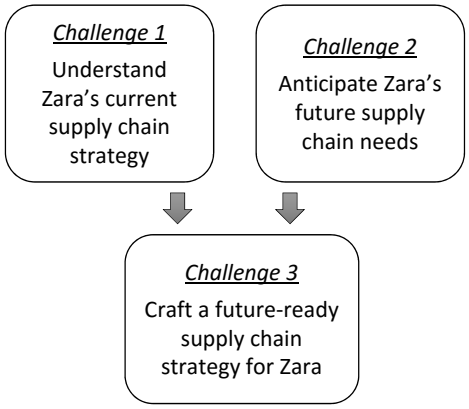
## Rethinking their supply chain strategy, Zara will face **three challenges**

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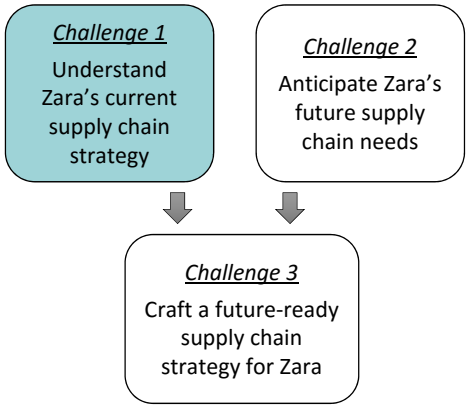
## How can we understand Zara's current SCS?

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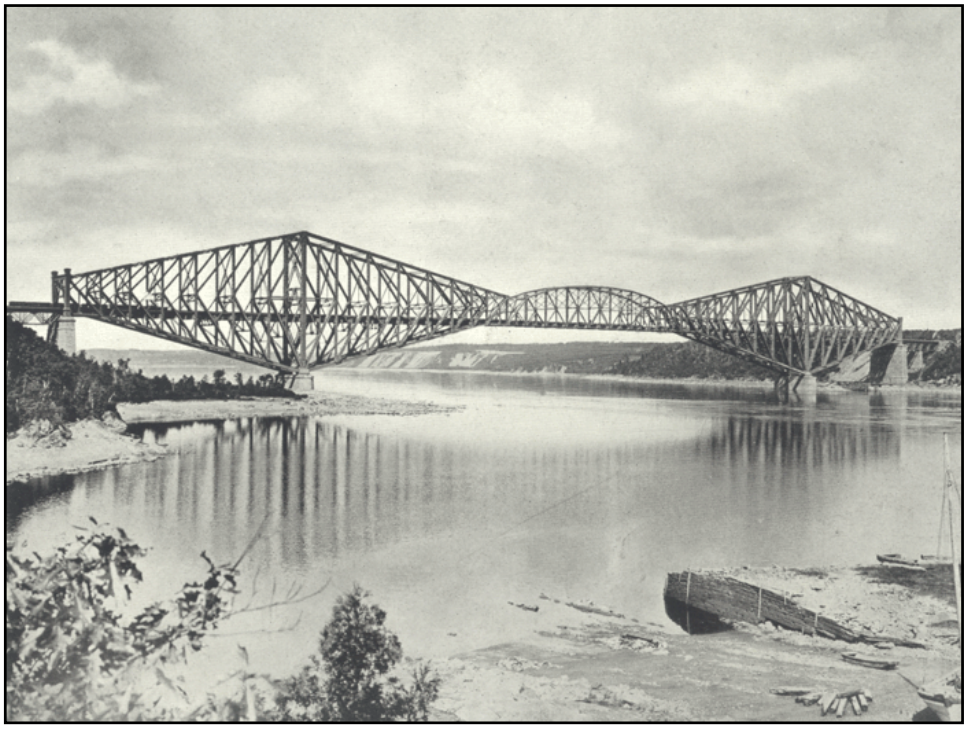
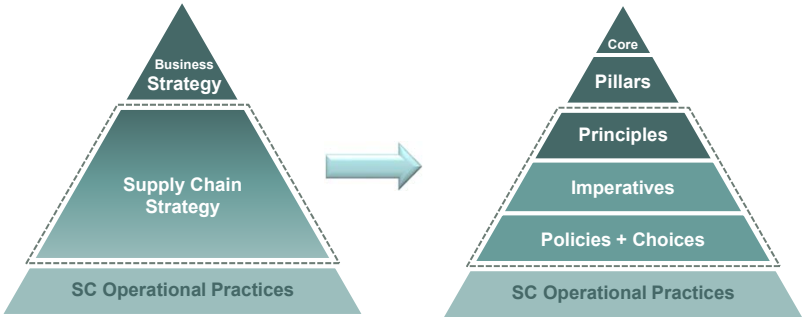


## Think of the supply chain strategy as a bridge between business strategy and SC operations.




Source: Perez-Franco / SC2020 Project

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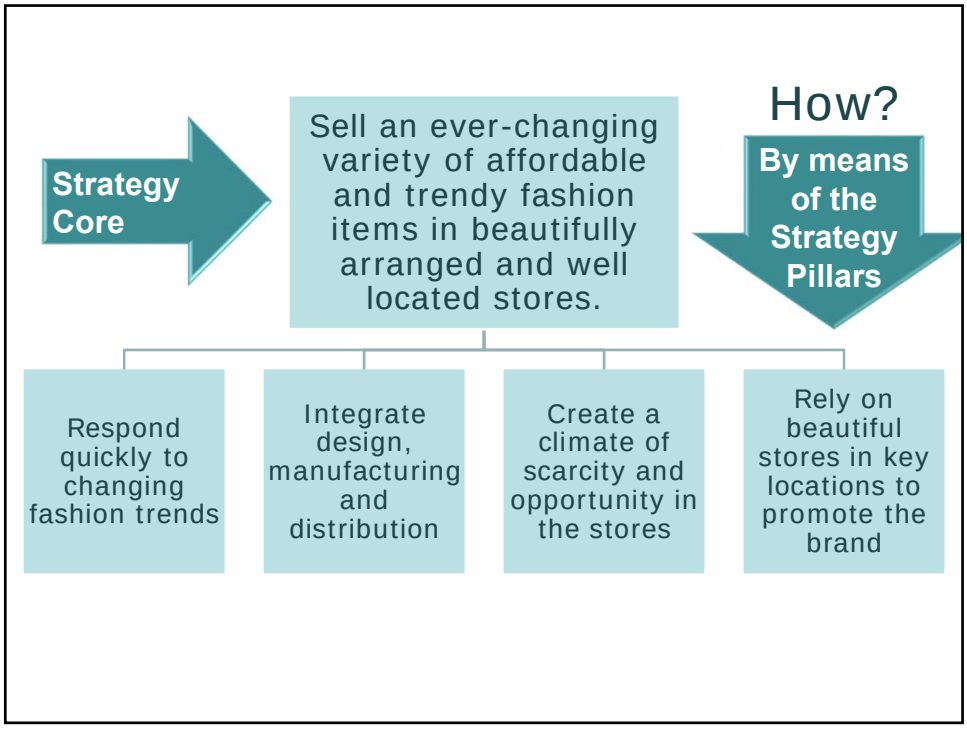
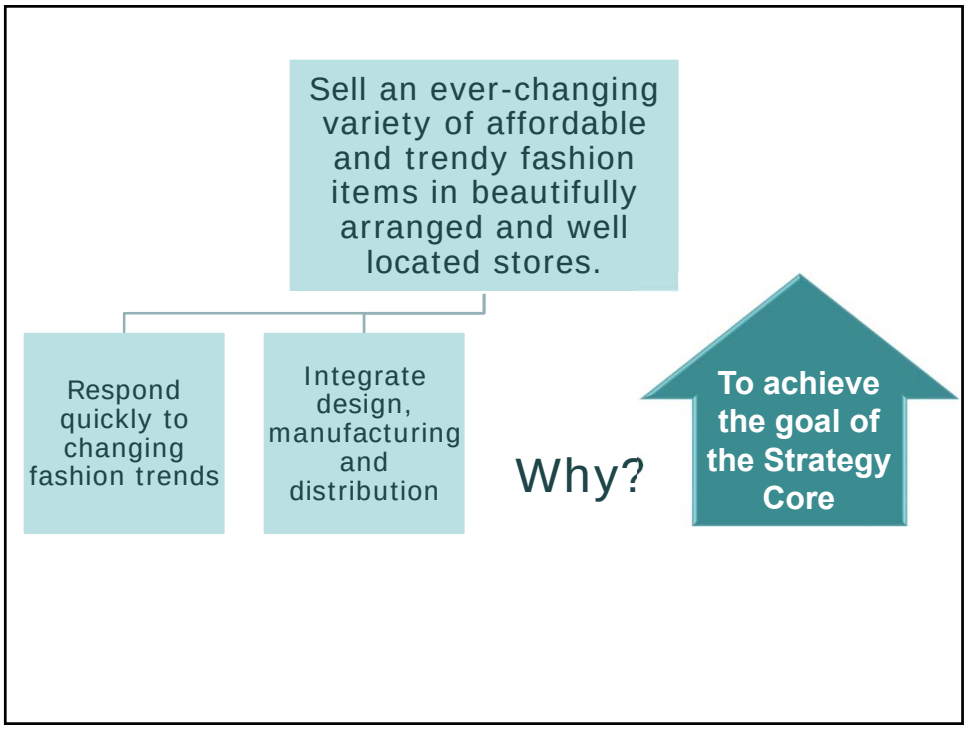
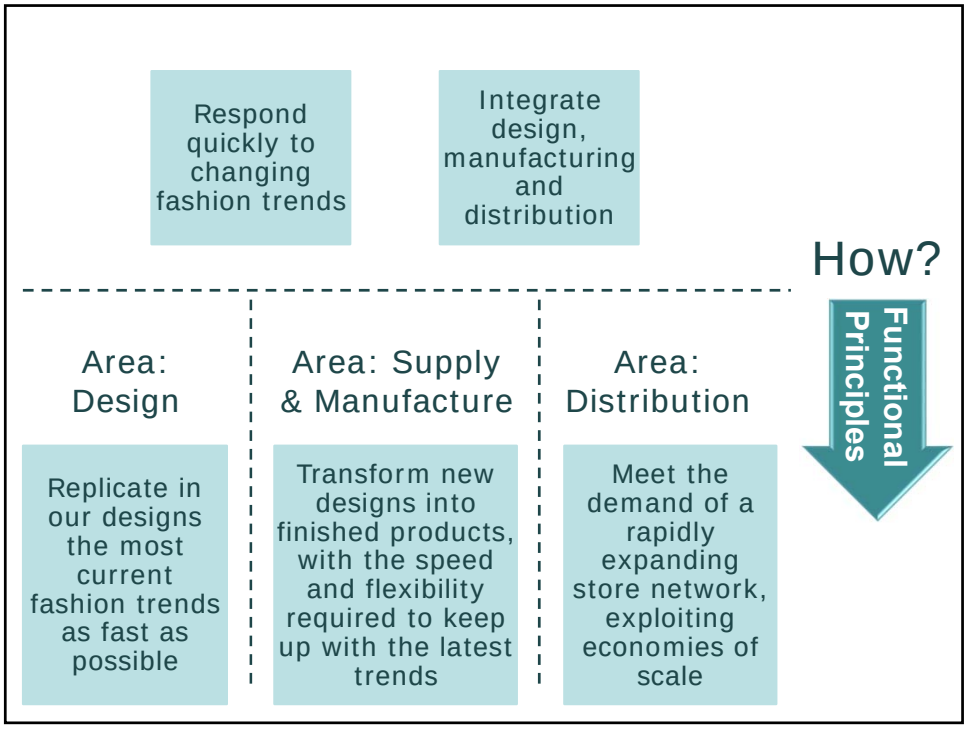
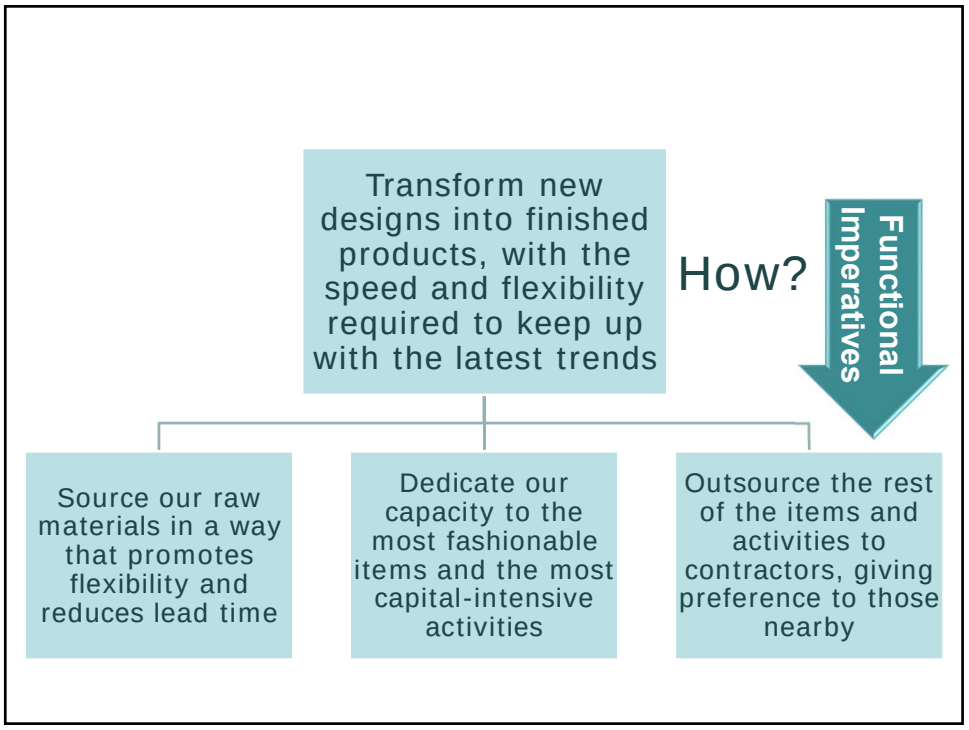
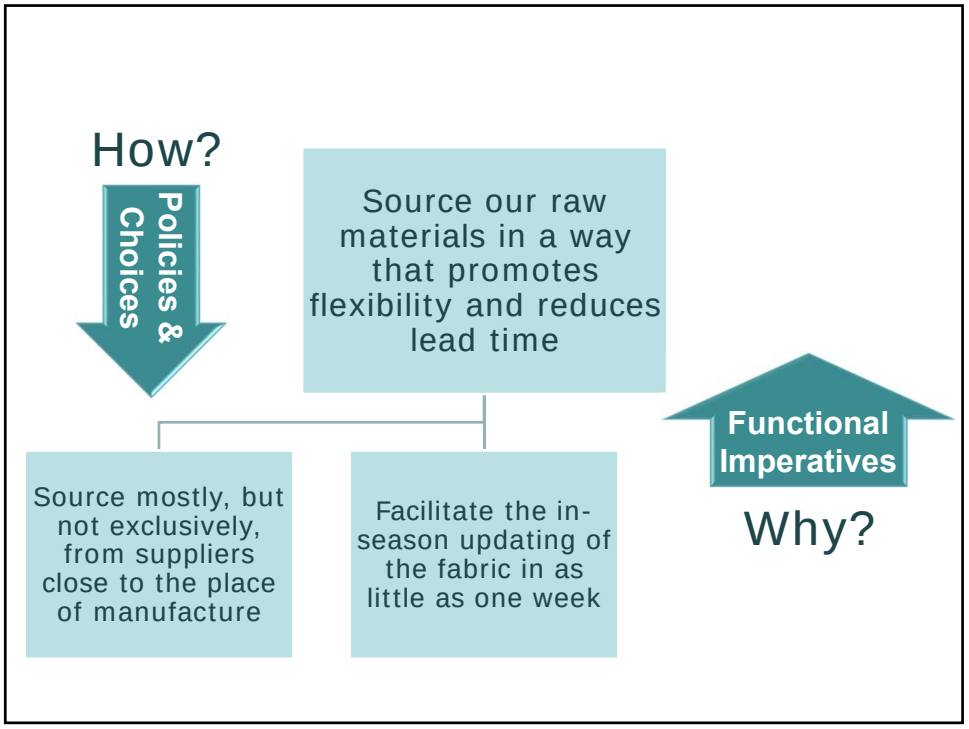
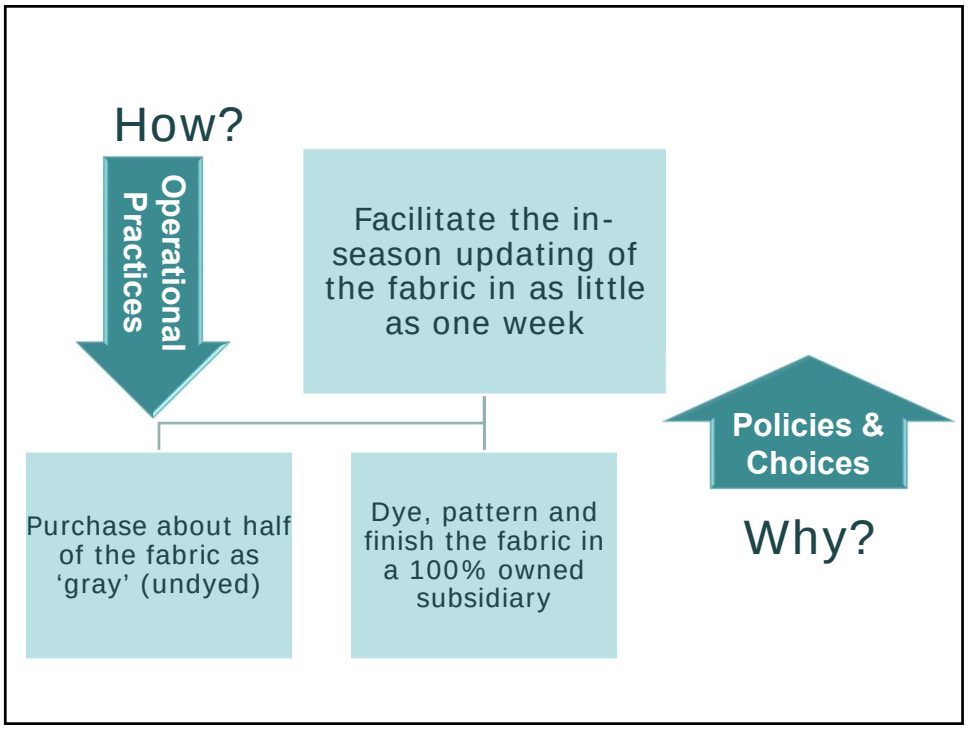

Strategy Core
Sell an ever-changing variety of affordable and trendy fashion items in beautifully arranged and well located stores.
How?
By means of the Strategy Pillars
Respond quickly to changing fashion trends
Integrate design, manufacturing and distribution
Create a climate of scarcity and opportunity in the stores
Rely on beautiful stores in key locations to promote the brand

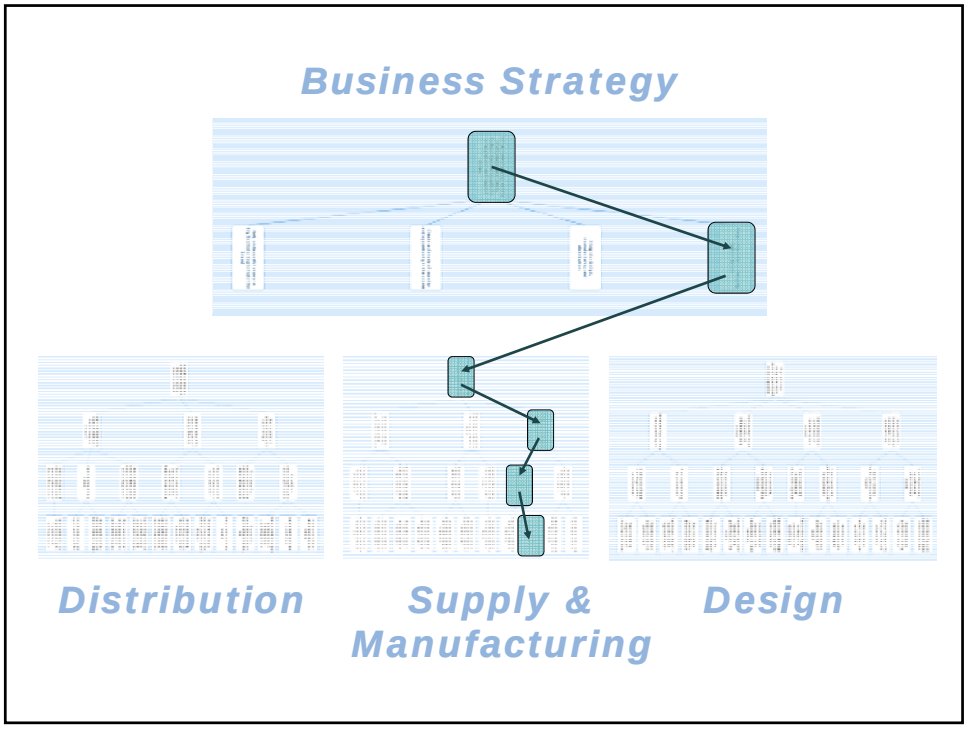

Sell an ever-changing variety of affordable and trendy fashion items in beautifully arranged and well located stores.
Respond quickly to changing fashion trends
Integrate design, manufacturing and distribution
Why?
To achieve the goal of the Strategy Core


Respond quickly to changing fashion trends
Integrate design, manufacturing and distribution
How?
Functional Principles
Area: Design
Area: Supply & Manufacture
Area: Distribution
Replicate in our designs the most current fashion trends as fast as possible
Transform new designs into finished products, with the speed and flexibility required to keep up with the latest trends
Meet the demand of a rapidly expanding store network, exploiting economies of scale

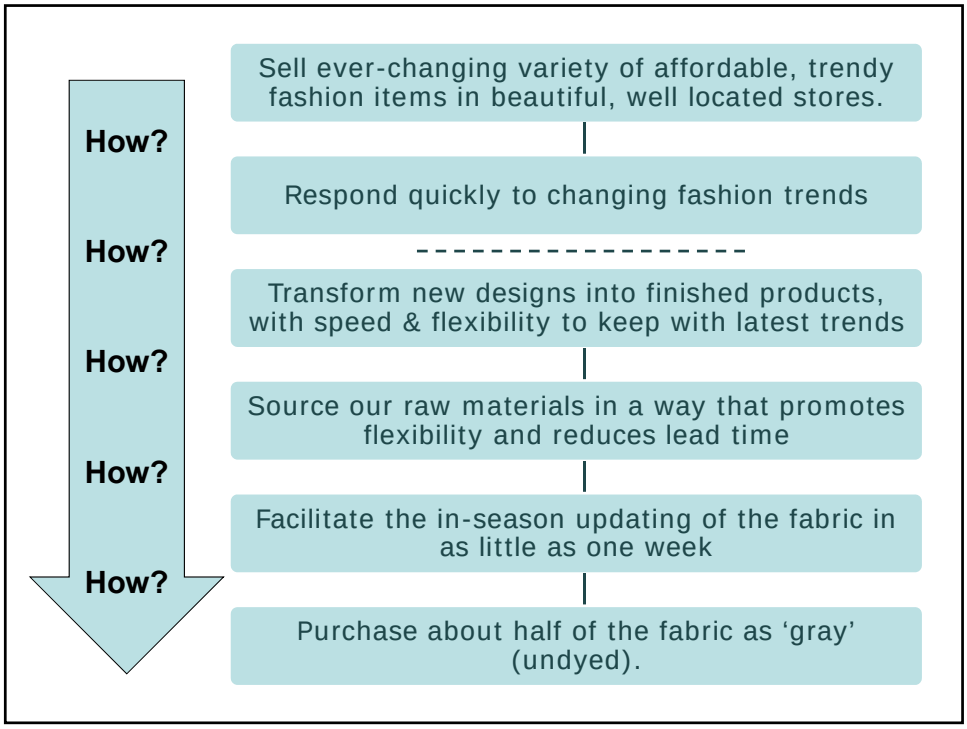

Transform new designs into finished products, with the speed and flexibility required to keep up with the latest trends
How?
Functional Imperatives
Source our raw materials in a way that promotes flexibility and reduces lead time
Dedicate our capacity to the most fashionable items and the most capital-intensive activities
Outsource the rest of the items and activities to contractors, giving preference to those nearby

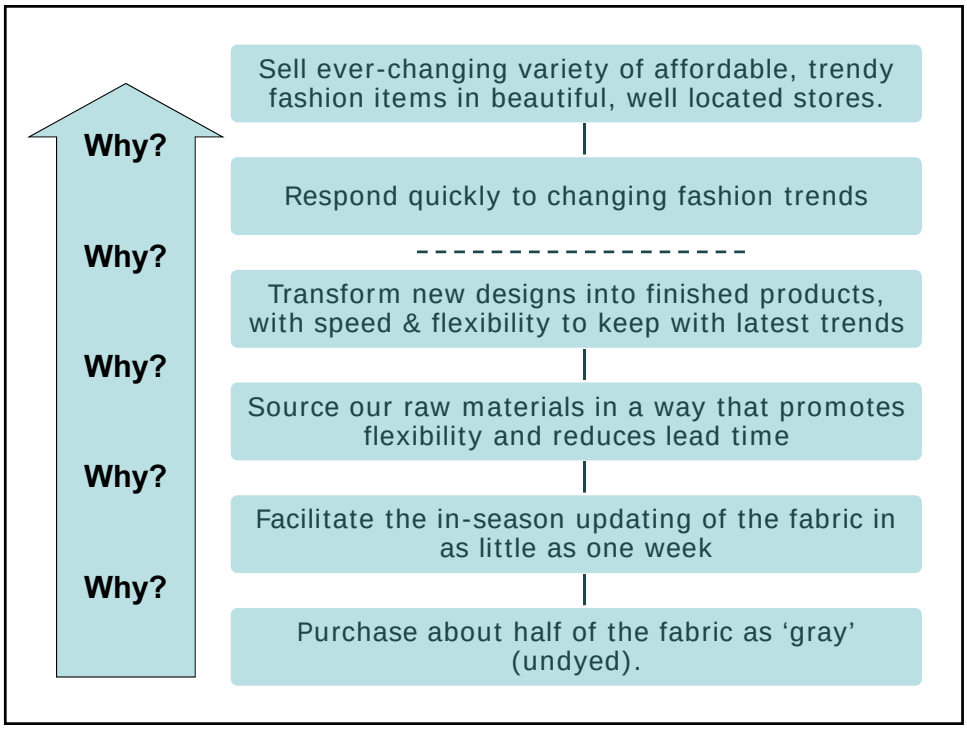

How?
Policies & Choices
Source our raw materials in a way that promotes flexibility and reduces lead time
Source mostly, but not exclusively, from suppliers close to the place of manufacture
Facilitate the in-season updating of the fabric in as little as one week
Functional Imperatives
Why?


How?
Operational Practices
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
Policies & Choices
Why?

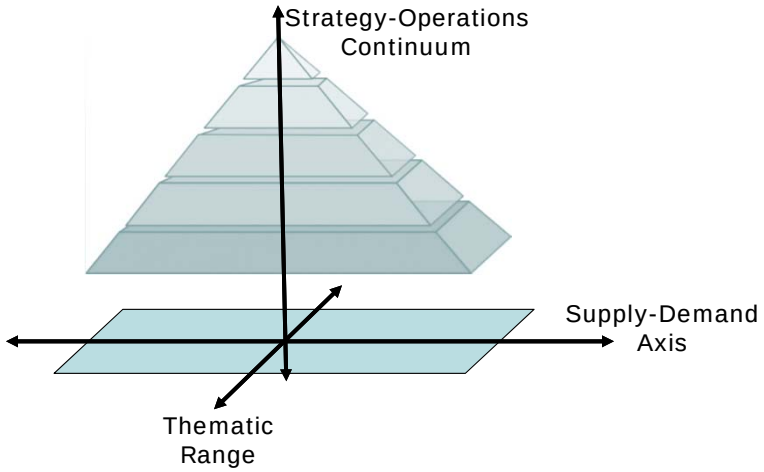



| | |
|---|---|
| **Core** | Sell ever-changing variety of affordable, trendy fashion items in beautiful, well located stores. |
| **Pillar** | Respond quickly to changing fashion trends |
| **Principle** | Transform new designs into finished products, with speed & flexibility to keep with latest trends |
| **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). |

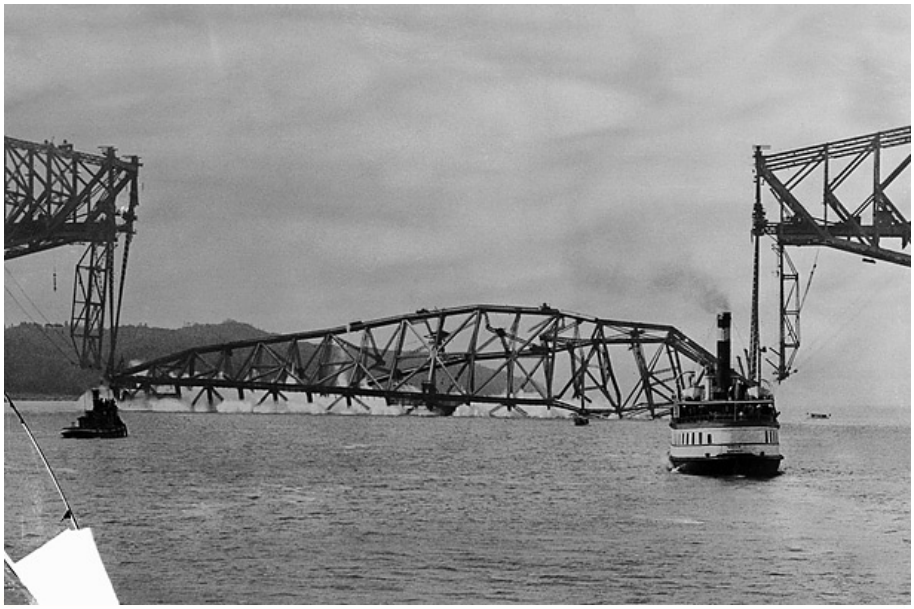

How?
How?
How?
How?
How?
Sell ever-changing variety of affordable, trendy fashion items in beautiful, well located stores.
Respond quickly to changing fashion trends
Transform new designs into finished products, with speed & flexibility to keep with latest trends
Source our raw materials in a way that promotes flexibility and reduces lead time
Facilitate the in-season updating of the fabric in as little as one week
Purchase about half of the fabric as 'gray' (undyed).


Why?
Why?
Why?
Why?
Why?
Sell ever-changing variety of affordable, trendy fashion items in beautiful, well located stores.
Respond quickly to changing fashion trends
Transform new designs into finished products, with speed & flexibility to keep with latest trends
Source our raw materials in a way that promotes flexibility and reduces lead time
Facilitate the in-season updating of the fabric in as little as one week
Purchase about half of the fabric as 'gray' (undyed).

## Multiple dimensions in a SCS



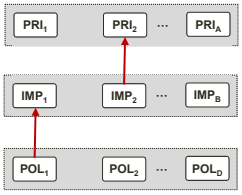


## Basic Evaluation Criteria

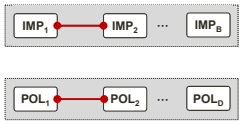
### Support

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



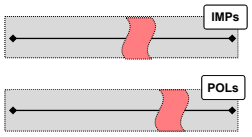

### Consistency

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.

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# 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

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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**.

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**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.

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**Q. Can Zara keep its supply chain ahead of the curve?**

**A. Yes, by crafting a future-ready supply chain strategy.**

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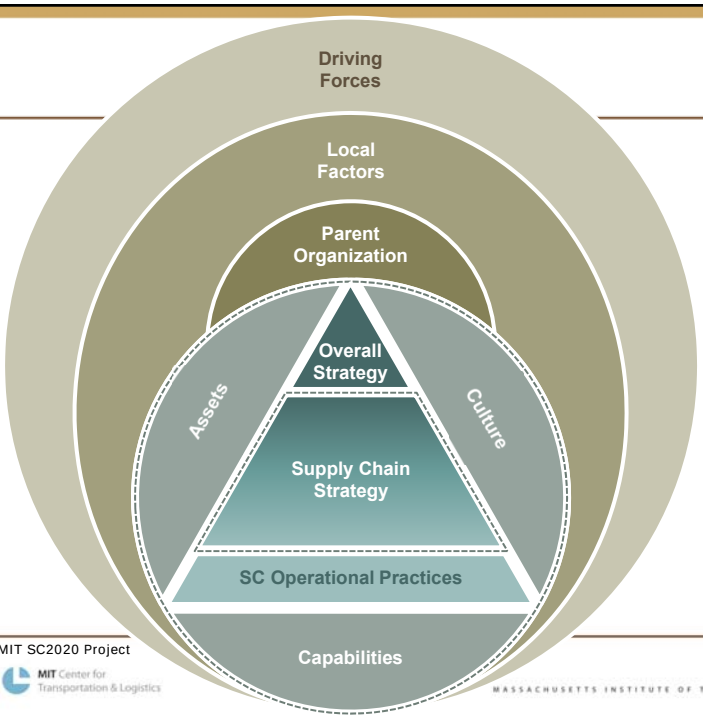


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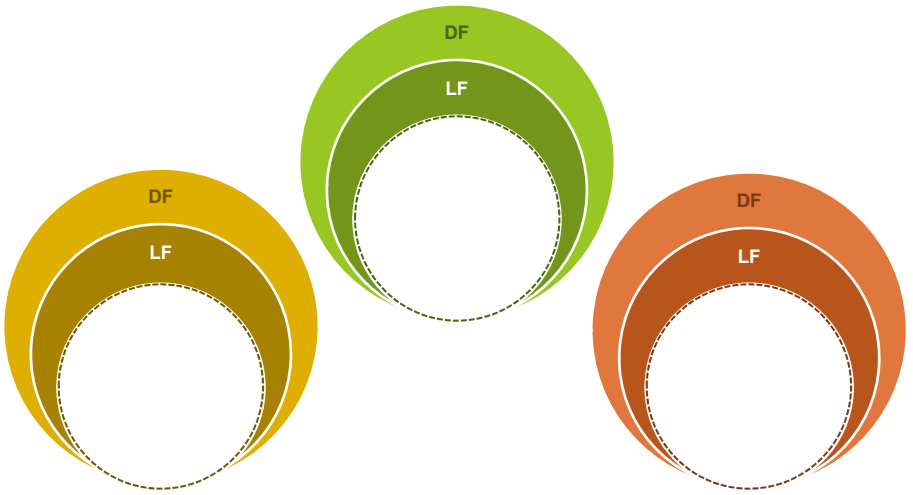
## Visioning through scenario planning

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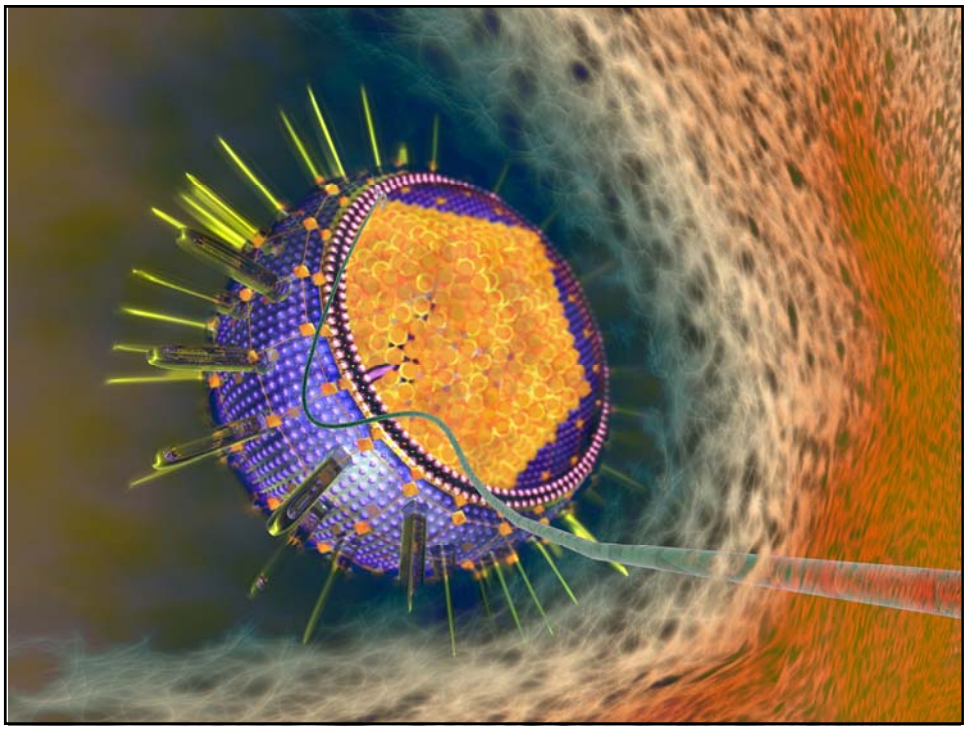
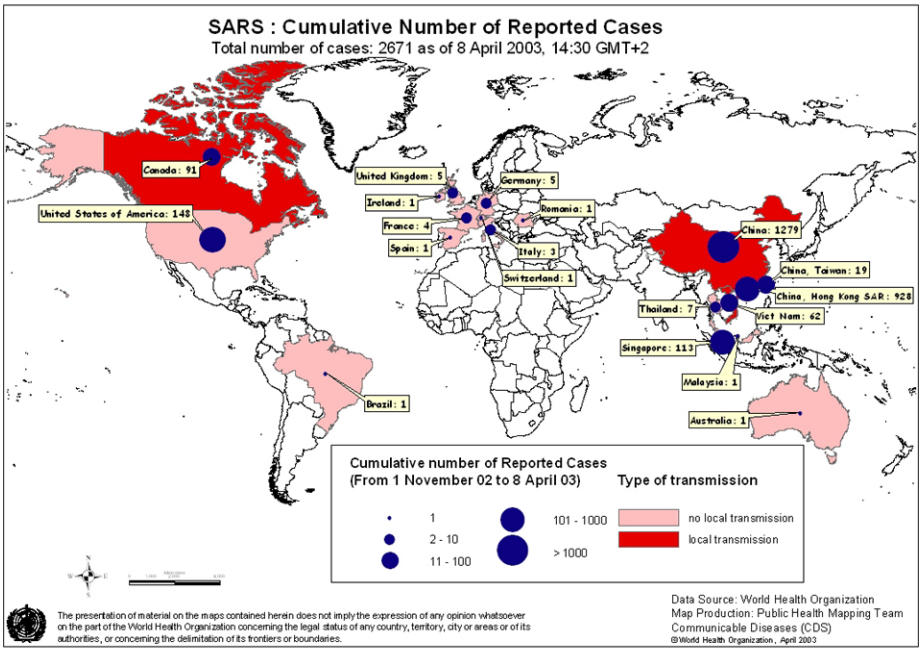


*The Severe Acute Respiratory Syndrome Coronavirus (SARS-CoV) causes a respiratory disease in humans.*

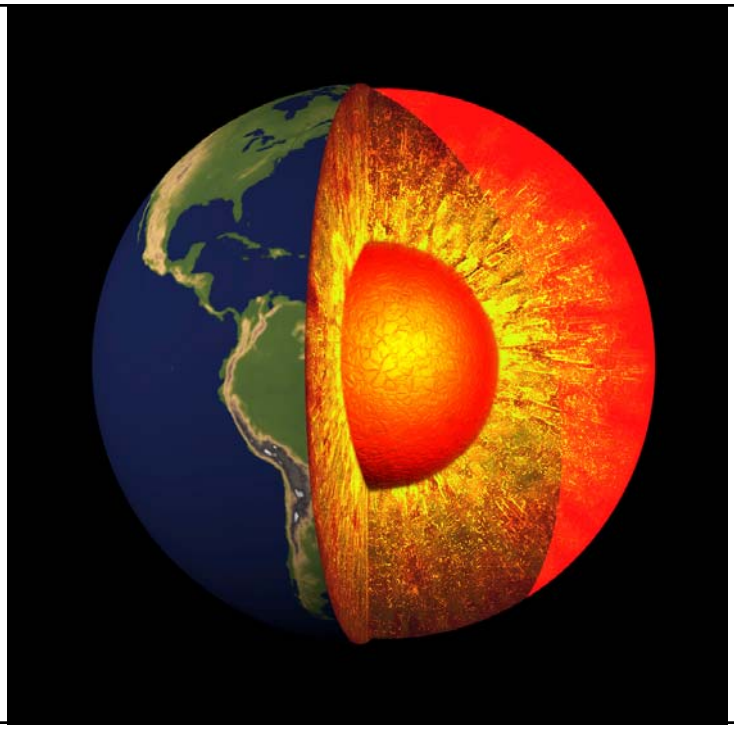
*Between November 2002 and July 2003 an outbreak of SARS in Hong Kong* ***nearly became a pandemic****, with 8,422 cases and 916 deaths worldwide.*

*Within weeks it spread from Hong Kong to infect individuals in 37 countries.*



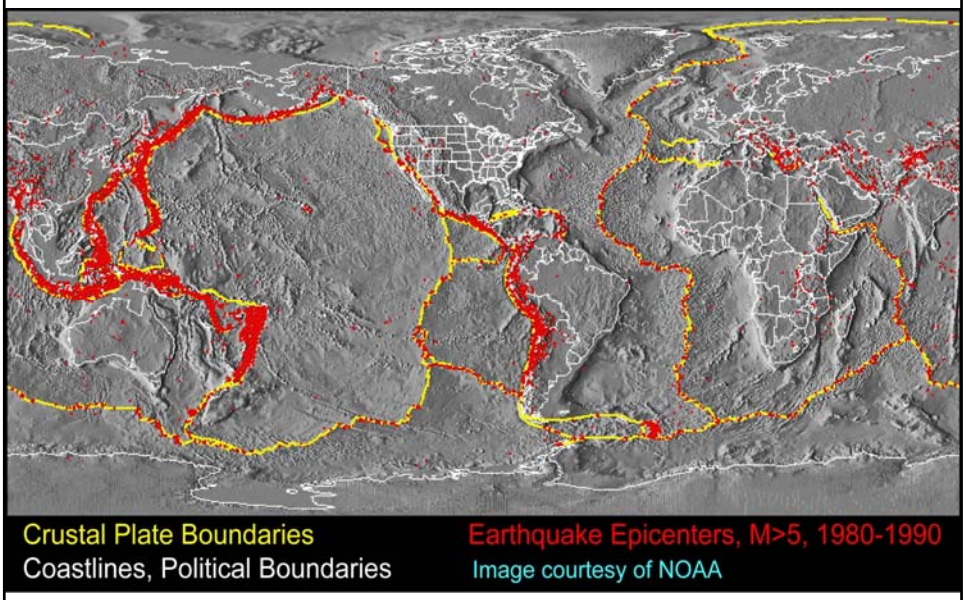
*As plants shut down, SARS caused significant disruptions to supply chains around the world.*

*Can the exact timing and location of a health crisis be forecasted?*



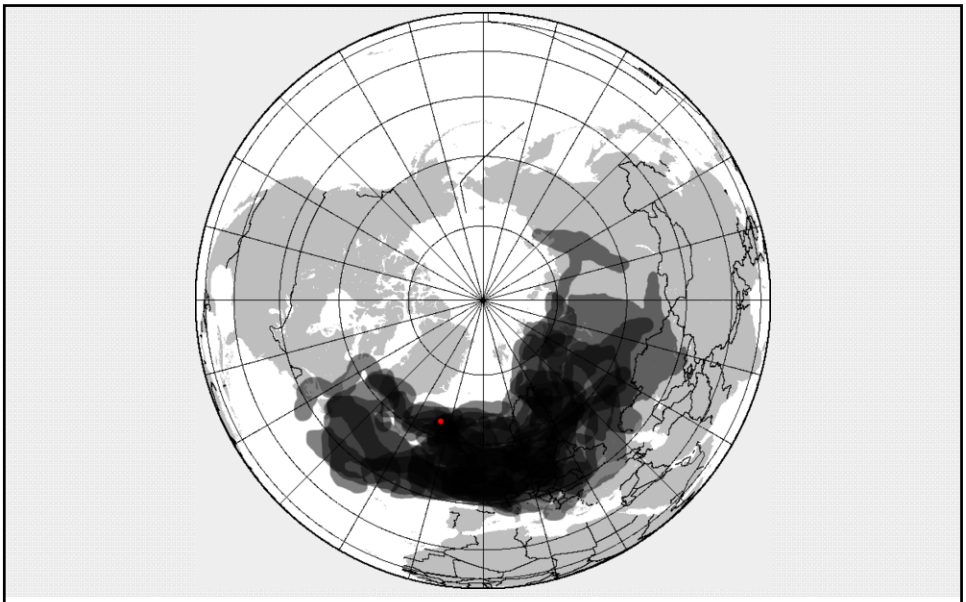
*Based on a century of observations, USGS estimates ~150 ≥6.0 earthquake occurs every year, including ~16 ≥7.0.*

*90% of earthquakes occur in the Ring of Fire, which touches most Asia Pacific countries.*



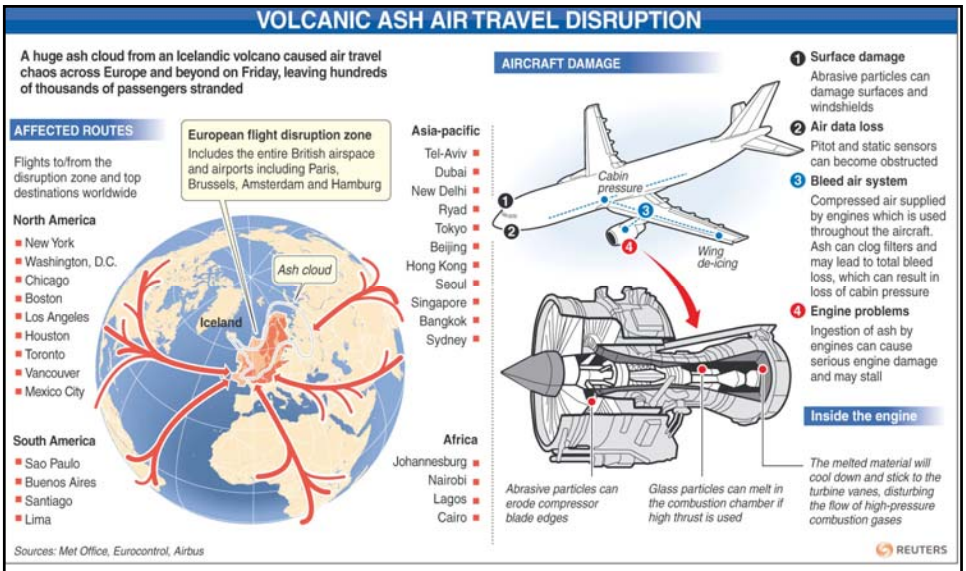
*Earthquakes and tsunamis may also cause disruptions to supply chains.*

*Can the exact timing and location of earthquakes be forecasted?*



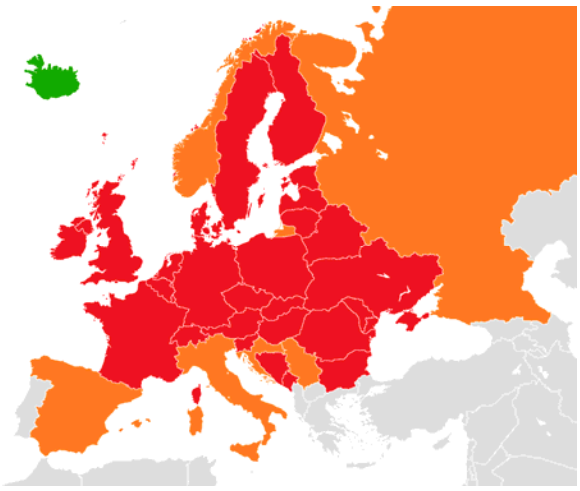
Composite map of the volcanic ash cloud from the eruptions of Eyjafjallajökull (spanning 14–25 April 2010).

Source: Wikipedia.




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

Text: Wikipedia. Image: Reuters.



~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?*

## May 2011 eruption of Grímsvötn

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.

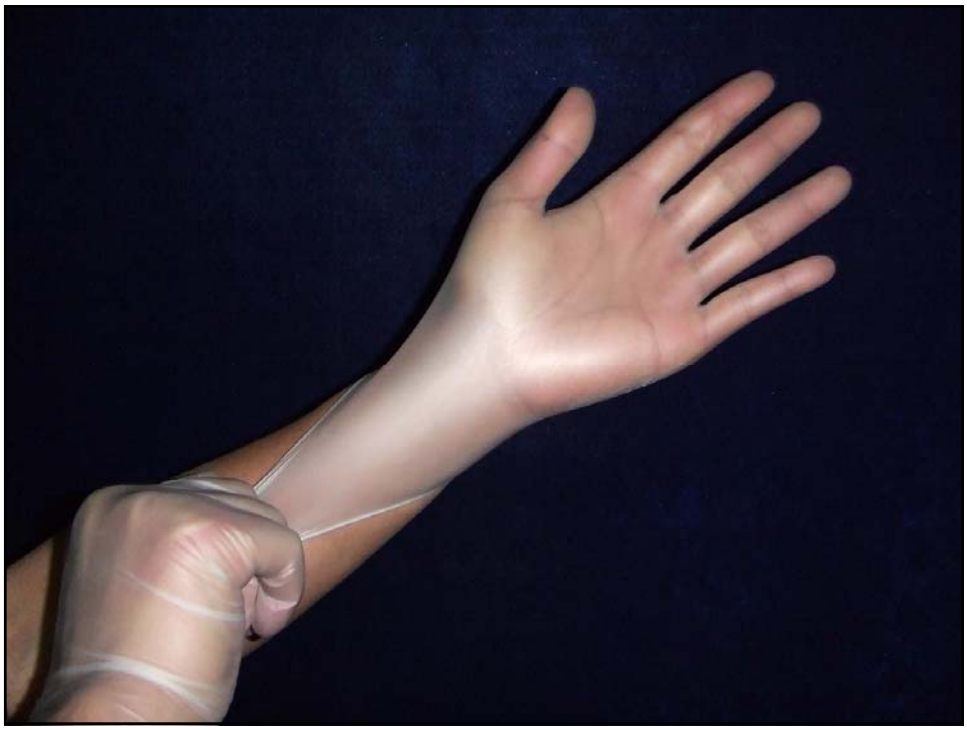
Text: Wikipedia. Image: Jon Gustafsson

*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.*

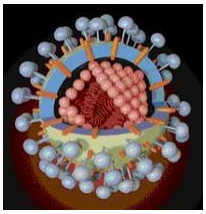
*"This did catch us off guard; we weren't expecting the Olympics to cause all of this," Piotter said. "It doesn't happen often, but* ***there have been other threats to the glove supply — for instance, when a tsunami hits or plants are shut down****. This is probably the third time I've seen this (happen)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



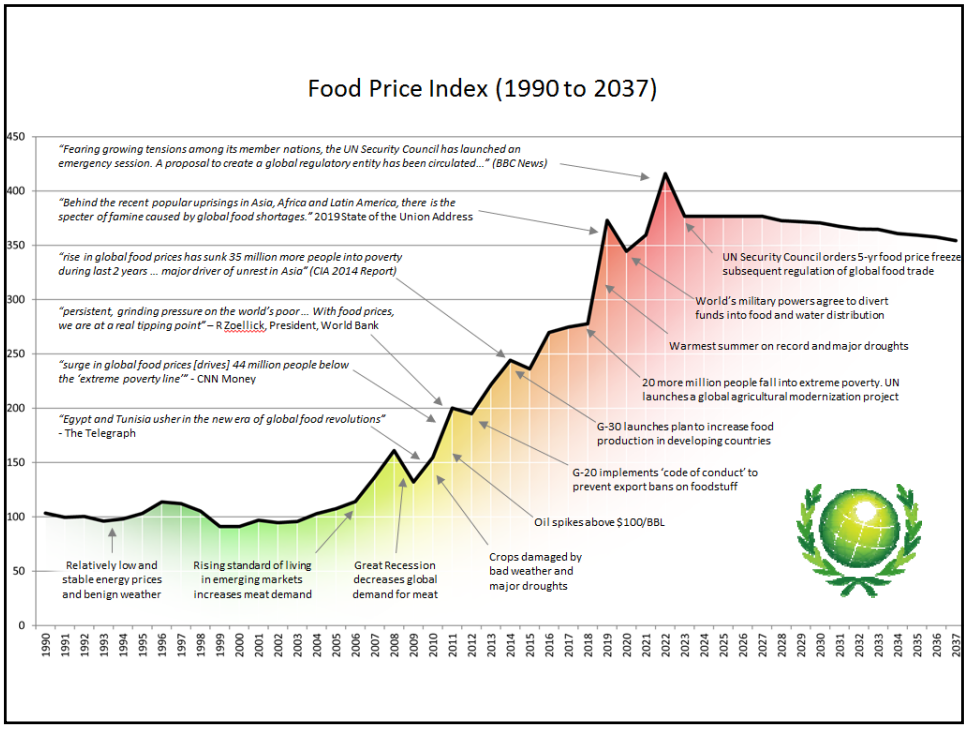
…may have similar **effects** on the supply chain.

*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.


Food Price Index (1990 to 2037)
"Fearing growing tensions among its member nations, the UN Security Council has launched an emergency session. A proposal to create a global regulatory entity has been circulated..." (BBC News)
"Behind the recent popular uprisings in Asia, Africa and Latin America, there is the specter of famine caused by global food shortages." 2019 State of the Union Address
"rise in global food prices has sunk 35 million more people into poverty during last 2 years ... major driver of unrest in Asia" (CIA 2014 Report)
"persistent, grinding pressure on the world's poor ... With food prices, we are at a real tipping point" – R Zoellick, President, World Bank
"surge in global food prices [drives] 44 million people below the 'extreme poverty line'" - CNN Money
"Egypt and Tunisia usher in the new era of global food revolutions" - The Telegraph
UN Security Council orders 5-yr food price freeze subsequent regulation of global food trade
World's military powers agree to divert funds into food and water distribution
Warmest summer on record and major droughts
20 more million people fall into extreme poverty. UN launches a global agricultural modernization project
G-30 launches plan to increase food production in developing countries
G-20 implements 'code of conduct' to prevent export bans on foodstuff
Oil spikes above $100/BBL
Crops damaged by bad weather and major droughts
Relatively low and stable energy prices and benign weather
Rising standard of living in emerging markets increases meat demand
Great Recession decreases global demand for meat
450
400
350
300
250
200
150
100
50
0
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037

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The peoples of the world working together... for a sustainable tomorrow!
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Environment
Commerce
Regulations
Compliance
Featured Video
Review of the WSTO's first 15 years
A summary of the WSTO's achievements in maintaining world trade fair and clean.
News from the WSTO
WSTO decides claim regarding Chinese tires export in favor of Brazil
[Read]
From our most recent report
The work of the WSTO has made possible to translate prosperity into better quality of life. The figure below illustrates the sustained improvement, both in developed and developing nations, in terms of the human development index, a composite statistics that considers life expectancy, education and per-capita GDP. Citizens of all nations live longer, are more educated and have better income than their predecessors, thanks to the sustainability policies put in place by the WSTO.
USA
Japan
Germany
Brazil
China
India
Your WSTO
WSTO at a Glance
WSTO Charter
Structure / Organization
Member Nations
WSTO Information Center
Calendar of Meetings
Frequent Questions
WSTO Structure
General Assembly
- Secretary General
- Presidency

# Scenarios for creative **strategic thinking**

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## **Divergence:** Let's divide into groups to consider the effect of each scenario on Zara

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## 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.



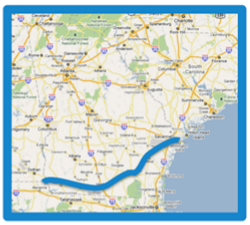
## Differences Between Scenarios

| | | | |
|---|---|---|---|
| Global Trade | Low | High | Low (physical) |
| Resource Availability | Low | Low | High |
| Energy Cost Level | High | High | Low |
| Energy Cost Variability | Low | High | Low |
| Level of Environmental Awareness | Same as Today | High | High |
| Population Dispersion | Growth in SW | Growth in Biggest Cities | Rise in Mid Tiered Cities |
| Energy Sources | Majority NA | Mix Foreign & Domestic | Majority Domestic |
| Level of Migration | High w/in Bloc, Low between | High | Low |
| Migration Policy | High | High | Low |
| Currency Fluctuations | Low w/in Bloc | High | Low |

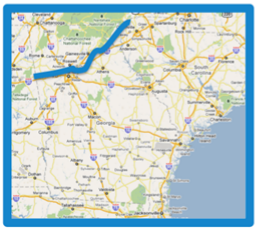
## Freight Segments (2/4)

*East-West CSX rail lines in Northern Georgia*

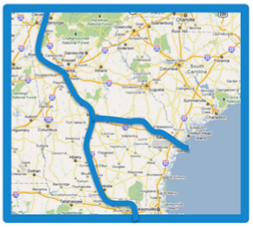
*East-West CSX rail lines in Southern Georgia*



*Norfolk Southern Crescent Rail Corridor*



*Norfolk Southern North-South rail lines (e.g. Valdosta-Atlanta line, Savannah-Macon line)*



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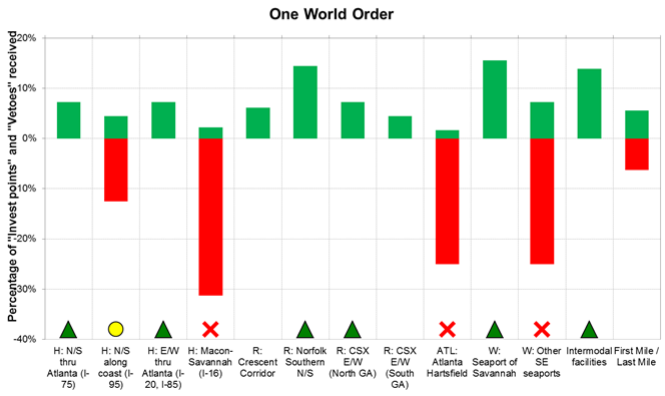
## One World Order: Voting results

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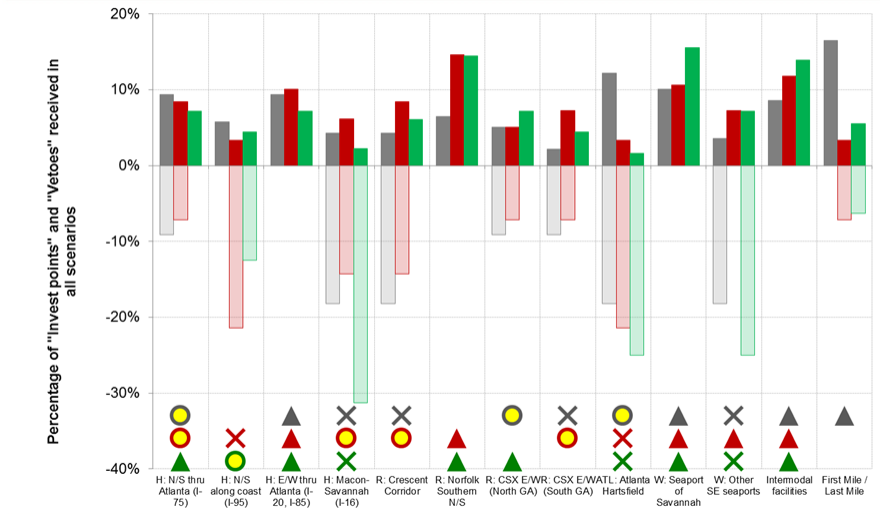
## All scenarios: Voting results





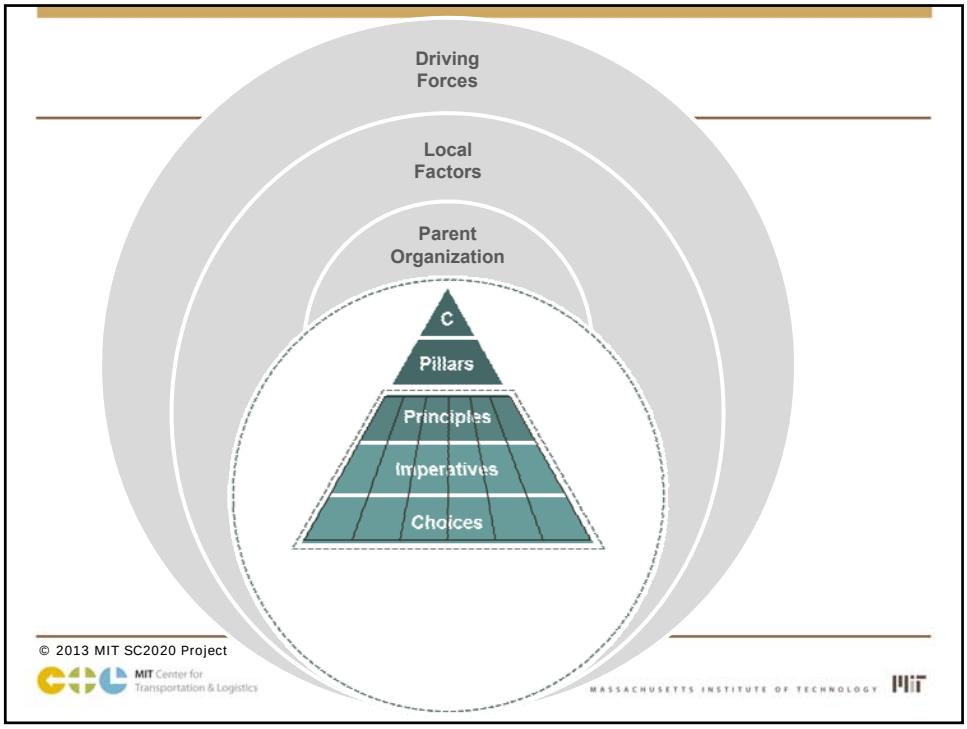

## Convergence:
## Crafting an improved SCS for Zara

*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


Driving Forces
Local Factors
Parent Organization
C
Pillars
Principles
Imperatives
Choices
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