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A Comprehensive Framework for Analyzing Competitiveness in a Case Study on ZARA

ZARA 케이스 스터디를 바탕으로 경쟁 우위 분석에 대한 포괄적인 프레임워크

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A Comprehensive Framework for Analyzing Competitiveness in a Case Study on ZARA

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Abstract

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The fashion and apparel industry worldwide has undergone significant changes and a new business model has emerged – Specialty store retailer of Private label Apparel (SPA), also known simply as "fast fashion". The demand for fast fashion is clearly confirmed by the annual reports of SPAs and Zara seems to be the most successful among all of them. Zara and its competitiveness has been one of the hot subjects both in academia and business circles, but none of the existing studies seems to offer a fully comprehensive analysis. This study fully investigates Zara's sources of competitive advantage, organizing the existing data in a logical and cohesive way. A new, over-arching framework based on Porter's (1990) diamond model and Moon's (2012) ABCD framework of K-strategy is introduced and applied to explain Zara's competitiveness. It is both unique and valuable, as it is combining the established and emerging theories into one analytical tool. In addition, this study also explores the potential impact of FTAs and other trade solutions on Zara's activities, finding that whereas RTAs seems to be quite

significant for Zara’s internationalization and expansion, they remain highly unused and do not affect in any visible way Zara’s sourcing decisions.

Keywords: Zara, Diamond Model, ABCD Framework, Fast Fashion, Competitiveness

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1. INTRODUCTION

1.1. Introduction to the Study

The fashion and apparel industry worldwide has undergone significant changes, especially over the past quarter century. Changing consumption patterns, globalization of production and sales, as well as modified structural characteristics of the supply chain have resulted in an increasingly dynamic and demanding market. Intensified global competition, and complex trade mechanisms like those within the WTO (World Trade Organization), and FTAs (Free Trade Agreements) in the current fashion market are important factors encouraging continuous innovation and change among fashion companies. Successful companies reduced the time gap between designing and consumption on a seasonal basis, giving birth to the so-called “fast fashion” (Bhardwaj and Fairhurst 2010). A new business model emerged in the fashion industry – Specialty store retailer of Private label Apparel (SPA).

The ‘fast fashion’ concept is similar to the one of quick response, and has been defined as a business strategy that aims to shrink the processes involved in the buying cycle and lead times for getting new fashion products into the stores, so as to satisfy consumer demand at its peak (Barnes and Lea-Greenwood 2006). Moreover, fast-fashion retailers aim to achieve a much higher turnover than traditional competitors. In order to do so, part of the fast-fashion business concept is to actually “create the demand” – SPAs create many more products, but at smaller quantities than traditional fashion retailers. Once the design is sold, it is replaced with a new one instead of more of the originally sold out product. This creates a sense of scarcity and urgency in the customers, encouraging them to buy more often and more impulsively (Bhardwaj *et al*. 2011).

The demand for fast fashion is clearly confirmed by the annual reports of SPAs. The top four competitors in the global arena include Gap, Hennes & Mauritz' (H&M), Uniqlo and Zara. The last one has perhaps mastered fast fashion better than any other, and is considered a pioneer in the field. Indeed by 2008 Inditex, Zara's parent company, had become recognized as the world's largest fashion retailer. It has maintained the position, significantly outperforming the competitors, with net sales of 18,117 million Euros in 2014, compared to 16,429 million by H&M, 14,595 million by GAP and 9,951 million by Uniqlo (based on exchange rates from http://finance.yahoo.com/ on June 13th, 2015).

Many respected specialists from business and academia have marveled at Zara's incredible performance. Some of them took up the challenge to explain the phenomenon, and an abundance of articles and papers have been devoted to analyzing Zara's competitiveness, strategies and business model (Ghemawat and Nueno 2006; Sull and Turconi 2008; Ferdows *et al*. 2004; Corsi *et al.* 2010; *New York Times* 2012). However, most of those were focused on a particular aspect, like supply chain management (Kumar and Linguri 2006) or modes of internationalization (Fan and Lopez 2008). However, if a report is only focused on one or two criteria and lacks balance, it is very likely that the evaluation will be biased, overestimating or underestimating the competitiveness of a firm. This is why it is necessary to use a more comprehensive and balanced framework.

Against this backdrop, this study aims to investigate fully Zara's sources of competitive advantage. By conducting this study, the author brings to the reader's understanding how Zara's chosen strategic business activities have contributed to its continuous growth and sustainable competitive advantage over the years. In addition, this study also explores the potential impact of FTAs and other trade solutions on Zara's activities, since the subject remains untouched in the existing literature.

Conducted as a qualitative case study research, this study further aims to introduce a new analytical model, which will serve as a comprehensive tool for understanding competitiveness. Therefore this study expands the understanding of Zara's competitive advantage sources, as well as contributing to the literature and research on competitiveness in general. Zara has been found suitable as a case study for the present research because it is perhaps the world's most successful clothing chain (*New York Times* 2012). Hence the outcome that derives from Zara's competitive advantages as a result of this investigation may be used as a basis for future studies with regards to competitiveness, especially concerning other fashion brands, but also on an extended industry-, and nation-level.

What follows are the aims and objectives, research questions, and methodology that will inform the manner in which the rest of this research is being conducted.

1.2. Research Aims, Objectives and Questions

The fundamental objective of this thesis, as previously set out, is to draw a clear understanding of Zara's success and the way it has achieved sustainable competitive advantage over the years. In other words, this study tries to determine all the competitive advantage sources, and organize the results using a systemic framework, assuring the comprehensiveness and coherence of the research. This main objective will be achieved with a review of existing studies on Zara and competitiveness, and applying a new organizing framework to organize the sources of competitive advantage.

Against the background of outlined objectives, certain questions arise which serve to forge an investigative framework and analytical benchmark for the present study. Consequently, the following questions are relevant for the purpose of this study:

1. What are the business activities and sources of competitive advantage of Zara?

2. How to conduct a comprehensive and systemic analysis of competitiveness?

3. How to combine the "what" and "how" approach in the research on competitiveness?

1.3. Research Methodology

Having laid down the background and objectives for the research in the previous section, the aim of here is to discuss the adopted methodology for this study, as well as the data collection methods and approach. Given the multifaceted nature of research methods and design in literature the following explanation will justify the suitability of the adopted techniques to this study context.

There are two general methods in research: qualitative and quantitative methods. The quantitative method can be described as a statistical or scientific evaluation process. This method is therefore recommended for research which aims to examine a predefined hypothesis, or where evidence can be tested with numerical procedures. The qualitative method on the other hand is more suitable for in-depth understanding of a given phenomenon or event. It tends to start with a specific observation and then builds towards general patterns (Saunders *et al.* 2007).

The quantitative approach in business often over-emphasizes certain numerical values, notably financial indicators, and tends to mislay crucial facts arising from unquantifiable facets of individuals or the studied setting. Therefore it seems unsuitable for this study context, which requires an approach which refuses to reduce human behavior to numerical understanding and statistics, and instead allows an inductive and constructive interpretation of human and social interactions. Given this, the present study is built largely on the qualitative approach, as it enables a comprehensive and robust understanding of the intricate factors which are fundamental to Zara’s success.

There are numerous strategies that can be employed in qualitative research. The case study approach is deemed the most suitable as a strategy for this research, as it is particularly valuable when seeking to explore a given phenomenon within certain contexts. A study of business realities is crucial to bridge the distance between university studies and the business world (Mazaria *et al.* 2003). This paper reflects this intention and uses the case study method to achieve it. The author agrees with the literature (Hartley 1994; Yin 2013) on its validity as a research strategy and a principally best technique to understand any phenomenon in its natural setting.

There are two techniques available to researchers for data collection; that is primary and secondary techniques. Primary data refers to materials obtained explicitly for a given research, while secondary data means materials which are publicly obtainable or prepared for other purposes (Saunders *et al*. 2007). For the purpose of this study mainly secondary techniques will be applied, as it provides crucial details and a variety of perspectives, while effectively supporting the research. Although it is deemed sufficient to conduct the research; alas it is not without limitations. Particularly in the fast changing fashion environment, secondary data can easily become outdated and it might be somewhat inadequate as to holistically and comprehensively study the phenomenon in its present state. However, these stated problems do not undermine the validity of this research, but rather draw on the importance of further studies.

A new analytical framework based on Porter's (1990) diamond model and Moon's (2012) ABCD framework is adopted to analyze and organize the data. It is the author's belief that an overarching framework like this could add significantly to research on competitive advantage and its sources. This has been suggested by Moon (2015), but remains to be largely employed in the literature. A more detailed explanation of the approach will follow in the next chapters.

1.4. Research Outline

The following section will outline the sequence and fashion in which the author aims to carry out the study. In order to achieve logical flow and coherence, which allows us to identify the main points in the most concise manner, this study is divided into five different chapters as follows:

1. Introduction
2. Literature Review
3. Zara Case Study
4. New Framework
5. Conclusions

Chapter one is the introduction, which gives a brief background to the research subject, as well as defining the aims, objectives and research questions, which will guide the rest of the chapters. A detailed explanation on the chosen methodologies and justification of the choice is also included. Following this is Chapter two, which presents a review of current literature. It takes a thorough look at the theoretical literature related to competitiveness, with a detailed focus on the two selected frameworks, namely the diamond model (Porter 1990) and the ABCD framework (Moon 2012). In addition, this chapter includes a review and criticism of the existing studies on Zara, which will serve as a base for the following sections. Chapter three is the case study itself, with a detailed description of Zara's characteristics and activities, identifying all its potential sources of competitive advantage. It consists of a general background, comparison with the main competitors, development over the years and current best practices. This chapter is followed by the fourth, where the data and descriptive study is organized and analyzed. Chapter four introduces a new analytical approach, combining the Diamond and ABCD framework to create an overarching model. The framework is applied in order to organize and systematize the analysis of Zara's competitive advantages and present a full and clear picture. The final part is Chapter five, Conclusions, where the main outcomes of the research were evaluated and reviewed. The implications and limitations of the research are considered, and the thesis rounds off by proffering a set of recommendations for further studies.

2. Literature Review

2.1. Existing Studies on Zara: Review and Criticism

Many articles in both the academic and business press have been dedicated to Zara's success story. Most of them find the main source of competitive advantage in the supply chain management, vertical integration or fast responsiveness. Some are quite comprehensive, although most focus on selective aspects. None of the existing studies seems to cover all of the important factors, and although many offer important and valuable insights, the overall analysis in each can be deemed incomplete. The following table presents a list of most prominent reports and their main arguments.

<Table 1> Review of main arguments in the existing studies on Zara

Study	Arguments
Ghemawat and Nueno (2006)	- Standardized reporting systems - Investment in logistics and IT - Short production cycle, exploiting quick response capabilities and learning by doing - Minimal marketing but prime locations - Incentivized system for employees
New York Times (2012)	- Higher labor costs offset by greater flexibility and faster turnaround speed - Marketing through prime locations (high street) - Detecting global trends and copying already popular designs – speed of response
Sull and Turconi (2008)	- Shared situation awareness

Kumar and Linguri (2006)	- Approach to the supply chain: “basic” items in low-cost manufacturing locations; fashion-dependent items made close to home; quick responsiveness. - Brand management: almost no-marketing, prestigious locations, simple IT – low costs in IT
Ferdows, Lewis and Machuca (2004)	- Supply chain – three principles: “Close the communication loop. Stick to a rhythm across the entire chain. Leverage your capital assets to increase supply chain flexibility.”
Corsi, , Dessain and Ton (2010)	- Approach to stores management: fast turnover, regular deliveries, incentivized and retained staff
Lopez and Fan (2009)	- Climate of scarcity and opportunity - Market-based pricing - Internationalization
Avedano, Gonzalez and Mazaria (2003)	- Market orientation approach
Crofton and Dopico (2007)	- Vertical integration - Speed: fast responsiveness and shorter product cycle - Investment in logistics and human resources

As clearly presented in the table above, many researchers sought to define the sources of Zara’s competitive advantage.

2.2. Conceptualization of Competitiveness and Competitive Advantage

Competitive advantage and its sources have long been one of the central areas of research in the field of strategic management and business (Porter 1985; Barney 1991; Petraf 1993). Two main approaches dominate the literature, namely the resource based view (Wernerfelt 1984; Barney 1991; Peteraf 1993), and the industry based view (Porter 1980, 1985; Coutler and Robbins 2009). There is little doubt that these two types of analysis have been very fruitful in clarifying our understanding of the link between performance and, respectively, internal characteristics or external circumstances of a firm. They are also useful in explaining how managers can create sustainable competitive advantage (Barney 1991, Coutler and Robbins 2009). However, they do not seem to be quite sufficient when dealing with the complicated phenomenon of competitiveness, especially on the international scale. An analysis focusing on one of the two approaches may also be biased and overestimate or underestimate the competitiveness of a firm (Moon and Lee 2004).

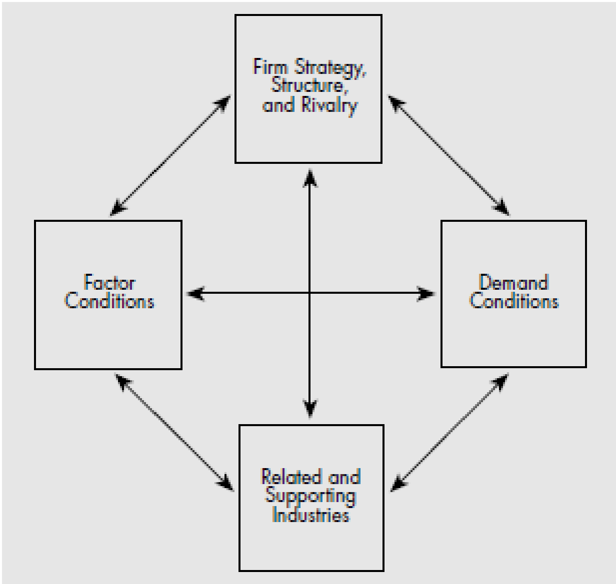
Michael Porter is recognized as an almost unquestioned authority in the field of strategic management (Moon 2010). While most of the existing theories were related just to the competitiveness of a product or a firm, he asked why firms based in certain nations become internationally successful in particular industries. He therefore introduced the diamond model – an analytical framework composed of four internal determinants (factor conditions, demand conditions, related and supporting industries, and business context), plus two external variables (government and chance) (Porter 1990). The main four determinants can be perceived as a refined version of the variables included in his five-forces model (Porter 1980, 1985, 1990).

Essentially the diamond answers a “what” question, pointing what aspects firms must consider when designing strategy. It does not however give detailed suggestions on how to actually tackle the issues and successfully achieve competitive advantage. In the dynamic environment of global business these days it is becoming more and more important, to define “how” companies achieve competiveness. When everybody has access to the same resources what makes some firm excel over the others. The K-strategy ABCD model developed by Moon (2012) helps satisfy this new demand for a different analytical approach. Based on the in-depth study of the Korean economic success, it addresses the “how” question – how should companies operate in order to achieve competitive advantage. This makes it a very useful set of guidelines for managers, as well an important tool for analyzing competitiveness in the modern business environment. The next sections will provide a detailed review of these two state-of-the-art models.

2.3. The Diamond Model

The diamond model was first introduced by Michael Porter in 1990, in order to explain why certain companies in certain nations are able to consistently innovate. Porter discarded the established theories of economists like Adam Smith and Ricardo as misguided, and claimed that the competitiveness of a nation is created rather than inherited. He originally identified four inter-related attributes determining the national competitive advantage. The first one is factor conditions, including labor force, capital and other physical resources (basic conditions), as well as the physical and knowledge infrastructure (advanced factor conditions). Porter emphasizes that disadvantages in the basic conditions can serve as a push factor for creating the advanced factor conditions. The second one, demand conditions, refers to the nature of domestic buyers, the size and sophistication of home demand. The third category is the role of related and supporting industries in promoting competitiveness through coordination and sharing activities in the value chain. The fourth one - firm strategy, structure, and rivalry - describes how companies are created, organized and managed, as well as the nature of domestic rivalry. (Porter 1990).

<Figure 1> The Diamond of National Competitiveness

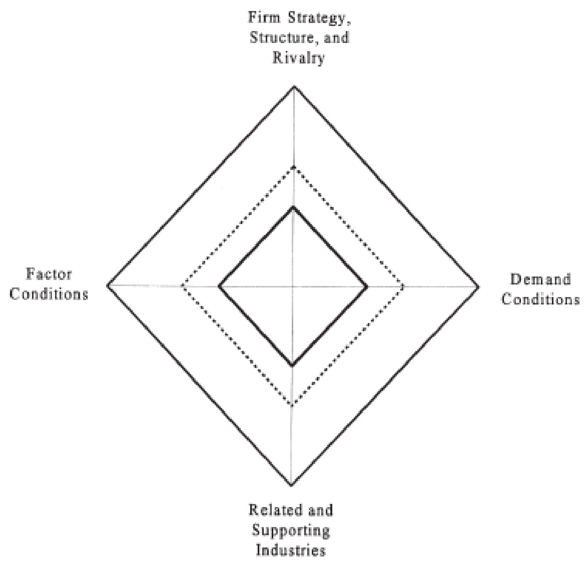


Source: Porter (1990)

Together with the production factor conditions that most traditional theorists employ to explain national competitiveness, Porter's model systematically takes into consideration many more crucial variables and incorporates them into a single framework. It is therefore much more comprehensive than previously existing models and has considerably more explanatory power.

Much research related to competitiveness has applied the diamond model and its extended versions (Narula 1993; Moon, Rugman and Verbeke 1998; Moon 2005). Indeed, despite the far-reaching explanatory power of Porter's model, it is not free of flaws. Whereas it is very effective in explaining the competitiveness of the advanced and large economies, it is much less applicable to smaller or developing ones, and is quite limited when applied to global business. The model can be perceived as incomplete because it does not incorporate multinational activities (Dunning, 1992; Moon *et al*. 1998, Moon 2010). In order to address the weaknesses the original single-diamond model has been extended to the double diamond model and other models, to explain the multidimensional nature of global business. Dunning (1992) suggested that multinational activities should be added to Porter's model as a third exogenous variable. But in the modern global business environment multinational activities have become too significant to be treated just as an exogenous variable. Rugman and D'Cruz (1993) introduced the concept of double diamond model, suggesting that managers build upon both domestic and foreign diamonds to become globally competitive in terms of survival, profitability, and growth. The framework has been further polished and adapted by Moon, Rungman and Verbeke (1995, 1998), who introduced the generalized double diamond model.

<Figure 2> The generalized double diamond.



Source: Moon *et al*. (1998)

The main difference between the single diamond model (Porter, 1990) and the generalized double diamond model (Moon *et al*. 1995) is that the second one successfully incorporated multinational activities into the framework. When analyzing smaller economies, the generalized double diamond model offers a much more accurate and comprehensive analysis.

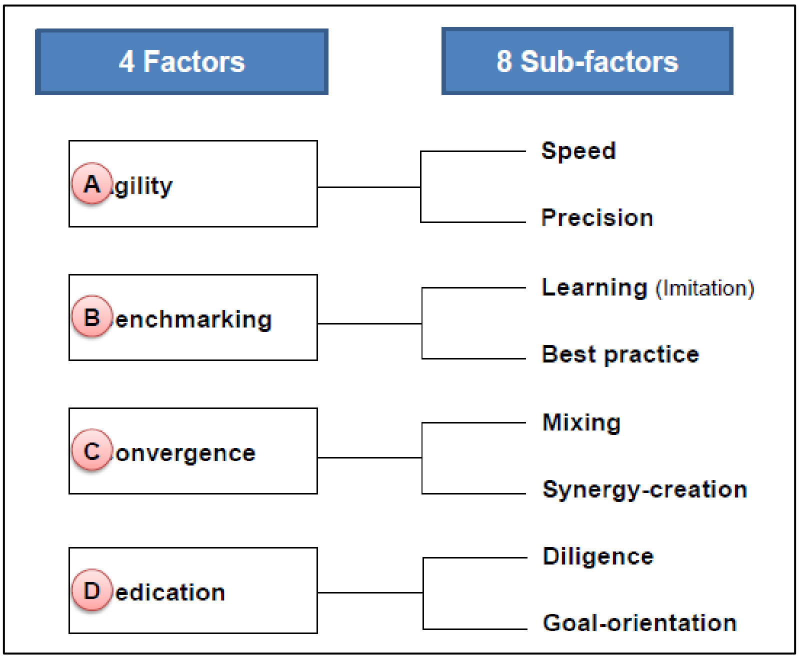
In spite of these limitations, the single diamond model for competitiveness is still a useful analytical framework, which systematically organizes competitiveness into four categories (Moon 2010). It is important to note that the effect of one determinant is depending on the state of the remaining determinants. “Each point on the diamond – and the diamond as a system – affects essential ingredients for achieving international competitive success" (Porter 1990: 77). In order to develop and sustain a competitive advantage companies must build on the fundamentals of the four corners of the Diamond (Porter 1990).

Lastly, it is important to note that although the model was originally introduced as "the diamond of national competitiveness" it can be applied to conduct analysis on many different levels. The broad character of the determinants allows multiple interpretations. Moreover, Porter himself noted that it is firms, not nations, that compete in international markets. Therefore, although the diamond was originally seemingly designed to describe a nation's features, it can also be applied to assess competitiveness at a company level (Markus 2008, Moon and Lee 2004; Moon 2010).

2.4. The K-strategy and ABCD framework

Analysis of the Korean successful strategy lead to a determination of four key characteristics of competitive nations and companies (the ABCD), each subdivided into two mutually enforcing elements (Moon 2012).

<Figure 3> ABCD of the K-strategy



Source: Moon (2015)

Although this framework, just like the Diamond model, was originally designed to describe factors at the national level, it seems even more applicable at the company level. Indeed as mentioned before, it is firms, not nations that compete in the international markets, therefore the success of Korea can be explained by focusing on its firms' characteristics and competitiveness.

Since the framework has been only recently introduced, the author has done background research on each of the four categories, to further support its validity with previous studies.

The “A” stands for agility, composed of speed and precision. In today’s volatile markets and fast-changing environment, speed of reaction and learning is crucial for maintaining competitive advantage (Eisenhardt *et al.* 2000). But speed without precision can cause accidents and a high-level of defective products, creating extra costs for the company, and causing customers’ dissatisfaction. The loss of customers’ trust is difficult to make up for, which is why precision must go hand in hand with speed (Moon 2012). From the company’s perspective, “agility might therefore be defined as the ability of an organization to respond rapidly to changes in demand both in terms of volume and variety”, its characteristics are flexibility and market sensitivity (Christopher 2000:39).

“B” stands for benchmarking, which originally meant imitation and global standard. However, as the word “imitation” tends to carry a heavy load of negative connotations, it was later adapted to “learning” (Moon 2015). Many companies (notably Samsung) have been criticized for plagiarism, but actually in most of the cases it is the fast-follower who becomes the winner, not the first mover. Research shows that over time innovators capture only 7% of the market for their product, and many successful companies considered pioneers in their field, like Apple or McDonald’s, have actually built their success copying and improving another company’s concept (Schumpeter 2012). But that’s where the key to success lies – it's not just about copying, but learning and improving – introducing new global standard. The success formula designed by Moon (2012:105) is triangle plus alpha equals square plus question mark: starting with the existing basis and adding something new to create a better solution, but always remaining aware of further space for innovation (Moon 2012).

"C" stands for convergence, composed of mixing and synergy creation. Much research has been done on different aspects and effects of diversification (Teece 1982; Markides and Williamson 1996). One of the more popular questions concerns the link between diversification and performance, and specifically the effects of related diversification and unrelated diversification. There is however no unequivocal answer, as different research yielded results supporting both kinds (Chaterjee and Wernerfelt 1991). Mixing the offerings and activities can be a way of making up for lacking resources, which has been demonstrated, for example, by Samsung company, which originally produced sugar, then diversified through garments production, and eventually into the current portfolio including electronics and other businesses. Although these are seemingly completely unrelated, the perception changes when looking at the bigger picture (Moon 2012, Kim 2015). The mixing is most effective when it leads to synergy creation. Poorly chosen "ingredients" can lead to failure, like in Sony's case. However, when mixing different business areas leads to synergy creation it can become a source of new competitive advantages (Kim 2010; Moon 2012). Convergence is also about adjusting to the local tastes – mixing the best from home with the best of local (Moon 2012). Much research on strategies in multinational firms stresses that one size does not fit all and a firm's best practices should be tailored to the local conditions (Farrell 2004, Ghemawat 2005).

"D" stands for dedication, including diligence and goal orientation. Porter said that "modern competition depends on productivity" (1998:78). Therefore, diligence can be seen as a necessary precondition to enhancing competitiveness. But diligence itself is insufficient, as many examples show that without a clear aim the effort might still be fruitless. Goal orientation is therefore necessary to succeed (Moon 2012).

3. Zara Case Study

3.1. Introduction

Armando Ortega, the founder of the world's largest apparel retailer, Inditex, opened the first Zara store in 1975, in a small town of A Coruna in Spain (Corsi *et al.* 2010). This let him become a self-made billionaire, ranking no 4 on the Forbes list of the richest people in 2015 (no 3 in 2014). His company has been growing exponentially ever since the first opening, and in 2014 Inditex reported annual net sales of slightly over 18 billion euros (Inditex 2014). Since the late 1980s successive launches of new retail concepts followed, and currently Inditex holds eight different brands (Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarious, Oysho, Zara Home and Uterique). In spite of the holding group expansion, Zara remained the flagship of Intditex, with annual sales of almost 11.6 billion euros in 2013, nearing 2/3 of Inditex's total. Currently present in 88 markets, more than any other of the eight brands, and with a total of 2085 stores (including the Zara Kids sub-concept), Zara is indeed the driving force of the holding company. Since 2010 Zara introduced online sales, which are currently available in 26 countries (Inditex 2014).

Zara was the pioneer of the new business model in the fashion industry, which recently became recognized as Specialty store retailer of Private label Apparel (SPA). The SPA term refers to specified apparel retailers, who plan and manufacture their own product as they reflect the market trend and consumers` desire, as well as distribute and sell the manufactured products on their own (Kim, M.K. 2010). Zara was one of the first successful companies to reduce the time gap between designing and consumption on a seasonal basis, giving birth to the so-called “fast fashion” (Bhardwaj and Fairhurst 2010). Although many other SPAs emerged over the past decades, ZARA clearly stands out as unique with its “no-marketing” strategy and “close-to-home” production approach. Many have doubted that the home-based central logistics system can be sustained as the company expands globally, but so far Zara maintains all of its logistics in Spain. Although nearly half of its offerings are now produced in different, more remote locations, all of its goods, even the ones produced in Asia, go through the Spanish distribution centers before being sent back to the Asian stores (Crofton and Dopico 2007). In spite of that Zara brags an impressive delivery time of two to 48 hours to any store or online customer. (Inditex 2014). Figure 3 shows how the model works, with the dot located approximately in the center of the map representing the logistics centers in Spain, and the arrows showing how deliveries to different main locations all around the world are handled through this center.

Figure <3> Zara Business Model: Centralized Logistics for All Locations

Source: Inditex (2014)

Zara's exponential growth has attracted attention in both business and academia. Its case has received plenty of coverage in both popular media and research papers, as many have tried to discover the ultimate secret behind its success (Hansen 2012; Ferdows *et al.* 2004; Mazaria *et al.* 2003; Lopez and Fan 2009; Corsi *et al.* 2010). As the table in the previous chapter indicates, the existing research lacks a systemic organizing framework, and seems unable to account for all the factors which contribute to Zara's competitive advantage. What follows is an in-depth case study, placing Zara in context with its competitors and accounting for the 40 years of development. The next chapter will introduce a new analytical framework, which will help organize the data from this section.

3.2. Competitors and Performance

Zara and Inditex attracted a lot of attention in both business and academia because of their exponential growth and incredible performance. Currently Zara has three main competitors, two of which have been battling on the fashion arena a little longer than Inditex, and one recent entrant catching up fast: H&M, Gap and Uniqlo (*Forbes* 2015).

H&M is the oldest among the five competitors, being established in 1947 in Sweden, and is considered the most direct and aggressive competitor to Zara. Zara sales overcame H&M in 2005, but last year, for the first time since then, H&M has registered a higher growth in sales than Inditex (*Guardian* 2008). The gap in sales is also fairly narrow, encouraging speculation over which of the two fashion giants will triumph at the end of 2015. In terms of global presence, however, Zara is still far ahead, with stores in 88 markets compared to H&M’s 58. H&M is also much more focused on its main concept: the H&M brand. Although it holds 5 other brands, their locations all together account for less than 10 percent of all H&M group stores. On the other hand Zara constitutes nearly 1/3 of Inditex locations, although it accounts for 2/3 of its sales.

The second oldest competitor is American GAP Inc., founded in 1969. It previously held the title of largest fashion retailer, but it was overtaken by Zara in 2008 (*Guardian* 2008). Gap Inc. includes five brands, and while GAP is the largest one, it is less dominating than the H&M concept for H&M group, or even Zara for Inditex. The Gap group has been struggling the most among the competitors, and although it still registers considerable amount of sales, its growth is marginal at only 1.7% in 2014, and it has been falling further and further behind the other two.

On the other hand a new entrant – Fast Retailing, with its flagship brand Uniqlo, emerged from Japan in 1984, and has been catching up fast. Fast Retailing has been growing at an extreme pace, and by 2015 holds six other concepts. However, Uniqlo still constitutes more than a half of its locations. It has also been developing aggressively abroad, with its first foreign store opening only 4 years after founding. Currently it operates stores in 16 different markets, with plans to enter more every year.

<Table 2> Zara (Inditex) and Competitor Data

Company	Net Sales 2014 (mln. Euros)	Net sales growth 2013 to 2014	Number of stores	Number of markets
Zara (Inditex)	18 117	8%	2 085 (6 460)	88
H&M	16 429	18%	3 261 (3 600)	58
GAP	14 595	1.7%	1700 (3 709)	53
Uniqlo (Fast Retailing)	9 951	21%	1 558 (2 872)	16

Source: Author's compilation based on Financial Reports for 2013 and 2014

Table 2 presents a comparison of Zara and its main competitors. Although last year H&M and Uniqlo registered higher sales growth, Zara still dominates the industry with the highest sales and largest global presence.

3.3. Current Best Practices and Strategies

As the pioneer of "fast fashion" Zara has become famous for agility across all of its activities in the value chain. There is always material or fabric held in 'greige' i.e. undyed and unprinted, to speed up the manufacturing process in response to excessive demand of a particular product or a new trend. (Christopher 2000). Zara also owns two enormous, automatized logistics centers. They are linked with factories by underground tunnels, and permit fast and precise distribution of products. It is important to remark that it's not just speed of delivery that matters, but also its accuracy, and Zara claims an outstanding 98.9 % accuracy of shipments (Kumar and Linguri 2006).

Zara refined the manufacturing process by introducing the sophisticated just-in-time systems, developed in cooperation with Toyota, which allowed the company to customize its processes and exploit innovations. It enabled establishment of a business model that allows self-containment throughout the stages of materials, manufacture, product completion, and distribution to stores worldwide within just a few days (Kensuke 2011; Crofton and Dopico 2007). Zara has also invested heavily in real estate and owns most of its stores. It effectively benchmarked world-famous brands, like Louis Vuitton, Chanel, Gucci or Prada and managed to secure many locations in the exact same area (Hansen 2012). Stores in prime locations like 5th Avenue in New York, Oxford Street in London, or Nanjing Road in Shanghai at first sight do not differ much from the luxurious brands surrounding them (Inditex 2014). Flagships stores are the pride and beating heart of Zara, they serve as the main marketing tool and define the brand character.

Human resources are also crucial to Zara's success. A large team of carefully selected designers is learning the latest trends from catwalks and other fashion hotspots and then adapts them for the mass market, creating a new global standard. (Kumar and Linguri 2006). But human resources management does not end at selecting the right people. Zara has been successfully mixing its staff to create synergistic effects. Cross-functional teams, where designers work together with commercial and retail specialists, are the driving force behind the creation and choice of most optimal and successful designs (Christopher 2000). In order to avoid the pitfalls of team-based systems, like indecisiveness and stagnation, team members often switch teams. This brings in a wave of fresh ideas to the group as well as keeping the employees motivated (Kumar and Linguri 2006). Zara is always looking for people with ideas, employees at all levels receive considerable autonomy, allowing them to contribute ideas for improvement. The key point is that none of the stores retain a good solution for themselves, the ideas which turn out successful will be immediately shared and implemented in other points as well (Corsi *et al*. 2010). And that's why Zara is truly dedicated to finding and nourishing talents - 90% of store managers are promoted from within. They undergo comprehensive training programs. 'Commercials' managing the product flow receive an annual bonus based on sales in the stores for which they are responsible. Regional managers, called DTs are also evaluated based on how well the stores under their wings perform, and their annual bonus is based not just on sales, but also labor productivity and team motivation. Each store has clearly set targets; the salaries of section managers depends on how well those targets are fulfilled (Corsi *et al.* 2010).

Dedication must be a top priority of Zara's strategy with regard to human resources. Experienced and committed employees are necessary to sustain the business model, making low turnover crucial. Zara achieves it by generally offering higher starting wages than those in other retail stores, and all store employees, including the part-timers also receive a commission. This incites both their diligence and goal orientation. Furthermore, sales associates are organized by section (women's, men's and children's) and managers make an effort to match the associates with the right section and collection, having faster employees working with basic line -department where most folding has to be done; and younger ones working with TRF - Zara female teenager line (Corsi *et al.*. 2010). Store managers are very independent and hold the sole responsibility for deciding which styles to offer, and what should come with each of the orders made twice a week. Their pay depends on the accuracy of their sales forecasts, sales growth, and goals realization. Country managers constantly remain in touch with the store managers and visit each location at least twice per year to provide feedback and assure that stores remain on track with the Zara vision (Sull and Turconi 2008).

As the section above shows, Zara invests a lot in people. But its commitments do not end there – it is equally dedicated to investment in capital. It has more than 20 fully owned, specialized factories, which allows it to maintain closer control over production. They have been highly automatized and can operate extra hours, should unforeseen demand arise. In case sudden demand surges, part time workers are also employed to assure efficient production and distribution of goods. The distribution centers are scheduled by time zones, so as to guarantee timely and precise deliveries to locations all around the world (Ferdows *et al*. 2004).

The very core of Zara's competitive strategy is to be a "quick fashion follower" (Ghemawat and Nueno 2006). In order to make sense of the rapidly changing environment under pressure, Zara has developed a highly advanced 'shared situation awareness' – a team's ability to recognize a pattern in a fluid situation and use it to anticipate what will happen next (Sull and Turconi 2008). Zara has introduced standardized reporting systems and product information management to achieve it. The supply chain is organized to transfer both hard data and anecdotal information quickly and easily from shoppers to designers and production staff. It is also set up to track materials and products in real time every step of the way, including inventory on display in stores. Each of the section managers is equipped with a customized handheld computer (PDA), which support the connection between stores and headquarters. They serve to transfer both hard data, like orders and sales, as well as qualitative intel such as customer reactions. Such communications can often be impaired by bureaucratic cracks, but Zara's flat organization effectively prevents it. Its operational procedures, performance measures and even office layouts ae all designed so as to make information transfer easy (Ferdows *et al*. 2004).

Furthermore, Zara is following the "learning by doing" strategy. It allows retailers to change up to 50% of their orders after the season starts, while the industry average is 20%. Except for the most basic standard lines, at the introduction stage only limited production takes place, so that it is possible to adjust the goods or even cancel some depending on customer reactions. Thanks to that Zara has only 1% failure rates on new products (Ghemawat *et al.* 2006). The approach to designing is also a crucial element of the strategy. While its designs are highly ‘inspired’ by those seen on catwalks or luxury store shelves, Zara always makes sure to change them “just enough to avoid copyright laws” (*New York Times* 2012: 7). Thanks to an effective benchmarking strategy it has never lost a case for copyright infringement, although it has been sued.

In Zara the “customer is always determining production” (*New York Times* 2012: .4). 85% of the in-house production takes place after the season has started (whereas the industry average is 20%). This allows a quick response to customer reactions and assuring supply is dictated by demand, faster than in any other company (Ghemawat and Nueno 2006). Many have marveled at Zara’s agility with regard to demand, like when in 2006 the film “Marie Antoinette” became a blockbuster, Zara had puffy ball gowns and velvet jackets in stores before it was even off the screens, and far faster than any of its competitors. The company structures enhance communication, and data analysis permits fast trend-spotting and swift response (Sull and Turconi 2008). Always maintaining extra capacity is also crucial for creating quick-response capabilities (Ghemawat and Nueno 2006).

Next to the “fast fashion” tag, “vertical integration” seems to be the number two expression that comes to mind when bringing up Zara. Indeed, it is very well-known for its broad range of activities. Zara successfully creates synergistic effects by combining different business capabilities through its vertical integration. Unlike most of the leading fashion firms, it combines not only design and sales, but also production. Vertically integrating different stages of production allows the company to be more responsive to changing trends and surges in demand as well as maintain higher control over the process and quality (Crofton and Dopico 2007). At the same time Zara mixes internal production with outsourcing certain activities to achieve the best results. Capital-intensive operations, which enhance cost-efficiency through economies of scale are conducted internally, while the simple, labor-intensive operations are subcontracted (Ferdows *et al.* 2004).

Flexibility guides Zara not just in design, production and sales, but also with regards to new market entries. Although Zara generally prefers the fully-owned subsidiaries model, joint ventures are chosen for markets with serious administrative barriers to foreign companies, and franchises are selected for high-risk countries which are culturally distant or have small markets with low-sales forecasts. Whichever model is selected, Zara follows the pattern of expansion known as “oil stain” – open its first store in a strategic area to gather information about the market and acquire expertise, which then guides Zara in the following stages of expansion in that country (Lopez and Fan 2008).

In order to succeed with the model, Zara is making sure that its offerings are always corresponding to the existing demand. This is mainly achieved by gathering design inspirations not just from fashion shows, but also competition stores, movies, campuses etc. In other words, Zara is simply learning and upgrading the designs already popular among customers (*New York Times* 2012). Zara’s designers study magazines, styles worn by opinion leaders, and visit popular clubs and cafes to predict what innovations from other designers their customers may desire (Crofton and Dopico 2007). The offerings are adjusted to physical and cultural differences between the markets, and prepared so as to satisfy the demand in all off the countries where it is present, but no-single country designs are created. It succeeds in creating more universal designs based on a mixture of what is best from many countries (Ghemawat and Nueno 2006). Analyzing the information from many markets together allows the designers to identify the truly global trends. Comparing feedback from different locations enhances their capability to spot the trends as they emerge and respond quickly by creating designs that can be equally successful in all of its locations (*New York Times* 2012; Lopez and Fan 2009).

Zara's business model is sometimes referred to as "democratization of fashion" – delivering creative and quality design responding rapidly to customer demands at reasonable prices (Crofton and Dopico 2007). This goal is visible in Zara's quite unique pricing strategy. Rather than using the traditional cost plus margin pricing system commonly used by the clothing industry, Zara uses a market-oriented target pricing system. One of the main tasks of the sales department is to identify the price consumers in a given country are willing to pay for a particular item, and the price of "like"-goods available in competition stores. This information is used as a basis to establish a target price for each article. This way the price is always maintained at the affordable level (Mazaria *et al.* 2003). Finally, Zara's management tends to prefer undersupply to over-stocking. Customers in Zara stores can find new articles with almost every visit, but they are almost always in limited supply (Fedrows 2004). This creates a sense of scarcity and stimulates demand, while at the same time encouraging customers to visit stores more often - an estimated average of 17 times a year compared to industry average of four visits (Lopez and Fan 2009).

Rapid response to market demands is Zara's key objective, and all of its activities seem to be dominated by it. The deliveries are run by third-party logistics. With orders coming in twice a week by an unbreakable deadline, the trucks and air-freights run according to a fixed schedule – like a bus service. This allows the managers to predict exactly the time of delivery and prepare accordingly. Regular deliveries also serve as an incentive for customers who visit stores more often on those days. The shipments were already short in 2004, with goods arriving to European stores by road within 24 hours, and by air to American ones in 48, Japanese ones 72 hours. Yet Zara pursues continued optimization, allowing further cuts of the delivery time to less than 24 hours for Europe and within 40 hours for Asia and America (Fedrows *et al.* 2004; Corsi *et al.* 2010). According to Inditex presentation materials for results 2014, the orders arrive to all stores and online customers within two to 48 hours (Inditex 2014) thanks to the efficient and agile logistics subcontractors.

Zara has also acquired the IT necessary to improve communications in the company. Along with many other successful retailers, notably Wall-mart, Zara employs smart but simple IT solutions to manage the highly automated distribution centers and even many parts of the production process (Ghemawat and Nueno 2006). But Zara is also careful to avoid the pitfall of advanced technologies, which can turn out failure-prone or may actually complicate the processes they were meant to simplify. There are no permanent electronic networks that would link the stores, headquarters, factories and distribution centers, yet the solutions in place are effectively getting the job done. Inditex spends only 0.5% of revenues on IT, whereas the average for retailers in US is 2% (Crofton and Dopico 2007). Zara created its own global standard in terms of IT solutions – its managers use personal held devices called "Cassiopeia", created specifically for placing orders and continuous collection of market information in the Inditex group (Mazaria *et al.* 2003). In 2010, Zara also followed other fashion retailers by opening e-commerce platforms (Inditex 2013).

Zara sources fabrics and other inputs from external suppliers with the help of sourcing personnel at headquarters and two purchasing offices in Barcelona and Hong Kong. Conducting purchases from different strategic locations allows faster trend-spotting and increased efficiency in finding the best supply options (Ghemawat and Nueno 2006). Mixing raw materials from suppliers in different locations all around the world, including suppliers in Mauritius, Korea, Morocco, Italy, Germany and many more, Zara makes sure to get the best quality and price for every necessary fabric (Christopher 2000).

Finally, one of Zara's most distinctive characteristics is its promotion strategy. Doubtful of its effectiveness, Zara spends little on advertising. While its competitors like Gap and H&M spend respectively 5 and 4 percent of revenues on advertising, with the industry average of 3.5 percent, Zara invests spends 0.3 percent (Crofton and Dopico 2007). Indeed, advertisement campaigns are very goal-oriented, and take place only when the sales start or for the opening of a new store. Zara relies on the stores and award-winning displays as its main promotion tool (Lopez and Fan 2009). The stores serve as a venue for meeting customers and are considered the best advertising vehicle. Located in prime spots in major cities worldwide, they bring Zara's fashion to the High Street and represent the true hallmark of the brand. Moreover, the store architecture seems to reflect Zara's business philosophy, and is further tailored to the local needs of customers and the community (Inditex 2013).

Zara's care for the communities is visible not just with regard to its customers. Near the factories in Spain, Zara has a network of some 450 subcontractors. These are generally small workshops, with an average of 20-30 people (although exceptions employing more than a 100 can also be found), and they are grouped by product type. As subcontractors, they usually have long-term relations with Zara, who account for most or even all of their production, and provide them with technology logistics and financial support. Zara also carries out onsite inspections and makes sure that they comply with local tax and labor legislation (Ghemawat and Nueno 2006). In 2000, cooperating with other Galician textile firms, Inditex launched the Institute of Technology and Textile Design in Allariz, Galicia, to produce highly-qualified experts in textiles (Crofton and Dopico 2007). This shows Zara's CSV (creating shared value) approach to its activities.

3.4. Extension: The Impact of RTAs on Zara's Activities

The WTO defines regional trade agreements (RTAs) as "reciprocal trade agreements between two or more partners" (WTO 2015). They include free trade agreements (FTAs) and customs unions. With regard to trade, the European Union is like an RTA, whose roots go back to 1957, when the European Economic Community (EEC) was created. In 1968 it eliminated all quotas and tariffs from trade in goods within it. Further efforts were also taken to eliminate non-tariff barriers and in 1993 the single market became a reality (European Commission website 2015). Spain joined the European Union in 1986, the same year as Portugal. Zara began its internationalization in 1988, by opening a first store in Portugal. Joining the European Union seems to be one of the key pull factors explaining the decisions regarding internationalization. The enlargement of the EU in 2004 is also considered to justify the considerable number of European markets that Zara entered that year (Lopez and Fan 2008).

As of 7 April 2015, according to WTO records, 262 physical RTAs were in force (WTO 2015). Considering the impact that joining the EU had on Zara's internationalization, one could expect these factors to play an important role too. However, most of the agreements were completed in the 2000s, with many entering into force over the last decade, whereas Zara's aggressive expansion abroad took place from 1997 to 2005. An important obstacle to evaluate the actual impact of FTAs on firms' activities is also the complicated regulations with regards to rules of origin. Although Inditex remains committed to ensuring proximity of suppliers, and 51% of its production has its origins in suppliers located near the Spanish headquarters, almost as much comes from suppliers spread all around the globe.

<Table 3> Inditex Supply Chain in 2013

Geographic area	Suppliers with purchase 2012	Not used 2013	New in 2013 (**)	Suppliers with purchase 2013
Africa	112	22	34	124
America	68	13	27	82
Asia	672	176	242	738
Europe (non-EU)	136	36	51	151
European Union	446	78	129	497
Total	**1 434**	**325**	**483**	**1 592**

(*) Suppliers of fashion items, mainly clothing, footwear and accessories, with a production of over 20,000 units/year. Suppliers with smaller production account for 0.59% of the total production.
(**) Includes textile suppliers with purchase in 2012, but which were not included in the scope of that year

Source: Inditex (2013)

According to the U.S. Office of Textiles and Apparel (OTEXA), the FTAs "allow textile and apparel manufacturers to enter and compete more easily in the global marketplace" (ITA, 2015). Following this logic companies in the fashion industry should be making significant use of the agreements. However, research conducted in 2014 by Dr. Sheng Lu in collaboration with the United States Fashion Industry Association seems to indicate quite the opposite. The research confirmed that companies are diversifying their sourcing base, and the majority source from more than 6 countries, with many having suppliers in more than 20 different nations, just like Zara. Yet despite its diverse sourcing strategies, the utilization rate of most FTAs and preference programs is still very low. In the U.S., except for the four most-used FTAs and preference programs, namely the North American Free Trade Agreement (NAFTA), the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR), the African Growth & Opportunity Act (AGOA) and the U.S.-

Korea Free Trade Agreement (KORUS), all the remaining enacted FTAs and preferences programs show utilization rates below 20%, and some are not used at all. Still, the industry representatives expressed interest and support for all future trade agreements intended to remove trade barriers and facilitate international trade agreements, especially the TPP and TPA (Sheng Lu 2014). Considering that many of the RTAs entered into force less than 10 years ago, it is valid to assume the patterns of sourcing are still adapting to the new environment. With more FTAs added every year, this is likely to change in the near future.

4. New Framework

4.1. Indroduction

In the previous section the author presented a comprehensive analysis of all Zara's activities across the value chain, which might contribute to its competitive advantage against other competitors in the global market. Most of them have also been described in previous research, as indicated in chapter two of this study. However, it is important to note that none of the existing studies covered all of these aspects. Rather than that, they chose to focus on some particular characteristics, creating a more cohesive yet somewhat limited analysis. Combining all of the factors is necessary for a truly comprehensive and non-biased understanding of the Zara phenomenon. On the other hand, what emerges is a complicated picture and what might seem like an un-organized set of data. In order to improve the comprehension and make the study more approachable, an over-arching framework to organize the data is necessary.

4.2. An Extended Framework: Integrated ABCD-Diamond of Competitive Advantage

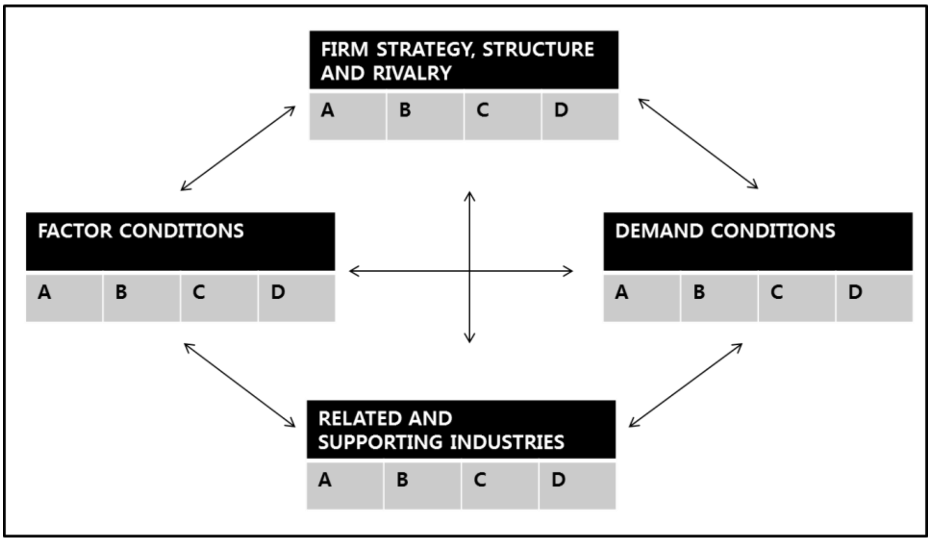
In order to conduct a thorough research regarding a firm's competitiveness a comprehensive and balanced framework is necessary (Moon and Lee 2004). To the extent that Porter's diamond model (1990) brings together firm-specific linkages between determinants, his model is useful and potentially predictive at the firm level and can serve as a basis for assessing firms' competitiveness (Bark and Moon 2002; Moon and Lee 2004; Markus 2008). Applying the diamond model offers valuable insights, but because each of its corners has a very broad character, it can often turn out insufficient to identify the actual sources of competitive advantage. For example, as factor conditions encompass both raw materials and human resources, simply identifying the factor conditions as a weak point does not clearly imply which of the factors are missing, or how to change the strategy with regard to this corner to improve it.

Another weakness of the diamond analysis is that it focuses solely on the input factors, representing the "what" approach. It identifies determinants like superior technology, intensive competition at home, or cheaper labor, as sources of competitiveness. But the business play field is not a static environment; the circumstances constantly keep on changing (Elsenhardt and Martin 1985). Recent technology developments in terms of communications and transportation lead to massive globalization of business activities and development of global value chains. This means that companies are more and more likely to access the same resources with similar ease. And as the gap in "what" factors is narrowing, it becomes more and more important to incorporate the “how” approach into the analysis. When many companies can dispose of similar resources, it is how they use them that defines winners and losers.

The ABCD framework answers the “how” part of the question about competitive advantage sources. It focuses on the process factors rather than the input factors, offering a more dynamic view of the firms’ competitiveness. In the global business environment, where many companies have access to similar technologies as well as resources, the ABCD framework identifies “how” they should be used in order to create a sustainable competitive advantage (Moon 2015). It is therefore complementary to the diamond model “what” approach.

Combining the two models into an extended framework allows a truly comprehensive approach, necessary to fully grasp the sources of competitive advantage for firms in the dynamic, global business environment nowadays. This has been suggested by Moon during numerous lectures in 2014 and 2015, but remains basically unemployed in the literature. The new model incorporates both the input factors and the process factors at an equal level, and thus permits the most all-encompassing and unbiased analysis.

<Figure 4> ABCD-Diamond of Competitive Advantage



(Source: Author's compilation)

Figure 4 presents the new framework, an extended ABCD-Diamond of competitive advantage. By applying the ABCD rules on each of the four diamond corners, a total of 16 categories are created. Like the original diamond corners, they are all interconnected, and yet mutually exclusive. This allows a very detailed analysis, covering both the "what" and "how" aspects of firm's activities and providing a more detailed and clear picture of the competitive advantage sources. This said, it also provides a way for the old and new approaches to meet in one comprehensive analysis. The integrated ABCD-Diamond model should prove very useful in identifying sources of competitive advantage at firm-, industry-, and national level.

As chapter two of this study indicated, most of the existing studies on Zara have been quite fragmentary, failing to account for all the important elements contributing to its sustainable competitiveness in the volatile markets nowadays. The following table uses the new ABCD-Diamond framework to show how each of them is lacking.

<Table 4> Comparison of Research on Zara and the ABCD-Diamond Model

ABCD-Diamond Model		Hansen (2012)	Sull & Turconi (2008)	Ghemawat &Nueno (2006)	Corsi et al. (2010)	Mazaria et al. (2003)	Crofton & Dopico (2007)	Lopez & Fan (2009)	Ferdows et al. (2004)	Kumar & Linguri (2006)
Factor conditions	A	o	o	o	o	o	o	o	o	o
	B	o		o		o	o			o
	C		o	o	o	o	o		o	o
	D	o		o	o	o	o		o	
Firm Strategy, Structure and Rivalry	A	o	o	o	o	o	o		o	o
	B	o		o						
	C		o	o	o	o	o	o	o	
	D		o	o	o					o
Demand Conditions	A	o	o	o		o	o			o
	B	o		o		o	o			
	C	o		o	o			o		
	D					o	o	o	o	o
Related and Supporting Industries	A				o		o		o	o
	B			o					o	o
	C			o						
	D	o		o		o		o		o

(Source: Author's compilation)

As indicated above, none of the existing studies fully covered all of Zara's activities contributing to its competitiveness. Most of the research focused on some particular aspects, notably the factor conditions of the diamond model, or the agility factor of the ABCD framework. Moreover, none of the characteristics covered by the existing studies is omitted by the new model; each of them belongs to one of the 16 categories. The following section will present how this contributes to the overall understanding and organizing of the data.

4.3. New Framework at Work: Zara Case Study

The previous section of this study introduced a new analytical framework. In chapter three the author described in detail various aspects of Zara's activities, which contribute to its sustainable competitive advantage. However, as the emerging picture is both extremely rich and complicated, it might be difficult to actually comprehend where the advantage stems from. By applying the analytical framework, it is possible to organize all of the activities described into 16 categories defined by the model. Thus, the true explanation of Zara's competitiveness lies in the ABCD-Diamond model. Zara has been able to consequently outperform its competitors by applying the ABCD guidelines on each of the diamond corners. It is also important to note, that although the four ABCD categories are further divided into sub-categories in the extended model, they are fully accounted for in the analysis. The following table shows how the data from chapter three can be organized within the new model, to present a clean and easy-to-comprehend analysis.

<Table 5> Integrated ABCD-Diamond Model Analysis of Zara

Factor conditions	A	Automatized distribution centers linked with factories by underground tunnels – 98.9 per cent accuracy of shipments; TPS just-in-time system; keeping material in "greige" next to factories
	B	Copying the designs from catwalks and other fashion hotspots, but also adapting them to mass market – creating new global standard, locating stores similar to top luxury brands
	C	Cross-functional teams – mixing designers with comercial and retail specialists, team members often switch
	D	fully owned, specilized factories; distribution centers scheduled by time zones; temporary workers hired in case of demand surges; promoting 90% of store managers from within, providing comprehensive training programs
Firm strategy, structure and rivalry	A	Standarized reporting systems and product information; shared situation awarness based on real-time raw hard data and qulitative intel from store managers; quick fahsion follower
	B	Learning by doing – limited production at introduction stage; only 1% failure rates on new products; changing designs just enough to avoid copyright laws
	C	Vertical Integration, capital-intensive production internal, labor-intensive and scale-insensitive activities subcontracted
	D	Store managers decide which styles to offer, their pay depends on accuracy of sales forecasts, sales growth and goals realization; country menagers visit all subordinate stores every year
Demand conditions	A	"Customer is always determining production", 85% of the in-house production after the season has started (vs average 0-20%); maintains extra capacity – capability to respond quickly to demand
	B	Copying the designs already popular among customers
	C	Offerings adjusted to physical and cultural differences, but no single-country styles – creating universal designs based on mix of best from many countries
	D	Careful choice of markets – goal oriented, enters only markets where it has the adventage with current business model, international prices adjusted to market prices - the goal is to make the goods affordable
Related and supporting industries	A	Fixed delivery schedule, deliveries within 24h in Europe and 48h worldwide.
	B	Advanced IT solutions and communication system to connect supply, production, HQ and sales points; opening national e-commerce platforms
	C	Purchasing offices in Barcelona and Hong Kong – mixing sourcing from Far East and Europe
	D	More than 300 specialized small subcontractors work exclusively for Inditex, receive tech. and financial support to assure time and quality targets are met

5. Conclusions

This study has critically examined the factors that underlie the success of Zara and its superior performance with regard to other competitors in the market. Unsurprisingly, there are many interdependent factors which combined to allow Zara to create a unique value proposition for the customers and sustain a competitive advantage. The findings with regard to Zara's competitiveness are in line with existing reports and studies, but have been extended and are more comprehensive than provided by the previous research. The analysis revealed how the existing research is lacking, and provided a comprehensive overview of the company and all of its competitive advantage sources.

In order to organize the gathered data this study introduced a new over-arching framework for analyzing competitiveness. By combining the established and the emerging theories, a new ABCD-Diamond model is presented. Such an analytical approach has been suggested by Moon (2015), and the author's contribution lies in polishing the model and applying it to explain Zara's success. Indeed, all of Zara's important activities that contribute to the sustainable competitive advantage can be classified into one of the 16 mutually exclusive yet interdependent categories. Therefore it can be concluded, that Zara's competitiveness stems from applying the ABCD on each of the diamond corners.

Organizing all of its activities in a fast and precise manner contributes considerably to Zara's outstanding performance. Learning from other companies and its own experience allows the firm to avoid many pitfalls of the industry and create a new, hard to imitate global standard. Vertical integration of activities and convergence resulting from the approach helps further enhance its performance. Finally, dedication and goal orientation throughout Zara's organizing manner and strategies strongly supports the business sustained growth and superior results. Moreover, it is crucial to note that this approach is eminent throughout the diamond model with regard to factor conditions; strategy, structure and rivalry; demand conditions and supporting industries.

In the volatile global markets of 21^{st} century many companies competing in the same field can access similar resources, address the same demand group and can reach similar support industries. When the "what" factors no longer create a visible difference it is "how" companies approach them that defines supreme competitiveness. At the same time, this is not to say that the four determinants of the diamond model are no longer applicable. Their mutually exclusive and interdependent character makes it necessary to maintain all of them in focus, and achieve a unique "how" with regard to each of them for highest performance.

In order to address the issue above the author introduced a new model integrating the established "what" approach and the emerging "how" theories. The new model is based on two state-of-the-art frameworks, that is Porter's diamond model (1990) and Moon's ABCD framework (2012). This lead to an establishment of 16 interdependent and mutually exclusive categories, which can best serve the purpose of analyzing competitiveness in the globalized and fast-changing environment that modern companies have to face. The model has been used to organize the data on Zara and explain its competitive advantage with regard to other competitors. The ABCD-diamond emerged as a useful and overarching framework, which could serve as an analytical tool for researchers and a guideline for managers.

This study also extended the analysis to include the potential impact of RTAs on Zara's activities. In spite of the expectations, it seems that so far the free trade agreements and other preferential trade solutions do not play a crucial part in the company's sourcing decisions, although they seem to have had some impact with regard to the internationalization process. As the number of FTAs is constantly increasing, updating the research seems crucial as changes in the sourcing patterns are likely to emerge.

Indeed this study has its own limitations, as well as defined scopes and objectives within which all it is constrained. Further studies can therefore look beyond the present limitations and explore more holistically both the fast fashion world and the phenomenon of competitiveness. For example this study referred to Zara's main competitors only in terms of financial performance and global presence, but provides no comparison in terms of business activities, models and sources of competitive advantage. Therefore future studies can attempt to conduct a more comprehensive comparative analysis, in order to provide a clear understanding of their relative competitiveness.

Furthermore, the newly introduced framework has only been presented at work in a single case study. To further prove its broad yet unique character more studies would be recommendable. Using the framework for comparative studies would provide an important contribution. Furthermore, expanding its applicability into the industry-level and national-level of analysis would serve as an important extension, considerably improving the academic field.

Finally there is strong need to constantly update the research with regard to how free trade agreements affect some of the strategic choices and business activities, both concerning Zara and other companies. With dozens of new trade solutions introduced every year it is valid to expect their importance for companies to grow exponentially. More research in the field would definitely provide valuable insights.

It seems fair to conclude that this research serves its purpose and contributes to the field of strategic management and studies on competitiveness, by providing a more comprehensive analysis of Zara than any of the existing studies, and organizing the available data in a unique and clear manner, which significantly increases the understanding of the Zara phenomenon. The author believes a further contribution also stems from introducing a new systemic model for analyzing competitiveness, which could serve as a useful tool for managers and academics. In this regard, ideas for further research are also provided in hopes of continuous improvement and enrichment of the academic field.

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