Benetton case study essay

Benetton operates a dual supply chain system comprised of speculation and postponement. Retailers have the responsibility of ordering 7 months in advance of the season from their agents.

These agents then order directly from Benetton manufacturing, allowing them to operate on a “ make-to-order” (JIT) basis. Their superior methodology supports their high volume, low variety production very well. Supply Chain Management Tool Leaders of Benetton have gained confidence in the supply chain through visibility and controls. Benetton’s extensive network linking its design center with the network of outsourced manufacturers, sales agents, retail outlets, transportation carriers and logistics centers allow the supply chain to become transparent.

The investments in flexible manufacturing lines provide cycle time reduction. The distribution center enables quick response to demand signals allowing production schedules to distribute the accurate products to the right markets. This enables the company to introduce new products in the middle of a season in response to the fashion trends of the season. Product and Process Postponements Benetton used an innovative manufacturing and supply chain strategy based on postponement to meet customer service expectations that requires high levels of inventory of finished garments. In this case Benetton does not dye the yarn or cloth before making certain sweaters, but the entire sweater when knowing the color demanded by the customers.

After initial shipments of dyed sweaters are shipped to stores, the company receives information about the colors they are selling. Next they dye the

remainder of their sweaters to more accurately meet the emerging demand pattern for the different colors. Value should be added in the supply chain as late as is consistent with meeting customer needs. This process provides cost savings by delaying the addition of expensive dyes, increases sales by having customer desired stock available (reducing stock-outs of popular colors), better customer service by matching supply and demand, decreases the cost of overstocking and the associated costs of discounts and merchandise liquidations. Managing Short Product Life Cycles Short product life cycles lead to forecasting uncertainty and inventory risk.

At present, it is extremely difficult to predict the demand at stock level. This results in huge expenses for mismatched supply and demand. In this case Benetton can mange short product life cycles by accurate demand forecasts for the total sales of each of its styles and sizes. Benetton designed its manufacturing process to make some of its clothes in undyed form, as the article calls them, “ tintura d’al greggio. Benetton dyed a test batch of each new garment and sent it to a set of carefully chosen stores where its sales were monitored closely in order to discern consumers’ preference for colors.

With this information in hand, it was easier to forecast which colors would sell well during the rest of the season. Benetton then quickly dyed the “ greggio” garments and shipped the items to the retail outlets. It could dye and deliver the latest fashion apparel to all of its stores. As Luciano Benetton stated in the article, “ We have kept the same strategy all along-to put fashion on an industrial level. Most of the rest of Italian fashion is still on an artisan level.

” Centralization Benetton streamlines their distribution networks by consolidating and centralizing their distribution operations. Benetton’s management of the total supply chain is employing large-scale operations for centralized activities and small-scale operations to provide local focus at the same time provide flexibility at the level of the network. Their attention to the synergy between actors in the supply chain is reinforced by the use of employee family-owned contractors and franchised retailers. Inventory Management Safety Stock Benetton uses JIT (Just in time) solution to solve the problem of reducing lead times. Manufacturers reduce travel distance between machines and inventory which provides a dramatic effect on lead time. Economic Order Quantity (EOQ) and Reorder points (ROP) Economic order quantity (EOQ) is a useful way to approach the inventory decisions of how much to order and reorder points (ROP) for when to order.

Inventory required at Benetton’s distribution center supplies a range of products to retailers. The customer places an order seven months before the start of the selling season. The center places replenishment orders on the factory. The agents display the Benetton collection to store operators in their regions, assemble orders for the initial stock and stock reorder during each season, and generally supervised the merchandising and pricing at the stores. The basic of EOQ, Demand and Lead time is known and constant.

In this case heavy knitted cotton items have played an important part in Benetton’s growth. In this case a company must be adaptable and ready to respond to the demands of the market. In addition, the contracting network allowed Benetton a flexible production capacity that absorbed most of the

fluctuations in demand. Benetton has a proven successful track record as a global retailer.

Recently in May 2008 they significantly extended their presence in Mexico, through this and other agreements, with a total of 250 points of sale in both Sears Mexico department stores and new stores by 2010.