

Applications

Marketing Debate

Should National-Brand Manufacturers Also Supply Private-Label Brands?

Ralston-Purina, Borden, ConAgra, and Heinz have all admitted at some point to supplying products—sometimes lower in quality—to be used for private labels. Other marketers, however, criticize this “if you can’t beat them, join them” strategy, maintaining that these actions, if revealed, may create confusion or even reinforce a perception by consumers that all brands in a category are essentially the same.

Take a position: Manufacturers should feel free to sell private labels as a source of revenue *versus* National manufacturers should never supply private labels.

Marketing Discussion

Retail Customer Loyalty

Think of your favorite stores. What do they do that encourages your loyalty? What do you like about the in-store experience? What further improvements could these stores make?

Marketing Excellence

>> Zara

Zara, the Spanish-based company, is Europe’s leading apparel retailer, providing consumers with current, high-fashion styles at reasonable prices. With more than \$14.5 billion in sales and more than 2,000 stores, the company has succeeded by breaking virtually every traditional rule in the retailing industry.

The first Zara store opened in 1975. By the 1980s, founder Amancio Ortega was working with computer programmers on a new distribution model to reduce the time from design to distribution to just two weeks—a groundbreaking difference from the industry average of six to nine months. As a result, the company now makes between 10,000 and 20,000 different items a year, approximately triple the number made by Gap or H&M. With this revolutionary step, Zara was able to introduce “fast fashion” at affordable prices.

Zara’s business model is keenly focused on four strategic elements:

Design and Production. Zara employs hundreds of designers at its headquarters in Spain. Thus, new styles are constantly being created and put into production while others are tweaked with various colors or patterns.

The firm enforces the speed at which it puts these designs into production by locating half its production facilities nearby in Spain, Portugal, and Morocco. It produces only a small quantity of each collection and is willing to experience occasional shortages to preserve an image of exclusivity. Clothes with a longer shelf life, like T-shirts, are outsourced to lower-cost suppliers in Asia and Turkey. With tight control on its manufacturing process, Zara can move more rapidly than any of its competitors and continues to deliver fresh styles to its stores every week.

Logistics. Zara distributes all its merchandise, regardless of origin, from Spain. Its distribution process is designed so that the time from receipt of an order to delivery in the store averages 24 hours in Europe and 48 hours in the United States and Asia. Having 50 percent of its production facilities nearby is key to the success of this model. All Zara stores receive new shipments twice a week, and the small quantities of each collection entice consumers not only to return frequently but also to make purchase decisions more quickly. Because of its logistics and inventory policy, while an average shopper in Spain visits a main street store three times a year, shoppers to a Zara store average 17 trips. Some fans know exactly what day new shipments arrive and show up early to be

the first in line, keeping the company's sales strong throughout the year and even during slow economic times. The company also sells more products at full price—85 percent of its merchandise versus the industry average of 60 percent.

Customers. Everything revolves around Zara's customers. The retailer monitors customers' changing needs, trends, and tastes through daily reports from shop managers about which products and styles have sold and which haven't. Managers earn as much as 70 percent of their salaries from commission, so they have a strong incentive to stay on top of things. Zara's designers don't have to predict what fashion trends will be in the future. They react to customer feedback—good and bad—and if an idea fails, the line is withdrawn immediately. Zara cuts its losses and the impact is minimal due to the small quantities of each style produced.

Stores. Zara does not run advertising campaigns. The retailer's stores, in prestigious high-traffic locations around the world, are its key advertising element, featuring stylish and constantly changing window displays. Other retailers spend 3 percent to 4 percent of revenues on big brand-building campaigns, while Zara spends just 0.3 percent. The company has said it would rather use a percentage of revenue to open new stores than to advertise.

Zara's success comes from having complete control over all the parts of its business—design, production, and distribution. Louis Vuitton's fashion

director, Daniel Piette, described the company as "possibly the most innovative and devastating retailer in the world." It has expanded aggressively throughout Europe as well as into emerging markets such as Asia, the Americas, and the Middle East, making sure it honors local tastes in each region. Zara was a latecomer to the Internet and launched its first online store only in 2011. However, the company now uses its Web site to test the waters before entering potential markets like China, Russia, and Canada with retail storefronts.

While Zara has experience record sales as of late, it faces unique challenges ahead, including what to do in the United States, where obesity rates are much higher than in the rest of the world and roomy clothes are preferred to the slim fits and high fashion the company offers. It also needs to decide how to maintain its tight control on manufacturing as it expands throughout the world.

Questions

1. Would Zara's model work for other retailers? Why or why not?
2. What can Zara do to ensure successful growth around the world while maintaining the same level of speed and instant fashion?

Sources: Rachel Tiplady, "Zara: Taking the Lead in Fast-Fashion," *BusinessWeek*, April 4, 2006; enotes.com, Inditex overview; "Zara: A Spanish Success Story," *CNN*, June 15, 2001; "Fashion Conquistador," *BusinessWeek*, September 4, 2006; Caroline Raux, "The Reign of Spain," *The Guardian*, October 28, 2002; Kerry Capell, "Zara Thrives by Breaking All the Rules," *BusinessWeek*, October 20, 2008, p. 66; Christopher Bjork, "Zara Is to Get Big Online Push," *Wall Street Journal*, September 17, 2009, p. B8; "Best Global Brands 2013," *Interbrand*; Walter Loeb, "Zara's Secret to Success: The New Science of Retailing," *Forbes*, October 14, 2013; Jessica Sheft-Ason, "Zara to Launch Online Shopping in September," *Forbes*, August 3, 2011; Zara.com; Inditex 2012 Annual Report.

Marketing Excellence

>> Best Buy

Best Buy is the world's largest multichannel consumer electronics retailer, with \$45 billion in sales in fiscal 2013. Sales boomed in the 1980s as the company expanded nationally and made some risky business decisions, like putting its sales staff on salary instead of commission. This decision created a more consumer-friendly, low-pressure shopping atmosphere and resulted in an instant spike in overall revenues. In the 1990s, Best Buy ramped up its computer product offerings, and by 1995 it was the

biggest seller of home PCs, a powerful market position during the Internet boom.

At the turn of the 21st century, Best Buy faced new retail competitors, including Costco, Walmart, and Target, which boosted their electronics divisions and product offerings and often priced lower than Best Buy. The company believed the best way to differentiate itself from the competition was to emphasize customer service by selling product warranties and offering personal services like home delivery and installation. Its purchase of Geek Squad, a 24-hour computer service company, proved profitable and strategically wise as home and small-office networks became more complex and the need for personal