

Benetton's innovative strategy

Business, Strategy



ABSTRACT

The business environment of the modern world is very complex and effective business strategy plays an important role in the success of a business firm. The implementation of a strategy at the right time and right place to the right people is the key for success. The firm which succeeds in implementing this can overcome the hurdles of the business environment. This report gives the details of the main difference between the conventional and the new Benetton networks focusing on product design, supply and distribution. It also addresses the Benetton's innovative strategy for designing and managing the global supply network.

INTRODUCTION

Benetton was a small company started in 1965 for making sweaters for the local retailers. The Benetton story of growth from a small company to one of the world's largest garment producer is attributed to the establishment of an effective network for the production, distribution and retailing. The company extensively used subcontracting in the production, supply and distribution in the initial phase. As mentioned by Ramdass and Kruger the certainty of business like permanent orders and prompt payment helped them to establish a long standing relationship with the subcontractors. The strategy of outsourcing and effective networking of the subcontractors has reduced the cost of the company in terms of capital investment, labour and processing time. This helped the company to grow in a short period of time as a global leader in garment production.

The effect of globalization has slowly changed the style of business of Benetton. In order to have effective control, Benetton started production poles and directly controlled market outlets. The change in the strategy helped the new Benetton to retain the competitive advantage.

RELEVANT THEORETICAL CONSIDERATIONS

Benetton is an example of an organization which has truly understood the meaning of integrated logistics across boundaries. Benetton has created a borderless world by linking raw material suppliers, 450 manufacturers and 6,000 retailers to deliver 60 million garments a year to satisfied customers in 83 countries (Dapiran, 1992). The Just-in-Time (JIT) method adopted by Benetton in dyeing helped to take care of the rapidly changing fashion in the garment industry. Benetton is doing the dyeing at the last moment of production depending on the latest requirements of the customers which increases the reaction speed and reduces the cycle time of products. They are able to get the latest requirements through the rapid transfer of information using the Electronic Data Interchange (EDI) system which links the market place with the manufacturing process. Benetton also showed that economies of scale is possible in the freight-forwarding function (Dapiran, 1992). It was established through a Worldwide Integrated Distribution Enterprise (WIDE) to control the international forwarding and customer clearance functions. Benetton success is mainly attributed to the strategy of 'vertical de-integration' in which they have centralized the processes having highest value addition and decentralized the remaining processes.

COMPARISON BETWEEN CONVENTIONAL AND NEW BENETTON NETWORKS

a) Product design

Benetton Group is one of the worlds largest garment producer with a turnover of 2 billion Euro and 9500 employees (Benetton Group Annual Report 2011, 2011). They are mainly engaged in casual wear business, sports business and complimentary activities. The product design of Benetton is based on the 'tinto-in-capo strategy' in which the dyeing is postponed to last stage in order to capture the latest market trends.

Benetton always tried to offer same or similar range of products in all the markets. But till the starting of globalization more than 20 percent of models in the casual wear segment were customized to satisfy the demand of each country (Camuffo, Romano and Vinelli, 2001). The models in each country were selected by individual retail agent which has resulted in developing different image for Benetton in different parts of the globe. The increase in the number of models increased the set up time which resulted in under utilization of the available facility.

Globalization has changed the style of products offered in the textile industry. The cross country homogenization of consumer lifestyles is observed in the market which encourages the firms to produce global products rather than offering country specific products. This has resulted in changing the product mix of Benetton. There present plan is to offer more limited range of products in all the country. Nowadays only 8 percent of the models are only offered with differentiation suiting to the county specific demand. The reduction in the number of models helps to reduce the set up

time which results in better utilization of the facility. In order to keep up with the fast changing market trends, Benetton is offering 'Flash collections'. The company hopes that eventually flash collections can form 35 to 45 percent of the total products (Camuffo, Romano and Vinelli, 2001). Similarly Benetton has taken steps to streamline the brands. The brands specified for babies, children and expectant mothers were totally eliminated and now it is branded for different age groups. Age groups are divided as children, men, women and expectant mothers. The products for men, women and expectant mothers are coming under the United Colors of Benetton brand which forms 47.6 percent of sales in 2011 as given in Fig. 1. Similarly the brand 'United Colors of Benetton kids and Sisley Young' is mainly aimed for children and young people which forms 30.2 percent of sales. Benetton is also doing research in finding new materials which are suitable to the modern world since it can be machine washed and does not need any ironing. This product is mainly aimed to build the Benetton image of global, young and easy to use with high quality and is marketed under the Sisley brand.

b) Supply and production

The conventional Benetton networks heavily outsourced labour intensive phases of production such as tailoring, finishing and ironing. The outsourced jobs were mainly done by small and medium sized firms in the north east of Italy and the major activities like weaving, cutting, dyeing, quality control and packing was done by Benetton. The conventional Benetton supply chain model is given in Fig. 2.

In the mid 1990s Benetton has changed the strategy of outsourcing production jobs. They have set up a high tech production facility at Castrette with an area of 100000 square meters. It consists of five technical divisions for wool, cotton, tailoring, shirts and jackets, accessories and shoes. The Castrette pole is responsible for the production of garments and accessories for the casual wear and sports clothing with an overall capacity of 120 million items per year (Camuffo, Romano and Vinelli, 2001).

Benetton has adopted the Castrette model in countries like Spain, Portugal, Tunisia, Croatia and Hungary. In all these counties they have set up production poles which are partially or totally owned and directly controlled by Benetton which coordinates the activities of group of SMEs in the particular area. The Castrette pole decides which item is to be produced in a particular foreign pole. The management of production is made in such a way that each foreign production pole is specialized in the production of a particular item and uses the skills existing in the particular area which helps in making a high quality product. Based on this criterion T-shirts are made in Spain and jackets are made in Eastern Europe. Fig. 3 shows the Benetton's new supply chain model.

By the beginning of year 2000 it is found that the production model in Castrette also started changing. The activities like quality control, cutting and dyeing which are considered to be critical are transferred to subsidiaries and the production pole is mainly concentrating on the elaboration of market sheets for the computerized fabric cutting system using CAD and CAM systems. The market sheets are sent electronically to foreign production

sites for cutting prototypes and quality control of intermediate phases. The latest communication technologies have improved the coordination in the supply network which led to better timing of various activities and resulted in reducing the production lead time.

c) Distribution and retailing

The conventional Benetton network used to sell the products through a number of agents. The agents who sell the product will sign a contractual agreement with shop owners and they are also responsible for developing the market in their area. Benetton provided the necessary services for selling the products.

The traditional strategy of Benetton to outsource the retailing to third party was successful. However in the present condition of the market this strategy is not able to sustain their position in the market. The new trend in the retail sector is to set up mega stores with an average size of 1500 to 3000 square meters (Camuffo, Romano and Vinelli, 2001). The average size of Benetton store was only 120 square meters and in order to overcome this difficulty Benetton decided to change the commercial policy and increase the size of the retail outlets. They are increasing the size of the existing retail outlets to display the whole range of Benetton products in the garment, shoe and accessories segment. Wherever expansion is not possible the retail outlet will concentrate on a particular product or segment. They have also opened up retail outlets in prime locations with an average size of 500 to 2000 square meters (Camuffo, Romano and Vinelli, 2001).

The retail project started by Benetton aims at making a direct sales network. The network will consist of medium to large size shops owned and managed by the Benetton group. The direct controlled outlets will pose a big challenge to competitors since it is focusing on selling high fashion garments with continuous rotation of product display at the outlets with large display areas. Similarly the latest communication methods allow the Benetton's directly controlled outlets to directly communicate with the headquarters. This will enable the firm to get an instantaneous picture of sales data and to design and produce items based on the market requirements.

BENETTON'S INNOVATIVE STRATEGY

a) Supply network re-organisation (upstream and downstream)

In the garment sector the supply of raw materials plays a crucial role in deciding the lead time of production and managing supply chain in today's world is very challenging (Christopher and Lee, 2001). So Benetton has carried out the upstream vertical integration to incorporate the textiles and thread suppliers. Benetton is having 85 percent control on the main supplier of raw materials who is providing 60 percent of woven fabric, 90 percent of cotton knit fabric and 90 percent of carded and combed wool (Camuffo, Romano and Vinelli, 2001). The upstream vertical integration helped Benetton to ensure the quality of the raw materials at the supply stage. This will help to send the purchased raw materials to production centers without any further quality check which will reduce the transportation costs and ultimately cut down the production lead time.

In order to achieve total integration of the production cycle, Benetton has invested heavily in automating the logistic processes. This strategy brought down the average time for consignment to seven days and 10 million garments can be sent to all over the world in each month (Camuffo, Romano and Vinelli, 2001).

b) Replication of its core capacity (supply chain design and management):

After the merger of the Benetton sport systems with the Benetton group, it has to develop methods for managing two different businesses, the casual wear and sports wear/ sports equipment. Benetton has tried to exploit the synergies between the two businesses. Earlier the commercial and marketing activities of the Benetton sport systems were managed by the Benetton sport systems European subsidiaries. This helped to have a close interaction with customers and eliminated all intermediate structures such as trading companies. After the merger, Benetton has tried to optimize the distribution network by developing special areas in large sports shop to display and sell Benetton's sports equipment brand. Similarly it is making a network of Playlife retail outlets repeating the successful model developed for the casual wear business. Benetton is also planning to develop partnership commercial relations with big specialized distribution chains which allow them to change from make to stock production approach to make to order approach. This commercial agreement known as Blade Express Formula helps to reduce warehousing and obsolescence of products.

c) What and where outsourcing

Benetton has a networked manufacturing system. So when an order is placed with the company, they will purchase the raw materials and send to the networked manufacturing groups. The company has made the network in such a way that each group is specialized in a particular activity which gives clarity of production, better quality and reduced realization time. The processes like cutting each piece of clothing, stitching, assembly, adding accessories and packaging is coordinated by the manufacturing network so that each has defined role and responsibility (Garcia, 2010). Based on the data of 1990, contracted network carried out 40 percent of wool knitting, 60 percent of assembly and 20 percent of packaging (Garcia, 2010).

Benetton also created effective communication methods between the players in the same manufacturing network who produces similar items. So when a supplier runs into problem Benetton does not have to search for suppliers to overcome the reduction in production. The supplier who cannot execute the order will transfer the job to a capable manufacturer in the same network. This method was highly successful and helped Benetton to save 85 percent of costs compared to its competitors.

The distribution network of Benetton consists of 85 agents around the world. Each agent is responsible for recruiting the retailers, displaying the fashion collections, processing retailer orders, selecting retail sites, carrying out training and giving the market feedback to Benetton. The agents were getting commission of 4 percent of sales for the job executed by them (Garcia, 2010). Benetton makes an agreement with the retail outlets such

that they can sell only Benetton products, display the items according to the guideline and adhere to the price guidelines.

In a nut shell the strategic outsourcing decisions of Benetton is as follows:

CAD/CAM design, cutting, knitting, dyeing which is highly technical and involves high capital: do in-house.

Garment assembly, finishing which involves large labour force: outsource to subcontractors.

Raw material purchasing: do in-house.

Mass distribution where fast cycle times needed to meet customer expectations with minimal inventories: do in-house.

International transportation: outsource to international carriers.

Freight forwarding: scale economies and service improvements possible with increasing volumes: change from outsourcing to in-house through joint venture.

Global communications network: scale economies not possible with Benetton volumes: outsource to GE Information Systems.

Retail stores: involves high capital, labour oriented and requires high customer service levels: outsource to licensees.

CONCLUSION

Benetton is well known for the bold strategies it has applied in its business model. It started with the networking of production through sub contracting, then entering the foreign markets through franchisees and then starting of production pole in Italy and other parts of the world. The present strategy of Benetton is to make use of modern means of communication and

information technology in the field of business especially in marketing and production (Ahmed et al., 2011). In this regard Benetton has started a company United web whose primary job is to manage the e-commerce venture. The primary aim of United web is not to increase the sales but to reinforce the contact with the customers and to make the Benetton products and styles known to a large number of customers.

It is seen that Benetton has changed means of business communication with the effective use of internet. Presently they have started e-procurement and online services for the distribution network. The making of 'new' Benetton is through the combination of using latest communication methods with the old Benetton strategy of effective networking.

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