Zara and its commitment to CSR in the fast fashion industry

Capstone Project Rough Draft: Learning Team 1
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Abstract

Purpose
The objective of this study is to gain an insight and understanding into the social responsibilities within the giant fast fashion retail Industry. In particular we are going to focus on Zara, currently owned by Inditex.

Design/methodology/approach
The preliminary approach our team took was to use secondary research to examine and analyze industry reports, qualitative feedback and non-industry sources. The secondary stage of this analysis would be to collect data from stakeholders by creating surveys which would further inform us about the feasibility of CSR initiatives in the fashion industry.

Findings
We have identified social responsibility gaps between CSR and Zara. After thorough and careful review, we believe Zara could be a first mover in an area needy of investigation. Three of our key findings were:

● Zara does not currently have an active CSR program in place
● People are more likely to purchase a brand that supports a cause (Cone cause case study)
● There is a high rate of women sacrificing their education to work in the garment industry instead

Social implications
Our study has very critical and impactful implications for society with respect to sustainable development.

"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts:

● the concept of needs, in particular the essential needs of the world's poor, to which overriding priority should be given
● the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs."

Originality/value
We strongly believe we are presenting original content which would bridge the gap between the fast fashion consumer and Zara’s reputation.
1. Executive Summary

The Idea:

Zara has been a disrupter in the fast fashion arena for some time now and their vigorous marketing strategy has become somewhat of a blueprint for other major fast fashion competitors to emulate. Their growth has been momentous; operating in 88 countries with 2,100 stores.

As we learned in our Global Marketing course, Zara inhibits a polycentric style of international expansion to achieve continuous growth. In global marketing, companies must be aware of how business is done in each foreign market and be strategic when entering these markets. When a marketer is dissecting a foreign market, there are cultural change strategies he/she can pursue, one being “culturally congruent strategy”. In this strategy, the brand markets its products as closely to the ones already on the market in the foreign country. This enables the foreign market to relate easily to whatever is being marketed. Zara seemingly enters each market this way and takes over through their high turnover strategy. However, what the consumer sees behind the well-merchandised, trendy, quick turnaround retail giant seems to be clouded and kept under wraps. Is Zara’s supply chain management too good to be true? Zara boasts an impressive 2-week turnaround for their retail level stores that many of their competitors take months to produce. “On average, Zara’s product takes 26 days to sell out; H&M’s takes 112 days.” (Smith, 2015). Zara is quickly able to replenish and efficiently deliver their products seamlessly given that their factories are home based in Spain; however, at what cost? Zara has been slammed with unethical labor practices amongst slave and child labor specifically within South America.
The idea is to adopt new methods of ethical standardization and incorporate these methods into Zara’s marketing plan. Labor, environmental, and supplier standards will be addressed and tactics will be set in place. The millennial consumer, whom Zara aggressively targets through speed, choice abundance, and trend, is driven by CSR and ethical representations of the businesses in which they shop. 80% of millennials would rather purchase a sustainable brand vs. a non-sustainable one. This shows the impact that ethical standards can have on Zara’s target audience. While Zara is a global industry leader right now, they can become untouchable if they tie up these loose ends in regards to sustainability.

It is important for Zara to understand their consumer. Understanding what drives them to purchase is critical. As we learned in the Services course, marrying memorable customer service along with a cohesive business plan is critical. Following the dimensions of service quality (reliability, responsiveness, assurance, empathy, and tangibles) can differentiate Zara from their competition. Relating to the customer on a deeper level is what creates brand loyalty. The millennial consumer today has a very holistic view on their lives and choose to purchase products accordingly. What is good for the environment or social matters is imperative to gaining their trust; specifically empathy. However, implementing strategies such as grassroots efforts or CSR partnerships isn’t enough to stand out. Inaugurating a CSR plan that addresses not only the brand’s particular issues but supports global factors along the way. Zara struggles with ethical degradation amongst a multitude of facets such as poor labor conditions, unfair wages, slave labor accusations, extensive water consumption, excessive carbon footprint, etc. Building internal engagement through ethical practices will be addressed while monitoring factories across the globe. An innovative plan to improve working conditions, environmental stability, and labor laws will be included in the marketing plan to increase overall CSR efforts while locking in the final missing piece to Zara’s marketing constituent.
The importance:

The importance of examining Zara's ethical practices while determining new ways to achieve a higher standard of CSR will bring to light social issues that have been ignored in the fashion industry for years. Zara's booming success is undeniable, yet its ethical standards are questionable.

Retailers that fall under the fast fashion category have the ability to produce mass quantities of product within a short turnaround time while offering a very low retail price. Zara's global supply chain must be investigated to not only understand how this company is successful on a global scale, but to make sure this success is being achieved responsibly. It is not unheard of for major fashion brands to use factories that employ garment workers willing to accept low wages and unfair working conditions. Plenty of fashion brands take advantage of workers overseas, offering below the minimum wage and unsafe work conditions to cut costs. It is important to investigate if Zara is for or against these practices - their involvement in this issue, and the degree to which it is publicized, can greatly impact their customer loyalty and overall brand identity.

In addition to analyzing the labor standards Zara has set, it is important to understand how this company is operating from an environmental perspective. Fast fashion companies such as Zara are constantly producing clothing, in as little as three short weeks - from the
initial design phase to when the product becomes available in stores. One must wonder how the earth's natural resources are being compromised in order for this business model to be successful. The water consumption alone to create trendy, distressed denim must be astronomical. Another environmental factor to think about is the size of Zara's carbon footprint. Every week, Zara retailers receive shipments of new merchandise. For a brand that has 2,100 stores worldwide, the energy used to transport the product every single day must be enormous. The strain of environmental resources by Zara needs to be recognized so that people understand the true cost of buying from this fast fashion brand.

**Sustainable management**

There is always room for growth for any company, especially a fast-fashion one, to improve its ethics and corporate social responsibility practices. This could be a window of opportunity for Zara to position itself in its market by segmenting itself as a socially responsible company. Zara needs to be transparent about its global supply chain and its social responsibility efforts. Without this transparency, people will have a harder time trusting Zara. This comes at a time when CSR and brand ethics in the fashion industry are supported and celebrated. Competitors like H&M have entire websites dedicated to their CSR efforts. It is important to investigate Zara's global supply chain to see if there is an opportunity for them to be seen as a fast fashion retailer that is socially responsible.
This, the research question would be: How can fast fashion retailers like Zara align their corporate initiatives with their CSR goals?

The audience:

Public Relations Department: This study if implemented can be used as a Public Relations exercise by the PR department in order to show Zara in a more positive light. ‘In recent times, Zara was accused of copying designs from an artist Tuesday Bassen’ which has caused a lot of questions to be raised about their ethics and business practices. The study
could be used to develop a PR strategy in order for Zara to focus on its ethical practices and workings in order to be portrayed in a more positive light.

Strategists: Considering an entire ethics and CSR strategy needs to be implemented to be followed on a long term basis and extensive research needs to be conducted on the current scenario in the industry, what various companies in the fast fashion market use as a standard to establish their ethical policies.

CSR Department and Consumers: The Cone cause case study reported in 2012, the following results: “86% of consumers are more likely to trust a company that reports its CSR results, 82% say they are more likely to purchase a product that clearly demonstrates the results of the company’s CSR initiatives than one that does not, 40% say they will not purchase a company’s products or services if CSR results are not communicated”, which goes to show that now more so than ever, it is extremely important to make sure that the business a company is running focuses on CSR and ethics too. Consumers want to know where their clothes are being produced and in under what conditions. They want to know what exactly a company is doing and how they are functioning. With Zara, these lines get blurred considering fast fashion is the main focus. Thus, this study would be helpful for consumers to understand how Zara can make better efforts.

Competitors: In the fashion industry specifically, competition is extremely fierce especially when looking at fast fashion retailers. One needs to essentially keep an eye on their competitors at all times. For example, H&M already came out with an environmental campaign this year, in comparison to Zara, they are a step ahead. So how can other companies use Zara as a success case study and regard this one as a template for their own success.

Research students: To understand what the current situation of ethics and CSR is in the fast fashion industry using Zara as a case study.

The How:

For the purpose of this marketing plan, we would primarily be conducting secondary research using peer reviewed journals and articles published in reputable magazines to understand the situation in which Zara is currently in with respect to its ethical standards and corporate social responsibility.

The first step would be to analyze the current industry standards in fast fashion’s ethics about labor wages, labor laws, and environmental sustainability. That factors that we are looking at are: "Respect for people (at all levels of the organization), the community, and its supply chain; respect for the planet, recognizing that resources are finite; and generating profits that arise from adhering to these principles. Organizations are embedded in society, and reflect the value they offer society, which raises profound issues.” (Joy, A., Sherry, J. F., Jr., Venkatesh, A., Wang, J., & Chan, R., n.d.)

The problem currently faced by the industry as Beard (2008: 448) states, is "The difficulty is to see how all the suppliers of the individual components can be ethically secured and accounted for, together with the labour used to manufacture the garment, its transport
from factory to retail outlet, and ultimately the garment's aftercare and disposal. With a
global reach, the fashion industry supply chain is highly fragmented and inherently complex.”

At the moment Zara is facing a number of issues in labor laws, copyright
infringement and supply chain practices. The next step would be to conduct a thorough in
depth analysis to understand why Zara has been put under the microscope in this aspect.

The research will be based on these key issues:

**LABOR STANDARDS**
- We have to look at working conditions: how long are their shifts? How much are they paid
  hourly? (is that normal for the country of production?) Do they get bathroom/lunch breaks?
- Is there transparency for this information? Or is it really hard to find?
- Where does production take place? 1 place or many?
- How big are the factories?
- How many people work in them? Is there overcrowding or is it safe?

**ENVIRONMENTAL STANDARDS**
- Water consumption: do they use certain technologies that help reduce water use?
- How often do they ship out? (assuming every day?)
- Does the company have a program in place to cut down carbon footprint?

**SUPPLIER STANDARDS**
- From whom do they source materials from?
- Do they buy from all over the world or keep it local?

Once the analysis is completed the problems can be recognized and solutions to
address these can be put forth. This would be done by utilizing CSR best practice case studies
and using them as a framework to create a socially responsible and ethical marketing plan for
Zara.

**Learning objectives**

The importance of analyzing current and future CSR efforts made by Zara is closely
tied to much of the MPS Fashion Marketing program at LIM College. Corporate social
responsibility has been an important topic and it is integrated into almost every course
discussed in the program. CSR is especially important to assess when studying cause
marketing. Philanthropy and the generous effort that is applied to build a successful
partnership is essential for businesses and non-profits. The tactics we have learned that are
commonly used in cause marketing can also be used when setting up a CSR program. The
knowledge derived from the cause marketing course can not only be used as a reference, but
also directly applied to the strategies used in this Capstone.

Similarly, when one looks at Consumer Behavior and Insights, this topic can be
applied to the research being done on Zara to understand how consumers perceive the brand
and what implications the new CSR strategy we would be proposing would affect the
perception of the brand, once the analysis is done on how consumers currently view the brand and what they think about it.

Another learning objective from the MPS program that can be applied to Zara’s CSR model is the skill in leveraging public relations. The public relations course touched on a number of different strategies on how to shape a business in the public eye. Strategies ranged from heavy press coverage to event planning, yet one tactic that especially stood out was segmentation. Segmentation refers to grouping consumers of similar behaviors and interests together to create products/services that would appeal most to this large group. By adapting stronger CSR efforts, Zara would be using a method of segmentation - appealing to a large mass of fashion consumers that also appreciate a positive impact - from higher environmental standards to knowing their garments were produced ethically.

Zara does nearly zero digital marketing strategies, just an occasional Instagram post, and still get hundreds of customers through their doors. As we learned last semester in the New Media class, most consumers, especially Zara’s targeted Millennials are active on social media platforms and constantly check their favorite brands’ accounts. Imagine how Zara’s profits will be if they market these CSR objectives and develop a new media plan to go along with it. They could turn the negative public opinion some consumers and fashion leaders in the industry have about them and build a strong and loyal brand-customer relationship.

According to Philip Kotler, “Marketing management is the analysis, planning, implementation and control of programmes designed to bring about desired exchanges with target markets for the purpose of achieving organisational objectives.” Marketing management is the most important factor businesses rely upon to succeed. For all of these CSR objectives and strategies to work in Zara’s favor, the marketing management implementation will need to be well executed.
I. Executive Summary

Zara is currently acting as a fast fashion industry leader, but with regard to corporate social responsibility, there is significant potential for growth. While there are a variety of CSR initiatives Zara could expand on, as discussed in the proposal, the section that needs to be prioritized is the labor standard aspect. More specifically, Zara should focus on developing an education program for its garment workers. Not only will this contribute to the quality of people’s lives, but it will boost employee morale. From a marketing standpoint, it will humanize Zara, and people will perceive it beyond its ability to turnaround fashionable clothes all over the world.

According to the Department of International Development there are 23 million girls out of school in sub-Saharan Africa across more than 40 countries. A further 22 million out-of-school girls are in South and West Asia, focusing on India and Pakistan. The relatively high costs for primary schooling in these countries disables parents to send their children to get an education, thus forcing these young women to take on some of the workload at these factories.

A study conducted by the UN states that (Jenkins, R. O., Pearson, R., & Seyfang, G. 2002) “Workers know nothing about human rights codes while working at factories. Even when the concept was explained to them, the showed a high level of scepticism due to not having faith in the management of companies and corruption. Also many of the workers felt that trying to figure out if companies had any codes and programs in place for them would lead to their victimization or dismissal”

In a situation like this, how does Zara create a program in order to make its workers feel empowered along with removing a fear of them facing persecution is the question that is necessary to ask.

Company Background

Mission Statement
II. Industry Overview

Zara operates in a particular segment of the fashion industry that is referenced as “fast fashion”. While many people appreciate fast fashion and the affordable, stylish merchandise produced from this booming phenomenon, many do not know about the circumstances of production. More often than not, people buy clothing without thinking where it comes from. In 2013, a factory in Bangladesh collapsed, killing 1,100 people and injuring more than 2,500 (Alam). Marked to this date as the deadliest accident in the garment industry, it was then that people began thinking about those who sew and stitch their clothing. In order for global brands such as H&M and Forever21 to be able to turn around merchandise every week all over the world requires a certain standard of work that questions ethical values.

Sustainability within the fashion industry means there must be a social responsibility to employ workers under safe, healthy, and fair labor conditions. The exploitation of garment workers for the heavy demand of new product is not uncommon and sweatshops are a hidden secret when fashion brands choose to outsource production on third world countries to cut labor costs. When third world garment workers are paying for our demands, a system of modern slavery is enforced and it will not end until fast fashion does.

The people that make Zara’s merchandise in developing countries such as Guatemala, India, and Peru are mostly women. Recent statistics state that three quarters of garment workers worldwide are women (Stotz, Kane, 2016). Women that are employed in factories are often uneducated, or have chosen to forego a proper education in place to work in order to provide for themselves or their families. Many women entered this profession at the youngest age possible. In most of these developing countries, the legal minimum working age is fourteen years old (International Labor Organization, 2016). A person entering the workforce at fourteen will be prioritizing work over education. The education that young workers are not able to receive are fundamental to their future- from literacy to sex education.

Our Proposed Strategic Marketing/Management Model
III. Business Model

In comparison to its competitors in the fast fashion industry, Zara operates under a slight broad differentiator in terms of pricing, distribution and online presence. The Inditex 2015 Annual Report, which owns Zara, reported the most sales yet, at 20,900 million euros - or 20 billion euros. To date, 2015 was the strongest year for Zara. This is due to its business model’s dependency on three major tactics. Its Brick & Mortar stores, its continual expansion of online presence, and its global supply chain. Zara reported a total of 2,162 stores, and is available in 27 online markets.
ZARA

With 77 net openings, Zara is the brand with the most new stores, in a year in which the Inditex Group opened its landmark 7,000th store in Honolulu (Hawaii). Taiwan, Hong Kong and Macao joined the list of Zara online markets. A commitment to sustainability and improved customer service have been a constant focus this year, with projects such as the installation of clothing recycling containers at the brand’s stores and the rollout of interactive changing rooms.

www.zara.com

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13,628 net sales [millions of euros]

2,162 number of stores

77 net openings

88 markets

27 online markets

New physical markets: —

New online launch: Hong Kong, Macao and Taiwan

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The United States was a key market in 2015, where Zara opened stores in symbolic locations in New York, Los Angeles, San Diego and Las Vegas.
Zara was the first group created under Inditex and continues to perform as a leader based on fashion products and revenue. Revenue from Zara is also partially due to geographical segmentation. The strategic placement of Brick & Mortar stores generate a strong revenue due to tax breaks in certain chosen geographical locations, all over the world. Taxes for opening a Zara location in South America, for example, may perhaps be less financially straining as the demanded taxes in the United States. “In the presentation of information by geographical segment, revenue is based on the geographical location of customers and segment assets are based on the geographical location of assets. Non-current segment assets do not include deferred tax assets.” (Inditex Annual Report, 2015).

The global supply chain of Zara is highly effective because not only does it act sustainably, but because of its ability to keep sourcing and production close to its home base of Spain. “The value chain is characterised by what is known as proximity sourcing, which means that more than 50% of production is carried out in areas close to the head offices and logistical centres in Spain. The flexibility that defines Inditex has also spread to its suppliers that have flourished alongside the company” (Inditex Annual Report, 2012).
IV. Company Functions-Firm’s most connected activities

1. Research and Development:
The area where Zara needs to focus in terms of its R&D would be its inventory management and logistics in order to keep up with their lead time of two weeks for delivering a new garment. In order to do so, the have used a large amount of their R&D resources to make this system better.

“Overcoming significant technical and human difficulties, Zara recently deployed a new process relying extensively on sophisticated Operations Research models to determine every single shipment of inventory it sends from its two central warehouses to its 1500 stores worldwide. This new process has increased sales by an estimated 3-4%, corresponding to an estimated realized impact of approximately $233M and $353M in additional revenues for 2007 and 2008, respectively.” (Caro, F., Gallien, J., & Torralbo, G. 2009, February 23)

2. Production
In terms of production, Zara has a central design and production unit which is in Spain. According to an article published by Harvard Business Week, this is what the company’s production looks like
“It consists of three spacious halls—one for women's clothing lines, one for men's, and one for children's. Unlike most companies, which try to excise redundant labor to cut costs, Zara makes a point of running three parallel, but operationally distinct, product families. Accordingly, separate design, sales, and procurement and production-planning staffs are dedicated to each clothing line. A store may receive three different calls from La Coruña in one week from a market specialist in each channel; a factory making shirts may deal simultaneously with two Zara managers, one for men's shirts and another for children's shirts. Though it's more expensive to operate three channels, the information flow for each channel is fast, direct, and unencumbered by problems in other channels—making the overall supply chain more responsive.” (Ferdows, K., Lewis, M. A., & Machuca, J. A. 2005, February 21)

3. Finance When speaking about Finance, it is extremely difficult difficult to differentiate the parent company, Inditex from Zara considering only the financial information for the parent company is released every year. The figure below shows the financial snapshot of the parent company inditex for this year.

According to their 2016 half yearly financial report, Net sales reached €10.5 billion, Gross profit reached €5.9 billion which was 9% higher than the previous year.
4. **Marketing:** Zara does little to no advertising or marketing. The only advertising they do is in the form of their billboards which are extremely minimalistic in nature.

As explained by the New York times in an article in 2012 by Suzy Hansen, "It hardly even has a marketing department, and it doesn't engage in flashy campaigns, as its competitors do, teaming up with fashion designers like Stella McCartney, Karl Lagerfeld, Martin Margiela and Marni,"Zara's designers are completely anonymous; some would say this is because they are copiers rather than designers. The marketing [parent company] Inditex does do is all about real estate. The company invests heavily in the beauty, historical appeal and location of its shops." Further, it's famously a press-shy company. Despite being one of the world's richest men, Mr. Ortega Gaona refuses to do press interviews, and neither does his successor Pablo Isla.”

5. **Total Quality Management:** Zara has been facing issues in the TQM department with its longevity of clothing. However, the brand received bad publicity recently ‘when a woman found a rat sewn into her Zara dress’ (Kaufman.E, 2016) Which could potentially harm their PR and brand image.

6. **Human Resources:** According to Maya Townsend (2013) ‘Zara’s biggest success in the Human Resource department is that they break the barriers of lead times by creating cross functional teams in all departments” which ensures a collaborative effort amongst its various departments.

7. **Ethics and CSR:** Although Zara’s parent company has taken efforts to contribute to sustainability endeavours, there seems to be a gap in this sector with respect to publicising the CSR activities which could enhance their image and brand reputation.

V. **Firm’s New Marketing Strategy, Development and Implementation**
Zara will have a competitive advantage in the fast fashion industry by developing a CSR program that focuses on education for its third party factory employees. The mission of Zara’s new CSR program is to empower its garment workers in developing countries. This is due to Zara operating in underprivileged companies where a majority of workers are young girls and women, who sacrifice education for work. Zara’s new CSR strategy, which will be named Zara University, will focus on merging work and education, as a benefit.

Zara will partner with She’s The First, a nonprofit that aims to educate girls in poverty stricken countries around the world. The organization raises money to sponsor scholars, which are provided with tuition, uniforms, food, mentorship, education and a support network. To date, they have sponsored over 35,000 scholars.

She’s The First has affiliations with local partners abroad, providing a certified standard of education. She’s the First provides scholarships to girls in low-income countries, fostering first-generation graduates and cultivating the next generation of global leaders. She’s The First focuses on girls and women, stating on their official website that “while there are many equally deserving boys around the world in dire need of an education, we’ve chosen to focus our efforts on girls, since statistically, they’ve faced greater disadvantages. Only one in every five girls in the developing world finish primary school, and only one out of every three countries (37%) has as many girls as boys in secondary schools”. She’s The First has partners in Ethiopia, The Gambia, Guatemala, India, Kenya, Nepal, Peru, Sierra Leone, South Sudan, Tanzania & Uganda. The cross over countries that Zara operates in are Guatemala, Peru, and India.

The partnership between Zara and She’s The First is appropriately aligned because of its shared values of providing opportunity for women working in developing countries. While Zara offers work opportunity, it wants to do more - and provide a medium for education. She’s The First aims to help the girls working in factories, such as Zara’s employees, to improve their lives through education, mentorship, and basic supplies.
To ensure this new education initiative is successful, Zara must implement strong public relations and marketing efforts as well as provide an opportunity for everyone to take action. Such strategies of implementation will involve having a strong social media campaign, and creating an exclusive collection where all proceeds of the merchandise will go directly to Zara’s education program. Opportunities to make a donation to this program by the Zara customer will also be offered when making an in-store & online purchase.

VI. Management Team & Company Organization

Zara’s success can be arguably triggered by the strong leaders that the executive team consists of. The tight structure and strategic implementation this experienced team delivers creates a forceful base to penetrate each market flawlessly. Zara operates on a healthy organizational structure - emphasizing high performance. This allows for a reduced number of managerial hierarchy levels and a decentralized decision-making process. Thus, leading to quicker turnover times highlighting their niche in the market. Zara’s executive team is made up of roughly 5 board members (Inditex: roughly 20). The main management team consists of 3 top, well-versed executives that are able to increase brand awareness, profit, and supply chain expansion throughout the company.

Pablo Isla Alvarez de Tejera (pictured to the left) is the Chairman and Chief Executive Officer. Isla has been with the company since 2011 and managed to grow a prevalent brand in a very short amount of time. Zara came in full force into multiple markets with little promotion. Isla’s tactics and strategies were well thought out to create demand and ease for the millennial consumer. During Mr. Isla’s tenure, he managed to appreciate stock prices up to 327.56%, a stark spike comparing to one of his competitors like Michael Kors during John D. Idol’s tenure at 100.70%.

Isla previously served as the Chairman for Altadis Group and was also the Director at Banco Popular (a powerful bank corporation based around the world). He was also the General Director of State Assets at the Ministry of Economy & Finances. This financial background and extensive resume helped to strategically dominate the fast fashion industry.
Another key player is Jose Arnau Sierra (pictured to the left). He is the Deputy Chairman and right hand to Mr. Isla. He joined the company 1 year after Isla in 2012. His efforts also show an extensive resume. Coming from Gartler, he tackled a position as Director of Inditex’s Tax Department. Mr. Arnau served as a member at Banco Pastor (another strong banking institution founded in Spain.)

Lastly, an integral component to this trio is Ms. Irene Ruth Miller (pictured below). She has been an independent director since 2001. She kicked off her career at General Foods Corporation and later worked as an investment banker for Rothschild Inc. and Morgan Stanley & Co. (a banking background seems like a strong link between all parties). Ms. Miller was also previously employed as a lead director for Coach, Inc.

It is our recommendation that Zara hires a CSR Manager to set the action plans and manage proper workflow mainly within the Zara brand. A CSR department can liaison with the Marketing and PR teams to create a foundation for the brand’s new marketing implementation. Adding CSR to the business model is instrumental in the success of Zara capturing brand loyalty and brand equity. Reputation adds a 30% increase in sales thus creating a more visible and impactful CSR program within the organization will add value to the brand’s sustainability efforts triggering community support and trust along with their already powerful business model implementation. This can lead to an increase in markups and a higher end platform for Zara.
VII. Performance Analysis – Based on Current Marketing Strategy Market

Overall Performance Analysis

a. Highlighting Year 1: 2011

In terms of corporate social responsibility efforts, Inditex focused on operating under environmentally friendly standards. In 2011 the group strengthened its involvement under the Code of Conduct for External Manufacturers and Suppliers. They also continued their membership within the United Nations Global Compact Supply Chain Sustainability Advisory Group, and its adherence to the CEO Water Mandate. This means that Inditex is dedicated to making a substantial effort to closely monitor the way it global supply chain operates, how much water it uses, and how they can reduce its environmental impact.

Aside from being environmentally conscious, Inditex’s social aspect was limited to reporting its significant job creation for mostly women, while maintaining a great deal of diversity.

b. Highlighting Year 2: 2012

The CSR efforts in 2012 were centralized around sustainability. Inditex opened the Zara world flagship store on Fifth Avenue in New York. “In addition, the store increases the Group's environmental commitments set out in the 2011-2015 Sustainable Inditex Plan and incorporates all the elements of sustainability of the Inditex eco-efficient stores” (Inditex Annual Report, 2012). They are also transparent about their efforts to protect the environment. “The first milestone of the year was the publication of the Global Water Management Strategy. This strategy is a living and dynamic document which sets out guidelines and actions to achieve a more sustainable and rational management of water” (Inditex Annual Report, 2012).

The 2012 Annual Report dedicates a section to its employees. They reveal having an ethics committee, an agreement with UNI Global Union, and providing training, internal promotion, internal communications and newsletters, and volunteer programmes. Their major objective, with regard to Inditex employees is “strengthening employee commitment to the Code of Conduct and Responsible Practices”. The specifics on these types of training and volunteer programs are not fully disclosed, only briefly mentioned. The visual below represents the commitments Inditex has made to its employees working under its supply chain and in its factories.
c. Highlighting Year 3: 2013

Inditex’s main focuses and priorities during this year were to maintain the integrity of their supply chain, efficient use of resources, promote team motivation, and contribution to community welfare. Inditex also chose to focus on the creation of social and economic values. The company performed pre-assessment audits to be in compliance with environmental standards, CTW and STW. There was training and capacity building for suppliers and manufacturers also set in place. Another highlight consisted of collaborating with NGO’s, local governments, trade unions, and international platforms.

The strategic plan set in place for their supply chain (2014-2018) arises from the firm’s belief that business have an important responsibility to promote and protect human rights and labor rights. Inditex committed to the framework Ruggie Framework created by the United Nations – “Protect, Respect, and Remedy”. Inditex has set policies and procedures in place aimed at defending and promoting human rights both for its employees and stakeholders. The operational principles of the Ruggie Framework are outlined below:
### The Operational Principles of the Ruggie Framework in Inditex

<table>
<thead>
<tr>
<th>The Operational Principles of the Ruggie Framework</th>
<th>Application of the principles in Inditex</th>
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<tbody>
<tr>
<td><strong>Policy commitment</strong></td>
<td>The Code of Conduct for Manufacturers and Suppliers protects fundamental labour rights and compliance with the Code of Conduct is mandatory for each and every one of Inditex’s suppliers and manufacturers.</td>
</tr>
<tr>
<td>&quot;Business enterprises need to strive for coherence between their responsibility to respect human rights and policies and procedures that govern their wider business activities and relationships&quot;.</td>
<td>Identification and assessment of the supply chain by means of the Compliance Programme and activities implemented as part of the Strategic Plan for supply chain management</td>
</tr>
<tr>
<td><strong>Due diligence</strong></td>
<td>Strategic Plan for supply chain management</td>
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<tr>
<td>&quot;Business enterprises should carry out human rights due diligence. The process should include assessing actual and potential human rights impacts, integrating and acting upon the findings, tracking responses, and communicating how impacts are addressed&quot;.</td>
<td></td>
</tr>
<tr>
<td><strong>Remedy</strong></td>
<td>Optimization of the supply chain by means of Corrective Action Plans and collaboration with stakeholders.</td>
</tr>
<tr>
<td>&quot;Where a business enterprise identifies such a situation, whether through its human rights due diligence process or other means, its responsibility to respect human rights requires active engagement in remediation, by itself or in cooperation with other actors&quot;.</td>
<td></td>
</tr>
<tr>
<td><strong>Issues of context</strong></td>
<td>Inditex’s policies concerning supply chain management are global in nature, but are applied locally and adapted to the needs and legislation of all countries where the Group manufactures products by means of supplier clusters.</td>
</tr>
<tr>
<td>&quot;All business enterprises have the same responsibility to respect human rights wherever they operate. Where the domestic context renders it impossible to meet this responsibility fully, business enterprises are expected to respect the principles of internationally recognized human rights to the greatest extent possible in the circumstances, and to be able to demonstrate their efforts in this regard.&quot;</td>
<td></td>
</tr>
</tbody>
</table>

---

e. **Highlighting Year 5: 2015**

On 25th September 2015, The United Nations approved the 2030 Agenda for Sustainable Development with 17 Sustainable Development Goals to help change the current human rights conditions in the world.
Inditex’s aim for this year’s CSR was in response to the 17 sustainable development goals. In order to do so, they decided to include all of the 17 sustainable development goals in all aspects of their business. The figure below explains how they plan to incorporate all the 17 goals into its business model.(Inditex annual report 2015)

Also, in 2015 76% of the employees working at Inditex were women (Zara Annual Report 2015)
Due to which that year “Inditex strengthened its commitment to the Ministry of Health, Social Services and Equality to help raise awareness about gender violence and incorporate victims in the workplace. In line with this commitment, logistics platforms organized talks and activities with their works councils to commemorate the International Day for the Elimination of Violence Against Women” (Inditex annual report 2015)

VIII. Revision of Marketing Strategy After Performance Analysis

After in depth analysis of Inditex Annual Reports over the course of five years, it is safe to say the fast fashion empire has plenty of CSR objectives - from reducing its environmental impact to making sure it follows a strict code of ethics - yet it lacks transparency how these goals and objectives will be implemented.

Bloomberg financial reports denote that Inditex has increased its CSR efforts over the years, particularly in its “social” section. These efforts range from employing more women to supporting a union. Below is an in-depth look at how Zara has managed to grow its numbers on ethical corporate practices.

The marketing strategy for Zara University will be marketed directly to the Zara consumer, so people are aware of this program but are also motivated to help the cause. By marketing directly to the consumer via social media platforms, digital marketing, and showing the faces of program scholars, Zara will assume responsibility for the results driven behind funding Zara University. While Inditex’s previous annual reports disclose goals to help empower their employees, the Zara University initiative will immediately take action to make a change.

<table>
<thead>
<tr>
<th></th>
<th>38.60</th>
<th>38.60</th>
<th>38.60</th>
<th>38.60</th>
<th>47.37</th>
<th>42.11</th>
<th>47.37</th>
<th>50.08</th>
<th>50.08</th>
<th>48.61</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Disclosure Score</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Employees</td>
<td>69,240.00</td>
<td>79,517.00</td>
<td>89,112.00</td>
<td>104,603.00</td>
<td>109,138.00</td>
<td>109,512.00</td>
<td>120,314.00</td>
<td>128,313.00</td>
<td>137,054.00</td>
<td>152,854.00</td>
</tr>
<tr>
<td>% Employees Unionized</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>71.00</td>
<td>—</td>
<td>70.00</td>
<td>70.00</td>
<td>70.00</td>
<td>—</td>
</tr>
<tr>
<td>% Women in Workforce</td>
<td>82.80</td>
<td>81.10</td>
<td>81.40</td>
<td>81.40</td>
<td>80.50</td>
<td>79.50</td>
<td>78.70</td>
<td>78.00</td>
<td>77.00</td>
<td>76.00</td>
</tr>
<tr>
<td>Community Spending</td>
<td>1.8</td>
<td>1.9</td>
<td>2.1</td>
<td>10.4</td>
<td>11.4</td>
<td>20.4</td>
<td>22.4</td>
<td>24.2</td>
<td>33.1</td>
<td>33.1</td>
</tr>
</tbody>
</table>
Once the marketing efforts have been established, the Zara University program needs to publish information on its progress to the public. Having information accessible will be important to inspire action. At the end of each financial quarter, the Zara University program needs to reveal how progress has been made, through a variety of mediums. These mediums range from publishing an article in the Wall Street Journal to sending Zara customers a digital newsletter. The quarterly updates will provide a connection between Zara consumers and the garment workers and make people understand like they are supporting a company that cares about its employees.

IX. Assessment of External/Internal Capabilities

SWOT Analysis

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Global Presence</td>
<td>- Little CSR Efforts</td>
</tr>
<tr>
<td>- Increasing Net Working Capital</td>
<td>- Employee Issues</td>
</tr>
<tr>
<td>- Multi-Concept Approach</td>
<td>- Poor Ethics</td>
</tr>
<tr>
<td>- Vertically Integrated Operations</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Emerging Markets</td>
<td>- Market Competition</td>
</tr>
<tr>
<td>- Increase in Consumer Spending in the US</td>
<td>- Growing Counterfeit Products</td>
</tr>
<tr>
<td>- Business Expansions Initiatives</td>
<td>- Rising Labor Wages in Europe</td>
</tr>
</tbody>
</table>

**Global Presence:** Zara is a leader in fast fashion and a disrupter in the market. Its parent company (Inditex) is a global designer, distributor, and retailer spanning from continent to continent. As of January 2016 it reached 7,013 stores worldwide – Europe, Asia, and the Americas. Zara’s quick turnaround time can be tribute to the company’s manufacturing in Spain with sourcing materials from 1,725 suppliers worldwide. In FY2016, Europe accounted for 44% of Zara’s total revenue, followed by Asia (23%), then America (15%). Zara does not have to depend on a single market nor can it necessarily be brought down by one. Its global presence is able to reduce the risk associated with being over dependent on any specific market.

**Increasing Net Working Capital:** Zara has an increasing working capital in FY2016. It has been reported that the brand’s working capital increased by 12.57% from $3,357M (euros) in FY2015 to $3,779M (euros) in FY2016.
Multi-Concept Approach: Zara and Zara Home offer different platforms for the consumer. Zara, which was launched in 1975, offers trendy fashion for a wide range of consumers (mainly targeting the millennials), for men, women, and children. Zara Home walks on a different platform yet is cohesive to follow the Zara fashion line. It offers textiles for bedding, bath and table, along with decorative home furnishings. This gives a competitive advantage for Zara to expand and become more of a lifestyle brand that its competitors seek to be while catering to multiple consumer segments.

Vertically Integrated Operations: Zara encompasses design, manufacturing & sourcing, distribution & logistics, and retail store & online operations. Inditex offers 30,000 designs every year (18,000 models at Zara) through launching new pieces twice a week with an impressive turnaround time because of the company’s own factories. There is direct control throughout the entire manufacturing process which holds a great competitive advantage and reaction time. Within logistics, the European stores receive their product within 24 hours and the American stores within 48 hours.

Little CSR Efforts: Zara’s business strategy is to have little marketing, however, the brand also has very little public CSR efforts. Millennials today, whom the brand aggressively targets, are more inclined to purchase a product with a sustainable attachment rather than not. Zara relies solely on their dominant market presence but lacks in giving back to its communities within these markets.

Employee Issues: Zara has been involved with multiple legal issues involving employee mal-treatment. Customer service is also not one of their focuses. The “fast fashion” for them is an in-and-out experience. This will tamper with its brand’s equity in the market. In June 2015, Ian Miller, an ex-employee of Zara file a lawsuit against the company in New York with accusations of the company being racist, homophobic, and the utilization of anti-Semitic comments. Ian Miller was seeking $40M in claims.

Poor Ethics: Zara has been slammed with allegations of poor factory working conditions for many years. Their lack of sensitivity to their employees, poor wages, etc. is increasingly noticeable. Zara also releases culturally and racially offensive products.
“‘The garment was available only for just a few hours and sales of the t-shirt have been marginal. The items will be reliably destroyed.’ They also blamed their uniquely fast production cycle for the slip-up.” (Frost, 2014). Zara was also being accused of using slave labor. In Argentina, immigrants, including children were forced to work 13 plus hour days and couldn’t leave the factories without permission; including lunch breaks. In 2011, 15 workers were rescued from a Brazilian, unlicensed factory.

**Emerging Markets:** Zara can continue to grow from its current markets and generate volume from the emerging markets also. The retail sales volume could reach US$10 trillion in 2018 in Asia Pacific followed by North America (US$5 trillion). Countries like China and India could be beneficial players also.

“Recently, the Indian government also permitted foreign direct investment of up to 51% in multi brand retailing. Such policies could offer significant opportunities to the company. According to World Luxury Association, Asian consumers account for more than half of luxury sales worldwide.”

**Increase in Consumer Spending in the US:** According to the US Bureau of Economic Analysis, the personal income in the US increased by .5% along with an increase in disposable personal income. This trend can indicate an increase in consumer spending in the US, benefiting the brand’s operations.

**Business Expansion Initiatives:** Zara will be able to increase its presence and gain increasing competitive advantages. Please see timeline below:

**February 2015:** Zara Home Décor Brand opened its first Australian store at Melbourne’s Highpoint Shopping Centre

**April 2015:** Zara reopened its global flagship store in Copenhagen. Later that month, the company opened its online store in China through Tmall, the largest online sales platform in China.
September 2015: Zara opened a new store under the umbrella of its workforce integration program, for & from.

March 2016: Zara opened a 47,361 st ft. store in SoHo, Manhattan, New York.

Market Competition: There are many competitive factors in the apparel, fast fashion industry today. This poses a threat to their market presence. There are many new brands along with the online platform emerging. Major new competitors include: J. Crew, Hennes & Mauritz, Gerry Weber, etc.

Growing Counterfeit Products: Rising influx and the increase in counterfeit products could affect the company’s performance in the global market. This can also taint the brand’s image and equity.

VRIO Framework

<table>
<thead>
<tr>
<th>Valuable?</th>
<th>Rare?</th>
<th>Difficult to Imitate?</th>
<th>Supported by Organization?</th>
<th>Competitive Implications</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td></td>
<td></td>
<td></td>
<td>Competitive Disadvantage</td>
<td>Below Normal</td>
</tr>
<tr>
<td>Yes</td>
<td>No</td>
<td></td>
<td></td>
<td>Competitive Parity</td>
<td>Normal</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td>No</td>
<td>Temporary Competitive Advantage</td>
<td>Temporary Above Normal</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Sustainable Competitive Advantage</td>
<td>Sustainable Above Normal</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustainable Competitive Offer</td>
<td>Sustainable Above Normal For You</td>
</tr>
</tbody>
</table>

The VRIO analysis consists of a framework of questions that you must ask in regards to your resources. V stands for Value; how can your resource add value to your organization? R stands for Rarity; is your resource rare enough to create a competitive advantage? I is for
Imitability or Ease/Difficulty to Imitate, and lastly O, Organization which poses the question of whether or not you have the ability to exploit the resources at hand.

**Value** – As we discussed earlier, Zara’s vertical integration is its most valuable resource. They do not rely on third parties which means Zara has full control of the design, warehousing, distribution & logistics. This enables them to be more flexible and quicker than their competitors, adapting to continuous changing fashion trends and consumer wants. Operating costs are also reduced with this strategy.

**Rareness** – Many of Zara’s competitors outsource their production while putting the focus on distribution and retailing. Zara chooses to do the opposite. Capital-intensive efforts are more recognized for the brand than labor-intensive efforts. Zara is one of the very few retailers that can produce over 11,000 different pieces in a season while its competitors produce between 2,000 and 4,000. Luxury brands have an average 6-month turnover while Zara has a 3 week turnover. This is extremely rare in the industry.

**Imitability** – Zara’s vertical integration strategy would be able to be copied. However, this would take a few years to put into work. These firms may have large costs in association with this type of project also. If these firms are able to do so successfully do so, Zara would probably have progressed in other segments being that they make small changes, very often. Amancio Ortega, the founder of Inditex stated to his CEO Pablo Isla: “Once a month, come here thinking that we are near bankruptcy. You will find a lot of things to change.”

**Organization** – Zara’s annual reports are proof that the organizational structure set in place has been highly effective for their sales volume. Zara incorporates all of its Senior Management, DT’s, & HR managers to generate growth and success. They coordinate all levels of management to assist in the decision-making process.

X. Marketing Research – Short Case Based

**H&M**

A case study was conducted by Karlstads University on the CSR techniques adopted by one of Zara’s biggest competitors H&M. The findings were that H&M’s CSR tactics have been more reactive rather than proactive. For example “ In December 1997, a Swedish TV documentary was accusing H&M of founding subcontractor using child labor in Philippine and after this documentary broadcast Margarita Winberg, the then Minister of Labour in Sweden and Annika Ahnberg, a member of the cabinet, official declared were boycott H&M’s products and many of Swedish followed both of them” (Afzal.S, 2009) Considering this was their country of origin, this proved a huge blow to the brand.
They have begun to revamp their image by creating a CSR campaign this year that focuses on Environmental Resources.

A campaign was launched for World Recycle Week, which encouraged customers to recycle old clothing. However, the ethical concerns of labour mistreatment have not been addressed by the brand.

**Nike**

Reactive CSR campaigns seem to be a trend in the apparel industry considering multiple brands have only engaged in such campaigns once they have been brought under the scanner for unfair labour practises. ‘Nike faced a similar situation when there were multiple reports of the company misusing labour. Mark Parker, the then CEO released a statement saying “the company still had a lot of work to do in that area”’ (Carroll, G., Schrifin, D., Brady, D., 2013)

In order to combat this, In 2000, Nike decided to endorse the CERES principles to promote sustainable development.

Again this focuses on the environment and sustainable development but not directly on Labour.

The lack of proactive CSR initiatives could prove beneficial to Zara by the brand capitalizing on the first movers theory in order to set the bar for proactive CSR campaigns in the fast fashion industry.
XI. New Marketing Strategy

New Marketing Mix and Projections

Year 1: Create a CSR dept to begin discussing the initiative and find the right individuals for the job (20 female managers with csr background to seek goal status with global compact)* also dev a strategic plan for implementation.

Year 2: Partner with She's The First

Year 3: Use the she's the first girls as brand ambassadors and announce the collection/initiative and develop a plan for a social media hype

Year 4: Bring on a new public relations agency to advertise the initiative - social media strategy, making donations ($1) at end of purchase, etc.

Year 5: Create a special line of products/clothing and proceeds from this to go to development of the CSR initiative. Launching the line.

Year 6: Using the money generated to implement the education program

Year 7: Review the progress of the initiative and publish annual report on the same. Seek Dow Jones Sustainability index audits
XII. Assessment and Success (old and new strategy)

XIII. Conclusion

Fast fashion retailers are revolutionizing the fashion industry. With some many competitors offering low price, fashionable merchandise, with quick turnaround time, it can be difficult to decide which company is a differentiator. To maintain its strong positioning in the fast fashion market, Zara should develop a CSR program like the one our learning team has come up with. These CSR efforts will strengthen Zara’s overall reputation, which will ultimately lead to customer loyalty and high revenue.

It is important that Zara’s CSR efforts are transparent. Throughout our capstone research we discovered that from an environmental standpoint, Zara does have strong CSR initiatives. However, these efforts were only revealed in the Inditex Annual report. Zara should not only be transparent about creating a new, social CSR initiative to the public but it should also improve its public relations strategy with what they have already accomplished so that people understand it is an ethical company.

Zara’s success can only flourish by creating a CSR program that focuses on the rights and benefits of its hard working garment workers. As a leader in the fast fashion industry, Zara can expect continued success by supporting the people that work tirelessly for them. Implementing a strong, transparent CSR program for its garment workers will humanize Zara and differentiate it in the competitive fast fashion market.