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Practice exam questions

Case study: Zara: fast or green fashion?

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Check your answer to the question on pp. 32–33 of the magazine.

Sample answer

Operating via JIT means that Zara only supplies the products once it knows there is a demand. By doing this, Zara does not experience overstocking. Consequently, Zara may not only be able to sell all its products at a higher selling price but also reduce its raw material footprint. This allows Zara's customers to benefit from ever changing fashions in exclusive limited edition runs of jeans and t-shirts and they may also become more loyal and repeat purchase since this is done in a more sustainable way. With customers visiting the store on average 17 times per year this may mean a likely gain in sales and success in terms of revenue and higher profit margins, due to less waste.

However, this depends on the amount of research Zara undertakes into ensuring its supply chain reacts swiftly to the demands of customers for items as under supplying or even a delay in the supply of products many lead to customers becoming frustrated and opting to buy from competitors such as H&M.

On the other hand, by operating via JIT it may mean that Zara misses out on sudden consumer trends in the dynamic fashion market. Zara may be slow to react to creating products worn by celebrities such as Beyoncé, giving competitors such as ASOS a first mover advantage. This could lead to a decrease in sales as the JIT approach is not sufficiently quick enough to react to these sudden changes in demand. Therefore, Zara may struggle to gain profit maximisation as the fashion trends may have moved on by the time its products hit the shops. This could result in Zara having to heavily discount the items meaning it may be unable to maximise its profits on each item. This may be further compounded by JIT being unable to benefit from purchasing economies of scale compared to methods of production such as flow.

Overall Zara's JIT process has the potential to strike a balance between meeting customers' expectations for short-run, unique pieces of clothing that are on trend, together with its wish to be more sustainable and ethical in its sourcing and production of fashionable pieces. Evidence suggests that Zara has a JIT system that can respond quickly to changes in fashion trends, though any delays in getting products to market are likely to have a large impact on customer expectations and ultimately sales. Sustainability and the ethical production of clothing using JIT may mean that Zara may need to sacrifice some short-term profits to meet this success factor.

Sample examiner comment

Mark: 10/10 (Level 4 — an excellent response fully focused on the question)

The answer gives a benefit of JIT contributing to Zara's success. The answer then develops two benefits and drawbacks in detail using relevant analysis and evaluation of qualitative and quantitative data. Each point focuses on both the financial repercussions for Zara together with the potential impact on its sustainability objectives. The conclusion points out the key success factor of using JIT but also highlights the potential trade-off between profits and ethical considerations.

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