How ZARA Should Improve Guest Satisfaction After the Xinjiang Cotton Incident

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Abstract: This report focuses on the investigation of ZARA’s customer’s satisfaction after the incident of Xinjiang cotton. In terms of the importance of this topic, if I make an analysis on Xinjiang cotton incident topic which is timely at the moment, it might help people know more about the topic and have their own position. Recently, ZARA has been involved in a culturally sensitive incident of Xinjiang cotton. Thus, ZARA’s position on this incident is controversial, which also may had an impact on customer’s satisfaction. Hence, I chose this topic to do the R&D. In accordance with the guidelines of the planning stage, combined with the theoretical knowledge of marketing/finance and corporate accounting, analyze the validity of the survey results and data, and obtain the corresponding results. I deepened the market environment of ZARA, ZARA’s marketing mix. I also employed the SWOT analysis to deepen the analysis of ZARA’s internal environment. At the same time, in order to make the information more detailed, I specially collected secondary data, I get to know the financial situation of ZARA. At the end of the report, I combined the previous investigation to give recommendations to help ZARA to develop a further improvement. From a theoretical point of view, this investigation and study tested the theories and methods of framework of marketing mix, PESTCOM and SWOT analysis approach in ZARA, which enriched its research. From a perspective of marketing practice, this research cannot only provide decision-making basis for enterprises to better meet consumer needs, but also provide suggestions for ZARA to deal with opportunities and adjustment in the marketing environment. However, in the continuous in-depth practical investigation and research, I also found that I lacked theoretical knowledge, and certain theories did not have a very good practical effect in the organization.

Keywords: ZARA, Guest satisfaction Environments analysis, Research progress.

1. Introduction

This report focuses on the investigation of ZARA’s customer’s satisfaction after the incident of Xinjiang cotton. In terms of the importance of this topic, if I make an analysis on Xinjiang cotton incident topic which is timely at the moment, it might help people know more about the topic and have their own position.

ZARA is a subsidiary of INDITEX group (stock code itx), established in Spain in 1975. It is not only a clothing brand, but also a chain retail brand specializing in Zara brand clothing. Zara ranks third in the world and first in Spain, with more than 2000 clothing chains in 87 countries. In March 2021, after H&M, Nike and other enterprises aroused public anger on China’s Internet due to the boycott of Xinjiang cotton, more international clothing brands were revealed to have made similar statements or statements, including INDITEX, the parent company of Spanish fashion brand Zara. The company once issued a statement of “zero tolerance for forced labor” on its official website, saying that the company confirmed that it had no business relationship with any enterprise in Xinjiang. Thus, ZARA’s position on this incident is controversial, which also may had an impact on customer’s satisfaction. Therefore, I chose this topic to do the R&D.

This report is mainly about a deep analysis on this to help ZARA improve. In order to make the report more convincing, I have used relevant information, including questionnaires and interviews to obtain primary information. The report mainly includes how ZARA’s marketing strategies, PESTCOM analysis, SWOT analysis, analysis and judgment on the secondary data, reasonable suggestions which combines the results of the analysis. In order to make the report more complete, I also attached the information I collected to the end of the report in the form of an appendix. ZARA can use my report as a reference to make appropriate adjustment combines with the reality.

2. Detailed Information on How the Issues Affect ZARA

2.1. The Segmentation, Targeting and Positioning Strategy of ZARA

The segmentation, targeting and positioning strategies are the foundation of one enterprise entering the market. These would help the organization to set goals and objectives, which they help the enterprise to use the social resources reasonably, find the market opportunities and improve efficiency.

The market segmentation strategy:

It is a strategy of classifying the market into multiple sub markets by the space, the group of consumers and diverse commercial objects. ZARA’s segmentation strategies are based on the two conditions.

Demographic segmentation: gender

This method of market segmentation is based on the ages, genders, levels of education of customers and other various features. Gender segmentation is quite vital for ZARA, as a fast fashion brand, ZARA needs to provide public the basic need of wearing, which only three types of people would need it, that are females, males and infants. For the existing figure 16, as can be seen that the proportion of females customers is almost the third times as the males consumers of ZARA. It can be concluded that ZARA existing has customers that are mainly females. It is the perfect evidence to prove that ZARA make the right decision in market segmentation, which the market segmentation strategy of ZARA is dividing the sub markets due to the factor of the gender of customers.
Consequently, ZARA’s products are subdivided into three main lines of men, women and children’s wear. In addition, all these sorts are emerged due to the different group of consumers like kids, women and men. Simultaneously, ZARA also develop deeper product lines for the majority of women customers to better cater to its various females consumers’ needs (see figure 1).

**Figure 1. Gender ratio of ZARA consumers**

Personal characteristic segmentation: style/taste

It is a method of segmentation is based on the occupations, cultures, and characteristics of consumers. Due to the former figure 1, ZARA has almost 75% of customers are females, it means it needs to divide more deeply into the product lines to achieve more profit by catering their various clothing style needs. As can be seen from figure 18, females have different diverse tastes in closing, such as elegant, cool, lovely and so on. Also, in most cases, the younger ladies always have the bolder clothing taste than the older women do, the older women tend to be more conservative in this. Hence, ZARA segment the females markets deeper into three subs markets due to their personal characteristics. They are ladies who are that tend to be more bold in taste, ladies who need formal clothing, and ladies who emphasize quality but not cutting. Thus, ZARA develop three product lines which are TRF, Basic and Women to cater to three needs.

**Figure 2. Dimension richness of clothing characteristic of females**

Targeting market strategy:

It refers to the company regards the entire product market as a target market and use the most appropriate strategy to develop the market. Then the company will attempt to set a programs of marketing to attract as many consumers as possible. The process of choosing the strategy is composed of three links, they are market segmentation, selection and marketing positioning.

The target market of ZARA is the consumers age between 25 to 35 with income above medium level who is well educated. These type of clients have a high sensitiveness to fashion. People like them who is sensitive to fashion has various need and good taste in clothing. Thus, ZARA has a deeper classification of the lines. For example, ZARA’s women’ clothing is divided into three series, namely ZaraWomen for evening wear and office wear, ZARA Basic for popular casual wear, and ZARA TRF, a young series with sporty feeling. All have redesigned products for different preferred markets, and the update speed is very fast. Simultaneously, the diverse demand of the consumers can be met.

Positioning strategy:

It refers to the location where the products or services would be fitted in the marketplace. The strategy of product positioning precisely defines the definition of the uniqueness of the products and services that are distinguished from the other alternatives solutions. The positioning strategy is mainly composed by three dimensions. They are customers challenges, company differentiators and product differentiators.

Customers challenges:

The market positioning of ZARA’s clothes is mainly

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targeted to young ladies who is aged 20-35 with good tastes in fashion. Also, ZARA positions itself as a brand of fast fashion with low price. It aims to satisfy the targeted customers with fashionable clothing with good qualities and low prices. But it also has a challenge of providing these products in a low cost and earn a high profit.

Company differentiators:
ZARA's biggest competitor in the market is H&M, which is also a brand for fashionable women aged 20 to 35. However, ZARA always stands out in the market mainly because of two aspects. One is quality and workmanship, and the other is the rapid renewal of the fashion design.

In terms of the quality and workmanship, ZARA's designers will choose the best cloth to make clothes at a limited cost, so as to ensure the quality. At the same time, ZARA is different from H&M, the production plant of H&M is outsourced and the workmanship of H&M's products are inferior because of the lack of supervision, while ZARA is arranged by itself from fabric production to clothing production, which is the reason why ZARA can stand out from competitors.

For the fast speed of renewing the fashionable designs of clothing, ZARA also stands out as usual. In the century of people need to be led by the fashion trend, ZARA has set up intelligence centers all over the world to collect the latest local fashion information, so as to feed back to the design department to make new models quickly. But H&M only designs new clothes based on the feedback of customers of last season, which is not trendy.

Product differentiators:
Although ZARA has many women collections, its main series is TRF. All products in this series can be regarded as the main products. Similarly, H&M also has the main women clothing series, which is the basic series. The main series of these two different companies have the most styles and the cheapest price in all series, so they have the largest audience. The design styles of these two series are similar, but the difference is that ZARA and H&M have the same style under the same circumstances, but ZARA's fabric quality will be much better than H&M. Naturally, this becomes ZARA's product advantage and makes ZARA stand out in the competition. Certainly, at the same price, consumers will definitely choose products with better quality, so ZARA can better meet the needs of such customer groups.

ZARA is at the downstream of the industrial chain. ZARA position itself as a brand with low and medium prices that imitate high-end clothing brands which is a brand of fast fashion. It aims to let all the civilians have a opportunity to be fashionable. Thus, ZARA is deeply loved by fashionable young people all over the world that they can always find substitutes for luxury goods.

After analyzing these, we can know that ZARA's target customers are young office workers, those with medium or high consumption power. With this general understanding, we can better carry out the following analysis of PESTCOM and its marketing strategies.

2.2. The Marketing Environment ZARA is Facing (PESTCOM)
PESTCOM is an approach that would help company to analyze the macro external market environment it is facing. It is composed of the six factors of demographic environment, political-legal environment, social-cultural environment, technology environment, competition environment and natural environment.

Demographic environment:
It is one of the factors of the external market, which is the population environment. It refers to the population size and growth rate, age distribution and race combination, population density, education level, family type, regional characteristics and migration activities of a specific market. All these factors might have an impact on the market size and structure, characteristics and trends.

Nowadays, the global phenomenon of an explosive growth in population trend exists. Meanwhile, the domestic population of China has changed from reproduction type to the development stage of low fertility, low death and low growth, and has entered the ranks of countries with low fertility level in the world. The expanded young population of China means the increase demand of goods. ZARA’s targeted market is the young adult who with fashion sense, which the demographic environment potentially benefits ZARA to attract more consumers in China.

Political-legal environment:
It indicates the political and legal factors of the external market environment. There exists potential political forces and relevant policies, laws and regulations that have actual and potential influence on organization’s business activities.

Recently, ZARA has been gotten involved in the incident of Xinjiang cotton. According to the news, the incident is the game and movement of internal and external circulation under the profound geopolitical and cultural background. Due to the cultural sensitivity of this affair and the political position on this, the external political environment of China is not conducive to ZARA’s further development in China.

Social-cultural environment:
It refers to factors such as the historical development, cultural traditions, values, education level, and customs of the members of society where the enterprise is located. Meanwhile, these are the factors which needed to be concerned about.

Different people have diverse perspectives. Thus, after the outbreak of the incident of Xinjiang cotton, it spreads by word of mouth and people are making their own remarks on this. Due to the political sensitivity caused by the incident, there is a phenomenon of the majority of Chinese starting to resist the brands which gave up to use the cotton of Xinjiang, and negative comments are spread all over the Internet. It causes an social environment that is adverse to ZARA’s further development in China.

Technology environment:
Technology elements include not only those inventions that cause revolutionary changes, but also the emergence and development trends and application prospects of new technologies, new processes, and new materials related to the enterprise production and customer’s behavior.

With the development of technology, the electronic method of paying the bill is becoming more and more popular, and even has become the main method of payment. If the companies do not have their own payment code that can be provide to customers to scan, or there is no relevant machine to operate, it will surely cause great trouble to consumers. Therefore, effecting by the change of the method of payment, ZARA has also keep up with the trend, which it also has the professional machine to operate. It provides convenience for consumers for having purchasing experience within ZARA.

Competition environment:
The competition environment is the environment that the
organization must face the various types and massive number of competitors participate in the competition. The factor of competition is inevitable, but enterprises can appropriately adjust their strategy to struggle with it and stay competitive.

ZARA is a fast fashion brand, there are thousands of fast fashion brands currently competing with ZARA in China, so the competitive pressure is absolutely immense. Simultaneously, with the unstoppable development of online shopping, the stage of the online shopping industry is mature and saturated. The same commodity can always be found online with a even lower price, which might be threatened to ZARA. In spite of this, ZARA is still competitive in the fast fashion industry with its huge reputation and brand’s recognition, the speed of keeping up with the most fashionable style and the high efficiency of manufacture. However, the fierce industry competition should not be underestimated.

Also, from a micro view, analyzing the environment can employ the SWOT analysis. It is mainly analyzed from these aspects, such as the company’s own production capacity, marketing management capacity, geographical location and human resources, corporate image, brand influence and so on. A detailed analysis will be mentioned in the second half of the report.

In conclusion, from the macro view, there are three factors out of the five factors analyzes are good for the development of ZARA. However, the two detrimental factors which are the political and social-cultural that have negative impacts and resistance to ZARA even greater than all the beneficial factors do. ZARA should seriously focus on dealing with the resistance by combining the analysis of PESTCOM and SWOT approaches, or vigorously develop its strengths.

2.3. The Marketing Strategy of ZARA (4Ps)

4Ps is the theory summarizes the concept of Neil Borden’s ‘mixing marketing’ put by Jerry McCarthy. The 4ps refers to ‘product’, ‘price’, ‘place’ and ‘promotion’. These are the four aspects that product enterprises can control. Through a good combination, they can achieve good sales results.

Product:
Product strategy mainly refers to that enterprises achieve their marketing objectives by providing various tangible and intangible products suitable for consumers needs to the target market. It includes the combination and application of controllable factors such as varieties, specification, styles, quality, packaging, brands and service measures related to product.

Products are the core of ZARA. A successful product strategy can enhance the competitiveness of the company's products by simultaneously advancing the products in terms of branding, packaging, promotion and sales. Since the position of ZARA is fast fashion brand which can provide substitutes of the luxury brands, Zara has set up intelligence agencies around the world to get the latest local trend information. For those who want to pursue individuality and novelty, ZARA's weekly update of new counters can meet the needs of these customers for always pursuing novelty and individuality. In the process of producing products, Zara designers always find high-quality fabrics to imitate luxury brand products to the greatest extent, so as to bring good experience and freshness to customers.

Price:
Setting the price can be the customer value-based, cost based and competition-based.

ZARA’s pricing is basically based on the cost and customer’s value and, which is the perceived price of them. Meanwhile, the pricing strategy is also related to market positioning. Due to the market positioning of ZARA, it aims to attract wide scale of consumers who can basically effort the price, so the price is at a median and even low level. Also, though ZARA’s clothing is divided into three series, and there are certain gap in positioning, so as the price, but due to the low cost of the materials, the price range are all acceptable and reasonable that nearly everyone can effort. After pricing, the price will be printed on the price tag together with the bar code of the clothing.

Place:
Placing strategy is usually called distribution combination. It mainly includes distribution channels, storage facilities, transportation facilities and inventory control. It represents various activities organized and implemented by enterprises to make their products enter and reach the target market, including ways, links, places, warehousing and transportation. ZARA has a huge sales network itself. It has more than 2000 sales stores in more than 50 countries around the world, including more than 760 flagship stores. Its placing strategy is selling the products in its own physical stores and official websites. With this, ZARA can build a certain extent of customer’s loyalty and big reputation. Zara has its own production plant and its own distribution team. The process from production to transportation to store sales is completed within Zara's. Therefore, Zara can well master the process of each step, which can ensure efficiency and quality.

Promotion:
It refers to the communication activities that enterprises use various information carriers to communicate with the target market, including advertising, personnel promotion, business promotion and public relations.

Unlike the other brands, Zara is very unique in terms of promotion. ZARA seldom carries out discount promotion, advertises, finds the third party to help it promote. Generally, discount promotion will be carried out only at the end of the quarter and the end of the year. The quantity of discount goods accounts for only one fifth of the total, but other clothing stores can reach more than one third. But also, consumers can join the membership of ZARA to have a permanent 10% off discount. In this way, Zara can save a lot of money in advertising. At the same time, it can also help itself build customer loyalty to the brand to a certain extent.

Collectively, ZARA has intentionally formulated the 4Ps strategies, which help itself reached a high level of success that its profits even exceeded many luxury brands according to the some specialized financial reports. Nowadays, ZARA is already the leader in the industry which is valuable for example for the new raising brands.

3. Assessment

3.1. SWOT Analysis of ZARA

SWOT analysis is an approach based on the micro internal and external competitive environment and competitive conditions to analyze the main internal advantages, disadvantages, external opportunities and threats closely related to the research object. For instance, the production capacity of the company, the marketing management capacity, geographical location and manpower resources, corporate
image and brand influence and so on. ‘S’ refers to strengths, ‘W’ is weaknesses, ‘O’ indicates opportunities and ‘T’ means the threats.

’S’ for strengths:
The strengths within ZARA can be summarized as the following four. First, the geographical location of all the physical stores of ZARA are superior, which they are all located at somewhere with a massive foot traffic like malls. Also, their location of the malls are always in a prominent locations which are easy to find. Second, ZARA has a globally big reputation and brand recognition in the fast fashion industry. Third, ZARA can always keep up with the fashion trend and produce the related goods in time to foremost occupied the market. Lastly, it always combines the latest technology to bring convenience to the consumers.

‘W’ for weaknesses:
The weaknesses of ZARA are the following three. First, because of the expanding global business scale of ZARA, the higher management cost of personnel and equipment would exist to operate. Second, though the new technologies are used, but the degree of digitization is not obvious enough. Third, there is lack of professional personnel, such as the well-trained employees who can provides high quality of services.

‘O’ for opportunities:
Because of the impact of the COVID-19 epidemic, a lot of physical stores are facing a problem of bankruptcy due to the decreasing consumers in reality. Meanwhile, because of the increasing saturation of industry capacity, there exists the slowdown of market growth, but the leaders of the industry still have the advantages like ZARA. Lastly, due to the aging population and environment changes, there will be more and more young people in aggregate, which means the bigger potential target market of ZARA.

‘T’ for threats:
By analyzing the threats of ZARA, the following down can be summarized. Firstly, there are always some groups of consumers that are unique and hard to achieve their satisfaction, ZARA needs to face this inevitable problem. Secondly, under the impact of COVID-19 epidemic, there is also a new blue ocean in the market appears, which is a market of unknown. Third, there exists the difficulties in introducing the new technology from different channels and the expansion of product portfolio. Due to the altering various needs of consumers, ZARA would need to expand the product ranges to cater to their needs, but there are already the leaders in these new territories, and also it is difficult to do the R&D.

These are analysis by the approach of SWOT, but due to changing environment, the factors of SWOT would alter too. Thus, the SWOT analysis can just be used as a reference for a certain period of the enterprise.

3.2. Results of Secondary Sources
3.2.1. Gross Revenues and Net Revenues
As can be seen from the picture, from December 2020 on until September 2021, the gross revenue has a significant growing trend, but the net revenue is decreasing month by month (see figure 19). The possible reason would be due to the outbreak of the Xinjiang cotton incident, it led to the difficulty to retain the suppliers of materials because the incident is scandal from another point of view. Thus, the suppliers may raise the price at the transaction. ZARA would compromise because it wants to maintain the stability of the business. Also, the growing gross revenue may be the extra new awareness formed by the new customers who never heard of ZARA, the incident may not make an impact on their position. It explains the increasing gross income.

3.2.2. Number of Stores
According to the following picture, the number of stores has declined in 2021 compared to 2020 (see figure 3). The reason for this may be the explosion of the incident, which led to the phenomenon of the majority of Chinese starting to resist the brands which gave up to use the cotton of Xinjiang that ZARA is one of them. In this context, sales in Chinese stores have fallen sharply, that also caused the situation of ZARA’s assets are insufficient to cover its debts. Another reason may be the deficits existed in the sub brands including ZARA of the parent company Inditex, which Inditex may have to adjust its operational strategy into a more conservative strategy to maintain the stability in business and stop the loss. Thus, closing some of the physical stores would be the optimal choice.

4. Conclusion
Through a deep investigation on the topic of the satisfaction of customer after the incident of Xinjiang cotton,
i have deepened my understanding on various aspects and current environmental factors of ZARA.

According to 2.1, i have found the target market of ZARA is young office workers, those with medium or high consumption power. In terms of positioning strategy, it position itself as a fast fashion brand with medium prices.

For PESTCOM environment of ZARA, there are three factors out of the five factors analyzes are good for the development of ZARA. However, the two detrimental factors which are the political and social-cultural that have negative impacts and resistance to ZARA even greater than all the beneficial factors do. Overall, ZARA’s circumstances are adverse.

In the field of marketing strategy which is 4Ps, ZARA has intentionally formulated the 4Ps strategies, which help itself reached a high level of success that its profits even exceeded many luxury brands according to the some specialized financial reports. For ‘product’, ZARA aims to provide customers with substitutes of luxury brands with good quality. For ‘price’, ZARA’s pricing strategy is chosen based on cost and customer’s value. In terms of ‘promotion’ and ‘place’, ZARA mainly depends on the popularity in physical stores with a few annual discount promotion.

For SWOT analysis, summarizing ‘S’ and ‘W’, they are mainly because of the global large scale of ZARA, the world wide reputation of ZARA is a two-edged sword. The factors of ‘O’ and ‘T’ are most brought by the impact of COVID-19. But the SWOT analysis is useful for a temporary period due to the fast changing environment of the world.

Through the analysis on the primary and secondary sources, i conclude that the incident has a slightly certain impact on customer’s satisfaction of ZARA. The purchasing desires of most of the consumers are not affected. It means ZARA still have potential to stabilize its market. ZARA’s brand has been widely recognized by most of the consumers. Although the majority of customers did not change their opinions of ZARA because of the incident, there is still room for improvements as a whole.

5. Recommendation

Based on the SWOT analysis in 3.0, the following recommendations would be given to make improvements within ZARA by combining the various factors.

S-O: Take advantage of the current favorable competitive situation, fully develop and apply new technologies for the use of financial resources, cooperate with the current operating system of differentiated services, promote the construction of digital platforms, make full use of new opportunities caused by the epidemic, and firmly grasp new construction of digital platforms, make full use of new operating system of differentiated services, promote the use of financial resources, cooperate with the current situation, fully develop and apply new technologies for the convenience of digitalization and information, and to respond to new changes in the current market environment.

W-O: Establish a dedicated strategic team to deal with disadvantaged groups, and combine the current epidemic response strategies to make up for the lack of digitalization and information, and to respond to new changes in the current market environment.

Firstly, i think ZARA should appropriately adjust the prices to a lower level that more people will be delighted to consume. According to the survey of the questionnaire, although 67.65% in total of respondents deem the price s of ZARA’s goods are reasonable, there are still 26.47% of people who think the price is above average which is expensive. If there is a possibility for ZARA to decline the prices, ZARA will be more likely to attract those people who think the price is high to let them purchase more in ZARA.

Second, ZARA should provide training to the staff to enhance the quality of service. Since 58.82% in total think the service of ZARA is just find and even awful and there are suggestions given by the respondents which hope the staff to be more nicer. Thus, ZARA should hire more professional people to serve the customers or provide training to the employees.

In terms of trend, the gradual and continuous upward trend of emerging similar brands also shows that ZARA may be replaceable in the future. While 47.06% of people have ambiguous attitudes on purchasing ZARA after the incident. Hence, there exists possibility of changing their attitudes into consistent attitudes of buying. It should appropriately adjust its marketing strategy to attract them. For instance, ZARA can launch series of goods that related to Chinese culture to irritate their empathy, which may potentially stimulate purchase desire.

If ZARA wants to remain its position in the industry, it should be well-rounded. Thus, it should make improvements in different aspects to have a further development.

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