From the supply chain management to the demand chain management in fast fashion: Zara's winning model

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ABSTRACT

The following work demonstrates how the strategy adopted by Zara can represent a possible model which can be applied as well as an example to follow making network organizations stronger. Paradoxally, to a gain larger external flexibility, Zara has internally developed a more rigid organizational structure which provides direct control of critical processes along the supply chain, demonstrating that the advantages obtained, concerning the adjustment to the actual demand and rapid response to the market, compensate the risk of heavy investments. The postmodern consumer, characterized by tendencies which are definitely hard to predict, has made the transition from the supply chain management to the demand chain management essential, that is a management of the activities of the value chain driven by the actual demand in the reference sector.Such claim is fully confirmed above all in the fashion industry, especially for companies which operate in fast fashion, as they are characterized by the speed with which they change their collections, following the rapid changes in the world of fashion, in an attempt to seize the various market opportunities, encouraging the consumer to often renew their purchases.

Keywords: *fast fashion, "an entropic business"supply chain management, demand chain management;*

1. The new trends in the fashion industry: fast fashion

The current scenario is seeing the affirmation of new trends in the fashion industry, such as: a constant need of innovation, greater independence of the consumer and the need to achieve a certain critical mass. All of this in order to compensate for increased investment, the large number of new competitors and the growing low cost trend.

In this view, an effective organization of those factors, which characterize the contemporary context by the management of companies in the sector, has to deal with the structural feature of the fashion product, that is its variability over time.The cycle of fashion, once marked by the logic of seasonal collections linked to fairs and fashion shows, is converging towards a new trend: that is the continuous increase in the number of annual collections to present and deliver to the retail store due to the quick turnover of fashion.Zara, Gap, H & M, Promod and others are among the retail brands that have already prepared to design, produce and deliver the new collections without interruption during the year (Saviolo& Head, 2000). This ultimate vision of the fashion cycle, leads to a trend that is making its way in the apparel market, which is fast fashion, the concept that provides a rapid response to market stimuli, short production life cycles, continuous renewal of assortment, fast rotation of the retail store, as well as affordable and attractive design.

The primary goal of fast fashion is to produce as quickly as possible by reducing costs to a minimum, creating a fashion product that meets the needs of the target audience, *that is, the design characteristic of high fashion at a price which is often within the lower end of the garment industry.* Moreover, the concept of Quick Response (QR), which is the rapid response to changing trends in demand, is primarily useful in creating new trendy products, and secondly, it allures consumers to visit the retail store with a frequency that is unprecedented.The most prevailing business model among the chains of fast fashion, which is essential to achieve the objectives mentioned above, is the so-called **"an-entropic business system"** (Francisco Lopez, 2004).

This particular vision sees the business self-sustaining itself, thanks to the interconnection between production system, distribution and logistics, which reduces the lead time of the collections and responds quickly to market demands. The strategic aspects of this model are the integration of all activities of the value chain, the retail store as the hub of business and privileged channel of communication and the implementation of just-in-time as the basis of the industrial and logistics processes.The key to success of "an-entropy" businesses is to produce only what is expected to sell, and, to achieve this goal, they rely on the contribution of designers who are always looking for new trends (cool hunters) and the daily information provided by each retail store, indicating what is selling and what has to be withdrawn from the market. It is the response time to customer requests to make a difference, and it is here that fast fashion has no rivals,because thanks to a production and a wide range of apparel planned day by day, many mini-collections come to light and are produced,distributed and sold with the same rapidity with which the tastes of customers tend to change.

"An-entropic" businesses aim to reduce costs by reducing the steps and their markups, which increase while proceeding from design to distribution. All of this is achieved through the control of the above-mentioned steps; in addition to reducing large business expenses, speed and reliability are gained. The strategy in question stands in an antithetical position to that which characterizes the big fashion brand in the sector. In fact it shows, in some cases, even a viable alternative to

globalization which has often led companies to believe that they could, or continue to be competitive, by subcontracting most of its production to companies operating in developing countries.
The fast fashion companies have understood, better than others, the hybrid nature of the product that is the object of their business. In fact, its value is increasingly constructed by mixing elements of the supply chain of immaterial production (distribution, communication, marketing) with those of industrial production (Cietta, 2009). An added value for the consumer with a similar conception of the fashion product is created.
The symbol of the new way of perceiving the fashion market is the largest retail chain of the Inditex group, Zara, to which we owe the start of the so-called fast fashion revolution, with the opening of frequented boutiques in central locations and in prestigious buildings, and with a team of 300 designers who work daily to meet the needs of individual markets. The drive of the Spanish company, due to the vertically integrated organizational structure, is the result of 10/12 collections per year and a range of apparel that is usually renewed every two weeks.
The consequences of the realization of fast fashion in the entire fashion industry are clear: above all, companies were forced to rethink about their production speed, moving from the traditional two collections per year to 6/8, including collections, pre-collections, flash and cruise. A deeper change is represented by the creation of new names, which does not have the same impact as a well-known designer, but which is perceived by the public as real brands thanks to the established fashion image which they have cleverly designed.

2. A modern conception of logistics: the supply chain management

As you can easily imagine, being able to be efficient and competitive in fast fashion means to effectively manage the supply chain.
The origin of the Supply Chain Management can be traced to 1958, when an American pioneer of computer science, J. W. Forrester wrote: *"Management is on the verge of a major breakthrough in understanding how industrial company success depends on the interaction between the flows of information, materials, money, manpower, and capital equipment"* (JW Forrester, 1958).It took 24 years before coining the term “supply chain management” (Oliver & Webber, 1982) referring to the material flow management among individual companies (inter-organizational). The concept of Supply Chain Management has expanded up to the point of providing an interpretation scheme which has inspired numerous managerial disciplines. The fact that the performance of an organization is influenced by the actions of those that make up its supply chain (or, more likely, supply network) has been a source of reflection for many management scholars. Therefore, today we recognize that competition occurs between supply chain and not between individual companies (Danish & Romano, 2006).
For managers, the most radical change brought by the Supply Chain Management has occurred in the way of operating and perceiving the context. It is known that in certain areas, the supply network can be very complex and that the balance relations among actors is often unstable within - they can be in direct competition in certain markets, while in others they collaborate or they are suppliers and customers - and that the boundaries of the sphere of responsibility of each company in the supply network can be very large and constantly evolving.In addition, it is important to note that companies are constantly interacting with other actors of the supply network in the development of operational activities. This implies that the company has a profound knowledge of the customers, suppliers and their needs. The concepts just mentioned, require an enormous transformation in the way management operates, which must know how to interpret and fully understand the new context in which it finds itself to manage.
The change in perspective, required by the Supply Chain Management, seems to be one of the major barriers to its realization. In fact, it has led to change the point of view and the way of operating of managers which belong to different sectorial contexts, but it is far from involving the entire category.
The analysis of the supply network, has resulted in a powerful tool in situations where companies exchange tangible products, like fashion, while it has developed much less in the case of intangible flows. This is not surprising, given that the physical flows are more immediate to be studied, but it is unjustified, given that the majority of the inter-and intra-organizational flows are not physical.
The network does not only exist at the macro level, among the companies, but also at the micro level, that is within the same companies. The single processes which take place within the company, can be considered small businesses in their own right, with its own input, output, suppliers and internal customers, objectives, responsibilities and so on. Therefore, the company itself can be seen as a network of interacting processes, each of which is a customer and internal supplier for other processes. Similarly, identifying networks of basic resources, which interact while engaged in the activities, may dismantle processes.
All of those processes of business management, which allow to optimized the delivery of products, services and information from the supplier to the customer, are referred to the Supply Chain Management (SCM), or rather the management of the supply chain.
Literally "supply chain management", SCM is a methodology that aims to forecast and control of the chain of sales of a product by the manufacturer and is based on the principles of logistics.
The environment in which businesses operate in has radically changed, along with its company organization. Over time, in fact, there has been a gradual shift of control of the market

from the product to the customer; the need to monitor, anticipate and control the sale phenomena has by now consolidated, foreseeing the evolution of consumption and market trends (Martin, 2005). The company is the one involved as a whole, but a decisive role is, however, held by the logistics chain. Logistics has presently been reevaluated, from a secondary role which otherwise traditional assumed, also thanks to the success of the Internet and new ways of exchanging goods and services. Logistics, for any type of business, has undertaken in recent years a strategic value, helping to increase the profitability of the entire company's "business process ".

Essentially, the Supply Chain Management is based on logistics and aims to build and optimize the links and coordination between suppliers, customers and distribution. The primary goal of SCM is to maximize the level of service to the end user, and at the same time optimizing operating costs and invested capital.

3.From the Supply Management Chain to the Demand Management Chain

The fact that, between integrated management of the supply chain and customer service a direct relationship can occur, derives from studies on Supply Chain Management and, in particular, from the Anglo-Saxon current which first suggested an interpretation of the aspects in question which deals with it in an integrated key, proposing a new and different way of approaching and managing the business and its market positioning by companies (Cox & Hines, 1997).

Despite the integrated vision of the supply chain, it allows us to take a glimpse of the existence of a link between the management of the supply related problems and the end consumer. Customer orientation in the design of the supply chain is becoming more evident in further recent studies, in which the term Supply Chain Management is replaced with Demand Chain Management (Heikkilä, 2002).

The expression Demand Chain Management is considered more appropriate to define a supply chain that, starting from the specific needs of the customer, is designed according to satisfying the requests of the demands, starting with the supplier / manufacturer and progressing forward.

Regarding "supply chain", according to many, that philosophy, which is typically oriented to the production and efficiency that led long ago to the planning, starting from the factory, in an attempt to optimize the internal operations of the supplier is reflected. This approach does not come close in any way to the "customer-centered" management philosophy, which would lead instead, to a supply chain design in relation to the needs of the customer. With the transfer of power in the distribution channel from producer to consumer, this conventional philosophyhas in fact become less and less appropriate.It is for these reasons that many suggest today to design the supply chain, no longer "starting from the factory" but "working backwards from the customer" (Christopher, 2005).In this view, the term "demand chain" best illustrates the idea of a "customer-driven" chain rather than a supplier-driven one (Corò&Rullani, 1998).

In the same field of study, all of the contributions which have recently emphasized the problem of integration between marketing and SCM are also included. They are considered crucial elements for the pursuit of competitive advantage in today's markets (Ellinger, 2000). According to this perspective, the integration between the two concepts would allow to overcome the inherent limitations in the restricted definitions of supply chain on the one hand and marketing on the other, traditionally oriented to the efficiency of one and effectiveness of the other. In particular, the concept of SCM would have always been oriented primarily to cost reduction and optimization of purely logistic aspects, neglecting its fundamental importance in the orientationand achievement of far more complex objectives of effectiveness / efficiency.The attempt to eliminate waste, through the reduction of stock and warehouses, streamlining production and the adoption of the principles of Just-in-Time, drove the design of supply chain type "lean & agile", which is well suited to markets which are characterized by predictable demands, high-volume and limited variety of productions.However, the market conditions, in which companies are operating at present, are characterized by volatile demand and requests for variety (Christoper&Towill, 2000). Thus, in a growing number of markets, brand power has declined and customers are more likely to accept alternative products. Even the technological differences between products have been reduced and it is therefore difficult to maintain a competitive advantage through the product itself. In situations like this, it is the customer service assistance which makes the difference between the offer of a company and that of its competitors.

The underlying philosophy of SCM, for which the reduction of the total resources used would guarantee the level of service requested by the customer accordingly (Jones & Riley, 1987), seems to vacillate. According to some, in fact, the efficiency of the supply chain would not allow any increase in the value for the customers and their satisfaction (Rainbird, 2004).

4. The fast fashion retailer symbol totally integrated: Zara fashion house

The brand Zara, founded in 1975, is one of the brands of the Inditex group S.A. (*Industrias de DiseñoTextilSociedadAnonima*), the first European group and the second in the world in clothing and manufacturing, with headquarters in Arteijo, La Coruña (Spain).

In the current context, Zara represents the cutting edge in the textile industry; it does not produce with the logic of collections but has developed an innovative and successful business model, focusing on the novelty of the product, the efficiency of logistics and selling until stocks last.

In the current competitive international context of fast fashion, Zara stands out for its characterizing element of developing

together with the distribution, also the productive activity, along with the other phases of the value chain. Within this category, there are companies that perform the activities of design and production in-house, or that assign them to sub-contractors; conversely, the majority of their stores are not owned by them, but franchised (as in the case of Benetton); Zara, however, is the symbol of the fully integrated retailer.
Zara is the owner of the entire value chain of the product, and uses company owned retail store, factories and even controlling 100% of the capital of the majority of the companies within its supply network. The creation of this type of network requires an integrated organizational structure, and a short and agile chain in which the various actors are able to connect in a timely and efficient manner.
Zara presents itself as a business network, focusing on the stages of production in the area of A Coruña, which has become a full-scale "local production system." In this area you can also find the group’s headquarters, the design center composed of 200 designers and logistics centers with more than one thousand employees. What distinguishes Zara’s management model is its ability to govern at all stages of the value chain, due to the vertical integration of the supply chain.
This is the only way one is able to manage information and physical flows, which guarantees the synchronization of all of the links in the chain. The internalized management of upstream activities allows, furthermore, to implement the *pull* methods, in particular, the application of *Quick Response* cannot be realized without the close and integrated relationship with all of the participants in the manufacturing and marketing of the product. In addition to geographical proximity, it is essential to establish a close and integrated relationship with all of the participants in the development and marketing of the product. Yet, Zara maintains relationships among the various actors based on a property control. For this reason, a growing level of geographic complexity arises in coordinating the supply network, manufacturing sites, contractors and retail stores located throughout the world. Essentially, there is a central core, which in addition to directly carrying out production activities, coordinates a group of small and medium-sized businesses to which the outsource phases is at a low strategic level.
Company owned business are mainly involved in products with the highest rotation in order to reduce lead time and to optimize manpower of the districts, while those of the basic collection are carried out by contractors. Zara has internalized both producers, ascribable to 23 owned factories; and suppliers, being 100% owner of the Comditelcompany, the wholly owned subsidiary, which supplied the company with half of its fabric. It maintains, however, 40% of its manufacturing activities managed on behalf of third parties by contractual agreements (mostly exclusive) with specialized European suppliers, and 20% with sub-contractors in Asia, Mexico and North Africa, thus exploiting also the advantages given by the flexibility.
Thanks to the high interconnection system among production, distribution and logistics, the lead time of the collections is reduced and market demands are responded to, quickly. All this is made possible by the efficient logistics infrastructure with which Inditex is able to supply goods, in less than 48 hours, to the group’s stores located in every part of the world.The company abandons the benefits deriving from the economies of scale and sends a smaller number of pieces in a wide variety of styles and with greater frequency, quickly eliminating the lines that do not sell therefore avoiding inventory and periodic clearance sales.
Zara owns a supply chain that is defined market sensitive, and is in fact able to read and respond to a real demand thanks to the use IT systems that allow you to retrieve pertinent information about your request directly to the retail stores. The store managers are equipped with Casiopea (or PDA, personal digital assistant), a handheld device connected to the POS (point of sale system) to which all relevant information is transmitted as well as the real demands collected throughout the day. In less than an hour the information is processed by the POS and transmitted to the central system, where they will be summarized and transmitted to the design team. The majority of the other organizations, however, are forecast-driven rather than demand-driven. In other words, since they have a limited feedback from the market, in the form of data on the real needs of the customer, they are forced to make predictions based on past sales.
Another crucial aspect concerns the ability of companies to be able to generate and manage large volumes of information, so as to make available and share external and internal sales data, resulting from production choices. Zara has an efficient technological infrastructure consisting of ERP, CRM, SCM, corporate website and intranet systems, which allows the sharing of information between buyers and suppliers, to set up some sort of virtual supply chain, information-based, rather than based on the inventory.
The information shared between supply chain partners, is fully optimized through a process of integration, or through collaboration between buyers and suppliers, the joint development of products, common systems and shared information. This set of information sharing, relationships and collaboration between the various actors in the supply chain, tends to create a network of interactive relationships among all actors in the supply chain.

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