Market Analysis of Fast Fashion Brands in the Context of New Retailing: The Case of Zara (China)

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Abstract: The fast fashion industry is gradually recovering from the epidemic's impact, while new retailing will become a new opportunity for fast fashion brands. As a leading fast fashion brand, Zara has a distinctive industrial character. This paper summarizes the current situation of Zara in the Chinese market from the data by using case study analysis, further analyse its strengths and problems, and gives solutions accordingly. It is found that Zara's hungry marketing, convenient address, and match sales have been effective, but it has also encountered many problems, for example, copyright disputes, non-durable products, environmental damage, timeliness and locality of fashion, and low marketing investment. For these issues, the article suggests piloting pop-ups, co-branding or purchasing copyrights, strengthening regulation and environmental protection, localizing products through delegation and co-creation, and providing a personalized shopping experience. If these approaches prove viable, they could be a significant reference for fast fashion brands in China.

Keywords: marketing, fast fashion, new retailing, Zara

1. Introduction

1.1. Research Background

In 2016, fast fashion seemed to start going downhill. In 2019, Forever 21 officially withdrew from the Chinese market. It was followed by the exit of Gap's Old Navy a year later. Once popular brands such as American Eagle Outfitters, Pull & Bear, Stradivarius, and Esprit are now facing difficulties. The outbreak of COVID-19 in 2019 has led to the lockdown and a decline in willingness to spend, admittedly hitting the fast fashion industry. However, the downward spiral of the fast fashion industry is not only due to the epidemic but also its internal factors. Today the economy is gradually recovering, and after the epidemic, companies are more acutely aware of the importance of seizing the opportunity of new retailing, which in turn can be a way to solve problems within the business. As is shown in Figure 1, global spending on fast fashion is anticipated to reach 106 billion in 2022. This was forecast to rise in the following years. As one of the most typical fast fashion brands, the case study of Zara can provide lessons for fast fashion companies in China to promote the development of the retail industry.
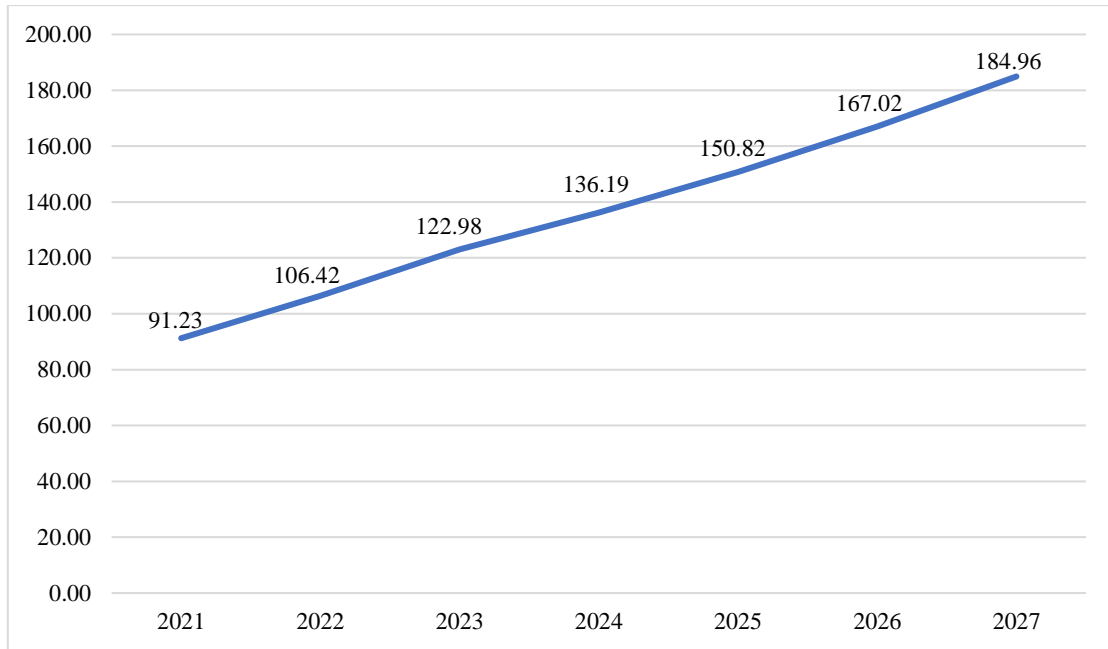
Figure 1: Forecast of the global fast fashion market's worth (in billions of dollars) from 2022 to 2027.

(Source: https://www-statista-com.libaccess.hud.ac.uk/statistics/1008241/fast-fashion-market-value-forecast-worldwide/)

1.2. Literature Review

Diamond proposed that in an era when emerging technologies such as digitalization, social media, and big data have reformed the marketing model, omnichannel retailing is a popular strategy [1]. Well-established companies and new setups are pressured to adapt to the new retailing environment. Sui argued that for the fashion industry, the location and design of stores are tightly connected to customers' decisions, which is called 'visual merchandising' [2]. The combination of the post-epidemic era and the downgrading of consumption has reduced traffic to offline shops, and shop rentals have become a heavy burden for many companies. Huang et al. found that applying digital technologies enables participants in the fashion industry to eliminate the pandemic's negative impact [3]. Even if the pandemic no longer has an influence, new retailing is still an important means of making brands stand out. Fast fashion is an industrial trend that shortens lead time and strengthens design capability to capture the fashion trend and meet customers' needs as soon as possible. Yang & Guo analyzed that the combination of quick response and enhanced design eliminates consumers' intention to delay purchasing for a discount at the end of the season [4]. Wang unearthed the origins of the buy-and-dispose society of today, arguing that fast fashion brands make customers take it for granted and reveal environmental damage [5]. Dahan & Peltekoglu mentioned that fashion items sold by Zara are considered disposable by the company and have a maximum three- to four-week shelf life. [6]. Excellent supply chain management alleviates inventory pressure, which is one of the characteristics of the fast fashion industry.

1.3. Research Gap

New retailing upgrades goods' production, distribution, and sales process using big data, artificial intelligence, and other technological means. 'New retailing' was first announced by Jack Ma in 2016, and this concept spread rapidly, leading to many scholars studying it. Fast fashion is an important part of the industry, often discussed in papers. As one of the market leaders in fast fashion companies, Zara's success is of the high reference value, and therefore there is a lot of related research. Most

articles are independent studies of these objects; few scholars relate them and offer effective solutions. There is also a lack of research on the Chinese market.

1.4. Research Framework

This article will explore Zara's Chinese market situation in the context of new retailing in order to gain further insight into the fast fashion market. This article will utilize the CAS format, and its main body is divided into five parts: introduction, case description, analysis of problems, suggestions, and conclusion. Firstly, this paper will describe the current situation of Zara's market in China. Then, on the basis of this, merits will be discussed, potential problems will be uncovered, and their causes analyzed. Finally, feasible solutions to the problems are proposed.

2. Case Description

Zara has become a pioneer in fast fashion by positioning its products as affordable for the masses, based on the idea that fashion should no longer be limited to the rich. More than 900 million items are produced annually by Inditex Group. In 2022, Zara's market share was 17%, while Shein's was 40%, ranking first. Compared to 2021, Zara's market share had not changed much and had only increased by 2%. With nearly twenty three billion euros in global net sales in 2022, Zara, including Zara Home segment, leads Inditex Group. Zara's sales increased and then decreased over the decade 2013 to 2022, reaching a maximum in 2022 and continuing to grow (Figure 2).
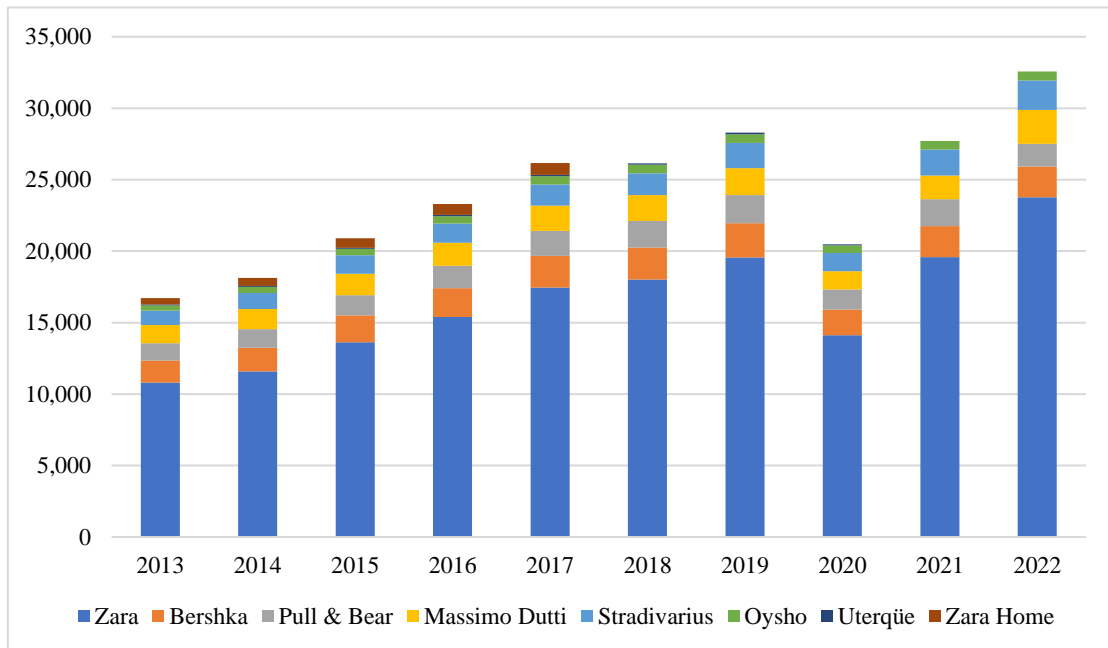

Figure 2: Worldwide net sales for the Inditex Group, broken down by brand, from 2013 to 2022 (in million euros)

(Source: https://www-statista-com.libaccess.hud.ac.uk/statistics/456505/sales-inditex-group-worldwide-by-format/)

The decrease between 2019 and 2020 may be due to COVID-19's impact on the fast fashion industry. With an average of two new stock modifications per week, the more than 400 designers at Zara create between 12,000 and 20,000 designs every year. As a result, the clothing in its stores rarely remains in use for longer than a month and, to some measure, lessens the likelihood of outfit clashes with other clothing companies [7]. The twice-weekly replenishment of stock and the complete replacement of old items every three weeks are carried out simultaneously in all stores worldwide for

a fortnight. The high rate of product replacement also accelerates customers' return to the shop, as consumers have built up an important image that Zara always has something new. Zara is not a fashion leader but a fast reactor to fashion. Despite its lack of initiative in fashion, Zara has been able to sell popular styles with low delays through an efficient supply chain created by vertical integration. Zara's lead time is typically 7-12 days, with new products launched almost simultaneously in shops worldwide [8]. 65% of the fabrics are sourced in advance, and the rest is sourced according to the trends of the selling season. Approximately half of the fabrics purchased by Zara are undyed. 50 to 60 percent of the products are manufactured before to the commencement of the sales season, while the remaining 15 to 25 percent are made during the season of sales in accordance with shifting market trends [9]. Zara has compressed its stock and minimized inventory risk through this batching and adjustable strategy. Despite having such a well-established system, Zara's performance in the Chinese market is unsatisfying. For the 2022 financial year ending 31 January 2023, the company generated a pre-tax profit of $111.31 million, a 47% decrease from the prior year. China's percentage of global pre-tax earnings fell to 2% from 4.7% the last year [10].

3.   Analysis of Problems

3.1.   Advantages of Zara

Despite falling revenue in China, Zara remains the leading fast-fashion brand. The way Zara markets itself contributes to its success. Zara has adopted the strategy of hungry marketing. Although it has a large variety of products, the quantity of each variety is relatively small. Some styles are not replenished even if they sell exceptionally well, giving consumers the feeling that they may be out of stock next time if they don't buy the clothes they like on the spot [11]. This sense of scarcity of goods changes consumers' mindset of comparing goods, increases the purchase rate, and reduces inventory risk. Smaller quantities can avoid the accumulation of goods; even if the goods are stagnant, it will not increase storage costs. Zara's share of discounted sales is only 15 to 20 percent of total volume, while the industry average is 50 percent [12]. This reflects the fact that hungry marketing is paying off. In addition, Zara places great importance on the location of its offline shops. Shops are usually located in the CBD, where rents are higher, but there is a lot of traffic. Zara's prime sites provide consumers with a convenient and relaxing shopping environment. Inside the shop, products are sold in matches. Hats, dresses, and shoes are often displayed together as an outfit, prompting people to buy them all [13].

3.2.   Copyright Dispute

Zara doesn't create fashion, and it reacts to it quickly. This model leads to a high similarity between Zara's products and popular styles, which is suspected of plagiarism. In fact, Zara has long been criticized for copyright infringement. Zara spends tens of millions of euros a year on purchasing copyrights or fines for copying them [14]. The company's managers consented to this behavior to a certain extent, as it saved money on design. However, this phenomenon also reflects that Zara's ability to innovate independently is poor. Although Zara has over four hundred designers, these designers are more like information gatherers since they lack creative independence. This has become an influential factor in restricting the growth of Zara. However, the combination of popular elements of the product, even with the inclusion of the designer's original ideas, will still make consumers feel that it is an imitation. The same idea released later becomes an imitator, although it's just a coincidence. This, on the other hand, is beyond the designers' ability.

3.3. Product Quality and Sustainability

When a certain style is popular, many fast fashion brands, in addition to Zara, reference it. At the same time, Zara has launched a lot of similar products. This has led to the homogenization of Zara's products. In order to attract consumers, Zara used a penetration pricing strategy and quickly captured the market. To ensure that the business would not lose money, Zara cut down on the cost of garment production. Further, reducing production costs can decrease the quality of raw materials and production skills, ultimately affecting consumer satisfaction. Consumers often complain about the lack of durability of Zara's products, such as clothes that tend to split sewing and shrink. It has also been criticized for the damage it causes to the environment. The popularity of fast fashion clothing is only about 35 days, with a shorter and shorter time span between production and abandonment [7]. Consumers are abandoning them as fast as it is being produced. The China Circular Economy Association estimates that almost 26 million tons of used clothing are thrown away in China alone each year. [15]. This "fashionable" debris are often disposed of in a landfill or an incinerator. Most of the used clothing that is disposed of in landfills takes hundreds of years to disintegrate, and the chemicals they contain have the potential to seriously pollute groundwater and soil over time. Contrarily, airborne poisons are created during the burning of the clothing. Almost every step of the process, from the provision of raw materials to the production, shipping, and distribution of goods, has the potential to harm the environment. Nowadays, 'sustainability' has become a factor influencing brand favorability for more and more consumers. Therefore, Zara needs to take action to improve its brand image in terms of environmental protection.

3.4. Differences in Fashion

As mentioned above, the average length of time a particular style of garment is popular is 35 days [7]. While Zara's designers release about 16,000 designs a year, an average of 44 a day, a production capacity far exceeding the industry's. Today, consumers are becoming more and more inclined towards new products, which has led to the fashion cycle becoming shorter. The fashion cycle consists of three phases: introductory, acceptance, and rejection [16]. Once consumers seek a new style of clothing, it quickly becomes popular. A sharp rise in sales during the rise stage also signals that the peak stage of the product has begun and the fad is ending. At this point, wise operators are ready to dump and launch new products, as consumers are bound to switch to catching up with the new fashions. Zara being a fashion reactor, it's hard to tell which stage of the fashion cycle a particular style is in. Moreover, there is a time lag in the spread of popular clothing. Economically developed regions with sophisticated media will be exposed to fashions earlier; conversely, more backward regions will be slower. Zara's products are updated globally at the same time, which affects their sales. In addition, fashion varies geographically. Popular styles in the same season can vary from region to region. The lack of differentiation between products in Zara shops around the world is something that needs to be improved.

3.5. Investment in Advertising

Investing less in advertising has always been a distinctive feature of Zara. Zara seems more interested in improving the quality of its services to gain consumers' favor than spending effort on marketing. Through the consumers' personal experience, Zara has formed a good word of mouth and further expanded its customer base. Zara's advertising costs are only 0.3 percent of its sales, compared to the industry average of 3.5 percent [9]. Similar to Zara is Decathlon: with sales of up to $100 billion a year, Decathlon spends only 1 percent on advertising, which is almost negligible [17]. While Zara's high brand awareness allowed it to economize on marketing, this could lead to it failing to capitalize

on the opportunities presented by new retailing. New media has created the concept of social business and traffic economy, and proper advertising on social media can help with revenue growth.

4. Suggestions

4.1. Pop-up

Zara is better at running offline shops. Zara already has 92 shops in China, covering more than 57 cities [9]. Zara aims to open more than 500 shops in China. However, the epidemic has had to slow down its expansion. The real economy is gradually recovering in the post-epidemic era, but the risk cost has also increased. Zara could start by opening pop-ups nationwide to balance expansion and cost. With these smaller shops, Zara is able to control the upfront investment effectively. And it can also assess the feasibility of opening a formal shop through local feedback on the pop-up.

4.2. Co-Branding and Purchase

Zara can take the following solutions to address the issue of copyright disputes. For fashion influencers who develop trendy items occasionally, Zara can choose to launch co-branded products with them [14]. Co-branding can be either in the fast fashion industry or across industries. The co-branded product will incorporate the features of different companies to create a complementary relationship. In this way, consumers will associate the two brands together. If the co-branded product is successful, it will benefit both parties. As for independent designers, Zara could buy their rights. Alternatively, Zara can scout for potential designers and sign them in advance.

4.3. Supervision and Environmental Protection

Consumers often criticize Zara for the quality of its products, which is determined by both raw materials and workmanship. During the purchasing process, raw materials should be tested before they are put into production. If substandard materials are used, then the managers should be penalized. In terms of workmanship, products should also be supervised before they are dispatched to the shops. Regarding the issue of environmental damage, Zara first has to face it squarely and go for proactive social responsibility. In terms of publicity, Zara should convey to consumers the consideration of protecting the environment and encourage them to extend the use of their clothes. In order to mitigate the environmental damage of the production process, Zara can use new materials to make products, such as organic cotton and renewable fibers, and enhance the recycling of raw materials. Production plants could be highly automated, saving money in the long run and addressing human rights issues.

4.4. Delegation, Localization and Co-Creation

Fashion may vary because of time and geography. To cope with this, Zara's management must not blindly pursue uniformity but rather delegate some of its authority to local heads. This aims at localizing the brand; Zara should focus more on what is popular locally and doesn't necessarily have to be the most popular worldwide. The local person in charge theoretically knows more about what's popular in the area, so some freedom is needed to adjust specific guidelines. Most of Zara's products are of European fashion styles. However, this may not match the preferences of local consumers. Understanding the local traditional culture and consumer habits is important to localize well. If cultural factors can be incorporated into the product, it will likely be favored and less likely to be similar to competing products. It's not easy to make this happen, and Zara can invite consumers to create something new together so they won't get stuck in a creative rut. Specifically, Zara could organize a commercial competition on localized product design, where Zara could be inspired by the entries or adopt the ideas directly. L'ORÉAL launched Brandstorm in 1992. In the thirty years since

then, the participants have provided L'ORÉAL with several valuable projects, some of which have been successfully implemented. The success of Brandstorm has shown that the approach works.

4.5. Personalized Shopping Experience

Zara's new retailing transition is slower. Zara has constructed an online store with a supporting app that pushes notifications to alert users to the latest promotions and products launch. Zara has a large fan base on all major social media platforms and attracts users' attention by posting fashion information. It also regularly interacts with its fans, responding to their comments and questions, enhancing user engagement with the brand. Zara is also adept at utilizing internet celebrities' collaborations for promotional purposes. They cooperate with some fashion KOLs to show them wearing Zara's clothes on social media, increasing users' desire to buy [18]. While these initiatives have achieved some success, competitors have taken a similar approach, and Zara has not developed a unique competitive edge. It is suggested that Zara should aim to create a personalized shopping experience for consumers. With big data, Zara can track which products consumers have viewed and purchased to infer their interest. Currently, Zara recommends collocations of clothes, but what is recommended lacks personalization and is often matched by designers based on their preferences. By pairing the garments filtered by big data, they will likely be sold. However, using big data requires protecting consumer privacy and preventing information leakage. For the data collected, their use must be considered legal and ethical.

5. Conclusion

Despite the fact that Zara updates its products quickly and has a high inventory turnover rate, its performance in the Chinese market is not satisfying. Zara has become a market leader through hungry marketing, convenient location, matching sales, and so on, but it still has many problems. Firstly, Zara's lack of ability to innovate independently leads to the suspicion that the products are plagiaristic. Secondly, consumers complain that Zara's products are not durable and environmentally friendly, which has a negative impact on its brand image. Furthermore, it is possible that the popular style will have gone out of fashion by the time Zara's products are produced. Even if it is not outdated, it may not be popular because it has not been adapted to local conditions. Lastly, Zara has invested so little in advertising that the transition to new retailing has been slow. This article suggests that Zara try out a pop-up before opening a formal shop. Zara can also avoid the risk of copyright infringement through co-branding and purchasing and improve its brand image through tighter supervision and a range of environmental measures. In addition, Zara is encouraged to use co-creation to localize products and big data to personalize services.

This paper analyses Zara's operations, summarizes its current problems, and offers solutions accordingly. For Zara, some of the problems may not be realized or are difficult to solve. Therefore, this paper is helpful for Zara to improve its current situation. Lack of innovation and environmental damage are common problems in the fast fashion industry. Some of the proposals of this article are applicable to the whole industry. The fast fashion industry is gradually recovering in the post-epidemic era. If successful, Zara's new retailing strategy will serve as a valuable reference for other companies while boosting consumer confidence.

This article lacks the use of primary data and mainly uses secondary data. For secondary data, the data reliability of primary data is higher. In the course of the research, there have been instances of contradictory secondary information, which has increased the workload to a great extent. Primary data can be obtained in subsequent studies through questionnaires and executive interviews. It is vital to realize that the study intends to reflect the industry as a whole and the need for sample size is significant.

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