



Certificate in Marketing Skills

MANAGEMENT FOR MARKETERS

FRIDAY, AUGUST 15, 2008. TIME: 2.00 pm - 4.00 pm

Please attempt Section A and TWO questions from Section B.

(If more than the specified number of questions are attempted, delete those you do not wish to have marked. Otherwise the Examiner will mark **QUESTION 1** and the next **TWO** questions in your Answer Book).

All questions carry equal marks.

Do **NOT** repeat question in answer, but show clearly the number of the question attempted on the appropriate page of the Answer Book.

SECTION A (50%)

Zara

Zara is the flagship chain store for the Spanish Inditex Group which also owns brands such as [Massimo Dutti](#), [Pull and Bear](#), [Stradivarius](#) and [Bershka](#). Today, Inditex is probably the world's fastest growing retailer with *Zara* it is a business model that has enabled it to expand and compete with quality brands at affordable prices. For instance, it is claimed that *Zara* needs just two weeks to develop a new product and get it to stores, compared with a nine-month industry average, and launches around 10,000 new designs each year. *Zara* has resisted the industry-wide trend towards transferring production to low-cost countries. Perhaps its most unusual strategy was its policy of zero advertising; the company preferred to invest a percentage of revenues in opening new stores instead.

Zara's products

Zara Stores have two basic product lines: men's clothing and women's clothing. An article in *Businessworld* magazine describes *Zara's* fashion strategy as follows: "*Zara* was a fashion imitator. It focused its attention on understanding the fashion items that its customers wanted and then delivering them, rather than on promoting predicted season's trends via fashion shows and similar channels of influence, which the fashion industry traditionally used."

It is estimated that *Zara* committed just 15-25% of its production before the season began, 50-60% at the start of the season, and the remainder was manufactured in-season. Percentage of *Zara* sales consisting of markdowns was 15-20%. In some cases, stores ran out of stock. *Zara* offers considerably more products than similar companies. It produces about 11,000 distinct items annually compared with 2,000 to 4,000 items for its key competitors.

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The company can design a new product and have finished goods in its stores in four to five weeks; it can modify existing items in as little as two weeks. Shortening the product life cycle means greater success in meeting consumer preferences. If a design doesn't sell well within a week, it is withdrawn from shops, further orders are cancelled and a new design is pursued. No design stays on the shop floor for more than four weeks, which encourages *Zara* fans to make repeat visits. An average high-street store in Spain expects fans to visit three times a year. That goes up to 17 times for *Zara*.

Zara's success is all the more surprising because at least half its factories are in Europe, where wages are many times higher than in Asia and Africa. But to maintain its quick inventory turnover, the company must reduce shipping time to a minimum. The fast-fashion approach also helps *Zara* reduce its exposure to fashion faux pas. The company produces batches of clothing in such small quantities that even if it brings out a design that no one will buy -- which happened during an unseasonably warm autumn in 2003 -- it can cut its losses quickly and move on to another trend.

Zara's fast pace means that some popular items appear and disappear within a week, creating an image of scarcity that many shoppers find irresistible "They've built up an excitement around snapping up new clothes before they go," says Kris Miller, a New York-based retail analyst with Bain & Co. "As well as keeping sales high throughout the year, it also keeps margin-stripping markdowns to a minimum," Miller says. That helps explain why Inditex profits soared 26% last year, to \$973 million.

Fast-fashion companies such as H&M, *Zara*, Spain's *Mango*, and Britain's *Top Shop*, are among the brightest stars in Europe's retail landscape. A 2004 Bain & Co. study found that fast-fashion outlets in Spain and Britain posted average double-digit sales growth, compared with 4% growth in overall retail sales in those countries. Fast-fashion accounts for only 1% of the \$181 billion U.S. apparel market. That compares with 18% in Spain, 12% in Britain, and 8% in France, according to Bain & Co. estimates.

Some analysts think the Spanish company should slow down a little. "Inditex's cost growth is exceeding its sales growth at the moment," warns Lehman Brothers ([LEH](#)) retail analyst Allegra Piaggi. "I'd like to see more penetration of existing markets before it moves into others." Others worry that *Zara* will be unable to stick to its fast pace, with so many more stores to supply.

Sources

Business Week APRIL 4, 2006, Wikipedia, CNN

1. (a) Outline the reasons behind the growth of *Zara* in the global 'fast-fashion' market.
- (b) Jones and George (2003) say that the four building blocks of competitive advantage are superior efficiency; quality; speed, flexibility and innovation; and responsiveness to customers. What competitive advantage does *Zara* have in the marketplace?
- (c) Write a mission statement for *Zara*.
- (d) Outline the benefits of a stock management system such as that described for *Zara*.

SECTION B (50%)

(Please attempt TWO questions. All questions carry equal marks.)

2. (a) Discuss the importance of creating the right environment for implementing change in an organization.
- (b) Outline your own experience of a change management process in your working life.
3. (a) Outline the importance of management control.
- (b) Describe the characteristics of an effective control system with which you are familiar.
4. (a) Discuss the different types of conflict you may come across in a work situation.
- (b) Consider a situation from your work or personal life where there was an area of disagreement and argument. What was the underlying reason for the argument? How was the situation managed? How was it resolved?
5. (a) Discuss how delivery of a quality service can breakdown.
- (b) Think of an example of a breakdown in service from your own experience. Describe the situation, the problems caused, and how it was resolved (if at all).