

Comparative Study of Supply Chain Management Offast Fashion Giants: Zara & H&M

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1. ABSTRACT

Supply chain management aims to enable an efficient flow of right products to the right places at the right time so as to create value to the customers while making sure to minimize costs for the company. Fast fashion means reduced time between the design and the delivery process. New styles reach the stores faster from the designers table. But, brands in fast fashion retail network like Zara, H&M and Topshop often face challenges which include short product life cycle, reduction in lead times for retail inventory, distribution of products within fourteen to fifteen days after they first appear on the fashion shows and also the issue centered with the incentives of the sales managers. This research paper focuses on how these major fast fashion brands mainly Zara and H&M overcome the major challenges by adopting inventory management strategy. Fashion is just not all about dressing up and supply chain management of H&M and Zara is a proof to that which is globally recognized as a successful and extensive retail giant. H&M ranks number three on Gartner's Supply chain. And it also provides a comparative analysis of their inventory management techniques.

1.1 Research Methodology

1.1:1 Secondary Research

The research conducted is qualitative in nature. Secondary research was carried out with the help of literature, which, included books that generally discuss Supply Chain Management topics and also referring to textile and fashion industries. Still, in order to gain a deeper insight into the particular branch in question, namely Fast Fashion, a number of articles had to be collected. Company cases that have been derived from secondary research present large businesses, specifically Swedish H&M with more than 2.5 thousand stores, Spanish Zara of Inditex with over 1.5 thousand stores.

2. OBJECTIVE

The overall purpose of this study is to do a comparative analysis of the supply chain management techniques used by fast fashion retail brands mainly Zara and H&M to overcome the challenges faced by them in fast fashion retail network.

3. KEYWORDS

Lead time, just in time production, vertical integration, technical integration, inventory management, fashion trend forecast, augmented reality technologies, fast moving retailer, long product development cycle, liquidation promotion.

4. ZARA SUPPLY CHAIN ANALYSIS

As a brand, Zara values their speed and responsiveness to the latest fashion trends. Owned by the distribution group Inditex, we had a look at what is the secret to Zara's competitive advantage. The secret is it is supply chain management. In this section we will be explaining about the techniques that zara uses for its supply chain management.

Zara produces around 450 million items a year. it stays so efficient even with the sheer volume that passes through its supply chain because of the regular, small batch deliveries that happen with clock-work precision twice a week to the stores around the world.

Ensuring all this runs smoothly is what Zara does best - controlling more of its manufacturing and supply chain than most of its competitive counterparts.

4.1 Supply Chain Management Techniques Used By Zara

4.1:1 Vertical Integration

Vertical integration is a strategy where a company expands its business operations into different steps on the same production path, such as when a manufacturer owns its suppliers and/or distributor. It can help companies to cut down on costs and improve efficiencies by decreasing transportation expenses and reducing turnaround times. Zara uses vertical integration to manufacture and distribute products in small batches. The company manages all warehousing, design, logistics and distribution by itself.

4.2 Inventory Management

Inventory management is the practice of overseeing and controlling the storage, ordering and use of components that a company uses in the production of the items.

Inventory optimization models are put in place to help the company to determine the quantity that should be delivered to its retail stores via shipments that go out twice every week. The stock delivered is strictly limited. This goes towards the brand image of being exclusive while avoiding the build up of unpopular stock.

Quick in-season turnaround, from production facilities located close to Zara's distribution headquarters in Spain, allows Zara to ship more often and in smaller batches. If the design Zara hastily creates in an attempt to chase the latest trend does not in fact sell well, little harm is done.

Zara's supply chain

4.3 Just In Time Production

Just in time is an inventory strategy companies employ to increase efficiency and decrease waste by receiving goods only as they are needed in the production process and thereby reducing inventory costs. This method

requires producers to forecast demand accurately. The objective of this technique is elimination of inconsistencies, and unreasonable requirements from the production process, which results in improvisation of productivity. Just in time production model has helped Zara in reducing inventory in its supply chain, provided it with agility that sets it apart from other competitors and to achieve fast turnover by producing products in small quantities.

The retail giant Zara delivers fashionable and trendy apparels catered for different tastes through a managed and collaborated process – just in time.

Zara keeps a large amount of its production in-house and makes sure that its own factories reserve 85 percent of their capacity for in-season adjustments. It enables Zara to be flexible in the frequency, amount and variety of new products to be launched. The company relies on sophisticated fabric cutting, sourcing and sewing facilities nearer to its design headquarters in Spain.

Zara also has extra capacity on hand to respond to the changing demand. This later translates to frequent shipments and more numbers of customer visits to the stores, creating an environment of opportunity.

4.4 Centralized Logistics

Centralized logistics is a means of organising the receipt of product from suppliers and its onward delivery to the individual branches of a multiple retailing operation. Deliveries from suppliers are transported to a central location, usually in full load quantities, rather than to each branch.

The secret to the success of Zara is centralization. They make decisions in a very coordinated manner. It sticks to a predictable, deep and fast rhythm, based around order fulfillment to stores.

Each of Zara's outlet sends in two orders per week on specific days and timing. Trucks leave at specific times and shipments arrive in stores at specific times. Garments are already labeled and priced upon destination.

As a result of this clearly defined rhythm, every staff involved (from design to procurement, production, distribution, and retail) knows the timeline and how their activities pan out with respect to other functions. That certainly also extends to Zara customers, who know when to visit stores for fresh new garments.

5. H&M SUPPLY CHAIN ANALYSIS

H&M, which ranks number three on Gartner's Supply Chain Top 15

The organization's dependence on efficient and integrated systems for retail inventory management in the major parts of its supply chain, has led to enabling success in stock control management and a well-earned position in the Gartner list. Design: Collection mix of trendy and traditional design

Decisions on collections are taken by a group of approximately 100 pattern makers and 160 in-house designers together with merchandisers in our production offices to create, plan and purchase the collections from the buying office based in Stockholm, Sweden. H&M launches one collection in spring and one in fall every year. The company has two design procedures: long term collection planning and real-time design based on latest trends to gain market share in a faster way while also being flexible in the eyes of the customer.

5.1 Manufacturing: Independent Suppliers, But Strong Relationships

H&M outsources all its production and does not own any factory. Regardless, the company maintains a good control over their outsourced production activities. Its production is handled by 850 independent suppliers, mainly in Asia and Europe. Merchandise with shorter lead times are produced in Europe while ones with longer lead times are produced in Asia.

H&M maintains control over their outsourced production through 30 production offices in strategic locations close to suppliers. Production offices perform the following functions:

- Act as a liaison between designers and the suppliers working with information from both to choose suppliers that are efficient and more convenient for a specific product.
- Act as auditors by performing quality and safety testing while also monitoring environmental effects of manufacturing activities to ensure that company's requirements are being met.
- Help suppliers improve working conditions and standards to create a closer relationship with suppliers allowing the company to reduce lead times.

- Minimizing risk by purchasing raw-materials throughout the year on an ongoing basis.

Strong supplier relationships with the help of effective manufacturing strategies reduce lead times and help reach affordability.

It is very important to order the product at the right time to obtain the right price, quality and lower lead times. H&M manufactures in advance 80% of it's inventory while introducing remaining 20% based on current market trends. Lead times vary between a few weeks to six months, with advance orders for garments such as children's wear and basics while trendy clothes based on current trends that require smaller quantities may be produced at a shorter notice.

5.2 Logistics: Inventory Management Out of the Stores

Most of the manufactured products out of the factory directly go to logistics centers from where the products are distributed to the stores closer to the area. Inventory is held in regional replenishment centers while not having back up stocks. Inventory from regional replenishment centers distributes directly to the stores.

5.3 Technology: Integrating the System from Product Design to Sales

H&M having a very complex supply chain uses a very well developed IT system integrating the headquarters, administrative sources, production offices and stores allowing for communication in real time especially in regards to design and product development and this is important as the fashion giant does not own any of their factories and does not buy fabrics in advance.

- Using IT the company obtains information regarding the fabrics held by each supplier so as to make informed decisions as to where to place a specific order.
- Using central inventory management software each store is connected to corporate logistics and H&M warehouses which makes ordering process and restocking stores more efficient.

- The head office monitors sales trend from each store and use this information for design and production choices oriented to the customer.

H&M uses a centralised IT system to observe customer trends. This gives them a competitive advantage by allowing 20% of manufacturing to be done in shorter lead times. In addition to this replenishment centers further contribute to this flexibility by monitoring every individual store's inventory level and then responding in real time.

5.4 Distribution

Garments are transported to one of the many distribution channels located in different sales market after which unpacking and allocation is done and then garments are sent to the stores. These distribution channels act as a center for supporting the retail stores of a region consisting of several sales countries.

5.4:1 Green Supply Chain

H&M emphasises on green transportation as company's core value despite the fact that logistics can be challenging for every fashion industry. Goods are transported mostly by ocean in Asia whereas goods from Europe are transported by rail rather than road because H&M aims to increase share of distribution movements by rail over road in Europe. Air is only used in exceptional cases when faster deliveries are required.

5.5 Drivers for Outsourcing

5.5:1 Cost Reduction

Since the company does not own any factories of their own it saves money on costs of setting up plant, building and equipment and it enjoys labour arbitrage and cheap raw materials.

5.5:2 Flexibility

The fashion industry is dynamic which the company can use in its favour by changing production patterns which would result in high profits. Apparels that are high in demand can be reordered while those low in demand can be ordered in less amounts.

5.5:3 Specialization

Designing is one of H&M's core capability and outsourcing activities gives the company more time to focus and put effort in designing their collections.

H&M takes out two major collections every year - spring and fall. Between each season, there exist many sub-collections that help H&M to continuously change its inventory. The major collections are conventional long-lead items; the sub-collections are contemporary items with short lead times.

The reason behind H&M's capability to act quickly is its network of 20-30 production offices which are strategically placed close to the suppliers. These offices work with the buyers in Sweden and the production facilities, they review samples, check quality, and choose the suppliers, which will handle each order. The items with short lead times are made in Europe, and the items with longer-lead items are made in Asia. Like Zara, this allows H&M to be more receptive to trends.

6. COMPARISON BETWEEN THE SUPPLY CHAIN MANAGEMENT TECHNIQUES USED BY H&M AND ZARA

An important shared belief of the companies is the deep understanding of their customers' needs and wants. Both have built structures for identifying their preferences. For Zara, reacting to customer's wishes is a core constituent of its competitive advantage, while H&M is known for its emphasis on researching and forecasting upcoming trends.

The noteworthy thing about these brands is their innovative approach to fashion retail. Zara depends on its supply chain and cost leadership. It has an unconventional supply chain which allows it to deliver products in real time and react to the contemporary fashion trends. H&M's fashion cycles are longer than Zara but it still manages to respond to the altering trends.

Not only H&M, Zara also focuses on consumer preferences to maintain their competitive edge. In addition to that, Zara also maintains close relationships with the suppliers that ensures lower prices of raw materials and control costs.

H&M values maintaining long lasting relationships with the suppliers. Trust, transparency and responsibility are vital in supplier relationships. Concentration is also on development and sustainability of suppliers. As H&M has expanded globally it has generated new opportunities for suppliers and workers.

Uniqlo, another fast fashion retailer focuses on technological differentiation. It uses long product development cycles and offers basics that allure a large consumer base. In comparison, Zara has built a supply chain that enables it to follow fashion trends and deliver goods in near real-time.

H&M has an approach that is a combination of the Uniqlo and Zara models. It merges a commitment to longevity and staying responsive to fashion trends at the same time.

7. CONCLUSION

Fast fashion industry is highly dynamic. For retailers earn higher profit margins and to maintain constant supply of latest products in stores they need to have a quick response to the changing market trends and accommodate a fast delivery and distribution system.

This requires precise warehouse planning and stocking to quickly transport the inventory for order fulfilment. This also includes knowing what is in transit and what is waiting to be distributed to the stores as any delays would lead to loss in inventory thereby reducing retailer's margins.

But, some of the industry's most successful fast fashion retailers such as Zara and H&M keep products constantly moving with current trends and a balanced inventory to minimise inventory losses and maximise profits. Quick response supply chains help retailers like Zara and H&M to move their goods from design to distribution over a short period of time. Such an effective and efficient quick response model enables these retailers to avoid stock outs and ensures continuous rotation of latest products for consumers and this would in turn increase store visits and full price. The main objective of fast fashion retailers is to keep their goods continuously moving with the latest fashion or trends. A well-oiled quick response and inventory management process enables retailers to continuously get new stock into the stores in small batches which prevents products

stagnation and redundancy as well as liquidation promotion and markdowns leading to better profit margins and lesser unnecessary overstock.

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