Rethinking their supply chain strategy, Zara will face **three challenges**

**Challenge 1**
Understand Zara’s current supply chain strategy

**Challenge 2**
Anticipate Zara’s future supply chain needs

**Challenge 3**
Craft a future-ready supply chain strategy for Zara

---

**How can we understand Zara’s current SCS?**

**Challenge 1**
Understand Zara’s current supply chain strategy

**Challenge 2**
Anticipate Zara’s future supply chain needs

**Challenge 3**
Craft a future-ready supply chain strategy for Zara
Think of the supply chain strategy as a bridge between business strategy and SC operations.

Source: Perez-Franco / SC2020 Project
Strategy Core

Sell an ever-changing variety of affordable and trendy fashion items in beautifully arranged and well located stores.

How?
By means of the Strategy Pillars

- Respond quickly to changing fashion trends
- Integrate design, manufacturing and distribution
- Create a climate of scarcity and opportunity in the stores
- Rely on beautiful stores in key locations to promote the brand

Why?
To achieve the goal of the Strategy Core

Sell an ever-changing variety of affordable and trendy fashion items in beautifully arranged and well located stores.

- Respond quickly to changing fashion trends
- Integrate design, manufacturing and distribution
Respond quickly to changing fashion trends

Integrate design, manufacturing and distribution

Area: Design
Replicate in our designs the most current fashion trends as fast as possible

Area: Supply & Manufacture
Transform new designs into finished products, with the speed and flexibility required to keep up with the latest trends

Area: Distribution
Meet the demand of a rapidly expanding store network, exploiting economies of scale

How?

Source our raw materials in a way that promotes flexibility and reduces lead time

Dedicate our capacity to the most fashionable items and the most capital-intensive activities

Outsource the rest of the items and activities to contractors, giving preference to those nearby

How?

Transform new designs into finished products, with the speed and flexibility required to keep up with the latest trends

Functional Principles

Functional Imperatives
Source our raw materials in a way that promotes flexibility and reduces lead time

Source mostly, but not exclusively, from suppliers close to the place of manufacture

Facilitate the in-season updating of the fabric in as little as one week

Facilitate the in-season updating of the fabric in as little as one week

Purchase about half of the fabric as 'gray' (undyed)

Dye, pattern and finish the fabric in a 100% owned subsidiary

How?

Policies & Choices

Functional Imperatives

Why?
Core: Sell ever-changing variety of affordable, trendy fashion items in beautiful, well located stores.

Pillar: Respond quickly to changing fashion trends

Principle: Transform new designs into finished products, with speed & flexibility to keep with latest trends

Imperative: Source our raw materials in a way that promotes flexibility and reduces lead time

Choice: Facilitate the in-season updating of the fabric in as little as one week

Practice: Purchase about half of the fabric as ‘gray’ (undyed).
Sell ever-changing variety of affordable, trendy fashion items in beautiful, well located stores.

How?

Respond quickly to changing fashion trends

How?

Transform new designs into finished products, with speed & flexibility to keep with latest trends

How?

Source our raw materials in a way that promotes flexibility and reduces lead time

How?

Facilitate the in-season updating of the fabric in as little as one week

How?

Purchase about half of the fabric as ‘gray’ (undyed).

Why?

Sell ever-changing variety of affordable, trendy fashion items in beautiful, well located stores.

Why?

Respond quickly to changing fashion trends

Why?

Transform new designs into finished products, with speed & flexibility to keep with latest trends

Why?

Source our raw materials in a way that promotes flexibility and reduces lead time

Why?

Facilitate the in-season updating of the fabric in as little as one week

Why?

Purchase about half of the fabric as ‘gray’ (undyed).
Multiple dimensions in a SCS

Strategy-Operations Continuum

Supply-Demand Axis

Thematic Range
Basic Evaluation Criteria

**Support**
Every concept is **expected** to provide support to at least one concept from the layer above its own.

**Consistency**
Every concept is **expected** to be consistent with every other concept within the same layer.

**Coverage**
Taken together, the collection of concepts within a layer **should** address all the areas of interest for that level of abstraction.

Anticipating future supply chain needs: the case of **Zara**

Executive Education
June 10, 2016
MIT Campus

Dr. Roberto Perez-Franco
Director
MIT Supply Chain Strategy Lab
How can we anticipate Zara’s future SC needs?

**Challenge 1**
Understand Zara’s current supply chain strategy

**Challenge 2**
Anticipate Zara’s future supply chain needs

**Challenge 3**
Craft a future-ready supply chain strategy for Zara

Can you summarize your future growth plans and the challenges that they entail?
We have a plan for the next five years ... But this plan is only assured until a certain point ... and the rest is still theoretical...

If you ask us **where** [our new] stores are going to be in [5 years] we couldn't say. So there is a degree of certainty in planning that decreases over time.
For us it's the same whether we open a new store in Spain or the Czech Republic. Because we aren't going to set-up logistics in that country.

Clearly it's different to expand into a country where you already have stores than to grow continuously each year in different countries where you have to establish the entire distribution system from the start.
The future is so uncertain that I, for one, am unable to predict it. But for the next five-year period we don't anticipate any great changes.

For logistics, five years is not a lot of time. We always have to be ahead of the curve.
Q. Can Zara keep its supply chain ahead of the curve?

A. Yes, by crafting a future-ready supply chain strategy.
Visioning through scenario planning
The Severe Acute Respiratory Syndrome Coronavirus (SARS-CoV) causes a respiratory disease in humans.

Between November 2002 and July 2003 an outbreak of SARS in Hong Kong nearly became a pandemic, with 8,422 cases and 916 deaths worldwide.

Within weeks it spread from Hong Kong to infect individuals in 37 countries.
As plants shut down, SARS caused significant disruptions to supply chains around the world.

Can the exact timing and location of a health crisis be forecasted?
Based on a century of observations, USGS estimates ~150 ≥6.0 earthquake occurs every year, including ~16 ≥7.0.

90% of earthquakes occur in the Ring of Fire, which touches most Asia Pacific countries.
Earthquakes and tsunamis may also cause disruptions to supply chains.

Can the exact timing and location of earthquakes be forecasted?
Composite map of the volcanic ash cloud from the eruptions of Eyjafjallajökull (spanning 14–25 April 2010).


This event caused enormous disruption to air travel across western and northern Europe over an initial period of six days in April 2010.

~20 countries closed their air space, resulting in the largest air-traffic shut-down since World War II. Flights to and from Europe were cancelled. Millions of passengers were stranded across the world.

Text and image: Wikipedia.

Volcano eruptions may also cause disruptions to supply chains.

Can the exact timing and location of volcano eruptions be forecasted?
Would perfect knowledge of the timing of an event help us prepare our supply chain for possible disruptions?

What if I had told you in May of 2010 that, with absolute certainty, exactly one year later a volcano would have the largest volcanic eruption in Iceland in the past half century?

The Grímsvötn eruption in May 2011 is the largest eruption in Iceland for 50 years. Yet only 1 in 10 flights in Europe (900 out of 90,000) were cancelled as a result of the eruption, in the period 23–25 May.

Text: Wikipedia. Image: Jon Gustafsson
Could it be possible that a perfect forecast of disruptive events is not as useful for preparing as a good knowledge of their effects?
Milwaukee-area health care systems are increasing inventories of vinyl and nitrile exam gloves to prepare for a shortage expected to last through 2008.

Hong Ray Enterprises, based in Shijiazhuang, China, the world’s largest manufacturer of vinyl exam gloves and a major manufacturer of nitrile gloves, has notified American distributors that it will be unable to meet its normal agreements to customers, partly because of the August Olympics to be held in Beijing.

Plants within 200 kilometers of the Olympics site have temporarily shut down to reduce pollution during the games...
Milwaukee-area hospital systems were told about the possible shortage in early July. “This just hit us out of the blue,” said Terri Kendrick, director of purchasing for Wheaton Franciscan Healthcare, Glendale. “It was only over the last three weeks that we really became aware of it. We heard about the Olympics, but we just didn’t understand the economic impact.”

Dave Piotter, director of purchasing for Milwaukee-based Aurora Health Care, said the system likely will purchase $180,000 worth of surplus gloves, which will last about a month and a half.

“This did catch us off guard; we weren’t expecting the Olympics to cause all of this,” Piotter said. “It doesn’t happen often, but there have been other threats to the glove supply — for instance, when a tsunami hits or plants are shut down. This is probably the third time I’ve seen this (happen) in my 20-year career.”

The exact timing and location of the Olympic games is easier to forecast than volcano eruptions, health crises, earthquakes and tsunamis.

Yet it was the effect, not the event, which caught supply chains by surprise.
When it comes to disruptions, different events...

| Health Crises | Policy Changes | Natural disasters of a wide variety |

...may have similar effects on the supply chain.

*There is huge number of events that may disrupt a supply chain, yet only a small number of effects that these events can have on it.*

*When it comes to long term planning, instead of forecasting specific events, it is better to prepare for their effects.*
SCENARIO PLANNING IN A NUTSHELL

The Future Freight Flows initiative is primarily concerned with improving the way in which freight infrastructure investments are made and enabling informed discussions of national, multistate, state, and regional freight policy and system investment priorities.
Scenarios for creative strategic thinking

Divergence: Let’s divide into groups to consider the effect of each scenario on Zara
Your task as a group

Meet with other participants with the same scenario. Discuss for 15 minutes the following:

- **What are the top three implications that your scenario would have on Zara’s business model, and based on this**
- **What modifications to Zara’s supply chain would you propose, to perform better in this scenario.**

Make a note of these so that you can report back to the group in a debriefing.

---

### Differences Between Scenarios

<table>
<thead>
<tr>
<th></th>
<th>Low</th>
<th>High</th>
<th>Low (physical)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Trade</td>
<td>Low</td>
<td>High</td>
<td>Low (physical)</td>
</tr>
<tr>
<td>Resource Availability</td>
<td>Low</td>
<td>High</td>
<td>Low (physical)</td>
</tr>
<tr>
<td>Energy Cost Level</td>
<td>High</td>
<td>Low</td>
<td>Low (physical)</td>
</tr>
<tr>
<td>Energy Cost Variability</td>
<td>Low</td>
<td>High</td>
<td>Low (physical)</td>
</tr>
<tr>
<td>Level of Environmental Awareness</td>
<td>Same as</td>
<td>High</td>
<td>Low (physical)</td>
</tr>
<tr>
<td></td>
<td>Today</td>
<td>High</td>
<td>Low (physical)</td>
</tr>
<tr>
<td>Population Dispersion</td>
<td>Growth in SW</td>
<td>Growth in Biggest Cities</td>
<td>Rise in Mid Tiered Cities</td>
</tr>
<tr>
<td>Energy Sources</td>
<td>Majority NA</td>
<td>Mix Foreign &amp; Domestic</td>
<td>Majority Domestic</td>
</tr>
<tr>
<td>Level of Migration</td>
<td>High w/in Bloc, Low between</td>
<td>High</td>
<td>Low (physical)</td>
</tr>
<tr>
<td>Migration Policy</td>
<td>High</td>
<td>Low</td>
<td>Low (physical)</td>
</tr>
<tr>
<td>Currency Fluctuations</td>
<td>Low w/in Bloc</td>
<td>High</td>
<td>Low (physical)</td>
</tr>
</tbody>
</table>
Freight Segments (2/4)

- East-West CSX rail lines in Northern Georgia
- East-West CSX rail lines in Southern Georgia
- Norfolk Southern Crescent Rail Corridor
- Norfolk Southern North-South rail lines (e.g., Valdosta-Atlanta line, Savannah-Macon line)

One World Order: Voting results
Convergence: Crafting an improved SCS for Zara

Challenge 1
Understand your current supply chain strategy

Challenge 2
Anticipate future supply chain needs

Challenge 3
Craft a future-ready supply chain strategy

Challenge 4
Implement this new supply chain strategy