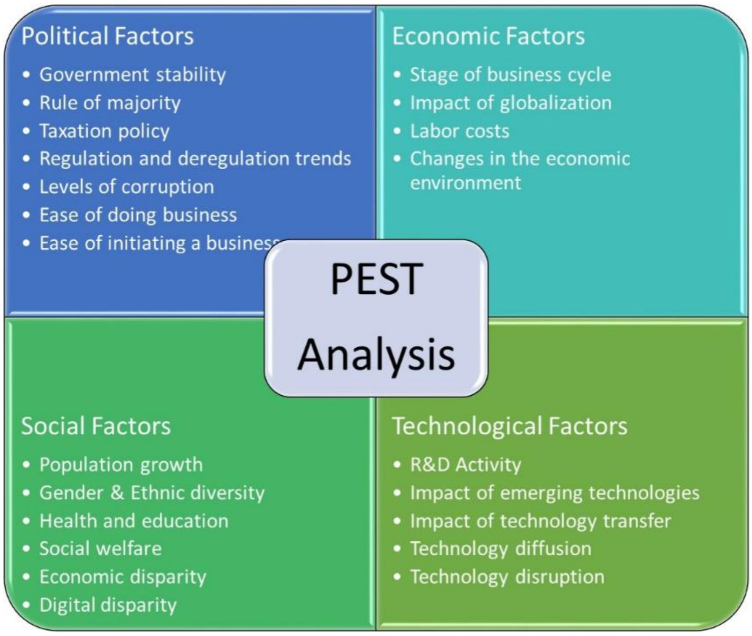


PEST Analysis

The purpose of macro-environmental analysis is to predict future trends and recognize possible impacts of these changes on the firm and the industry. One of the most popular and simple to use within macro-environment, strategic tools is PEST analysis.

The methodology of PEST analysis is often used to assess the main trends in the market of the industry. The results of PEST analysis can be used to compile opportunities and threats for SWOT analysis of the company. PEST analysis is a strategic planning tool that is formed for three to five years, with annual data optimization. The analysis can be performed in the form of a matrix of 4 quadrants *(see Figure 5)* or in the form tables.

Figure 5. The framework of PEST analysis (Business Frontiers, n.d.)



Political factor

Political factors are focusing on the political and legal environment of the enterprise. During the analysis of the political and legal environment, it is recommended to obtain information on all issues that are responsible for the most important changes in the field of political permanence and legal stability.

Firstly, it is necessary to find out whether there will occur any changes concerning legislative terms within the country, market, or even the whole industry, in the next time period. This enables managers to assess the impact of such changes on business activity of the firm.

For example, the introduction of new laws restricting the use of mark-ups on goods, prohibiting advertising or other methods of promotion, changing the requirements of product certification could tremendously affect the business operations.

Secondly, managers should monitor the level of government intervention in the business and evaluate the changes and significance of such level.

Thirdly, is the level of corruption in the industry significant, and also how does it affect the company's operations?

And finally, the fourth, are there any possible changes, simplifications, or complications, in relations with countries or enterprises at the international level?

Political changes may cover the following areas:

- International legislation
- Healthcare policies
- Fiscal policy
- Unemployment, and public sector
- Taxation policies
- Government agencies controlling industrial relations and competition
- Transparency and corruption regulation

- Other regulations related to CSR issues

Economic factor
Economic factors have the most obvious influence on the profitability and overall attractiveness of a market or an industry.
Economic factors include all the economic variables related to political factors:

- Economic development (stagnation, decline, growth)
- Changes in exchange rates
- Changes in unemployment rate
- Inflation level shifts
- Changes in per capita income
- Fiscal policy tax on corporations and individuals
- Seasonality of economic cycles

Social factor
With the social factor, a business can analyze the socio-economic environment of its market via following elements:

- Customer demographics
- Psychographics and lifestyle: values, attitude and beliefs
- Consumer purchasing behavior
- Class and segmentation of the market
- Population shifts, aging

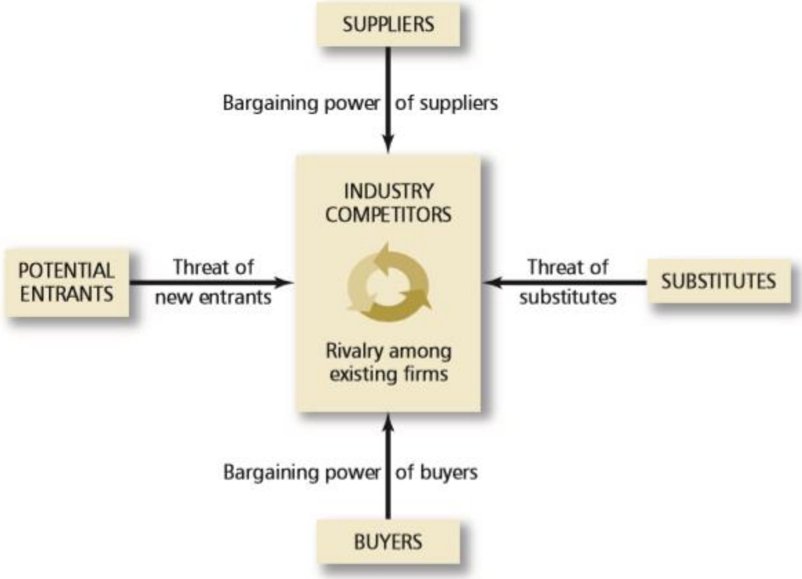
Technological factor
Technological factors describe the rapid pace of technological change, such factors must be carefully analyzed in connection to the fact that shifts in technological processes can significantly influence the state of the market the firm operates in.
The following factors are related to influence of technology on business:

- New software and business process support
- Transport and new distribution channels
- Innovation in production process
- Innovation in pricing
- Technological impact on production, pricing, product design, consumption

Porter's Five Forces Model

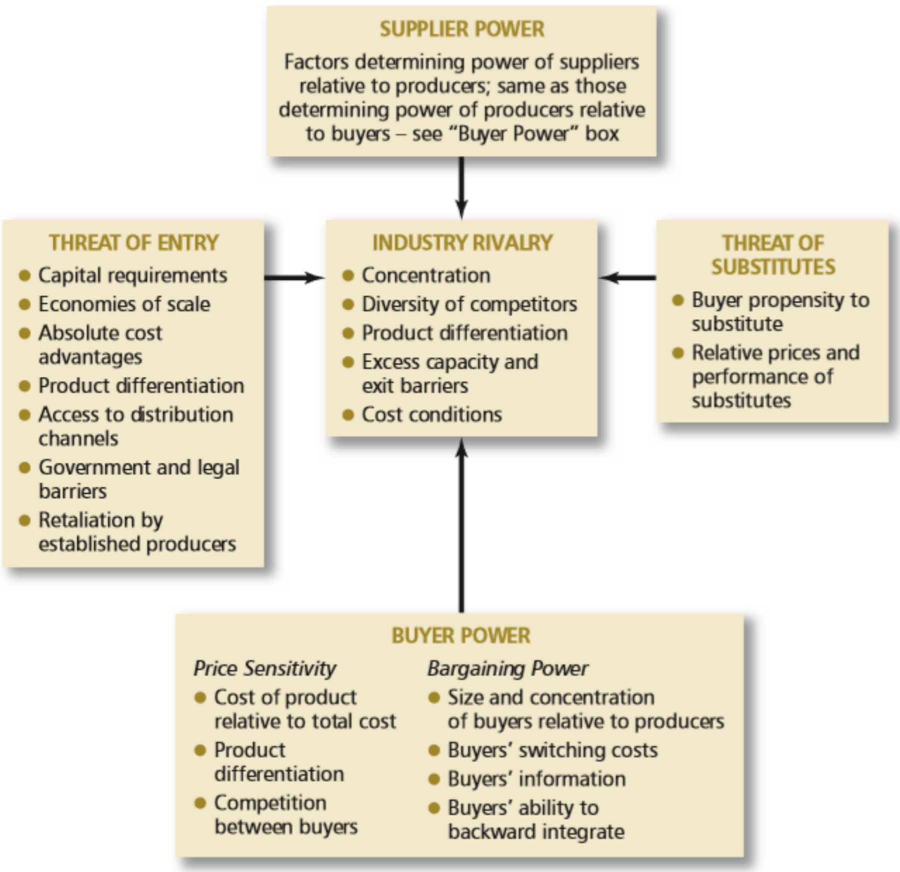
The model most often employed to evaluate the forces that are molding competition in an industry is the Five Forces Model of Competition illustrated in *Figure 6* (Porter, 1991). Porter's model is designed to focus on aggregate industry impacts, rather than on a specific firm (Boardman, Vining, 2003). Nevertheless, it can be adapted to specific-firm analysis. Porter's five forces framework perceives the profitability of an industry (as indicated by its rate of return on capital relative to its cost of capital) as determined by five sources of competitive pressure. These five forces of competition contain three sources of "horizontal" competition: competition from substitutes, competition from entrants, and competition from established rivals; and two sources of "vertical" competition: the power of suppliers and power of buyers (see Figure 6).

Figure 6. Porter's Five Forces Model (Porter, 1991)



The strength of each of these competitive forces is determined by a number of key structural variables, as shown in Figure 7.

Figure 7. The structural determinants of the five forces of competition (Grant, 2010)



Competition from substitutes

The price that consumers are willing to pay for a product partially depends upon the availability of substitute product. Therefore, due to the absence of close substitutes for products such as gasoline or cigarettes, means that customers are relatively insensitive to price. On the other hand, the existence of close similar products indicates that customers will switch to substitute as a reaction to price increases for a product. For instance, travel agencies, newspapers and telecommunication providers have all been negatively influenced by internet-based substitutes.

The degree to which substitutes suppress prices is dependent on the tendency of buyers to substitute between alternatives. Consecutively, this depends on their price-performance characteristics. It is worth noting, the more complex the product and the harder it is to recognize performance differences, the lower the degree of substitution by customers on the basis of price differences.

Threat of entry

If return on capital earned by an industry exceeds its cost of capital, it will automatically attract firms outside the industry. This way, the rate of profit will fall to its competitive level if the entry of new companies is unrestricted. Generally, the threat of entry rather than actual entry is enough to guarantee that established companies restrain their prices to the competitive level. An industry with no barriers to entry/exit is contestable: prices and profits tend toward the competitive level, despite the number of companies in the industry. Contestability, in turn, is dependent on the absence of sunk costs, in other words, investments whose value is unrecoverable when exiting. An absence of sunk costs leaves an industry exposed to "hit-and-run" entries whenever established companies increase their prices above the competitive level.

However, in most industries, established companies have an advantage over new entrants – a barrier to entry. The height of this barrier is, as a rule, measured as the unit cost disadvantage faced by would-be entrants.

The principal barriers to entry are: capital requirements (large capital cost of becoming established as to discourage potential entrants), economies of scale (efficiency requires large-scale operation), absolute cost advantage, product differentiation (established companies hold the advantage of brand recognition and customer loyalty), access to channels of distribution, governmental and legal barriers (legally protected forms of intellectual property), retaliation (to avoid retaliation by incumbents, new entrants may seek initial small-scale entry into less visible market segments), and the effectiveness of barriers to entry.

Rivalry between competitors

The significant determinant of the state of competition and overall level of profitability is rivalry among the companies within the industry. The competitors, in some industries, compete very aggressively – to the point where prices are cut down and the level of costs and losses are incurred. Nevertheless, there are other ways to compete, apart from price cutting, such as advertising, innovation etc. The intensity of rivalry is determined by the interaction of six aspects: concentration, diversity of competitors, product differentiation, excess capacity and exit barriers, and cost conditions.

Concentration refers to the number and size distribution of companies competing within market. Generally, it is measured by the concentration ratio (the joint market share of the market leaders). When the number of companies operating in the industry increases, the probability of one firm initiating price cutting also increases. Although there is no evidence that profitability increases with concentration, it is proven that new entry stimulates the price competition, and exit reduces it.

Diversity of competitors directly affects the intensity of competition because the more different the firms are in terms of their origins, objectives, and strategies, the more intense the competition gets. For instance, the intense competition within European car industry caused by different national origins, costs, and management styles of competing companies.

Product differentiation. When competing firms offer similar products, customers are more willing to switch between them, which in terms, leads to firms cutting prices to boost sales. The degree of product differentiation depends on the industry, for example, in pharmaceutical or restaurant businesses products are highly differentiated, thus, price competition tends to be weak, even though there are many firms competing.

Excess capacity and exit barriers. The idea is the balance demand and capacity. Unused capacity stimulates companies to offer price cuts to draw attention of new business. The cost associated with capacity leaving an industry are exit barriers.

Cost conditions: economies of scale and the fixed to variable costs ratio. In the industries, where fixed costs are much higher than variable costs, firms would accept additional business at any price to cover the variable costs. Airline industry serves as a great example, the low variable cost of filling empty seats stimulates airlines to offer strongly discounted tickets on flights with low booking rate. Economies of scale can also persuade companies to compete aggressively on price to gain the cost benefit of greater volume.

Bargaining power of buyers

Basically, companies compete in two kinds of markets: market for inputs, and market for outputs. In input market, firms are purchasing raw materials, and labor services. Whereas in output market, they sell the finished goods to customers, distributors, or manufacturers. Evidently, in both markets the operations create value for sellers and buyers. This value distribution, in terms, depends on the economic power of each side. The level of buying power that firms encounter from customers depends upon two aspects: buyers' price sensitivity, and relative bargaining power.

According to Grant (2010), *buyers' price sensitivity* depends on four primary factors:

- Buyers' price sensitivity increases when the importance of an item as a proportion of total cost is greater.
- The probability of buyer to switch suppliers on the basis of price increases if the products of the supplying industry are less differentiated.
- The more intense the competition among buyers, the greater their eagerness for price reductions from their sellers.
- The more significant an industry's product to the quality of the buyer's product or service, the less sensitive are buyers to the prices they pay.

Relative Bargaining Power. Bargaining power is based on refusal to deal with the other party. The balance of power between the two sides to an operation depends on the credibility and effectiveness with which each makes this threat. Three factors affect the bargaining power of buyers relative to the power of sellers:

- The smaller the number of buyers and the bigger their purchases, the greater the cost of losing one.
- The more buyers aware of suppliers and their prices and costs, the better they are able to bargain.
- In refusing to deal with the other party, the alternative to finding another supplier or buyer is to do it yourself.

Bargaining power of suppliers

Analysis of the relations between producers and their buyers can serve as an analogy for the analysis of the determinants of relative power between the producers and their suppliers. With the exception that it is now the companies in the industry that are the buyers and the producers of inputs that are the suppliers.

Competitor Analysis

The research of competitor analysis and of industry rivalry captures the major part in organization's strategy. Thus, a primary understanding of both matters and its integration is of significant importance when conducting a strategic analysis. A fundamental goal of a competitor analysis is to comprehend and attempt to somehow predict the rivalry, or market behavior, among companies in their pursuit of a competitive position within an industry (Chen, 1996).

Competitors are defined as firms offering the same product (or a substitute product), serving the same clients, and operating in the same geographical area. Abell (1980) stated: "It is important…to identify not only those competitors who mirror your particular approach to the market, but also all the others who intersect you in a market but approach the market from a different perspective".

An acknowledged contributor to a competitor analysis evolution, Michael Porter (1980), declared the importance of a comprehensive competitor analysis in the modern business, and accordingly “the need for an organized mechanism – some sort of competitor intelligence system – to ensure that the process is efficient”. Competitive intelligence includes the consistent collection and analysis of public information about competitors for informing decision making.

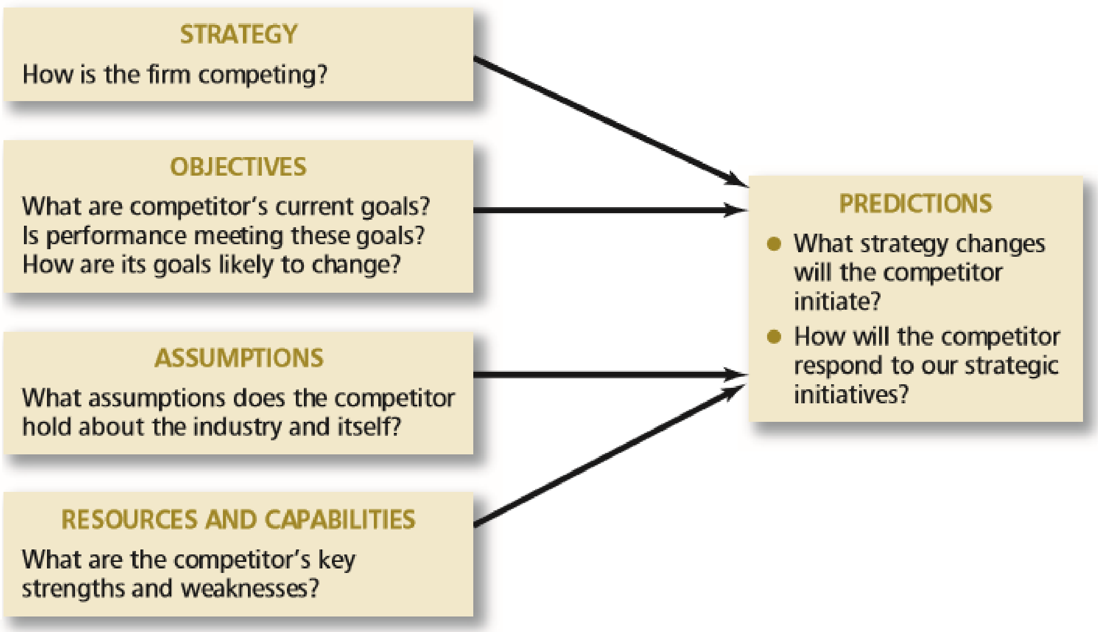
It has three main objectives:

- to forecast competitors’ future strategies and decisions;
- to predict competitors’ likely reactions to a firm’s strategic initiatives;
- to determine how competitors’ behavior can be influenced to make it more favorable.

For all three objectives, the primary requirement is to understand competitors in order to predict their responses to environmental changes and firm’s own competitive moves. To understand competitors, it is essential to be informed about them.

Competitive intelligence is not only about gathering information. The issue is likely to be too much rather than too little information. The principle is a systematic approach that makes it clear what information is necessary and for what purposes it will be used. Figure 7 represents the basic framework for a competitor analysis (Grant, 2010).

Figure 7. Competitor Analysis Framework, (Grant, 2010)



- *Competitor’s current strategy.* To forecast how a competitor will behave in the future, it is necessary to understand how that rival is competing at present.
- *Competitor’s objectives.* To predict how a competitor might change its strategy, it is essential to identify its goals. A primary issue is whether a company is driven by financial goals or market goals. A firm whose main objective is obtaining market share

is likely to be much more aggressive a competitor than one that is mainly driven by profitability goals.

- *Competitor's assumptions about the industry.* A competitor's strategic decision-making is influenced by its perceptions of itself and its environment. These perceptions are led by the beliefs that senior managers has about their industry and the success factors within it.
- *Competitor's resources and capabilities*. Evaluating the probability and seriousness of a competitor's potential challenge requires evaluating the power of that competitor's resources and capabilities. If the rival has a solid pile of cash, it would be foolish for the firm to unleash a price war by starting off price cuts. On the contrary, if the firm directs its competitive initiative towards the rivals' weaknesses, it may be hard for them to respond.

VRIO Analysis

Another method for identifying the competitive potential is the VRIO analysis. VRIO is an abbreviation that stands for Value, Rarity, Inimitability, and Organization.

Value. It is necessary to answer the following: can a separately allocated resource or the organization's ability to withstand external threats? What opportunities will arise? Will this factor affect the quality of goods and the effectiveness of work?

Rarity. Does everyone or only individual competitors have this particular factor or ability?

Inimitability. What difficulties can occur in the simulation of this resource or ability? What are the costs, if the competitor decides to simulate this?

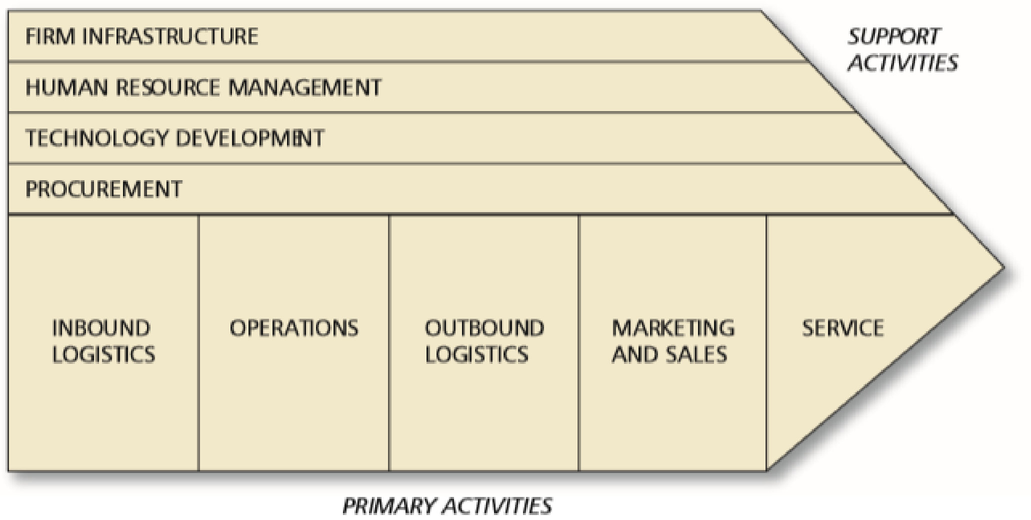
Organization. What level of organization does the company have within its structure? Is it possible to use this resource or ability more effectively?

The uniqueness of this method lies in the fact that it provides an opportunity to shorten the list of all resources in the enterprise, so, that only those that are relevant to the difference between the competitors will be revealed. Moreover, each resource or ability should be checked by the criteria that this method represents.

Value Chain Analysis

Michael Porter first introduced the concept of the value chain in his influential 1985 book "Competitive Advantage" (see Figure 8). A value chain is a group of activities that a firm carries out to create value for its customers. Porter suggested a general-purpose value chain that organizations can use to study all of their activities, and understand how they are connected. The manner in which value chain activities are implemented determines costs and affects profits, therefore, this tool can help managers to understand the sources of value for an organization.

Figure 8. Porter's Value Chain (Porter, 1985)



Primary Activities

Primary activities involve activities that are directly associated with the physical creation, sale, maintenance and support of a product or service. These activities include the following:

- Inbound logistics – all the operations related to receiving, storing, and distributing inputs internally. The supplier relationships are a key aspect in creating value.
- Operations – the transformation activities which are related to activities that produce end products from raw materials and inputs. Here, the operational systems create value.
- Outbound logistics refers to the processes which transfer products to the customer, such as collection, storage, and distribution systems. They could be both internal and external to the organization.
- Marketing and sales involves activities concerning advertising, promotion, product mix, working with buyers and wholesalers, and sales force issues. The benefits a firm offers, and how well it communicates them, are sources of value here.
- Service – the activities associated with maintenance of the value of the product or service to the customers, once it's been purchased. Service involves warranty, repair, installation, customer support, product adjustment and modification.

Support Activities

Support activities support the primary functions above, in other words, each support, or secondary, activity can play a role in each primary activity.

- Procurement (purchasing) is the firm's purchasing of material and supplies for its activities. This includes finding vendors and negotiating best prices.

- Human resource management deals with hiring, training, and developing relations with firm’s workers. People are a significant source of value, therefore, businesses can create a clear advantage with good HR practices.
- Technological development focuses on improving the processes in principal value-adding activity as well as protecting a company's knowledge base. Minimizing information technology costs, keep up with technological advances, and maintaining technical excellence are sources of value creation.
- Infrastructure – the functions that allow the firm to maintain daily operations. Infrastructure combines a variety of activities such as finance, accounting, legal issues, and government relations.

Companies use these primary and support activities to create a valuable product or service.

SWOT Analysis

SWOT analysis (see *Table 1*) is a classical strategy analysis tool based on four fields: strengths, weaknesses, opportunities, and threats (Grant 1998, Dyson 2004). As stated by Hill & Westbrook (1997), SWOT analysis and strategic planning originated from the academics of Harvard Business School in the 1960s. In particular, these scholars defined good strategy as one that guarantees fit between the external situation of a company and its internal qualities and characteristics.

Table 1. SWOT analysis matrix (Whalley, 2010)

	Strengths	**Weaknesses**
Opportunities	How do I use these strengths to take advantage of these opportunities?	How do I overcome the weaknesses that prevent me from taking advantage of these opportunities?
Threats	How do I use my strengths to reduce the impact of threats?	How do I address the weaknesses that will make these threats a reality?

According to N. Ritson (2008), strategic choice is the process of choosing among the alternatives generated by a SWOT analysis. He argues that the process of strategic choice necessitates the organization to create the set of business-level, functional-level and corporate level, strategies that would best enable it to withstand in the fast-changing environment that is an attribute of modern business.

The SWOT analysis framework has two distinctive parts. First, it looks into the internal strengths and weaknesses of a business, and then provides an external view of opportunities and threats (Luffman et al., 1996).

Strengths:

- Core competencies in key areas
- A recognized market leader
- Strong brand identity and reputation
- Appropriate financial resources
- Cost advantage
- Superior manufacturing capability
- Exceptional technological skills
- Product innovation capability

Weaknesses:

- Poor management skills
- Limited financial resources
- Low customer retention
- Weak brand awareness
- Unsteady distribution network
- Inability to keep up with technological advance
- Lack of marketing skills

Opportunities:

- Exploitation of new market segments
- Diversification into new growth businesses
- Ability to attain profitable acquisitions
- Vertical integration forward/backward
- Ability to expand into new customer groups
- Emerging technology

Threats:

- Shift in consumer tastes
- Emerging substitute products
- Increase in foreign competition
- Adverse new policies and regulations
- Growing bargaining power of suppliers and customers
- Slower market growth

When assessing the level of impact of factors on the activities of the organization, one should rely on the period at which the strategy is being developed. Perhaps one of the factors will be unimportant, while the company creates a strategy for one year, and at the same time, this factor can greatly affect the organization if the strategy is developed for three or more years. Therefore, some companies conduct simultaneously several SWOT-analyzes for different terms of strategy planning.

Strategic SWOT-analysis is considered the most simple for understanding and presenting a common vision of the situation in the company, which allows the organization to identify the most favorable direction for the development of the strategy.

Thus, the essence of the strategic analysis of the enterprise and its main strategic tools were studied. The discussed strategic methods will be used in the strategic analysis of Zara of Czech Republic in the next chapter.

SPACE Analysis

SPACE analysis is an assessment of the strategic position and actions. This analysis serves to identify the position of the firm in the market space and also to determine strategic options for its development. This strategic tool is based on the analysis of firm's position and conditions of its functioning under four provisions: competitive advantage, financial position, industry attractiveness, and stability of the economic environment.

The result of the analysis is an expert evaluation of each of these provisions, which determine the strategic position of the enterprise on a six-point scale and their graphical interpretation.

Benchmarking

Benchmarking is a process of measuring the quality of an organization's strategies, programs, policies, products etc., and their comparison with standard measurements, or similar measurements of its peers (Business Dictionary, n.d).

The objectives of benchmarking are to determine what and where improvements are called for, to analyze how other organizations achieve their high performance levels, and to use this information to improve performance.
The objects of benchmarking can be: products, costs, business process, strategy, etc.

Performance Analysis

The last step in strategic analysis is evaluation of performance in terms of direct economic outcomes and overall organizational effectiveness.

Economic outcomes include thee primary dimensions:

- Product markets (sales growth, market share)
- Profitability (profit margin or return on capital employed)
- Financial market measures (share price).

Organizational effectiveness refers to a broader set of performance criteria reflecting internal operational efficiency or measures relevant to a wider range of stakeholders.

The most widely used method for measuring organizational effectiveness is the balanced scorecard developed by Robert Kaplan and David Norton (1996). The **balanced scorecard** methodology proposes an integrated framework for balancing financial and strategic goals and cascading performance measures down the organization to individual business units and departments.
The performance measures combine the answers to four questions:

- *How does the firm looks to shareholders?* The financial perspective is composed of measures such as cash flow, sales and income growth and return on equity.

- *How do customers see the firm?* The customers' view on a firm includes measures such as goals for new products, on-time delivery, and defect and failure levels.

- *What must the firm excel at?* The internal business perspective relates to internal business processes such as productivity, employee skills, cycle time, yield rates and quality and cost measures.

- *Can the firm continue to improve and create value?* The innovation and learning perspective includes measures related to new product development cycle times, technological leadership and rates of improvement.

By balancing a set of strategic and financial goals, the scorecard methodology allows the strategy of the business to be linked with the creation of shareholder value while providing a set of measurable targets to guide this process.

2. Practical Part

2.1 Company’s background

Zara is one of the most well-known fashion retailers in the world, founded by visionary Amancio Ortega Gaona and Rosalia Mera in Artexio, Galicia in 1975. Zara is considered to be the most selling brand under the INDITEX umbrella operating in 88 countries with over 6500 flagship stores worldwide (Inditex, 2018).

In today’s fast-fashion industry it is not easy to create a presence, nevertheless, Zara has managed to push the boundaries and establish a high level of differentiation and is perceived as being a unique organization that is capable to provide consumers with quality products through the well-structured supply chain that competitors within the industry are not capable of imitating.

The success of Inditex is all the more astonishing for two reasons. Firstly, it took place in Galicia, a region without a fashion tradition in a country whose textile regions, Catalonia and Valencia, benefited from trade protection until the 1970s. Secondly, Zara continues to prosper in spite of the rise of retailers from emerging economies, namely China, and ongoing steps liberalizing international textile trade in Spain.

Zara produces men’s and women's clothing, accessories, as well as children's clothing (Zara Kids). Zara's products are supplied in accordance with consumer trends. Due to Zara’s extremely responsive supply chain it is able to ship new collections to stores twice a week. After products are designed, it takes them about 10-15 days to reach the stores. All of the clothing is processed through the distribution center in Spain. New fashion products are examined, categorized, tagged, and loaded into trucks. Usually, the apparel is delivered within 48 hours. On annual basis, Zara produces over 450 million items.

Based on the concept of “Quick Response”, “fast fashion” has been defined as “a business strategy that aims at shrinking the processes involved in the buying cycle and lead times for getting new fashion goods into stores with the purpose of satisfying consumer demand at its peak” (Barnes, Lea-Greenwood, 2006). The business concept of Zara is characterized by three components: short production and distribution lead times (quick response production capabilities); highly fashionable product design (enhanced product design capabilities); and affordable prices for the middle market-between “Prada-Primark” segments (cost control capabilities) (Cachon, Swinney, 2011).

2.2 Assessment of vision and mission of the company

The mission statement of Zara:

"*Bringing attractive and responsible fashion, and improve the quality of customer service, are Zara's priorities*"[3].

Zara's mission statement directly and clearly states its purpose: to create fashionable clothing in sustainable way for its customers. The mission statements is communicating the reason for its existence to the company's employees, customers, investors, and other stakeholders. The mission is only one sentence long, simple, and easy to remember. The mission of the company was found on the official website of Inditex group and required couple of clicks to access the statement, therefore, it can be considered that mission statement of Zara is fairly accessible.

Over the years, Zara has remained loyal to its core values, expressed just in four key words that define all their stores: *beauty*, *clarity*, *functionality* and *sustainability*.

The vision statement of Zara:

"*Zara is committed to satisfying the desires of its customers. As a result we promise to continuously innovate our business and to provide new designs made from quality materials that are affordable*"[4].

The vision statement indicates what Zara wants to "be" for its customers and how the company is planning to achieve it. It is worth noting that customer is at the center of attention in both mission and vision statements. Additionally, the company pledges to continuously bring innovations into its business reflecting the future growth strategies. Lastly, the vision clearly states that Zara strives to make sustainable fashion more affordable for everyone. The vision statement was accessed through the official website of Inditex Group. To sum up, the vision statement of Zara is future oriented, clear, accessible, and easy for their employees to follow and align the company's objectives.

2.3 Stakeholder Analysis

Zara supports transparency and interchange of views with its stakeholders which allows the company to create sustainable value, and constitutes a fundamental tool for facing the challenges and opportunities that arise in the course of the company's activities.

Zara follows global and specific policies that guide its relations with its stakeholders. The Board of Directors has approved policies concerning human rights and corporate social

[3] Available at Inditex.com
[4] Available at Inditex.com

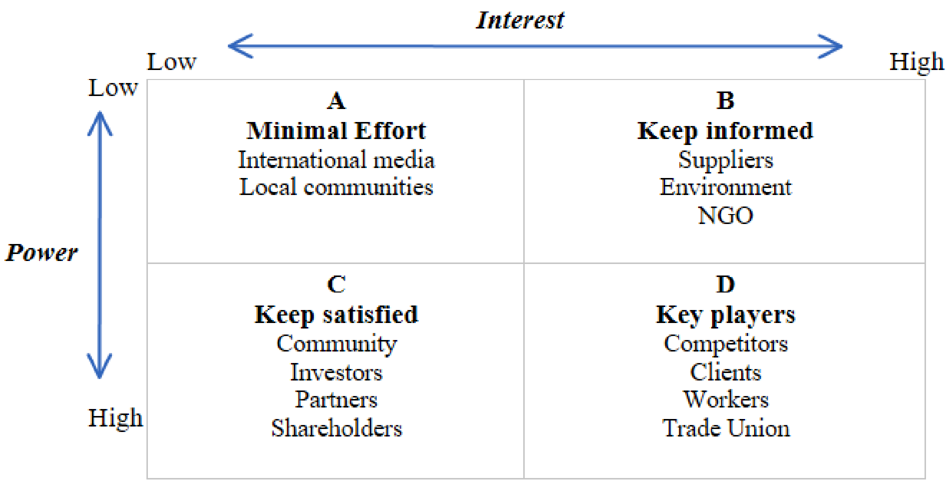
responsibility, among others. Zara also follows a Code of Conduct and Responsible Practices and a Code of Conduct for Manufacturers and Suppliers, all of which bring together the values and principles that guide firm's activities and ensure accountability for its supply chain.

Inditex regularly identifies and reviews its stakeholders. Once identified, these stakeholders are classified and prioritized according to its own business model (see Table 3 in the Annex).

Zara develops a relation strategy and set of dialogue tools based on the prioritization for each set of stakeholders.

Additionally, Inditex has at its disposition a Social Advisory Board that advises the Group on sustainability issues. Advisory Board's members are external individuals or institutions independent from the Group. The Social Advisory Board has a key role in Inditex's relations with stakeholders, as the Advisory Board is responsible for formalizing and institutionalizing dialogue with key players across communities in which the Group operates (Inditex Annual Report, 2016).

Figure 9. Mendelow Matrix of Zara (Author, 2018)



As the Mendelow matrix demonstrates (see Figure 9) the stakeholders of Zara have fallen into four categories according to power and interest dimensions.

The more detailed information on how Zara deals with each of its stakeholders and what actions it undertakes in order to maintain sustainable relations with them is provided in Table 3 in the Annex. The table represents the main tools Zara uses for a dialogue with its stakeholders, its frequency, primary objectives and commitments.

Stakeholder issue matrix

The stakeholder issue matrix (see Table 4) was performed based on the information obtained from the stakeholder analysis (see Table 3 in the Annex). The primary objectives of this matrix:

- Making the relations between Zara and the stakeholders and processes of the organization transparent.
- Mapping relevance, significance and priority of each issue.

Table 4. Stakeholder issue matrix of Zara (Author, 2018)

Issue	Customers	Employees	Suppliers	Community	Shareholders	Environment
Quality of product	5	3	1	4	3	3
Customer Service	5	4	2	4	2	1
Social Networking	5	4	3	3	3	1
Job fulfillment	2	5	2	3	3	1
Human and labor rights	4	5	5	5	3	1
Impact of product on youths and drivers	4	3	1	4	3	3
Sustainability	5	4	3	4	3	5
Environmental impact	5	4	3	5	3	5
Financial impact	1	4	3	2	5	1

5 – Critical importance to stakeholder
3 – Somewhat important to stakeholder
1 – Not very important to stakeholder

As it can be observed from the matrix, customers are concerned with the quality of product the most and with financial effect the least. Whereas employees' priority issue is job fulfillment; however, for suppliers, customers, and shareholders, however, job fulfillment is only somewhat important. Community and environment consider the environmental impact and sustainability of product as important issues. Shareholder's most critical issue is, unsurprisingly, financial impact and least critical is customer service.
Hence, it can be concluded that impact of product on the environment is a priority issue across the variety of stakeholders, and job fulfillment is least critical.

2.4 PEST Analysis

Since the strategic analysis is performed as an information and analytical basis for improving business strategy operating in Czech market, then the PEST analysis will be conducted for Czech market.

Political

The following are the main political market challenges of Czech Republic that can affect the business activity of Zara:

- The World Economic Forum cited inefficient government bureaucracy and corruption as the two most problematic factors in doing business in the Czech Republic ("Czech Republic - Market Challenges", 2017).
- There have been noted improvements in the rule of law (in terms of freedom from corruption) and fiscal freedom. However, the country continues to have issues with the management of government spending ("Czech Republic - Market Challenges", 2017).
- The Czech government encounters other challenges such as the slow pace of legislative reforms and industrial restructuring, planned healthcare and pension reforms, making the public procurement process more transparent, and a growing shortage of highly skilled technical workers[5] ("Czech Republic - Market Challenges", 2017).

Since the Czech market complies with EU market entry regulations, Zara, as a Spain based brand, was able to enter a Czech market without major complications.
Czech Republic with its high levels of corruption is characterized by regulations, which are exploited by dishonest officials to extract bribes from traders, thereby driving up the costs of trade. Undoubtedly, greater corruption significantly increases import duties and other related taxes, while reducing the trade to gross domestic product ratios of the nation.
Therefore, high level of corruption in Czech Republic might negatively impact the import of Zara's products to the Czech market in terms of import duties and other taxes. It is recommended for the management to monitor the level of corruption.

Economical

Firstly, the basic market overview of Czech Republic in terms of economy and trade is provided:

- The Czech economy continued to expand in 2016 although at a slower pace than the impetuous growth rate in 2015 ("Czech Republic - Market Overview", 2017).
- As an open, medium-sized, export-driven economy, the Czech Republic strongly depends on foreign demand, especially from the European countries ("Czech Republic - Market Overview", 2017).
- As of January 2017, the unemployment rate was the lowest in the EU at 3.2 percent ("Czech Republic - Market Overview", 2017).

[5] Available at export.gov

- Growing shortage of highly skilled technical workers despite the low unemployment rate.
- Since 2005 the trade balance has been positive every year. Especially in 2016 it rose significantly, with surpluses of around $19.4 billion (“Czech Republic - Market Overview”, 2017).

According to ATOK - Association of Textile-Clothing-Leather Industry (2016), an example of the risks and dangers, although not limited strictly to textile and clothing industry, is demographic development, deteriorating age structure and negative educational trends focusing on maximizing the number of graduates with a degree at the cost of quality (ATOK, 2016). This trend is, even today, most felt in the field of technical education. The absolute number of economically active men and women between 15 and 64 years has been decreasing in the Czech Republic and working people will be growing older and their numbers will be decreasing (ATOK, 2016). Even now, many businesses in the field of textiles and clothing feel the shrinking of available workforce and the situation will become even more serious with continuing economic growth (ATOK, 2016).

Another significant trend will be substituting the missing workers by robotic work, which will be – and even is – both more *precise* and *cheaper* (ATOK, 2016). This trend is getting more popular not only in the “technology-crazed” United States but also over the border in Germany in the form of the so-called fourth industrial revolution (ATOK, 2016). The Czech textile and clothing industry, too, will use this trend to further grow its competitiveness and to balance the shrinkage of available workforce (ATOK, 2016).

On one hand, the decrease of available workforce in the Czech Republic can negatively affect Zara’s recruiting process, especially considering that the number of opening stores has been steadily increasing over the years, resulting in higher demand for an additional workforce. On the other hand, the opportunity to substitute missing workers with robotic machines has its advantages since it is more precise and cheaper. Hence, it is recommended for the management of Zara to monitor the availability of the human workforce in the Czech Republic and consider alternative types of workforce, such as automatic machines and robots.

Another economic factor that may affect the business activity of Zara is rise in monthly wages in Czech Republic. Average monthly wages in Czech Republic estimated 18,726 CZK/month from 1994 until 2017, reaching an all-time high of 31646 CZK/month in the fourth quarter of 2017 and a record low of 6001 CZK/Month in the first quarter of 1994 (Trading Economics, 2018).

Figure 10 graphically demonstrates the increase in average monthly wages across Czech Republic from 2015 to 2018.

Figure 10. Average monthly wages in Czech Republic 2015-2018
(Trading Economics / Czech Statistical Office, 2018)

The increase in wages, of course, affected the purchasing power of Czechs. Since the main customer segment of Zara is working women, the increase in wages allows them to spend more money on shopping for clothes. On the other hand, in the state of crisis, people are forced to save money and would rather avoid unnecessary spending on shopping for clothes.

Social

Undoubtedly, when it comes to fashion and choices regarding fashion purchases, social factors play a huge role. Czech consumers are traditionally price-sensitive, but the importance of quality is becoming increasingly important ("Czech Republic: reaching the consumer", 2018). This is indicated by a notable transition from cheaper products towards more recognizable brand names ("Czech Republic: reaching the consumer", 2018). Due to a powerful brand name that is broadly recognized has enabled Zara to retain social popularity; therefore, while looking at economic drivers, it is also important to assure that social acceptance of the company is high and that the brand is viewed as a desirable option.

With the rise in consumer's purchasing power, there is a growing interest in free-from and organic products as well as health and wellness products ("Czech Republic: reaching the consumer", 2018). More Czech people are interested in buying sustainable clothing suitable for recycling. Zara is an acknowledged environmental activist. Zara has its own Global Water Management Strategy to ensure lessening its impact on the environment. This includes the sustainable and responsible use of water and the protection of marine and freshwater habitats (Inditex, 2018). Even, the Greenpeace (2016) in their Detox Catwalk Award, stated: "Inditex is leading the industry towards a toxic-free future" (Inditex, 2018).

Zara is committed to the utilization of more sustainable materials, collaborating with partners and investing in new technologies for greener and cleaner fashion products (Inditex, 2018). Therefore, a growing environmental concern of Czech citizens may stimulate them to purchase Zara's sustainable clothing.

The number of Czech consumers who prefer online shopping is growing, which transcended the threshold of 10% in retail industry, for the first time in 2017 (CZK 115 billion) ("Czech Republic: reaching the consumer", 2018). Total number of Internet retailers has grown rapidly as well (40.101 in 2017 as opposed to 37.920 in 2016) ("Czech Republic: reaching the consumer", 2018). Zara operates in 50 online markets, and one of them is in Czech Republic. "There is clearly demand for Zara product online," said Simon Chinn, retail consultant at Verdict Research. "It will comfortably complement its extensive store estate, adding an extra level of service for its customers" (BBC, 2010). It is safe to say, that prompt adaptability of Czech customers to online shopping is advantageous to Zara.

Technological

The technological advancements in textile and clothing industry, operating in Czech market, are characterized by the following major textile and technology players: Clutex, and CTPT.

Clutex – cluster technical textiles is only one Czech cluster focused on textiles (mainly technical textiles) (ATOK, 2016). Clutex was founded on 2006. It represents 31 members (ATOK, 2016). Most of them are SMEs. Members of Clutex are not only textile producers, but also 4 research and development institutions, university and national textile and clothing association (ATOK, 2016).

Development and innovation are mainly focused on collective R&D project activities, implementation of the R&D results and innovation subjects created by members, updating of R&D program based on requirements of cluster members, development of new testing methods, prototyping and customization of processes and products and flexible, cleaner production. Main fields of R&D are nanotechnology in textiles, (multi)functional textiles, and personal protective textiles, design of customized textile structures and biotechnology and bio-based resources.

The CTPT stands for *Czech Technology Platform for Textiles*. It is a union of legal parties – representatives of the Czech textiles and clothing industry, research and educational institutions as well as related industrial and scientific branches (ATOK, 2016).

The platform has aimed to initiate co-operation in the preparation of a long-term vision for the development of the Czech textiles and clothing industry, which would take the form of the Strategic Research Agenda (ATOK, 2016).
The submitted Strategic Research Agenda represents the intensive co-operation of all the entities concerned, the objective of which is to gain a current overview of the situation in the textiles and clothing industry at both the national level and from the European perspective (ATOK, 2016). This agenda, even so, also requires the implementation of current and/or prospective areas in economic, scientific-technical, political or social terms, which may have direct or indirect effects on the situation in clothing industry (ATOK, 2016).

It can be concluded that technological external trends in Czech market are favorable for Zara. Zara may adopt some of the technologies in textile, or biotechnology developed by Clutex since Clutex's primary focus is research and development in various technologies applicable in textile and clothing industry. Furthermore, co-operation with CTPT in a form of Strategic Research Agenda may be advantageous for Zara or Inditex as a whole, to gain more information and insight on clothing industry from the national level or European perspective.

2.5 Porter's Five Forces Analysis

Treat of substitutes – Moderate

- There is no substitute product for an apparel industry, however, there are some alternatives to the retail stores.
- The customer may purchase clothing directly from the manufacturer essentially eliminating the "middle man" retail store. Nowadays, many manufacturers pursue the opportunity to sell their products through online shopping platforms directly to the customer.
- Alternatives to retail include: making clothes at home, having clothes custom made, buying second hand clothing from thrift shops, garage sales or online shops.
- There is very low probability that consumers would make clothes at home because it is a time-consuming process that requires a certain skill set. Having all clothes custom made would be simply very costly for a consumer, hence only wealthy people would be able to pursue this alternative. Lastly, buying used clothing from online shops like eBay is more of a threat than other alternatives.

Threat of entry – High

- *Capital requirements*
  A potential entrant does not require huge amount of capital. However, in fashion retailer business fixed costs are high. High selling, general and administrative expenses including advertising, in-store promotions, e-commerce etc.
- *Economies of scale*
  The economy of scale in production has significant impact on the entrant. It forces the entrants either to accept cost disadvantage or produce in a large scale.
- *Absolute cost advantage*
  Many established apparel retailer such Zara or H&M have a unit cost advantage over entrants irrespective of scale. Absolute cost advantage arises from the acquiring of low-cost sources of raw materials or from economies of learning. Established brands have various deals with suppliers all over the world, and some of them were the first entrants in fast fashion industry which makes them to learn more quickly about the market trends.
- *Product differentiation*
  Brand loyalty and production differentiation plays the significant role, because brand identification creates a barrier to entry. New entrants to retail markets must spend

disproportionately heavily on advertising and promotion to gain levels of brand awareness and brand goodwill similar to those of established companies.

- *Governmental and Legal barriers*
  In fast fashion industry, regulations, environmental and safety standards often put new firms at a disadvantage compared to established firms because compliance costs tend to weigh more heavily on newcomers.
- *Retaliation*
  The possible retaliation in apparel industry may occur in a form of price cutting, heavy advertising investments, sales promotions etc. To avoid retaliation by incumbents, new entrants may seek initial small-scale entry into less visible market segments.

Rivalry between competitors – High

- *Concentration*
  There are four major apparel retailers according to size and sales: Inditex (Zara), H&M, Mango, and Gap. However, the number of companies operating in the industry increases as brands such as Topshop, Forever 21, Tally Weijl and others getting more popular.
- *Diversity of competitors*
  Zara as well as Mango are both Spain based brands, whereas H&M is originated in Sweden and Gap was found in the US. Due to the diversity in their origins, type of management, and strategies the competition gets more intense.
- *Product differentiation*
  The degree of product differentiation in apparel industry is relatively high. Even though all brands could sell "similar" products, they are different in availability of the products, sales promotion, advertising campaign, etc. For instance, none of the competitors produces new products as often and as fast as Zara, the new collections come twice a week and it takes 15 days for products to reach the stores. In comparison, H&M's supply chain might not be as responsive as Zara's, but H&M constantly collaborates with world-known fashion houses such as Balmain, Erdem, Kenzo, Moschino and produce new more luxurious and expensive collections. Gap, on the other hand heavily invests in advertising campaigns.
- *Excess capacity and exit barriers*
  In apparel industry cost associated with excess inventory are enormous, therefore balancing a demand and capacity is essential. For example, clothing items that are out of fashion stay in inventory for a long time and incur losses. Therefore, Zara, for example, does not produce more than 8000 of one item, even if the demand for that particular item is high. Zara would produce something similar, but not the same item again.
- *Cost conditions: economies of scale and the fixed to variable costs ratio*. In fast fashion retailing business, fixed costs are much higher than variable costs. Therefore, many apparel retailers offer heavy discount on clothing items with lower demand.

Economies of scale also encourages many brands to compete heavily on price to benefit from greater volume of items sold.

Bargaining power of buyers – Moderate

- *Buyer's price sensitivity*

In order to satisfy the consumer's needs apparel retailers differentiate its products, therefore they ensure there are alternative sources of supply available for consumer and the cost of switching is almost zero.

As the competition in the fast fashion industry has intensifies, so raw materials suppliers face greater pressures for lower prices.

- *Relative bargaining power*

Suppliers would not want to lose a buyer who makes purchases in huge quantities and the cost of losing even one of them is significantly high.

Ability to integrate vertically influences the bargaining power of buyers relative to that of sellers. The leading fashion retail chains have increasingly displaced their suppliers' brands with their own-brand products.

Bargaining power of suppliers – Low

- Power of suppliers in apparel industry is considerably low because the majority of fashion retailers outsourced the production section to developing countries.
- Also the switching costs are low.
- Buyer's brand is powerful enough to obtain strong bargaining power.
- There existing fashion retail brands command strong enough bargaining power to get low costs. This way, the opportunity of forward integration and supplier's customers are not fragmented. One the other hand, Inditex, for instance, has more bargaining power due to its vertical integration business model.

2.6 Competitor Analysis

When conducting Porter's Five Forces analysis and assessing the rivalry within industry, two major competitors of Zara operating in Czech market, were identified: H&M and Mango. Hence, the competitor analysis would be performed for each company separately in accordance with Competitor Analysis framework, where firm's strategy, objectives, assumptions, resources and capabilities, as well as predictions will be assessed.

H&M

Strategy

Hennes & Mauritz AB (H&M) is a Sweden-based multinational apparel retailer producing fast-fashion clothing for women, men, teenagers and kids (Bloomberg, 2018). H&M is the second biggest global apparel retailer, just behind Spanish Inditex. The opening of the first store in Czech Republic took place in 2003, and today there are 50 stores in total all over the country. The company has a significant online presence, with online shopping available in 33 countries including Czech Republic.

- H&M stated that it will focus on e-commerce, new brands and developing markets in a quest for growth that's getting more subtle.
- Inventory remains the biggest issue at H&M, as the aggressive clearance has at best improved only the quality of stock, rather than reducing it.
- The major strategic unit of H&M is women line that contributes to the most part of the profits and concentrates 50% of total revenues (Market size statistics, 2017).
- H&M is planning to maintain the section of footwear and accessories, despite the fact that it demonstrates low level of attractiveness.
- H&M is also planning to diversify H&M Home into an IKEA or Walmart concept.

Objectives

- One of H&M's goals is to use its size and scale to lead the change towards a circular and renewable fashion industry, all while being a fair and equal company.
- H&M aims to create a truly sustainable fashion industry that is good for people, communities and the planet.
- H&M's primary objective is to make sustainable fashion choices available, attractive and affordable to as many people as possible.

Assumptions

- H&M assumes that Czech people are getting more interested in changing fashion trends, hence there are 50 H&M stores in Czech market alone.
- The brand perceives the main goal of fast fashion as the quick production of an item that is both cost-efficient and responds to fast-shifting consumer demands.
- One of the main assumptions of fast fashion in Czech market is that consumers should purchase an item they like when they see it because it is not likely to be available again.
- Due to the assumption mentioned above, fast fashion has been criticized for "throw-away" attitude and argued that disposable fashion contributes to pollution. Therefore, H&M implements different sustainability strategies aimed at producing renewable fashion.

Resources and capabilities

- H&M outsources the production of the items to around 700 independent suppliers, primarily in Asia and Europe.
- In accordance with the analysis of resources and core competencies, H&M has a significant experience in implementing globalization strategies, which is proved by the fact that it operates in 62 physical markets and 33 online markets.
- H&M heavily invests in promotion, advertising campaigns, and e-commerce to increase brand awareness.

- H&M concentrates its efforts on the supply chain optimization. Due to the slow growth in 2017, H&M is planning a new investment — is one component of a four-part plan to strengthen the company's competitive positioning. The overall plan includes investment in data analytics and intelligence to enhance retail assortment planning and sales, as well as technology investment to expand cloud computing, RFID and 3-D printing.

Predictions

Despite solid online performance in 2017, H&M stated that its physical stores are underperforming and customer behavior changes are having the greatest impact on the company's lagging sales. Although H&M is reacting to supply chain issues promptly it is not enough. The major shift from vertical integration, where most manufacturing is done in house, to horizontal integration, with its strong dependence on the performance of the supply chain, calls for a more aggressive role in strategic sourcing, supply management and supply chain integration. Add supply chain risk into the equation, and an active approach to managing the supply chain is critical. Hence, H&M's management might want to redesign their supply chain processes to shorten their lead-times and improve their financial performance and capture lost market share, obviously, it will not be easy. After all, in fast changing environment like fast fashion the key is to be proactive – not just reactive.

MANGO

Strategy

Mango is a global clothing and accessories retailer founded in Barcelona, Spain in 1984 by two brothers Isak Andic and Nahman Andic (Bloomberg, 2018). There are four fashion lines operating under the trading name Mango: Mango Woman, Mango Man, Kids, and Violeta by Mango ("Mango Company Profile", 2018), however, Violeta by Mango is not available on Czech market. The company has 6 physical stores in total and online shop operating on Czech market.

- Mango's primary progress driver is the development of its own logistic system which allows it to manage, direct and take decisions throughout the complex process of design, supply, manufacture, sales and after sales in a completely automatic way.
- With the digital advance, Mango's 22 million printed catalogues each year are now irrelevant and have been eliminated, freeing up more time and energy to make online its biggest focus.
- Management of Mango is focusing its efforts on getting the right product in the store at the right time, even though the brand are calling this shift a "major revolution", they are actually revealing a model that its competitors such as Zara, and H&M have been doing very well for years.
- Mango changes the face of its brand featuring celebrities nearly every season hoping that influencer presence going to be enough to hold onto consumers as loyal customers.
- Launched a separate line for a "plus size" market.

Objectives

- Mango's primary goal is to create fashionable products at an affordable price in an environment that appeals to the consumer.
- Another objective is "to be present in all cities in the world".

Assumptions

- Mango considers fast fashion in Czech Republic is advantageous because the constant introduction of new products encourages customers to make frequent visits to stores.
- Fast fashion allows mainstream shoppers to purchase trendy clothing at an affordable price.
- Mango produces clothes for working women with good taste in fashion, unlike H&M whose main target is youth.
- Mango does not just imitate other luxuries brands like Zara, but has its own vision. Mango believes it is able to predict fashion trends without copying what other brands do.

Resources and capabilities

- In order to establish competitive supply chain, Mango outsources their manufacturing completely, of which 42 % took place in China in 2012 (Mango, 2012). However, China is no longer the cheapest sources for many products because there are many Chinese contract manufacturers intending to exploit domestic market and develop their own brands.
- Mango requires all manufacturers have vertically integrated manufacturing process and selects supplier base on production timeframe, price, technology, quality, capacity, and international exposure, which ensures Mango is able to achieve the speed of market-responsiveness, the flexible change of product range, and meet the expectations of their consumers.
- Mango takes three or four weeks to bring out garments from design to their store, which is much longer compared to its competition. In that sense, Mango is less competitive to satisfy the constant changing of consumer needs.
- Mango has been successfully using celebrities and supermodels like Kate Moss and Miranda Kerr as the faces of their brand to raise brand awareness and increase customer retention. This promotion technique is not a new trick, but apparently, it works for Mango just fine.

Predictions

Mango strives to strengthen its brand presence and increase the market share within existing Eurozone markets, however, the diversification of product line and market segmentation is the most risky strategy for Mango, therefore, should be handled carefully. Mango requires to clearly identify their brand personality to differentiate with other retailers and provide well selected product offers with reasonable price. In comparison to H&M, where you can get a tank-top for $7, which is as affordable as to grab a cheeseburger. At the end of the day, consumers look not only for low prices, but for real good value products.

While the digital revolution continues to change all aspects of fashion business, such as smart devices, 4G networks, integration of Omni-channel retailing, and multi-channel advertising approach. Mango does not stand aside; it is planning to combine the store network and online store to formulate a better Omni-channel integration.

2.7 Benchmarking

The main competitor of Zara in Czech market is H&M. They both operate in fast fashion industry and satisfy the same consumer need – to dress fashionably and affordable. Moreover, both brands are present in 50 stores each across the Czech Republic. The main competitive advantages of H&M is its online presence and designer collaborations.

Another competitor of Zara in an apparel business operating in Czech market is Mango. However, Mango covers a very small part of the market having only 6 physical and online stores in Czech Republic. The primary competitive advantage of Mango is its ability to predict fashion trends and communicate its vision through the collection.

There are main criteria necessary to compare the effectiveness of Zara and its rivals, namely H&M and Mango, in order to compose a comparison table:

1. Number of stores
2. Online presence
3. Customer service
4. Brand identity and awareness
5. Price range
6. Profitability

Also for each efficiency criteria the coefficient of 0-10 is assigned in order to reflect the degree of its significance. To calculate the total values of each brand, the value of each efficiency criteria is multiplied by the assigned coefficient. Then, it is required to add the values of all criteria.

Table 5. Comparison table (Author, 2018)

Efficiency criteria	Zara	H&M	Mango	Coefficient
Number of stores	10 50 stores in Czech republic 10*9 = 90	10 50 stores in Czech Republic 10*9 = 90	2 6 stores in Czech Republic 2*9 = 18	9
Online presence	7 Online shopping is available in Czech market	8 Online shopping is available in Czech market	6 Online shopping is available in Czech market	6

	7*6= 42	8*6= 48	6*6= 36	
Return policy	9 Return is allowed within 2 weeks and possibility to get the cash back 9*8 = 72	4 Return is allowed within 2 weeks and possibility to deposit money to H&M club card. No cash back. 4*8= 32	9 Return is allowed within 2 weeks and possibility to get the cash back 9*8 = 72	8
Brand identity and awareness	7 Strong brand awareness, uncertain brand identity 7*7 = 49	7 Solid brand awareness, Weak brand identity 7*7 = 49	7 Good brand awareness, strong brand identity 7*7 = 49	7
Quality/price ratio	9 Good quality products, affordable clothing 9*9 = 81	7 Weak quality products, Comparably cheap 7*9 = 63	8 Good quality clothing, affordable 8*9 = 72	9
Customer service	8 Good customer service 8*7 = 56	7 Above average 7*7 = 49	8 Good customer service 8*7 = 56	7
Total value	90+42+72+49+81+56 = 390	90+48+32+49+63+49 = 331	18+36+72+49+72+56 = 303	

As it can be observed from the Table 5, H&M can be considered the main competitor of Zara. Although, Zara is excelling in quality/price ratio, customer service and return policy, if H&M continues developing so rapidly, Zara may drop down to the "second" place. Hence, Zara should strengthen its brand identity and expand online presence in order to maintain its competitive position on Czech market.

2.8 VRIO Analysis

The VRIO analysis was conducted on the basis of Zara's main resources and capabilities in the Czech Republic. They were assessed and checked against the criteria from the VRIO framework explained in the theoretical part.

Table 6. VRIO Analysis for Zara in the Czech Republic (Author, 2018)

Resources/Capabilities exploited by the organization	Valuable?	Rare?	Costly to imitate?	Organized?
Quick response production capability	Yes	Yes	Yes	Yes, Zara is so far the only apparel retailer that produces new collections twice a week to satisfy constantly changing consumer demand.
Enhanced product design capability	Yes	No	Yes	Yes, Zara takes its inspiration from world-known fashion houses.
Cost control capability	Yes	Yes	No	Yes, Zara's main objective is to make fashionable clothes affordable for everyone.
Solid brand image	Yes	Yes	Yes	Yes, Zara has managed to build a solid brand name and considered as one of the most recognizable brand names in the world including Czech Republic.
Widespread global presence	Yes	Yes	Yes	Yes, Zara is expanding its both physical and online markets.
Flexible and efficient supply chain	Yes	Yes	Yes	Yes, the supply chain is the backbone of the fast fashion retailing concept behind Zara.
Dispersed manufacturing system	Yes	No	Yes	Yes. The brand customized its products that meet different needs and preferences of consumers in different countries.

2.9 Value Chain Analysis

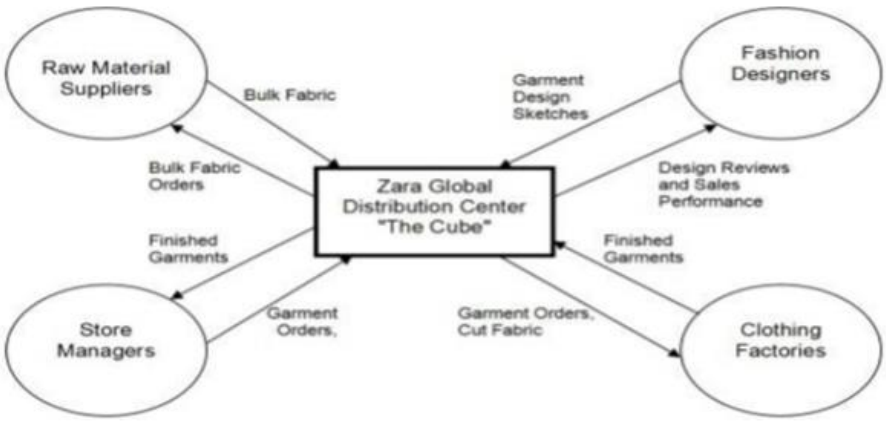
In accordance with Porter's value chain analysis framework, the primary and support activities of Zara will be evaluated in order to understand the sources of value for Zara.

Primary Activities

- Inbound Logistics

Zara is a vertically integrated firm, which controls most of its supply chain. Approximately 50 % of Zara's products are manufactured in Spain, 25% comes from Europe, and the remaining fraction is produced in locations in Asia and Africa (Inditex, 2018). Afterwards, the whole production is received and warehoused in the logistics centers in Spain prior being sent to the stores. The main categorization is happening in Spain despite where the items were produced. Zara purchases only several types of fabric in big quantities (four or five types, but they can change from year to year), and does the garment design and related cutting and dyeing in-house (Aabed, 2017). Fabrics and materials are stored in warehouses without exact colors and prints in order to be able to react promptly to market demand. Zara is able to react quickly and produce additional items with a particular design or color, if it turns out that the demand for the particular product is higher (Ziying, 2015).

Figure 11. Zara's global distribution (Aabed, 2017)



Hence, fabric manufacturers are able to make quick deliveries of bulk quantities of fabric directly to the Zara's distribution center (see Figure 11). Zara buys raw materials (fabric) from suppliers in Italy, Spain, Portugal and Greece (Aabed, 2017). And those suppliers deliver within 5 days of orders being placed. Inbound logistics from suppliers are mostly by truck (Aabed, 2017). In some cases, transportation of merchandise is by plane; for example: clothes, which are produced in Asia, have to be transported in logistics centers in Spain, there categorized and again transported to Asia (Ziying, 2015). Furthermore, many countries have small warehouses where they keep extra or returned goods (Ferdows et.al, 2005).

- Operations

Inditex country offices represent headquarters at the country level, supervising and coordinating the operations of the various Inditex brands (Ferdows et.al, 2005). Zara's HQ in Spain is divided to three ample halls for each of these centers. There designers work together with market specialists and planners for procurement and production. Also, designers can quickly check initial drafts with their colleagues and discuss new styles. Therefore, prototypes can be examined on site. That kind of teams work very efficiently; they discuss new fashion trends and take decisions within a few hours. Market specialists are intermediaries between designers and store managers, who can quickly provide feedback to their colleagues in design and procurement (Ziying, 2015). What distinguishes Zara from competitors is more capital intensive industry.

Each brand from Inditex Group has his own autonomy enabling them to react promptly to market requirements, act in a flexible way by making changes without asking permission of third parties. This way Zara has power over operations, such as coloring, packaging and labeling, and all other manufacturing processes are made by Inditex employees.

Zara has three product lines: one for children, women and men. Operations such as procurement, sales, design and marketing exist for each of these lines. All product lines go parallel with each other, however, operation wise they are different and separated.

- Outbound Logistics

At the beginning of each season, the whole merchandise is distributed to the stores, in the quantities decided by the commercials. However, when the production reaches the stores, it is managers' responsibility to order replenishments, in other words, to decide how many units of each item to order. Hence, managers have to take into account different data such as forecasts of customer demand, how many of that product the store had and already sold and etc.

The delivery time for the European stores is 24 hours; whereas, Asia and America receiving deliveries take up to 40 hours (Ferdows et.al, 2005). Usually deliveries are made by trucks, and by planes in some cases. Each week, stores are receiving about 12,000 units. However, sometimes it happens that they did not receive the whole order, because inventory at the logistics centers are limited (Ferdows et.al, 2005). Moreover, there were some time saving enhancements made, for instance, in the beginning when the new merchandise was delivered, employees had to put tags on the products before they could reach store shelves, now tags are put by manufactory workers. The benefit of this improvement creates value of a faster delivery to a customer.

- Marketing and Sales

Zara is using very unique marketing strategy. The capability of Zara to quickly respond to the customers demand in fashion trends is due to the fact that Zara is not outsourcing their manufacturing. Basically, the brand's exceptional selling proposition is to manufacture the latest trend products within very short period of time and at affordable prices. Furthermore, products do not stay on shelves longer than one month. Basically, people are more or less forced to buy the product, which they like due to the fear that next week it can be sold out. Products, which are not sold out are afterwards discounted. Zara has approximately 18% of unsold merchandise, which is one of the lowest in the industry.

In comparison to its competitors, Zara does not invest much in advertising. However, it does not mean that the company is doing nothing. Zara's management tends to think that the store windows and the content is the most necessary advertising for them.

In addition, Zara owns the most of its stores, but also does joint venturing and franchising in markets which are at high risk and culturally distant.

- Service

In fast fashion market, the help of sales assistant is rarely necessary, especially, since the target groups of Zara are mainly youth and working adults, who prefer to buy something as fast as possible. Therefore, the main focus to serve customers at the cashiers as fast as possible, so they do not have to stay long in a line to pay for their purchase. Also, similar to other clothing stores Zara has its return policy, for example, if the product is damaged or unsuitable size, then customer have a right to return the item and get their money back, or exchange for another item with the same price. Unlike, H&M who recently changed their return policy, so now if the customer wants to return the product they would not get their money back, but they can deposit that amount to H&M club card and buy something else, this way H&M ensures they do not lose money. However, the majority of customers would most probably prefer cash return and have a freedom of choice, rather than being forced to buy something else in the same store.

Support Activities

- Procurement

Zara sources materials, fabric, and other inputs from external suppliers that are generally in low-cost source markets. When particular designs are selected for production, material is drawn from stock, manufactured, cut and delivered to company stores around the world. Zara also owns 20 other factories for internal manufacturing that apply just in time (Ziying, 2015). Inditex purchases raw materials through the company's regional offices in the UK, China, Holland and other offices based in Europe, Asia and Australia (Aabed, 2017).

- Human Resource Management

All brands of Inditex Group including Zara have HR managers who deal with all HR related issues that are not linked to the operations and are organized by the geographical area. Zara has a well-developed HR department. Company puts a lot of emphasize on training of their employees, therefore, as a rule, sales associates before starting their work should have at least one week of training. As a rule, Zara's product development teams are responsible for attending high fashion events such as fashion shows and exhibitions to translate the latest trends of the season into their designs. In this type of company hierarchy exists similar to one like a pyramid model. Although store managers usually work as an autonomy. Indeed, an atmosphere in the store can be transmitted and can make huge damage for the entire company, thus, it is important to make sure that employees are satisfied and motivated to work efficiently (Ferdows et.al, 2005).

- Technology Development

Company puts the value on information transfer. The entire supply chain of Zara is interconnected through the continuous flow of information. Zara developed a way how to make information flow easier and faster than before. They invested a lot in IT in the 1990's before major phase of international expansion. They developed quick response systems in the industry. Zara has adapted its stores to PDA (Personal Digital Assistance), which enables a fast information flow within the company and creates value for the customers (Aabed, 2017). In addition, this system helps the firm to figure out new market trends as fast as possible and provides an opportunity to respond quickly.

- Infrastructure

  - *Legal and control*

Zara is performed through both physical store and online model, which managed at first-hand by companies over which Inditex exercises control through the ownership of all or the majority of the share capital and of the voting rights, with the exception of certain countries where, for various reasons, the activity is performed through franchises ("Inditex Annual Report", 2018).

  - *General management*

Zara elaborated a business model that requires speed and decentralized decision making. This business practice, in turn, led to shorter lead times and introduction of more fashion styles.

At Zara, CEO runs the headquarters, which are responsible for coordinating the brands, HR, IT, transportation and real estate. Each of the lines such as women, men, and kids, is managed by separate team which consists of Diression de Tiendas (DTs). Each of the Inditex's concepts including Zara has regional networks of DT, in other words regional managers who are known internally as DTs, who are responsible for the operations and performance of 15 stores and have to evaluate the stores' performance. Country managers are also anticipated to be proactive in social issues. Each Inditex concept is managed independently, apart from the central management above, with its own network of stores, logistic centers and production facilities.

  - *Accounting*

The annual accounts of all the Inditex Group's concepts, including Zara, are prepared by the Board of Directors and submitted for approval at the corresponding Annual General Meeting ("Inditex Annual Report", 2018). These annual accounts are prepared in accordance with the International Financial Reporting Standards (IFRSs) and related interpretations (IFRICs and SICs) adopted by the European Union (EU-IFRSs) and with the other provisions of the applicable regulatory financial reporting framework ("Inditex Annual Report", 2018).

2.10 SWOT Analysis

Strengths

- *Unique Designs and Product Differentiation*
  One of the advantages Zara has over its rivals is its design abilities with the help of enormous amount of in-house designers who predict fashion trends. Zara is famous for imitating the designs of world-known fashion houses, however, Zara does not just copy-paste it, but make it affordable and Zara alike. Zara product differentiation enables the brand to satisfy various consumer needs including party wear, office wear, for kids, for men and women, casuals as well as several others. According to observations ("mystery shopping"), which were a part of the primary research, the customers in Zara stores in Prague relate to different age groups, lifestyles, and income since the brand is targeting several customer segments at the same time by differentiating its products.

- *Strong Presence*
  In order to survive in retail business growth is essential, hence Zara has been increasingly expanding into foreign markets, and has been doing it successfully. Nowadays Zara operates in 88 countries with over 6500 flagship stores worldwide, 50 of which are located in the Czech Republic. Currently, Zara's main focus is to expand its online markets, since online shopping is getting more and more popular. Online shopping in Czech Republic is also available.

- *Superb Supply Chain*
  It only takes 2 weeks for Zara to get its designs from conception to the stores whereas it takes other competitors minimum 6 weeks or more, automatically making Zara the trendiest store which has the latest in fashion. On annual basis, Zara designs and produces around 450 million items. This certainly forces the consumers to visit the store again and again to check out the latest designs.

- *Low advertising cost*
  Due to Zara's design advantage and fantastic physical evidence in stores, Zara rarely advertises its products. It relies completely on its seasonal campaigns in store windows to attract customers to its stores. This is the reason why Zara has very low cost of operations and at the same time has high margins. Zara allocates majority of its

earnings and profits on backward integration and on supply chain rather than spending it on advertising and promotion.

Weaknesses

- *Imitator, not creator*
  Zara can never become one of the premium luxury brands in the fashion world because it is known as a great fashion imitator since commonly it takes inspiration from runway fashion shows rather than predicting the new trends of the season on its own. No doubt it provides the customers with high-end designs, but not being able to create new trends is definitely a weakness.
- *Low safety stock*
  Zara produces a certain amount of pieces for each fashion item to keep the inventory low, so if the customer likes something they would have to buy it immediately. However, if a new design is a hit and the demand for this item is significant, Zara would not be able to sell more of them because there is no safety stock for this design and Zara never produces the exact same item again, it might come back in similar version or different colors, but never the same.
- *Lack of advertising*
  As it was mentioned previously, Zara does not spend much money on advertising. It has a zero advertising policy compared to its competitors such as H&M, or Mango, which gives them greater public exposure. Whereas lack of advertising might lead to a cost advantage and it is one of the Zara's strengths, introducing advertising of the brand could have a positive word of mouth and pull in more customers to the store.

Opportunities

- *Market expansion*
  Conquering new markets will definitely be profitable for Zara. Zara should constantly keep an eye on emerging markets, where the spending power is rising and where people can spend money on a semi premium brand like Zara, so that they have an opportunity to wear more stylish clothing at an affordable price. This way, such market expansion insures the clothing brand against saturation in developed countries where the competition level is too high. The majority of Zara stores in Czech Republic are located in Prague, couple of them are located in Brno and Ostrava. Thus, the management may consider opening stores in smaller cities because not everyone has a possibility to travel to another city just to do shopping, this way Zara would enable many Czech consumers to buy more stylish and affordable clothing.
- *E-commerce*
  Zara should expand its online presence and expand its online stores. The company already operates numerous online stores, but Zara needs to shift its focus to e-commerce because this sector is emerging and developing promptly, giving the products more exposure. Hence, investing more in e-commerce would be a good opportunity for Zara to expand.

Threats

- *Fierce competition*
  The competition in fast fashion industry is tough considering the established competitors like H&M, Mango, and Gap, all of which have attempted to imitate the supply chain responsiveness of Zara. Therefore, Zara should monitor the level of competition within the industry and always be aware of what competitors do.
- *No collaboration*
  Zara does not collaborate with famous fashion houses and international designers, compared to H&M, which produced profitable collections with many popular fashion brands like Balmain, Kenzo, Erdem etc. When a brand collaborates with a world-known designer, young shoppers get interested in buying designer labels.

2.11 SPACE Analysis

The analysis describes the *external* environment using two criteria: economic environment and industry attractiveness.

Economic environment (EE) of Zara in Czech Republic is influenced by the following sub-factors (for each sub-factor a value of 0-6 is assigned):

- Economic growth – 5

Economic growth of the country directly affects the business activities of any organization. The Czech economy had one of the strongest performances in the EU in 2017 as growth reached a well above expectations level: +4.5% as opposed to an initial projection of 3% by the IMF (IMF, 2018).

Figure 12. The progression of the GDP in Czech Republic (GDP CZECH REPUBLIC, 2017).

Quarterly GDP at market prices 2017

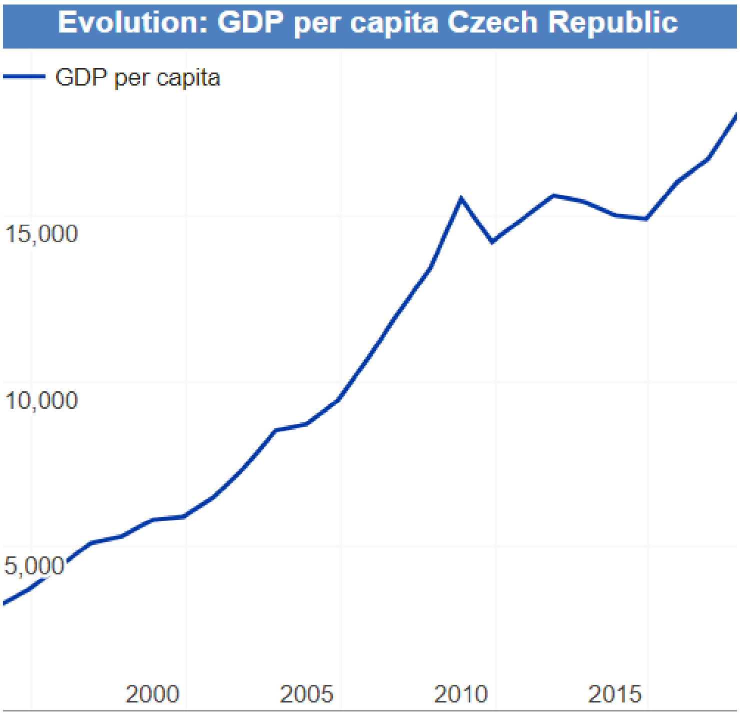
Date	Quarterly GDP	Quat. GDP Growth (%)	Quat. GDP Annual Growth (%)
2017Q4	42,757M.$	0.8%	5.5%
2017Q3	41,667M.$	0.7%	5.2%
2017Q2	43,067M.$	2.4%	4.6%
2017Q1	42,120M.$	1.5%	3.0%

< GDP Czech Republic 2016

Figure 12 represents the quarterly GDP of Czech Republic in 2017. As it can be observed the GDP steadily increased over the year.

The gross domestic product (GDP) of a country is one of the primary measures used to evaluate the performance of a country's economy. This way, when GDP growth is solid, firms can hire more workers and can afford to pay higher salaries and wages, which leads to more spending by consumers on goods and services. Gross Domestic Product of Czech Republic grew 4.4% in 2017 compared to last year (GDP CZECH REPUBLIC, 2017). This rate is 18 -tenths of one percent higher than the figure of 2.6% published in 2016 (GDP CZECH REPUBLIC, 2017). The GDP per capita of Czech Republic in 2017 was $20,456, $1,950 higher than in 2016, it was $18,506 (GDP CZECH REPUBLIC, 2017).

Figure 13. Evolution of GDP per capita Czech Republic (GDP CZECH REPUBLIC, 2017).



As Figure 13 demonstrates GDP per capita also had increased over the course of history. Moreover, there has been a significant surge in GDP per capita since 2015.

Since the economic growth is considered to be strong in Czech Republic enabling consumers to spend more money on goods and services results in favorable the economic environment for Zara. Due to the direct link between economic growth and economic stability of Zara the assigned value is 5 out of 6.

- Inflation – 4

Inflation has one of the most obvious impacts on business activity of any company. The general increase in prices of consumer goods directly affects the customers’ ability to purchase goods and services, which in terms affects the profits of the company.

Figure 14. Inflation Czech Republic CPI (Inflation Czech Republic, 2017).

inflation (monthly basis)	inflation	inflation (yearly basis)	inflation
january 2017 - december 2016	0.79 %	january 2017 - january 2016	2.20 %
february 2017 - january 2017	0.39 %	february 2017 - february 2016	2.50 %
march 2017 - february 2017	0.00 %	march 2017 - march 2016	2.60 %
april 2017 - march 2017	0.00 %	april 2017 - april 2016	1.99 %
may 2017 - april 2017	0.19 %	may 2017 - may 2016	2.39 %
june 2017 - may 2017	0.00 %	june 2017 - june 2016	2.29 %
july 2017 - june 2017	0.49 %	july 2017 - july 2016	2.48 %
august 2017 - july 2017	-0.10 %	august 2017 - august 2016	2.48 %
september 2017 - august 2017	-0.10 %	september 2017 - september 2016	2.69 %
october 2017 - september 2017	0.48 %	october 2017 - october 2016	2.88 %
november 2017 - october 2017	0.10 %	november 2017 - november 2016	2.57 %
december 2017 - november 2017	0.10 %	december 2017 - december 2016	2.36 %

Figure 14 demonstartes the inflation in Czech Republic in 2017 on both monthly (compared to the month before) and yearly (compared to the same month the year before) bases. As it can be seen from the table the inflation rate was relatively stable over 2016 to 2017 with minor changes.

Figure 15. CPI Inflation Czech Republic 2017 (Inflation Czech Republic, 2017).

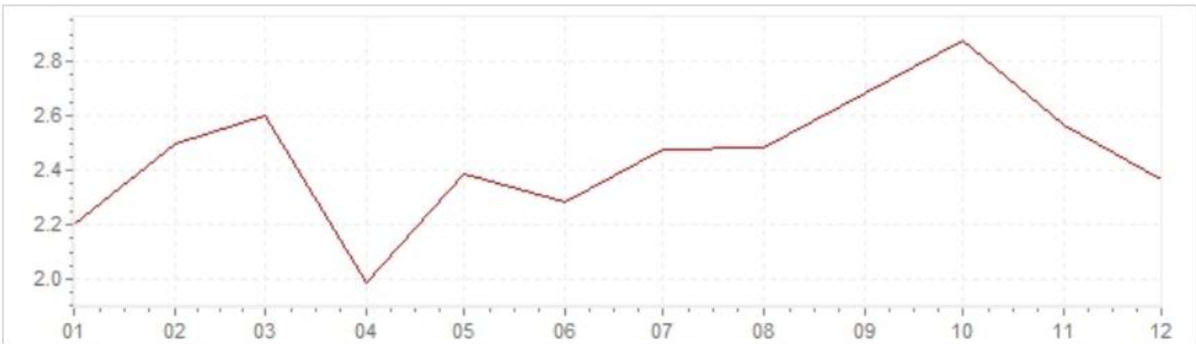


Figure 15 represents how the CPI inflation of Czech Republic has fluctuated over 12 months in 2017. The inflation rate is based upon the CPI (Consumer Price Index). The avearge inflation of Czech Republic in 2017 is 2.45% (Inflation Czech Republic, 2017).

It can be concluded that economic performance of Czech Republic in terms of inflation is favorable for Zara. Since there is an obvious impact of inflation on business activity, Zara must monitor the inflation rates and take actions to offset the effects of inflation. Hence, the assigned value is 4 out of 6.

- Technological change – 3

The technological changes have an impact to some degree on economic environment of Zara in Czech market. From PEST analysis, it can be noted that technological advancements in the Czech textile industry are still in early stage. It primarily focuses on the development of new testing methods, prototyping and customization of processes and products and flexible, cleaner production. Thus, the impact is not significant, nevertheless it must be taken into consideration. Hence, the assigned value is only 3 out of 6.

- Price range of competitive products – 5

Price range of competitive products may influence the consumer preference of one brand to another.

Figure 16 shows the percentages that represent how much of each retailer's entire offering exists within each price bracket as at March 16, 2016. As it can be observed, within the lowest price bracket up to $10 H&M has higher offering compared to Mango and Zara, which is not surprising since H&M is considered to be the cheapest one among its competitors. Although H&M concentrates its offerings (34.5%) primarily in the second lowest price bracket from $10-20. In comparison to Mango and Zara: the majority of offerings of both brands is priced between $30-40. All three brands barely offer products at $80-90 price level.

Figure 16. Options Breakdown at H&M, Mango, and Zara (EDITED, 2016).

Price (USD)	H&M	Mango	Zara
$0-10 1,353	14.3%	1.6%	5.0%
$10-20 4,226	34.5%	10.8%	23.3%
$20-30 2,445	15.0%	13.6%	12.8%
$30-40 3,388	17.2%	16.5%	24.7%
$40-50 2,085	10.9%	11.4%	13.6%
$50-60 785	0.1%	13.1%	1.7%
$60-70 1,400	3.8%	12.9%	8.6%
$70-80 708	2.8%	5.5%	4.2%
$80-90 13		0.2%	
$90-100 422	0.5%	4.7%	2.6%

Price range of competition has essential impact on the economic stability of Zara in Czech market, therefore Zara should be aware and monitor the price ranges of its competitors. Hence the assigned value is 5 out of 6.

- Price elasticity of demand – 4

Czech consumers are very price sensitive. Typically, during seasonal sales the stores are packed with people, which means the lower the prices, the higher the demand. Therefore, local grocery stores like Albert or Billa discount different products every week to sell the products with lower demand. At Zara, they do the same thing, they attempt to sell as many pieces from new collections as possible, and when the demand for unsold items decreases they discount them. Hence, the assigned value to price elasticity of demand is 4 out of 6.

- Pressure from substitutes – 2

As it was concluded in Porter's Five Forces analysis (See p. 41) the pressure from substitution is almost non-existent since there are not many relevant substitutes to buying clothes in stores. This way, the value assigned to pressure from substitutes is only 2 out of 6.

The value of total factor is expressed as the mean of the sub-factors, hence:

(3+4+5+5+4+2)/6 = 23/6 = 3.83 – value on EE axe of the matrix.

Industry Attractiveness (IA) of Zara in Czech Republic is influenced by the following sub-factors (for each sub-factor a value of 0-6 is assigned):

- Growth potential – 6

Figure 17. Apparel Industry Market Growth (Foundation of Economic Education, 2017)

Research by Goldman Sachs (2017) suggests that fast fashion industry has grown 21% over the past three years compared to the luxury market with its mediocre growth in 2016, it's obvious that fast fashion retailers are growing in favor. Moreover, as Figure 17 shows the market growth of apparel industry will be increasing steadily till 2020. Hence, the assigned value is 6 out of 6.

- Profit potential – 5

Figure 18. Retail Apparel Industry Profitability Ratios 2017, CSI Market, 2018)

Retail Apparel Industry Profitability Ratios	4 Q 2017	3 Q 2017	2 Q 2017	1 Q 2017
	2017	2017	2017	2017
Gross Margin	**52.72 %**	53.81 %	50.7 %	52.7 %
Gross Margin Annual (TTM)	**52.32 %**	49.26 %	49.18 %	50.8 %
Gross Margin Ranking	# 46	# 41	# 47	# 45
EBITDA Margin	**12.41 %**	11.23 %	10.83 %	7.16 %
EBITDA Margin Annual (TTM)	**10.61 %**	10.72 %	11 %	11.22 %
EBITDA Margin Ranking	# 56	# 77	# 72	# 88
Operating Margin	**27.38 %**	26.3 %	25.21 %	21.14 %
Operating Margin Annual (TTM)	**24.92 %**	22.14 %	21.86 %	23.44 %
Operating Margin Ranking	# 16	# 16	# 17	# 23
Pre-Tax Margin	**8.89 %**	7.18 %	6.89 %	2.77 %
Pre-Tax Margin Annual (TTM)	**6.64 %**	6.63 %	6.88 %	7.1 %
Pre-Tax Margin Ranking	# 42	# 69	# 65	# 93
Net Margin	**6.13 %**	4.31 %	4.28 %	1.18 %
Net Margin Annual (TTM)	**4.16 %**	3.91 %	4.14 %	4.24 %
Net Margin Ranking	# 53	# 76	# 72	# 94

Retail apparel industry recorded gross loss compare to gross profit achieved in previous quarter. On the trailing twelve months basis gross margin in 4 Q 2017 grew to 52.32 % (CSI Market, 2018). Within retail sector, retail apparel industry achieved highest gross margin. Gross margin total ranking has deteriorated compare to previous quarter from 41 to 46 (CSI Market, 2018). Hence, the value of profit potential in fast fashion is 5 out of 6.

- Financial stability – 5

Despite criticism, fast fashion is still strong economic performer. Sales are by no means limited to brick-and-mortar locations. Surge in online sales within fast fashion industry enabled many retailers to keep them afloat. Therefore, the assigned value is 5 out of 6.

- Resource utilization – 5

Fast fashion has been criticized for irresponsible utilization of resources for years, thus proper allocation and sustainable use of the resources plays significant role. The more detailed information on how Zara utilizes its resources provided in Value Chain Analysis (See p.49). Hence, the assigned value is 5 out of 6.

- Complexity of entering the industry – 4

The complexities of entering the industry are summed up in Porter's Five Forces analysis "Threat of entry" (See p. 42). Based on Porter's analysis, the value of 4 out of 6 was assigned.

- Labor productivity – 5

Most labor force in manufacturing is sourced in heavily populated countries with cheap labor force. Labor productivity in retail business serves as a foundation of manufacturing process. Hence the value is 5 out of 6.

- Capacity utilization – 5

Many retailers face the issue of excess inventory full of unsold items. Zara produces only certain amount of one design, and even if this particular item is in great demand Zara would not produce it again not to overload its capacity. The items with lower demand are sold with discount. Therefore capacity utilization directly influences the industry attractiveness with the significance value of 5.

- Bargaining power of manufacturers – 5

Bargaining power of manufacturers is described in Porter's Five Forces analysis "Bargaining power of buyers" (See p. 43). Based on Porter's analysis, the value of 5 out of 6 was assigned.

The value of total factor is expressed as the mean of the sub-factors, hence:

(6+5+5+5+4+5+5+5)/8 = 5 – value on IA axe of the matrix.

The *internal* environment is also described by two criteria: competitive advantage and financial strength.

Competitive advantage (CA) of Zara in Czech Republic is influenced by the following sub-factors (for each sub-factor a value of 0-6 is assigned):

- Market share – 5

It is now widely recognized that market share is one of the main determinants of business profitability. Generally, companies that have achieved a high share of the markets they serve are considerably more profitable than their smaller-share rivals (Buzzell et.al, 1975).

In order to calculate market share it is necessary to divide the company's sales over the period by the total sales of the industry over the same period.

Figure 19. Net sales of Zara by geographical divisions (Inditex Annual Report, 2017)

	Net Sales	
	2017	**2016**
Spain	4,424	4,251
Rest of Europe	11,954	10,796
Americas	3,877	3,484
Asia and rest of the world	5,081	4,779
Total	**25,336**	**23,311**

Since there is no available information about the net sales of Zara specifically in Czech market, therefore the market value will be calculated in the European market. The total sales of Zara in Europe amount to €16,378 million, whereas the total sales of the European apparel retail industry in the same period is €386,863 million.

Thus, the market share of Zara in apparel industry operating in Europe is approximately 4,23%, which is considered to be a significant market share since the apparel retail in Europe is evolving promptly, especially e-commerce sector. Since Czech Republic is a part of Europe, it is assumed that the ability of Zara obtaining market share in Europe is as nearly the same as in Czech market. Therefore, it can be concluded that market share plays a significant role in profitability of Zara, and as a consequence can serve as a competitive advantage. Hence, the assigned value is 5 out of 6.

- Product quality – 5

Product quality is the most obvious competitive advantage there is. Zara has developed an extensive system of product testing and quality control, underpinned by some of the toughest health and safety and sustainability regulations in the industry (Inditex, 2018).

The Picking Programme is Zara’s most comprehensive and efficient tool for checking the quality of its products:

- ✓ First step is the assessment of each item’s potential risks during the design stage (Inditex, 2018).
- ✓ Once in production, Zara takes samples for analysis and testing in accredited laboratories. A detailed study of the results establishes whether items meet their standards (Inditex, 2018).

As it was mentioned in PEST analysis, Czech consumers are traditionally price-sensitive, but the importance of quality is becoming significantly important, which leads to notable transition from cheaper products towards more recognizable brand names.

Through constant improvement, Zara is becoming quicker at establishing the quality of more products using fewer resources, and without compromising on its commitment to the health, safety and environmental quality of fashion (Inditex, 2018). Hence, the assigned value is 5 out of 6.

- Product lifecycle – 4

Figure 20 (a). Product Life Cycle (Aggarwal, 2011)

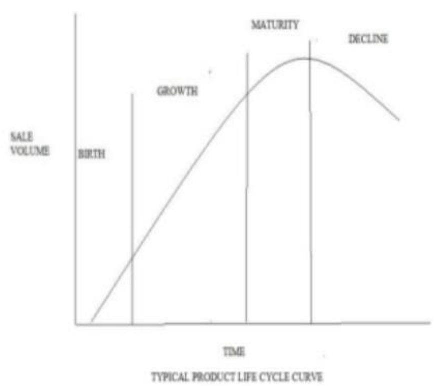
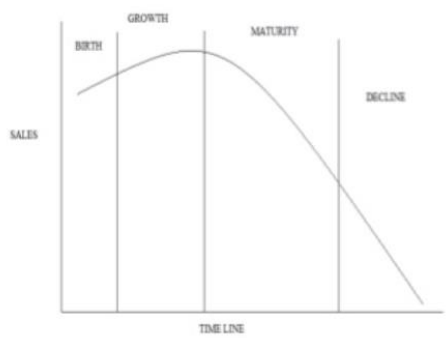


Figure 20 (b). Product Life Cycle of Zara (Aggarwal, 2011)



As a rule, typical Life Cycle model looks like the one demonstrated in Figure 20 (a) where sales decrease as the product moves over the timeline. However, the situation of Zara is slightly different. Since the brand operates in fast fashion industry and its product offerings are the latest trends with a lifetime of maximum 5-6 weeks then its product life cycle looks like the one demonstrated in Figure 20 (b). This way, the assigned value of product lifecycle of Zara as its competitive advantage is 4 out of 6.

- Innovation cycle – 4

Making fashionable clothes is not enough to survive in fast fashion, the brand must be responsive to changes and bring innovation into its products.

Zara constantly innovates its supply chain making fast fashion even faster. Every item of clothing is tagged with an RFID microchip before it leaves a centralized warehouse, which enables them to track that piece of inventory until it is sold to a customer (Digital Innovation and Transformation[6], 2017). The data about the sale of each SKU (Stock Keeping Unit), inventory levels in each store, and the speed at which a particular SKU moves from the shelf to the POS (Point Of Sale) is sent on a real time basis to Inditex's central data processing center (see Figure 21) (Digital Innovation and Transformation, 2017).

Figure 21. Zara's Data Processing Center receives real-time data from around the world (Digital Innovation and Transformation, 2017)

This center is open 24 hours a day and collects information from all 6000+ Inditex stores across 80+ countries and is used by teams for inventory management, distribution, design and customer service improvements (Digital Innovation and Transformation, 2017). When the apparel arrives in store, RFID enables the stockiest to determine which items need replenishing and where they are located, which has made their inventory and stock takes 80% faster than before (Digital Innovation and Transformation, 2017). Hence, the assigned value to innovation as a sub-factor of competitive advantage is 4 out of 6.

[6] Digital Innovation and Transformation – A course at Harvard Business School

- Customer loyalty – 5

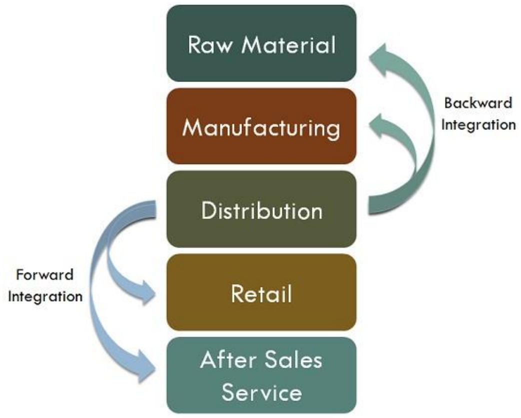
Figure 22. Mean of the loyalty drivers of Zara (Consumer Value Creation, 2015)

Zara	Non-fans mean	Fans mean	Δ %
Satisfaction	5.05	5.54	9.70%
Trust	4.63	4.96	7.12%
Perceived value	4.26	4.15	-2.60%
Commitment	3.96	4.31	8.83%
Loyalty	4.46	5.08	13.90%

Ability to retain customers is essential for any business. It's crucial not only to be able to attract more customers to your store, but make them come back every time. As Figure 22 represents, the main loyalty drivers for non-fans of Zara are satisfaction and trust, whereas the fans are mostly driven by satisfaction and loyalty. Among all the drivers loyalty takes the first place with 13.90%, then comes satisfaction at 9.70% and the least is perceived value with a negative 2.60%. Thus, customer loyalty was assigned a value of 5 out of 6.

- Vertical integration – 6

Figure 23. Vertical Integration model (Investopedia, 2018)



The ability of the firm to vertically integrate not only helps to cut costs, but makes the supply chain more efficient. Since Zara is a vertically integrated firm, the company manages all designs, warehousing, distribution, and logistics functions itself without outsourcing and outside partners. There are many benefits Zara has been enjoying thanks to the vertical integration, some of them are:

- Cutting costs significantly because there is no need in outsourced channels
- Cutting time which makes the production faster and more efficient
- Avoiding conflicts arising from different channels

Therefore, the value assigned to vertical integration is 6 out of 6.

The value of total factor is expressed as the mean of the sub-factors, hence:

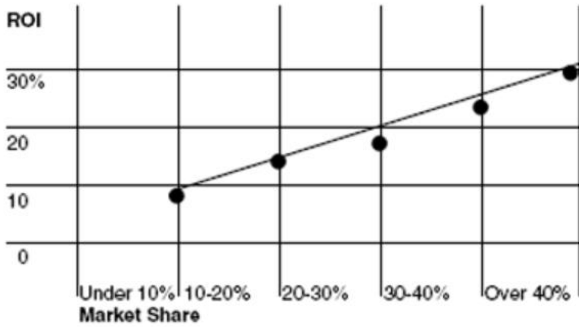
(5+5+4+4+5+6)/ 6 = 4.83 – value on CA axe of the matrix.

Financial Strength (FS) of Zara in Czech Republic is influenced by the following sub-factors (for each sub-factor a value of 0-6 is assigned):

- Return on investment – 4

ROI and related indicators provide a report on profitability, adjusted for the size of the investment assets tied up in the company. As it can be seen from Figure 24 the ROI increases with the market share. Both ROI and market share define the financial strength of the company. Thus, the assigned value is 4 out of 6.

Figure 24. The relationship between market share and ROI (Buzzell et.al, 1975)



- Liquidity – 5

Figure 25. Balance Sheet of Inditex as at 31.01.18 (Inditex Annual Report, 2017)

CURRENT ASSETS		*10,147*
Inventories	(12)	2,685
Trade and other receivables	(11)	778
Income tax receivable	(23)	110
Other current assets		160
Other financial assets	(25)	12
Current financial investments	(19)	1,472
Cash and cash equivalents	(19)	4,931
TOTAL ASSETS		**20,231**
EQUITY AND LIABILITIES		
EQUITY		*13,522*
Equity attributable to the Parent		13,497
Equity attributable to non-controlling interests		25
NON-CURRENT LIABILITIES		*1,536*
Provisions	(20)	259
Other non-current liabilities	(21)	1,005
Financial debt	(19)	4
Deferred tax liabilities	(23)	268
CURRENT LIABILITIES		*5,173*
Financial debt	(19)	12
Other financial liabilities	(25)	105
Income tax payable	(23)	151
Trade and other payables	(18)	4,906

Since Zara is owned by Inditex, the current ratio of Inditex as a whole will be calculated to assess the liquidity of the company.

To obtain the current ratio, it is necessary to divide a company's current assets by its current liabilities. This financial metric measures the ability of a company to pay off its short-term obligations (Gorton, 2016).

As Figure 25 shows, the current assets of the company are amounted to €10,147 milliom, whereas the current liabilities are equal to €5,173 million. Thus, the current ratio is 1.96. Typically, the current ratio higher than 1 indicates that the firm is financially stable and able to pay off its short-term obligations. For every €1 of current debt, Inditex has €1.96 available to pay for the debt. Hence, the value assigned to liquidity is 5 out of 6.

- Debt ratio – 5

The debt ratio indicates the percentage of assets acquired via debt. Debt ratio is calculated by dividing total liabilities by total assets of the company.

Total Assets of Inditex (as at 31.01.2018) - € 20, 231 million (see Figure 25)

Total Liabilities of Inditex (as at 31.01.2018) - € 6, 709 million (see Figure 25)

Thus, the debt ratio is 0.3, therefore it can be concluded that most of company’s assets are financed through equity, which is beneficial for Zara. The assigned value is 5 out of 6.

- Available versus required capital – 4

Available capital should not be less than capital requirement. Hence the assigned value is 4 out of 6.

- Cash flow – 5

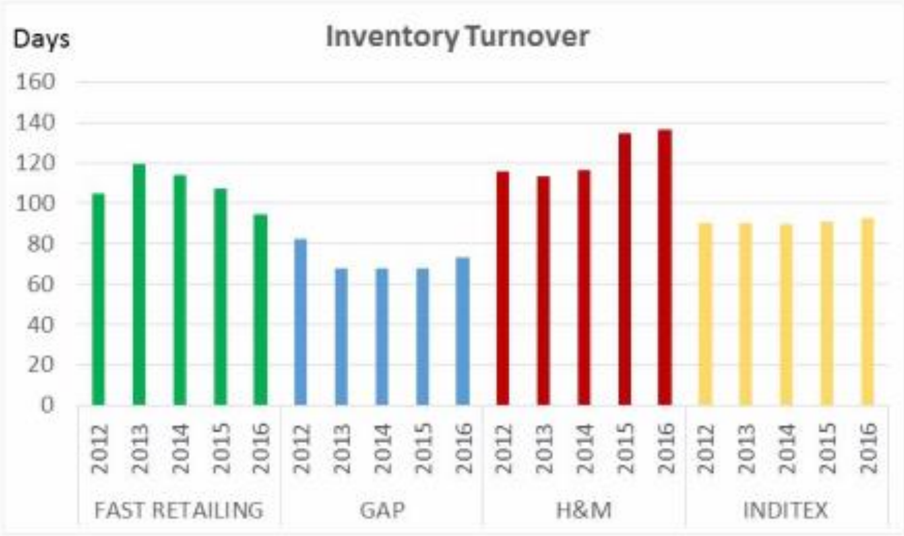
Figure 26. Cash Flow Statement Zara (Investing, 2018)

Period Ending:	2018 31/03	2017 31/12	2017 30/09	2017 30/06
Period Length:	3 Months	12 Months	9 Months	6 Months
Net Income/Starting Line	0.21	6.17	3.35	1.28
Cash From Operating Activities	0.41	16.01	11.14	6.2
Depreciation/Depletion	1.97	8.99	7.09	4.87
Amortization	-	-	-	-
Deferred Taxes	-	-	-	-
Non-Cash Items	0.07	0.58	0.44	0.31
Cash Receipts	-	-	-	-
Cash Payments	-	-	-	-
Cash Taxes Paid	0.26	0.58	0.57	0.48
Cash Interest Paid	-	-	-	-
Changes in Working Capital	-1.84	0.27	0.26	-0.27
Cash From Investing Activities	-1.68	-4.88	-3.12	-1.75
Capital Expenditures	-1.77	-5.24	-3.37	-1.93
Other Investing Cash Flow Items, Total	0.09	0.36	0.25	0.18
Cash From Financing Activities	-0.28	-11.65	-2.75	-2.96
Financing Cash Flow Items	-0.06	-0.83	-0.47	-0.42
Total Cash Dividends Paid	-	-1.06	-1.06	-1.06
Issuance (Retirement) of Stock, Net	-	-	-	-
Issuance (Retirement) of Debt, Net	-0.21	-9.75	-1.21	-1.48
Foreign Exchange Effects	-	-	-	-
Net Change in Cash	-1.54	-0.53	5.27	1.48

The operating cash flow of Zara has increased in 2018 by 1.68% (Figure 26), even though the net change in cash is negative as at 31.03.18. Operating cash flow is able to indicate to the company's true profitability. It is one of the distinctive measures of cash sources and uses, and serves as a gateway between other reported financial statements. Thus, the assigned value is 5 out of 6.

- Inventory turnover – 4

Figure 26. Inventory Turnover across Fast Fashion (The Fast Fashion Retailer, 2017).



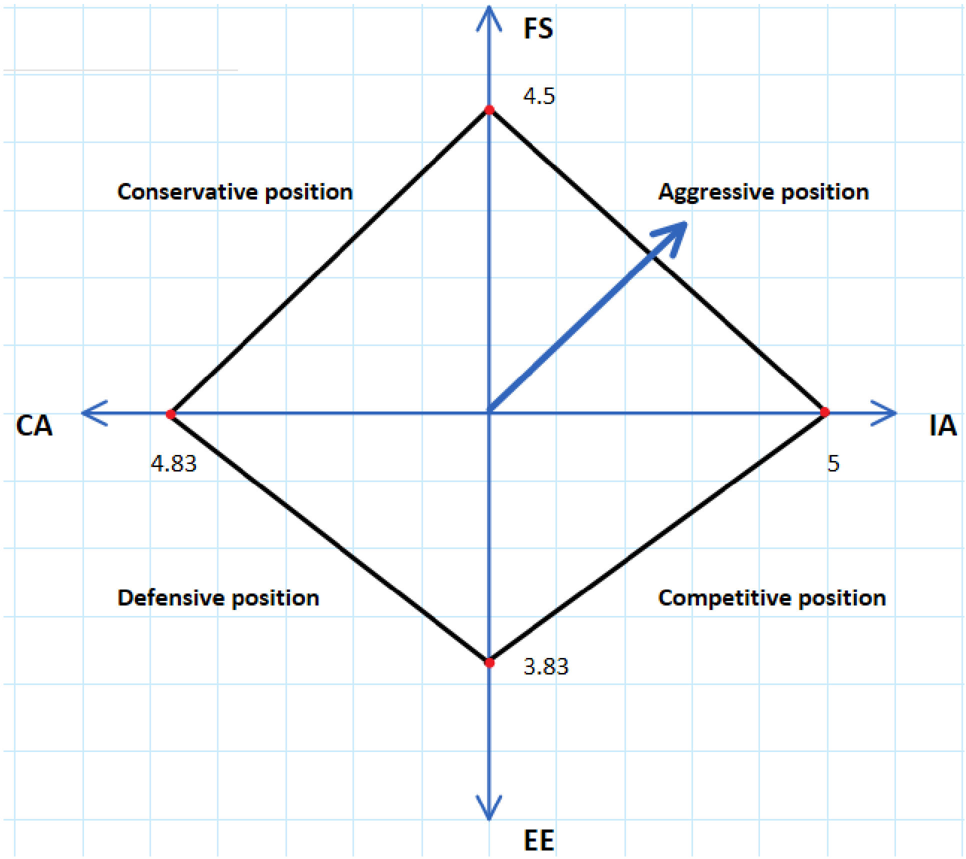
Generally, products that turn over faster increase responsiveness to changes in customer demand as well as allowing the replacement of outdated products. Figure 26 demonstrates the inventory turnover of fast retailing in general, as well as particular brands such as Gap, H&M, and Inditex. In other words the chart shows how many days it takes for an inventory to turn. As it can be seen, Gap is a leader due to the shortest period of inventory turnover, then Inditex and H&M comes last. Inventory turnover is a major concern in fashion industry. Hence the assigned value is 4 out of 6.

The value of total factor is expressed as the mean of the sub-factors, hence:

(4+4+5+5+5+4)/6 = 4.5 – value on FS axe of the matrix.

The values of factors are put into the relevant axes of the matrix (See Figure 27). In the quadrant, where the largest part of the surface of the resulting quadrilateral is, there is a suitable alternative of the business behavior.

Figure 27 . Graphical representation of SPACE Analysis (Author, 2018)



As it can be observed, the largest part of the surface of the resulting quadrilateral is between axes FS and IA, hence, *aggressive position* is a suitable alternative of the business behavior of Zara.

Aggressive position is defined as:

- an attractive and comparatively stable industry;
- the firm has a competitive advantage and it is able to protect it;
- a crucial aspect is the possible entry of new competitors into the industry;
- the firm may consider new acquisitions, increasing market share and focusing on competitive product.

2.12 Performance analysis

Economic outcomes

Inditex chief executive Pablo Isla stated that 2017 had been a year of "solid growth", with recent investment in technology and logistics leaving the company well placed for continued progress (BBC, 2018).

During 2017, Zara spent €1.8bn, much of which went on further integrating its stores and online businesses in each market.

Figure 28. Financial information for segment Zara (Inditex Annual Report, 2018)

FY 2017

	ZARA
Sales to third parties	16,721
Segment EBIT	3,027
Amortization and depreciation	450
Segment total assets	15,420
ROCE	30%
Number of stores	2,251

FY 2016

	ZARA
Sales to third parties	15,483
Segment EBIT	2,764
Amortization and depreciation	659
Segment total assets	15,074
ROCE	30%
Number of stores	2,213

As it can be observed from Figure 28, sales to third parties (net sales) increased considerably from €15,483bn in 2016 to €16,721bn in 2017, which according to the CEO of the company is justified by surge in online sales. A 41% jump in online sales helped Zara to drive higher sales and profits last year (BBC, 2018). The return on capital employed, however, remained the same at 30% in both years.

As of 31st January 2017 the share capital of INDUSTRIA DE DISEÑO TEXTIL S.A. amounted to €93,499,560 and is represented by 3,116,652,000 registered shares of €0.03 par value each, subscribed and fully paid (Inditex Annual Report, 2018). All shares belong to a single class and series, have the same voting and profit sharing rights and are represented by book entries (Inditex Annual Report, 2018).

As Figure 29 (in the Annex) represents, the share price of Inditex has been steadily increasing over the years with the lowest in 2004, and the highest in 2017.

Organizational effectiveness

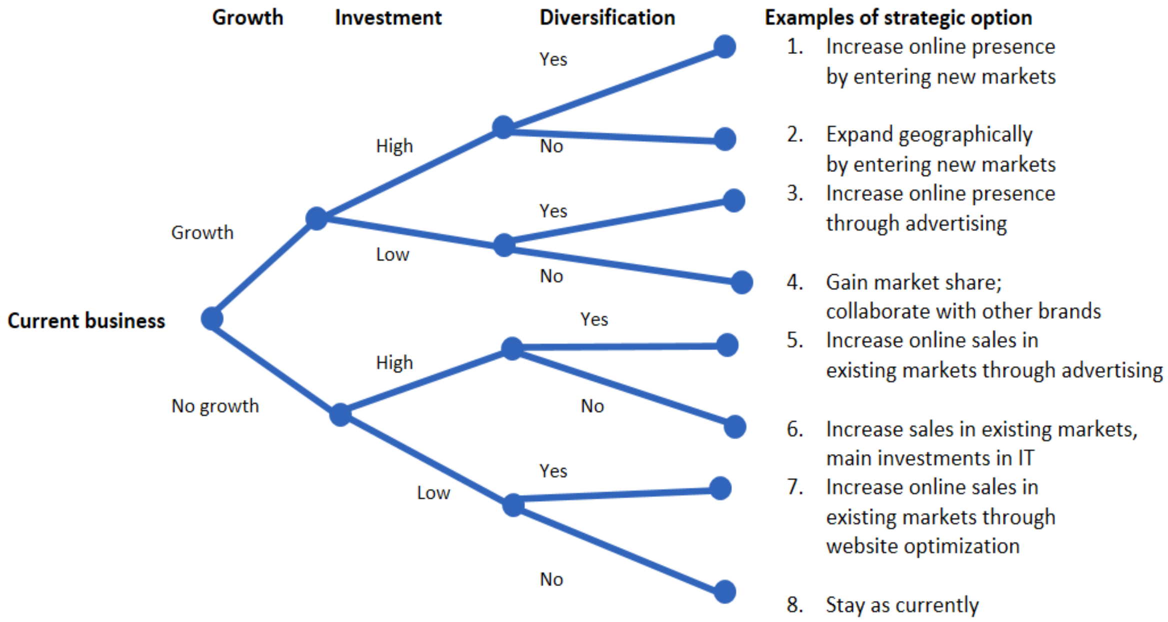
The Balance Scorecard for Zara is presented in the Table 7 below. Blue shaded area represents the learning and growth processes; green – customer; red – finance; and orange – internal processes.

Table 7. Balanced Scorecard for Zara (Author, 2018)

Volume & Profit		**Low-cost operation**	
Optimal product and revenue mix		Lower costs of production process	
Optimize channels to maximize revenue		Head count management	
Best value product for a price	Ensure product obtainability	Consumer preference for a brand	Appropriate assortment of products
Efficient distribution	Financial management	Efficient environmental and safety management	Efficient purchasing process
Safety at all levels of supply chain	Internal transparency and communication of information		Recruit and retain top talent

Strategic decision trees are particularly useful when it comes to evaluating the outcomes of the organizational strategy. The strategic decision tree for Zara is illustrated in Figure 30.

Figure 30. Strategic decision tree for Zara (Author, 2018)



3. Conclusion

In order to provide recommendations and suggestions for the top management of Zara in Czech Republic, it is necessary to outline main competitive advantages and strengths of the brand, address the future threats of the company, and point out the areas where the organization can improve its business activities.

After conducting the strategic analysis of all business activities of Zara and competitor analyses of its rivals operating in Czech market, it is safe to say that Zara, indeed, has the most responsive and reliable supply chain, which is also its primary competitive advantage.
Zara keeps challenging its rivals by constantly raising the bar and cutting the lead times of its manufacturing. Zara is the only fast fashion brand that is able to produce a collection in two weeks. Another strong suit of Zara was identified in SWOT analysis – the ability to differentiate its products. The brand produces clothing for every occasion imaginable: casual, office wear, home wear, party wear etc., so that every customer would be able to find something they want. Apart from men, women, and kids product lines Zara produces and sells various items for home décor in Zara Home stores. This way, Zara has ensured a strong competitive position for itself among other brands operating in Czech market.

In today's world, when consumer tastes shift rapidly Zara's majorly focuses on expanding its online markets in order to pursue the opportunity of capturing the customer segment that prefers online shopping experience to traditional one as well as to address the threat of online shopping giants like ASOS, or Urban Outfitters, that gained a lot of attention in past years. Especially, since the sales of Zara from online platforms increased dramatically from 2016 to 2017. Therefore, management should focus more on improving online shopping experience by bringing innovation, website optimization, e-commerce etc.

Even though Zara has been doing great in terms of brand awareness among consumers, the management may need to reconsider its "zero" advertising policy. Advertising not only provides more public exposure to the products, but also creates some sort of bonding with customers. It is through advertising brands are able to communicate its purpose and identity to the consumers. Hence, Zara should address this opportunity when planning its strategic decisions in the future.

Although Zara has been doing a great job while imitating the designs from famous brands, there is still room for improvement. For a fashion retailer to have its own creative vision is crucial. As Coco Chanel once said: "Fashion passes; style remains". [7] Therefore, creating its own style and setting new fashion trends would enable Zara to stand out. Furthermore, recently famous fashion houses started filing lawsuits against fast fashion retailers for copying its designs, which would both have a negative impact on the brand image and cost company a fortune.

[7] The quote by Coco Chanel translated from French in one of her interviews.

Another threat identified in SWOT analysis – lack of collaboration. New collaborations with world-known fashion houses and designers would not only help to boost the sales, but also attract more young customers who prefer semi-luxury designer clothing at more or less affordable prices. Moreover, collaborations may bring new and fresh ideas into designs and reinvent the usual styles of Zara. Hence, the management should consider to make new collaborations in the future.

Political factor in PEST analysis proved to be helpful in identifying major external trends: one of them being the level of corruption in Czech Republic. Since the corruption level is high, it may result in negative impact on Zara's operations within the country in terms of higher import duties and other taxes. Therefore, it is strongly recommended for the management to monitor the level of corruption in Czech Republic. Furthermore, the evaluation of economic factors suggests to monitor the availability of the human workforce in the Czech Republic since there is a shortage or workers especially considering the strong economic growth of the country. On the other hand, Zara's management may also consider alternative types of workforce, such as automatic machines and robots as a substitution for a traditional workforce, which is speculated to be cheaper and more precise.

Zara carefully monitors its stakeholders and constantly addresses the main stakeholder issues. Zara satisfies consumer demand and preferences by producing a new collection twice a week and taking inspiration from popular high-fashion brands. The company also applies customer service segmented by country and service to achieve a more personalized care. For its employees, Zara established training and internal promotion. It also developed Strategic Environmental Plan that would help the company to reduce negative impacts of production on the environment and make apparel more sustainable. One of the main goals of Zara is to pursue corporate transparency in its relations with shareholders. Hence, the current strategy of the organization does meet the stakeholder expectations.

To conclude, these are the primary suggestions for the management of Zara regarding strategic planning in Czech market:

- Maintain the efficiency of the supply chain
- Keep differentiating its products in stores operating in Czech market
- Focus on improving online shopping experience for Czech consumers
- Reconsider “zero” advertising policy in Czech market
- Attempt to be a trend setter, not only imitator
- Make new collaborations with famous fashion houses and designers
- Monitor the level of corruption in Czech Republic
- Monitor the availability of the human workforce in the Czech Republic
- Consider alternative types of workforce, such as automatic machines and robots
- Monitor its relations with stakeholders

Annex

Table 3. Main tools for interaction with stakeholders (Inditex, 2016)

STAKEHOLDERS	TOOLS FOR DIALOGUE	FREQUENCY	GOALS	MAIN COMMITMENT	EXAMPLE OF STAKEHOLDERS
OUR PEOPLE	Ethics Committee	On request	• Motivate human resource • Strengthen commitment to the Code of Conduct and Responsible Practices	• Respect for human and labor rights • Fair and decent treatment	• Store stuff • Office stuff • Logistics staff • Trade Union
	Agreement with UNI Global Union	Constant			
	Training and internal promotion	Constant			
	Internal communications	Constant			
	Volunteer programs	Constant			
CLIENTS	Specialized customer service teams	Constant	• Rapid response to customer demands • Customer service segmented by country and service to achieve a more personalized care	Integration into the entire business model	• Brick-and-mortar store customers • Online store customers • Potential customers
	Brick-and-mortar and online stores	Constant			
	Social networks	Constant			
	Product Quality, Health and Safety teams	Constant			
SUPPLIERS	Supplier clusters	Constant	Ensure compliance with the Code of Conduct and Manufacturers and Suppliers	Promotion and protection of Human Rights, fundamental labor rights and international standards	• Direct suppliers • Manufacturers • Workers • Trade union
	Ethics Committee	On request			
	Commercial and sustainability teams	Constant			
	Framework agreement with IndustriALL	Constant			
COMMUNITY	Social Advisory Board	Biannual	Achieve maximum scope and impact of the programs developed	Contribution to social and economic development	• NGOs • Government and public administration • Academic
	Cooperation with NGOs	Constant			

	Sponsorship and Patronage Committee	Constant			institutions • Civil society • Media
SHAREHOLDERS	General Shareholder's Meeting	Annual	• Consolidate positions on sustainability indexes • Corporate transparency	Social interests and the shared interests of all shareholders	• Institutional investors • Private investors
	Sustainability indexes	Annual			
	Investors relations	Constant			
ENVIRONMENT	Social Advisory Board	Biannual	Apply the Strategic Environmental Plan	• Respect for the environment • Protecting biodiversity • Sustainable management of natural resources	• Environmental protection organizations • Government
	Commitment to NGOs	Constant			

Figure 29. Inditex share capital (Inditex, 2018)

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