

Zara’s Fast Fashion Strategy: A Dual Analysis of Market Segmentation and Price Elasticity

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Abstract. This study adopts a three-part elasticity framework—price elasticity of demand (PED), income elasticity (YED), and cross-price elasticity (XED)—to quantify the changes in demand and reveals Zara’s dual pricing strategy: seasonal trendy items (high PED, large demand fluctuations) and core basic products (low YED, stable demand). In addition, this study examines Zara’s market dynamics, emphasizing its pricing tactics, competitive strategy, and barriers to entry specific to the fast-fashion segment. Through this analysis, the study clarifies Zara’s market positioning, adaptive responses to competitive pressures, and strategic measures for maintaining its industry leadership position.

Keywords: Zara Market; Price Elasticity of Demand; Income Elasticity of Demand; Cross-price Elasticity.

1. Company Overview

As Inditex’s flagship brand, Zara has grown from its 1975 founding in A Coruña, Spain to become one of the world’s leading fashion retailers, currently operating approximately 3,000 stores across 96 markets (Forbes, 2025). This brand accounts for 72.47% of Inditex’s total revenue and makes a significant contribution to the parent company’s sales of £31.97 billion in 2024 (Inditex, 2024). Zara maintains a strong market position against H&M and Uniqlo, achieving a 10.2% sales growth (£19.1 billion) and a 7.5% increase in gross profit margin (£8.76 billion) in 2024. The company has achieved vertical integration operations through 164,997 multinational employees, achieving efficient control from design to retail stages. While emphasizing the physical store experiences, Zara has also expanded its digital business, with its e-commerce sales increasing by 3.8% to £5.20 billion (Statista, 2024).

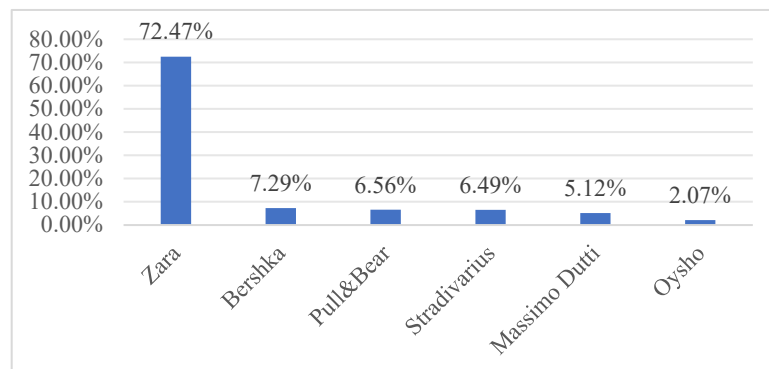


Fig.1 Net Sales Share of the Inditex Group Worldwide in 2024

2. Market Segmentation and Positioning of Zara

Zara’s fast-fashion segment caters to fashion-conscious consumers and caters to all age groups, with a particular focus on women between the ages of 20 and 35, through a wide range of clothing and accessories that are affordable and on-trend. According to Rogers’ diffusion model, these customers are primarily early adopters and early majorities who value a brand’s ability to quickly translate runway trends into designs that are accessible to the general public. Zara’s competitive advantage stems from its two-week production cycle - much quicker than competitors like H&M, Mango and Uniqlo (two to three months) - thanks to strategic manufacturing locations in Spain,

Portugal and Morocco. This operational flexibility enables it to constantly introduce novel designs, thereby maintaining strong appeal among fashion-forward shoppers.

In order to analyze the behavior of consumers in Zara market, this paper uses the elasticity theory to conduct an in-depth discussion on consumer demand.

First of all, this paper divides consumers into price-sensitive shoppers, brand-loyal consumers, trend followers, and middle-income office workers through the level of elasticity. The details are shown in Table 1.

Table 1 Market Segmentation and Elasticity Impact

Market Segment	Elasticity Level	Explanation
Price-sensitive customers	High	Will switch to competitors if prices rise.
Brand-loyal customers	Low to moderate	Customers with high brand loyalty are willing to pay a little more for the styles and quality of the products.
Trend-followers	High	Consumer demand varies according to seasonal patterns and current trends.
Middle-income office workers	Moderate	Cost and quality are their priorities, though they may switch to other options if prices become excessive.

3. The Nature of the Demand for Zara Products

The Stigler-Peltzman framework enables the quantification of price sensitivity through the coefficient of elasticity of demand, which measures the degree of consumer sensitivity to price changes in variations product categories. The lack of elastic demand observed in Zara’s Classic Suits collection (coefficient of elasticity of demand $PED < 1$) reflects the rigidity of prices, i.e. large price adjustments lead to disproportionate changes in demand, which reflects the moderating effect of brand loyalty. Conversely, the elastic demand condition (elasticity of demand coefficient $PED > 1$) presented by the Asman handbag range indicates a higher propensity to substitute among consumers, with marginal price differences triggering disproportionate market share fluctuations. Unit elasticity equilibrium (coefficient of elasticity of demand $PED = 1$), which is relatively rare in fast fashion, occurs when price demand adjustment keeps the revenue stream constant in a situation based on Chamlini’s assumption of monopolistic competition.

3.1 Elastic demand: An analysis of Zara’s asymmetrical handbag

The market division, demand elasticity, and consumer choice of Zara’s asymmetric handbags are shown in Table 2 and Table 3. Zara’s asymmetric handbags show elastic demand for a variety of reasons. In terms of substitution factors, consumers are prone to turn to luxury alternative brands such as Coach, Marc Jacobs, etc., with high cross-price elasticity ($XED > 1$), and there are many fast-fashion alternatives such as H&M, Shein, etc. in the market, which leads to an increase in price sensitivity among consumers; in terms of the nature of the product, as it is a non-essential product, mainly used for seasonal fashion, with high-income elasticity ($YED > 1$), the demand will decrease when consumers’ disposable income drops. Consumers’ demand will decrease when their disposable income falls, plus the frequent updating of products, consumers often delay their purchases in anticipation of new models.

In addition, in terms of price, it is relatively affordable but non-essential, and consumers are price-sensitive; the type of purchase is impulsive or trend-following, and is not a necessity; the target customers are price-sensitive middle-income groups, and the proportion of disposable income accounted for a large proportion of the purchase of some consumers; there are abundant substitutes, the purchase of non-essential, the use of the product is limited to fashion collocation, the purchase of seasonal and non-urgent, the brand loyalty and the recognition of the quality of the brand is lower than that of high-end brands, and the price transparency is high to facilitate consumer comparison.

Factors such as the abundance of substitutes, non-essential consumption, limited fashion accessibility, seasonal and non-emergency consumption, lower brand loyalty and perceived quality than premium brands, high price transparency for easy comparison, and a lack of brand uniqueness all contribute to Zara's elasticity of demand for asymmetric handbags.

Table 2 Elastic Demand of Zara Asymmetric Handbag

Factor	Explanation
Luxury Substitutes	Consumers can easily switch to premium alternatives such as Coach or Marc Jacob's, indicating high cross-price elasticity ($XED > 1$).
Non-essential goods	Zara's handbags are primarily purchased for seasonal fashion rather than necessity. Demand decreases when disposable income falls, reflecting high-income elasticity ($YED > 1$).
Numerous fast fashion substitutes	The market offers many close substitutes, including budget-friendly brands like H&M and SHEIN, increasing price sensitivity.
Short product lifecycle	Zara frequently updates its collections, causing consumers to delay purchases in anticipation of newer styles, making demand more elastic.

Table 3 Description and Impact of Factors

Factor	Description	Impact on Elasticity of Demand
Price	Zara's handbags are relatively affordable but non-essential.	Consumers are price-sensitive and may switch to cheaper or alternative brands.
Type of Purchase	Fashion accessories are often bought impulsively or for trends.	Not a necessity, making demand more elastic.
Level of Income	Positioned for the median wage earner segment.	Price-sensitive consumers may reduce their purchase volume if the price goes up.
Proportion of Income	This may represent a substantial share of disposable income for some.	Consumers may rethink their buying choices if prices rise.
Availability of Substitutes	Consumers have diverse alternatives, from fast fashion rivals to luxury brands.	The high availability of alternatives increases price sensitivity.
Importance of Purchase	Generally, it is a non-essential purchase.	Higher prices could cause buyers to postpone or abandon purchases.
Number of Uses	Limited to fashion and outfit coordination.	Not a necessity, making demand more elastic.
Time of Purchase	Often seasonal or trend-driven.	Shoppers can either await discounts or new trends.
Urgency	Rarely an urgent purchase.	Consumers can delay purchases based on price.
Brand Loyalty & Quality Perception	Lower compared to premium handbag brands.	Products with generic packaging that increase prices risk losing customers to rivals.
Information	Consumers can easily compare prices with other brands.	High price transparency increases elasticity.
Brand Differentiation	Zara's handbags follow trends but lack a strong, unique identity.	Consumers can find similar styles elsewhere at different price points.

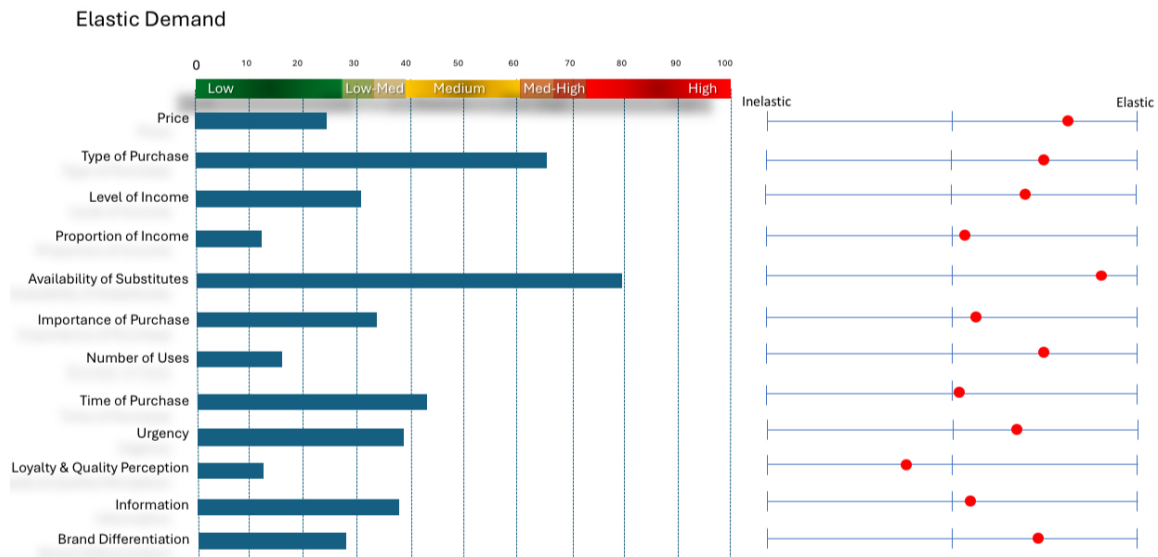


Fig.2 Elastic Demand

3.1.1 Price Elasticity of Demand (PED) Analysis

Zara’s seasonal fashion items are characterized by elastic demand (coefficient of elasticity of demand $PED = 1.28$), which is demonstrated by the fact that the sales dropped by 50.5% after the price of a flagship handbag rose from £89.99 to £149 (an increase of 39.6%). This sensitivity to price fluctuations reflects consumers’ willingness to substitute Zara’s fashion products when costs rise. To alleviate this elasticity, the company has adopted strategic countermeasures, including: (1) accelerating its design cycle to accommodate emerging fashion trends, and (2) employing a tactical pricing strategy that incorporated limited-time discounts and continuous product updates. These approaches have helped to maintain the pace of sales, even though this demand elasticity is inherent in discretionary fashion consumption.

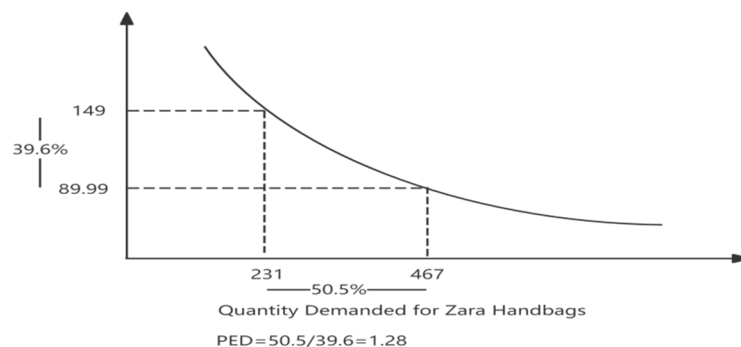


Fig.3 Quantity Demanded for Zara Handbag (PED)

3.1.2 Analysis of XED

When comparing Zara’s asymmetrical handbags with high-end alternatives like Coach, the elasticity of demand becomes obvious. Coach’s £325 handbag features high-quality textured leather and practical designs (including interior compartments and ergonomic straps) developed through decades of craftsmanship since 1941, while Zara’s £149 alternative uses cheaper artificial leather and polyester fibers and simplifies its functions. This quality differential generates a strong cross-elasticity ($XED > 1$), as price-conscious consumers can easily switch between the two brands. The differences in materials and construction highlight Zara’s strategic positioning in the mass luxury market. Due to the existence of high-quality alternatives, the demand in this field is particularly sensitive to price adjustments.

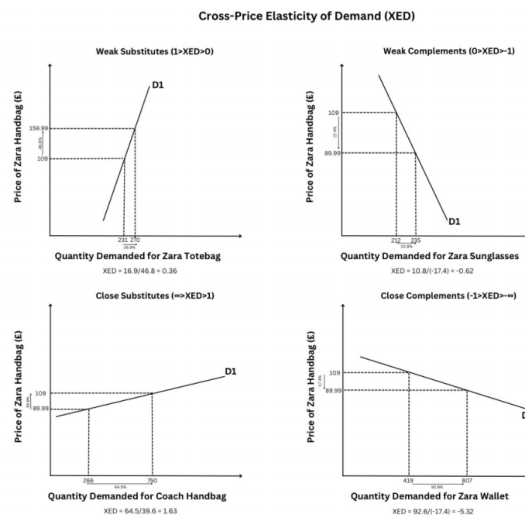


Fig.4 Cross-Price Elasticity of Demand (XED)

The product ecosystem of Zara exhibits varying degrees of substitutability and complementarity. For instance, the brand’s handbags and briefcases share similarities in functionality, but they are not perfect substitutes, thus resulting in relatively weak substitutability. In terms of complementarity, Zara’s sunglasses and handbags have a limited demand relationship and can be categorized as weakly complementary. In contrast, wallets and handbags form a strong complementary relationship as consumers typically purchase them together, reflecting a closely linked demand pattern.

3.1.3 Analysis of YED

Zara’s seasonal fashion products are non-essential and are discretionary rather than essential. Additionally, some of Zara’s products may exhibit characteristics of inferior goods ($YED < 0$) due to the typical perception of fast fashion as being of low quality. Although the brand is renowned for imitating high-end designs and offering affordable prices, an increase in disposable income often leads consumers to shift from Zara’s products to established luxury brands, especially in categories such as handbags. This pattern of behavior is consistent with negative income elasticity of demand ($YED < 0$), which means that the higher the income, the less demand there is for lower-end goods, as consumers choose upscale alternatives.

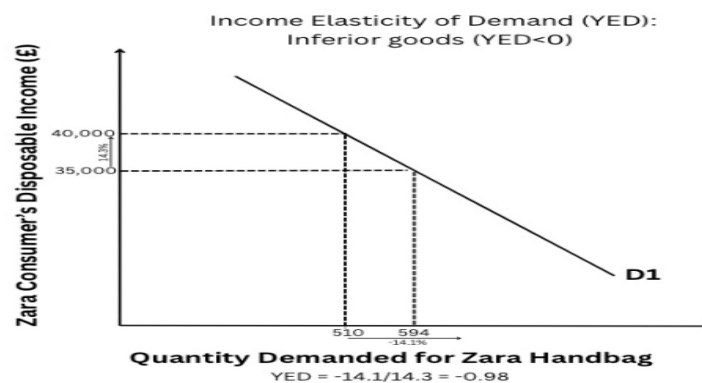


Fig.5 Quantity Demanded for Zara Handbag (YED)

3.2 Inelastic Demand: An Analysis of Zara Classic Blazers

The specific analysis of Zara’s suit jacket market division, demand elasticity, and consumer choice is shown in Table 4 and Table 5.

Table 4 No-demand elasticity analysis of Zara classic suit jacket

Factor	Explanation
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Limited close substitutes	Zara’s blazers are considered higher quality than H&M’s in fast fashion, resulting in lower cross-price elasticity ($XED < 1$).
Work and formal wear necessity	Consumers consider a suit jacket as a must-have item for business or formal occasions, and thus are not very sensitive to price fluctuations ($YED < 1$).

Table 5 Description and Impact of factors

Factor	Description	Impact on Elasticity of Demand
Price	Fast fashion prices are mid-to-high but remain affordable.	Despite the price fluctuations, the demand remains relatively stable.
Type of Purchase	A fashion staple often bought for work or formal occasions.	Consumers view it as a wardrobe essential, reducing price sensitivity.
Level of Income	Middle-to-upper-class target market.	Price changes affect buyers with higher disposable income.
Proportion of Income	Represents a small fraction of income for many buyers.	Low cost relative to income reduces price sensitivity.
Availability of Substitues	Few alternatives match the exact design, sizing, and brand prestige.	Fewer alternatives make demand less elastic.
Importance of Purchase	Considered a wardrobe essential for many consumers.	High importance reduces price sensitivity.
Number of Uses	Versatile for work, travel, and formal occasions.	High utility encourages consistent demand.
Time of Purchase	Typically purchased for specific occasions or seasonal needs.	Urgency in need reduces price sensitivity.
Urgency	Sometimes urgent for workwear or events.	Urgent need increases in elasticity.
Brand Loyalty & Quality Perception	Strong customer loyalty to Zara’s style and quality.	Zara’s reputation for perfectly tailored, fashionable jackets fosters strong brand loyalty, making customers price-inelastic.
Information	Limited price-comparable alternatives exist for the same product.	Weak price awareness will lead to a lack of elasticity in demand.
Brand Differentiation	Zara excels in distinctive design, premium quality, and sharp trend awareness.	A strong brand identity reduces price sensitivity.



Fig.6 Inelastic Demand

3.2.1 Analysis of PED

Zara’s blazers demonstrate the characteristic of inelastic demand, which reflects consumers’ limited response to price fluctuations, thus ensuring a stable source of income. As shown in the

perceptual graph (Figure 7), Zara positions its blazers as high-quality, mid-range fashion items within the fast fashion segment, with few similar alternatives at the price point.

The iconic blazers in Zara’s Join Life collection balance durability and comfort with premium fabrics, including coordinating linings and practical back ventilation. The collection caters to customers who value closet essentials that are sophisticated, adaptable and suitable for everyday wear. Professionals and those inclined to business-casual attire often choose Zara’s blazers for their affordability and precise tailoring for all occasions. Designed to ensure comfort over extended periods of wear, they offer key features such as enhanced breathability and unrestricted freedom of movement, which is particularly important for office workers.

Therefore, even if there are price adjustments, Zara can still maintain strong customer loyalty. Figure 7 highlights a case: The price of this blazer increased by 49.5%, from £55 to £109, but its sales volume dropped by only 31.2% in six months, from 1,478 pieces to 1,017 pieces. The derived price elasticity of demand coefficient (PED) is 0.63, further confirming the inelastic characteristic of demand.

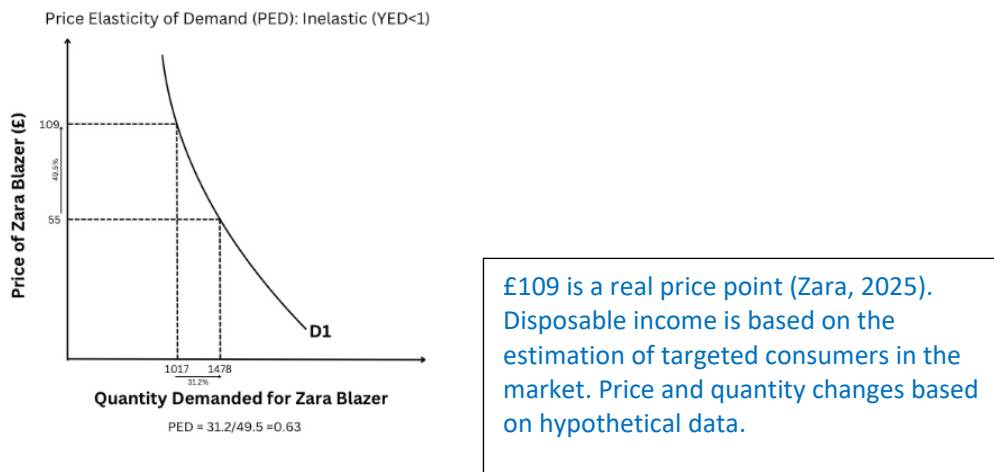


Fig.7 Quantity Demanded for Zara Blazer (PED)

3.2.2 Analysis of XED

In this case, consumers are unlikely to switch purchasing from rivals even when experiencing a price rise. Competitor brands may be considered weak substitutes ($XED < 1$), where a significant increase in Zara’s blazers only leads to a slight increase in demand for H&M blazers.

Massimo Dutti’s blazer may be a close substitute, as the brand is considered slightly more premium than Zara but at similar price points. A weak complement to Zara’s Classic Blazer could be fashion jewelry. While accessories like jewelry can enhance the overall outfit, their demand is not strongly tied to purchasing a blazer. Consumers may buy jewelry separately for various occasions rather than specifically to complement a blazer, making it a weak complement. A pair of tailored trousers may be close complements, either in a matching or contrasting color, to create a polished look for business or formal occasions.

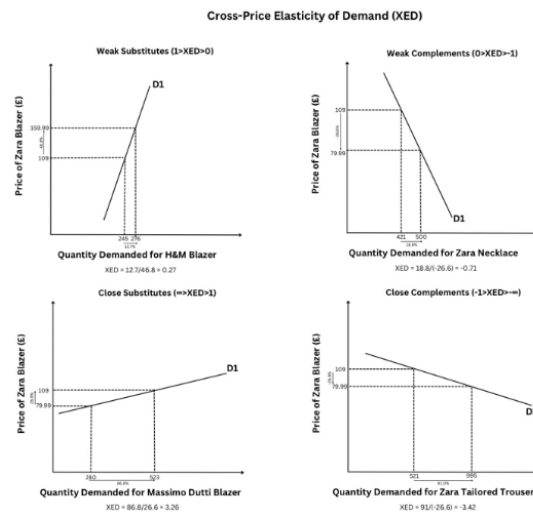


Fig.8 Quantity Demanded for Zara Blazer (XED)

3.2.3 Analysis of YED

Furthermore, when consumers experience an increase in disposable income, they may continue purchasing from Zara, as its blazers may be considered a necessity for work ($0 < YED < 1$) and offer versatility and suitability for daily wear. By maintaining a strong emphasis on quality, brand reputation, and professional styling, Zara continues to attract trend-conscious yet budget-aware shoppers. These factors contribute to a loyal customer base that remains committed to the brand, even in the face of price increases.

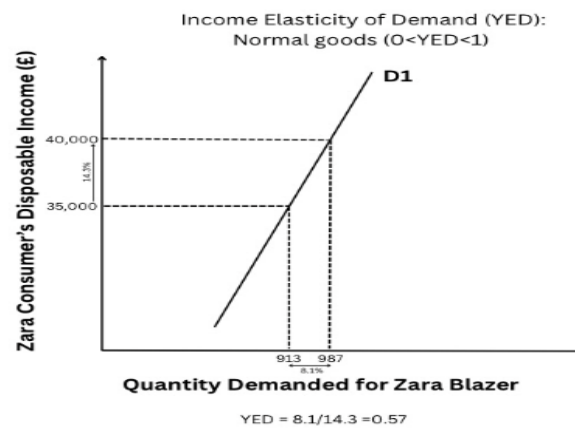


Fig.9 Quantity Demanded for Zara Blazer (YED)

4. Market structure analysis

4.1 Zara's Market Positioning and Competitive Strategy

The fast fashion industry in which Zara operates is an oligopolistic market dominated by a handful of major players, including H&M, Uniqlo and SHEIN, among others. In such a market environment, a handful of firms collectively control a significant amount of market share - typically over 40% (Investopedia, 2024). The fast fashion industry in the UK is a prime example, with Zara (17%), H&M (27%) and SHEIN (40%) together holding 84% of the market share (Statista, 2024). This structure promotes a stable profitability model, while at the same time exacerbating competitive

interdependence between firms, as firms keep a close eye on competitors’ pricing strategies and strategic moves.

4.2 Strategic Pricing and Non-Price Competition

Oligopolistic interdependence compels Zara to prioritize non-price strategies to avoid profit-damaging low-price competition. For instance, unilateral price increases may cause customers to switch to competitors, while price reductions usually lead to corresponding price reductions by other firms, thus eroding the profitability of all firms. Instead, Zara utilizes vertical integration to accelerate its response to changing trends, reduce discounting, and maintain premium pricing-which is based on perceived quality and the release of limited-edition products that enhance brand loyalty.

Further differentiating itself, Zara uses technology to enhance the in-store experience, such as “click and collect” (pickup within 120 minutes), real-time inventory tracking (“click and find”), and fitting room appointments (“click and try on”). Smart mirrors have also been implemented in selected London stores to enable a seamless sizing and checkout process, further cementing customer loyalty and reducing reliance on price competition

4.3 Barriers to Entry and Pricing Power

High barriers to entry - including economies of scale, deep-rooted brand loyalty, and supply chain efficiencies - have ensured Zara’s market position. As an established player, Zara can take advantage of volume purchasing discounts and lower unit costs that cannot be replicated by new entrants. This asymmetry allows the dominant firm to act as a price leader, setting benchmarks for smaller competitors to follow.

Oligopoly also exhibits asymmetry in demand elasticity: price increases make demand elastic (consumers switch brands), while price reductions make demand inelastic (rivals follow, thus offsetting gains). This leads to price rigidity, where firms tend to maintain equilibrium prices to avoid revenue losses (Sweezy, 1939). As a price setter, Zara sets prices at the point of profit maximization where marginal revenue (MR) equals marginal cost (MC), thus maintaining abnormal profits. Market concentration further restricts output and causes prices to be higher than marginal cost, which is the key difference between oligopoly and fragmented markets.

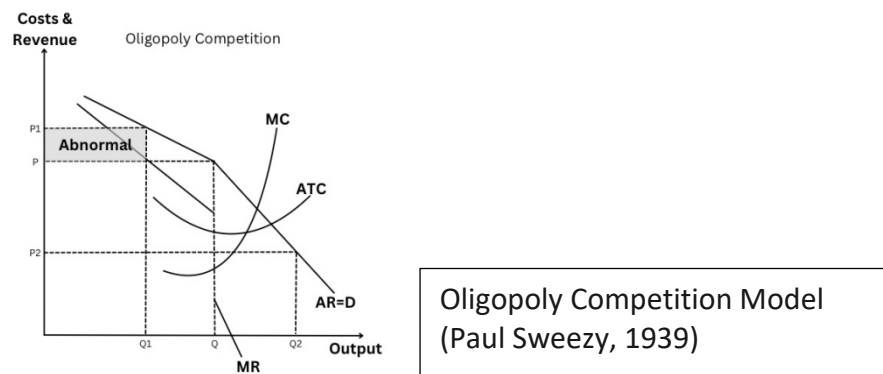


Fig.10 Oligopoly Competition

4.4 Non-Price Competition and Market Positioning

To mitigate the risk of price competition in its oligopolistic market, Zara strategically emphasizes non-price competitive advantages. The company distinguishes itself through its ability to adapt quickly to trends, superior product quality, and responsiveness of its supply chain, which together reinforce brand loyalty among fashion consumers. In addition, targeted marketing investments have supported its consolidation as an industry innovator.

Zara’s market leadership stems from its ability to proactively respond to industry changes and anticipate competitors’ reactions. The company maintains its competitive advantage through continuous design innovation, operational excellence, and the development of strong brand equity.

These strategic priorities have allowed Zara to maintain its dominant position in the global fast fashion space while avoiding price wars that could have had a negative impact.

5. Conclusion

This study aims to examine Zara's market segmentation strategy, demand elasticity model, and competitive positioning in the fast fashion segment. The analysis focuses on three key elasticity metrics-price (price elasticity, PED), revenue (revenue elasticity, YED), and cross-price (cross-elasticity, XED)-with particular attention to the differences in demand characteristics between seasonal fashion items and basic closet essentials. In addition, the study assesses Zara's market framework, including its unique pricing strategy, competitive interactions, and structural barriers faced by new entrants in this highly concentrated industry. These examinations provide valuable insights into Zara's market position, its resilience to competitive pressures, and the strategic choices it has made to consolidate its market leadership.

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