

OnLine Case 3.2

Benetton

This case on Benetton traces how the company created its distinctive competitive advantage. It is not completely up-to-date.

Benetton was founded in Italy in 1965 by a brother and sister to distribute home-made sweaters to retailers. Luciano Benetton had wholesaling experience, and his sister, Guiliانا, design skills. Two other brothers joined later. The first Benetton store was opened in 1968. By 1978 there were 1000, and by 1988 over 5000 franchised outlets worldwide. After 1978 more and more manufacturing was subcontracted. Benetton has also diversified into related goods such as shirts, jeans, gloves, shoes and perfume. The business is still run from a headquarters in Italy.

Europe is seen as the home market, with production and marketing in both the West and East. However Benetton is well established in the USA and Canada, and growing in Japan and the Pacific rim.

In 1972 Benetton started dyeing assembled garments rather than just the yarn; and this has enabled it to develop competitive advantage through a speedier response to fashion changes. If an item is selling unexpectedly well in one particular shop, and additional stocks are wanted, Benetton aims to provide the additional stocks more quickly than its competitors could. Requests are relayed through terminals to Benetton's mainframe computer, which also carries comprehensive product details and production requirements – the benefit of using computer-aided design and manufacture (CAD and CAM) extensively. Production requirements can therefore be fed quickly into the manufacturing system, even though a lot of work is subcontracted. Finished products are stored in one central warehouse, run by robots and just a handful of people. A quarter of a million items can be handled daily. Benetton aims to replenish its shops with popular items in one week ex-stock, four weeks including production. Production costs are increased by dyeing finished goods, but stock management overall (raw materials, semi-finished and finished items) is efficient.

Much has changed in the world since Benetton was started in 1965, but not our mission: to satisfy people's needs with young, colourful, comfortable and easy-to-wear products. This has been our route to world leadership in the design, production and distribution of clothing, accessories and footwear for men, women and children. Our range has been constantly enriched over time by intensive research into new materials and designs – and further additions will follow.

Benetton is an international company with a global brand image, which has been built around the theme 'The United Colors of Benetton'. This international image is boosted by a strong association with motor racing. Benetton won both the Formula 1 drivers' and constructors' championships in 1995.

Colour makes Benetton unique. The secret lies in presenting a broad spectrum of shades, creatively mixed and matched – new and different every time. The study of colour is our greatest research commitment as we constantly seek out new tones.

Advertising features the same central message and choice of media throughout the world, although the actual themes of the advertisements vary. On occasions, some examples have proved controversial in certain countries. Benetton's approach is based on the premise that customers in different countries use clothing and accessories to express personal lifestyle preferences, with a tendency to demand increasingly higher quality goods. Advertising campaigns 'feature simplified, unambiguous images that convey meaning to the largest possible number of people and cultures throughout the world'.

Competencies and capabilities

Benetton provides a range of popular and attractive garments and achieves some 20% production cost savings compared with its main competitors. Its franchised retailers offer a high level of customer service with responsive and helpful employees. There is some local customization but, in the main, the same colourful, fashionable and classic garments are available worldwide. To achieve these outcomes, Benetton exploits a number of important competencies and capabilities:

- Dyeing skills are retained in-house.
- The basic grey colour lends itself readily to later colour changes.
- For many years Guiliiana Benetton has controlled the design activities, which have again been retained in-house.
- Benetton retains classic designs and saves costs by avoiding too much variety.
- Eighty per cent of manufacturing is undertaken by independent suppliers.
- There are strong contractual arrangements with key suppliers around the world, some of whom work exclusively for Benetton.
- Benetton dictate tight technical specification for their supplies.
- Sophisticated IT systems are utilized in both design and manufacture.
- Most suppliers are small businesses, and in many instances Benetton loans money to finance them.
- Benetton's success is frequently seen by their suppliers as their own success, a relationship issue which clearly works in Benetton's favour.
- Periodically Benetton 'releases' suppliers, which keeps the rest 'on their toes'.
- Purchasing is centralized and in bulk.
- A 'small army' of agents oversees the franchised retailers and controls the company's image.
- Retailers are contracted to stock only Benetton's own brand products, although they have some local autonomy on ranges and colours.
- Benetton strictly controls the design, layout, ambience and prices in every store.
- Sophisticated IT systems link retailers with Benetton and in turn its suppliers to provide a fast response to demand patterns without unnecessary stockholding.
- Standard worldwide advertising features 'The United Colors of Benetton'.
- The company carefully sponsors events such as Formula One which have a young and smart image.

(Quotations extracted from Benetton Annual Reports.)

questions: What is Benetton's competitive strategy?

How did it achieve competitive advantage?

How does Benetton use networks and partnerships to great effect?

In what ways would it be difficult for competitors to try and copy the success?

Benetton <http://www.benetton.com>