CASE 16

Benetton Group: The evolution of a network to face global competition

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Benetton – the united colors of success

The Benetton you thought you knew no longer exists. The new competition brought about by globalisation and information and communication technologies (I&CT) have shaken its consolidated business model from the roots, pushing the Italian company toward a radical strategic change.

In the 1980s, Benetton's tremendous growth, outstanding financial performance and innovative strategies were widely celebrated by the press, researched by scholars, admired by practitioners and studied in business schools almost everywhere in the world. Thanks to this success, Benetton became a world-famous company and, for many years, represented, worldwide, the prototype of the network enterprise.

However, this stereotype about the 'Benetton network system' – the hollowed-out corporation that (a) produces garments through a web of small companies located in the north-east of Italy and (b) sells them through a worldwide chain of small independent stores – is no longer true.

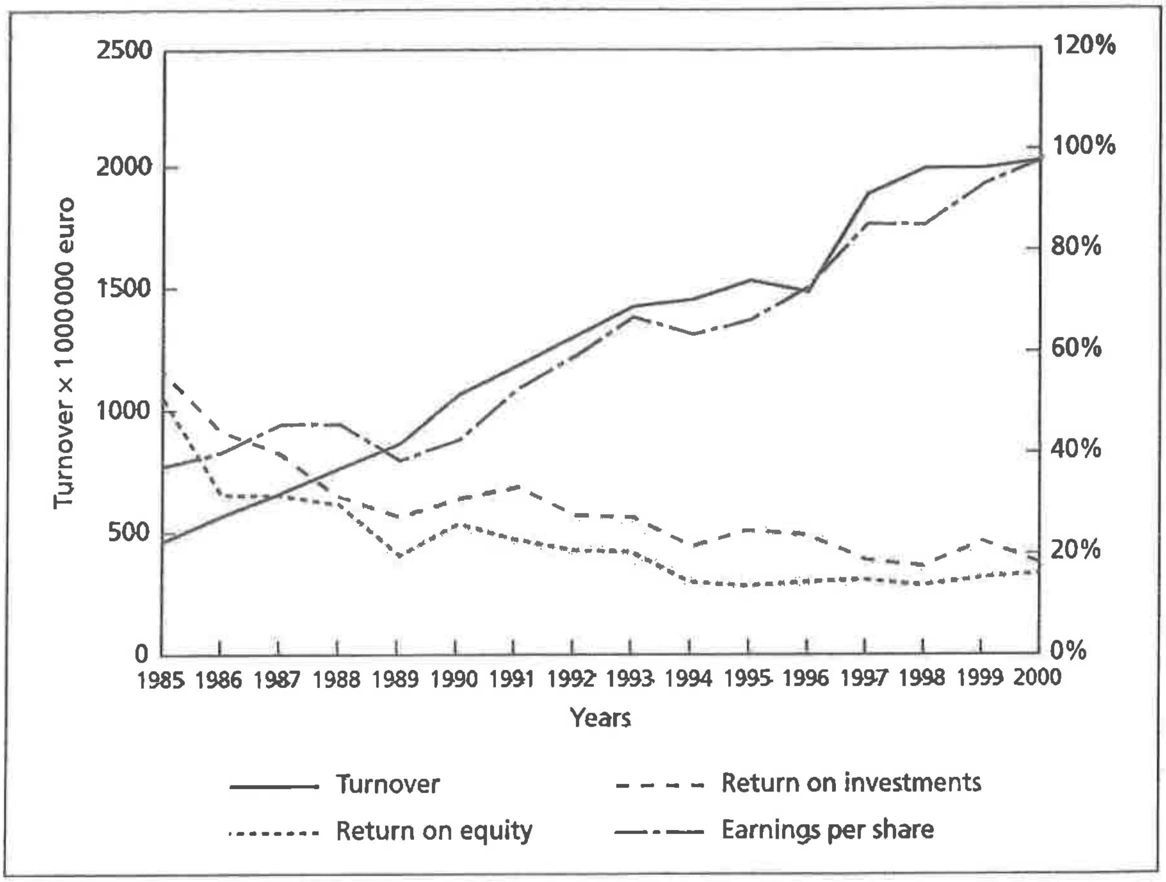
Indeed, the most evident example of this comprehensive change concerns the transformation of the upstream and downstream web of business relationships which links raw materials suppliers, outside contractors, agents and retail outlets. For years, this network structure, coordinated by Benetton, had ensured high performance, reaching simultaneously production flexibility and efficiency, market growth and customer satisfaction.

Today, however, Benetton's top managers are aware that this model will not *per se* guarantee success in the future. If the Treviso-based company is to be able to remain competitive in the new global arena, it ought to get first-hand contact with the end customers, take more direct control over the supply chain and respond in real time to market solicitations.

Hence, Benetton's management has recently undertaken a number of initiatives aimed to effect this major strategic change. For example, it vertically integrated upstream by taking direct control of its main suppliers of wool and cotton and, through the family holding, even by going so far as to purchase large sheep ranches in South America.

In addition, over the past two years, Benetton has begun integrating downstream, too. Opening its own megastores – the so-called 'Retail Project' – has represented a major discontinuity in Benetton's approach to distribution, being part of the firm's intent to directly monitor consumers in crucial markets, thus challenging its major competitors – large pure international retailers – on the same terrain.

Figure 16.1 Benetton Group's financial and economic indicators



Note: In 1998 a 1/10 stock splitting was carried out.

Finally, in 1998, Benetton completed its diversification strategy by merging with Benetton Sportsystem, a completely separate company also owned by the Benetton family holding, which included the sports-related business activities (sportswear, sports equipment, shoes and accessories) acquired and/or developed over the last two decades. Diversification has meant facing competition in a diverse, though adjacent, industry, characterised by production and commercial logics which are considerably different from those of the core business, and which require innovative strategies, markedly diverse from those of the conventional Benetton model.

Today, Benetton is therefore facing perhaps the most critical transformation since its foundation, and its business model, which has made it famous worldwide, is, in its turn, undergoing modifications and adaptations in order to keep up with the changing realities of competition.

Interestingly enough, this transformation does not derive from a financial crisis or a significant performance demise. Data in Figure 16.1 shows that, although slightly worsening in the mid-1990s, the overall financial performance of the Treviso-based company has remained excellent. Thus, Benetton's efforts should be interpreted as an anticipation strategy, aimed at interpreting and reacting to the changing environment and to the new competition.

The Benetton Group

Benetton's early history is closely bound with the life story of its founders: Luciano, Giuliana, Gilberto and Carlo Benetton. In the 1950s, Luciano – the eldest brother – took a job in a men's clothing store. In 1955, Luciano – then in his early twenties – convinced Giuliana that he could market the original bright-coloured sweaters she had been knitting as a hobby for her family and friends. The outcome was that he succeeded in selling to local stores the first collection Giuliana put together. Sales increased steadily over the next few years and, in 1965, Benetton was formally established as '*Maglificio di Ponzano Veneto dei Fratelli Benetton*'. Luciano and Giuliana decided to involve their younger brothers, Gilberto and Carlo, in the company operations. In the same year, the first Benetton factory went up in the village of Ponzano, a few kilometres outside Treviso. In 1968, Benetton opened the first shop and, over the next decade, a further 1000 shops followed, both in Italy and abroad. By the late 1990s, there were more than 6000 shops in 120 countries. By 1987 exports, which had amounted to two per cent of turnover at the end of the 1970s, had grown to 65 per cent. In 1986, only 20 years after the firm had been founded, turnover reached €500 million; it then grew continuously, at an average annual rate of 18 per cent until 1990, when it passed the €1 billion mark. In 2000, the €2 billions turnover threshold was hit. In the late eighties, Benetton was listed in some of the most important stock exchanges, such as Milan, Frankfurt, New York and Toronto.

Today, the Benetton Group is currently one of the world largest garment producers and retailers – with stores and manufacturing facilities located all over the world, a turnover of €2 billion and 7000 employees. The Benetton Group is controlled by Edizione Holding, a financial company all in the hands of the Benetton family, which owns a portfolio of businesses in a variety of industries ranging from garments to catering (Autogrill), from sport to telecommunications (Telecom Italia, Tim and Blue), from agriculture to services (Host Marriott Services) and highways (Autostrade). Benetton Group's activities can be clustered into three distinct businesses:

1 Casual wear business: garments, accessories and footwear, distributed under the United Colors of Benetton and Sisley brands; this represents the core business of the Group (74 per cent of total turnover in 2000).
2 Sports business: clothing, accessories and footwear, mainly marketed under the Playlife and Killer Loop brands, and sports equipment (ski boots, skis, roller blades, skateboards, snowboards, scooters, tennis rackets, etc.), distributed under the Nordica, Prince, Killer Loop and Rollerblade brands (20 per cent of total turnover in 2000).
3 Complementary activities: royalties, sales of raw materials, industrial and advertising services (6 per cent of total turnover in 2000).

Benetton: the archetype of the network organisation

According to the conventional, now outdated, picture[1] of Benetton, the firm's success was based on the following factors:

- Unique and original marketing and communication strategy: the United Colors of Benetton brand has become a world recognised example of counter-intuitiveness, irony, and disruption both in marketing and in advertising.

- Network organisation for distribution: Benetton sells and distributes its products through a number of agents, each responsible for developing a given market area. Benetton does not own the stores, rather, agents set up a contract relationship with the independent store owners (a licensing agreement similar to franchising) who sell Benetton products. Benetton supports the sell-out process by providing the retailers with a number of services (merchandising, etc.).
- Network organisation for manufacturing: the extended use of a network of 'contractors' and 'subcontractors' (mainly small and medium enterprises, many of which owned, completely or partly, by former or current Benetton employees) which supply Benetton factories. This 'hollow' structure has given Benetton a significant cost advantage (lower manufacturing and labour costs), risk reduction (investment selection and risk shifting onto suppliers) and unbeatable flexibility (rapid adjustment to changes in demand).
- Innovative operations management techniques, such as resequencing for postponement: the Benetton manufacturing process postpones garment dyeing for as long as possible, thus, decisions about colours can be delayed in order to better satisfy market trends (so called *tinto-in-capo* strategy).

However, emerging challenges have now caused Benetton to move away from this previously successful strategy.

The emerging challenges

Globalisation and I&CT are changing the name of the game in the textile-apparel industry. Globalisation of markets implies an increasing cross-country homogenisation of consumers' lifestyles and market preferences and encourages firms to offer 'global' products, with no major national customisation. Factors like marketing economies of scale and brand equity gain more and more importance, triggering firms' size increases and concentration of market shares in the hands of companies – usually big buyers – able to control markets through capillary retail structures.

Globalisation also affects manufacturing. For example, during the last decade, some US retailers have played a major role in shaping overseas production networks in the garment industry. In other cases, like Benetton, globalisation has encouraged both a move towards the internalisation of certain operations – in order to maintain control over the supply chain and to take advantage of economies of scale – and the relocation of production abroad, in order to take advantage of cost (namely labour cost) differentials.

New I&CT have a double-fold profound impact. First, they dramatically reduce information costs, facilitate communications, eliminate barriers related to geographical distances, and allow real time response to market change. Second, they enhance product development and manufacturing, widening the possibility to achieve, simultaneously, better quality, higher efficiency, and faster time to market.

Challenges in the casual wear business

In recent years there has been a profound transformation in the rules of competition within the textile-apparel industry.

Table 16.1 provides a snapshot on the different strategies of some key actors in the casual wear business (Benetton, The Gap, Hennes & Mauritz, Zara). Almost all Benetton's competitors are international retailers that shape their international production network on the basis of economic considerations (labour cost global scanning, minimisation of foreign trade constraints effects, etc.), realising basically no in-house operations.

This strategy seems to represent a benchmark in the industry, since it allows quick response to market changes, product mix and volume flexibility, and cost efficiency. One of the main features of such a strategy is constituted by the role of retail outlets that no longer merely sell a product, but, rather, draw the customer into the firm's world, communicating its image and philosophy. Since this is harder to do in small retail outlets, ample spaces are needed to display the entire range of garments and accessories. Consequently, the so-called 'megastores' (ranging in size from 1000 to 3000 square metres) have become 'the rule'. They have increasingly substituted small retail outlets not only because they serve to implement this new approach to the relations with customers, but also because they often allow twofold, if not threefold, turnover increases per square metre, when compared with traditional small shops.

Table 16.1 Global competitors in the casual wear business

	Features of the business network	
Competitors	**Supply and production network**	**Distribution and retail network**
Benetton (Italy)	• Strong upstream vertical integration • In-house production in 32 production centres: 22 in Italy and 10 abroad • Outsourcing of production to a network of SMEs directly controlled by the Italian and foreign production poles	• Turnover ≈ €2 billions • Retail outlets managed by third parties: about 5500 stores in 120 countries • Retail outlets managed directly: about 60 worldwide • Average size: 120 m^2 (traditional shops); 1000 m^2 (megastores)
The Gap (USA)	• Complete outsourcing of production	• Turnover ≈ €14 billions • Retail outlets managed directly about 3700 stores mainly in North America • Average size: 700 m^2
Hennes & Mauritz (Sweden)	• Complete outsourcing of production	• Turnover ≈ €4 billions • Retail outlets managed directly: around 700 stores in 14 countries • Average size: 1300 m^2
Zara (Spain)	• Partial upstream vertical integration • In-house production in 23 production centres • Outsourcing of production to a network of small shops in Spain and Portugal	• Turnover ≈ €2 billions • Retail outlets managed directly: about 450 stores in 29 countries • Average size: 750 m^2

Challenges in the sports business

Unlike in the casual wear business, where there is a very special relationship between Benetton and retailers, in the sports business Benetton interfaces with a variety of different actors: big distribution chains, small specialised shops and, also, retail agents. None, apart from the agents, have an exclusive relationship with Benetton, which, therefore, competes with the other producers in each distribution channel. Indeed, the worldwide distribution chains effectively dictate the rules of the game. In large display areas, all the competing sports brands are compared directly by customers. This is particularly important for technical equipment (such as skis) as customers need to have the opportunity to evaluate the features of the various products made by the different makes (for example Nordica, the brand for Benetton skis, compared with Atomic, Rossignol, Fischer, Head, K2, etc.) in order to be able to choose the article that best fulfils their expectations. Design, style, technical performance, technology content, wearability and price are only some of the factors that are critical for success in sport equipment and sportswear. Indeed, the sports industry, though differentiated, is highly competitive and the world market is already virtually saturated, with the exception, perhaps, of some niches.

Benetton's new global network

Today, Benetton is therefore involved in global competition on two, very different fronts, both of which pose a considerable challenge. On the one hand, there is the traditional casual wear business which has to face up to innovative and aggressive competitors; on the other hand, there is the sports clothing and equipment business which is having to develop and establish itself in a market that is not going to expand much further and in which many of the firms have already consolidated their positions.

Product design in the casual wear business

Since its beginnings, Benetton has always operated as an international enterprise and has tended to offer the same or a similar range of products in all the national markets it has entered. However, until recently, more than 20 per cent of the models in its ranges were customised in order to satisfy the specific demands of each country (for example smaller sizes for the Far East, specific colours for Middle East countries, etc.). The task of selecting the models best suited to each different clientele was left to the individual retail agents. Effectively this was a 'partial globalisation' resulting in a different image of Benetton in different geographical areas. Today, however, in order to communicate just one image all over the world, Benetton has decided to develop just one, more limited range of products that will be offered in every country. Indeed, nowadays, only 5–10 per cent of the models it offers in each collection have been differentiated in order to meet the specific needs of individual countries. The spring/summer and autumn/winter collections for the year 2001 have been reduced, in terms of the number of articles offered, by as much as 35–40 per cent.

At the same time, Benetton is developing the 'flash' collections – introduced during each retailing season in order to renew the articles offered to customers and to keep up better with the fast-changing market trends – that will, eventually, make up 35–40 per cent of its total products. Thus, a more thorough understanding of customer's expectations and lifestyle, and an increase in the numbers of flash collections launched during each season should strengthen the United Colors of Benetton brand.

The year 2000 was also the year in which Benetton streamlined its brands. The brands related specifically to babies, children and expectant mothers' garments have all been eliminated and unified under the United Colors of Benetton brand. The whole range is now divided on the basis of age with, obviously, different collections for each group (four for children, one for men, women and expectant mothers).

In the field of design, major efforts have been put into the search for new materials, especially easy-care textiles, in order to produce garments that are easy to look after as they can be machine washed and do not need to be ironed. This also is part of Benetton's attempt to reinforce the image of its products, which are fast becoming truly global (the same article is on sale all over the world), young (no specific age group is targeted, rather a lifestyle is), 'easy' (to use and, again, to get hold of) and, above all, of high quality.

Operations management in the casual wear business

The Benetton conventional network system was characterised, among other factors, by heavily outsourcing the labour-intensive phases of production – such as tailoring, finishing and ironing. Small and medium size firms, mainly located in the north-east of Italy – in the Treviso county in particular – usually specialised in one of these operations and worked as main contractors. However, strategic activities and operations which require heavy fixed investment (amounting to around 30 per cent of the value of production), such as weaving, cutting, dyeing, quality controls at entry and on finished goods, quality control of intermediate phases and packing, have always been carried out within Benetton itself.

In the mid-1990s, as volumes increased, this strategy led Benetton to the setting up of a high-tech production pole at Castrette, not far from the Ponzano headquarters. Undoubtedly, the Castrette pole can be considered one of the most advanced in the world within the textile-apparel industry. It covers an area of more than 100 000 square metres and is divided between the five technical divisions – Wool, Cotton, Tailoring, Shirts and Jackets, Accessories and Shoes – which are responsible for all garments and accessories production, both casual wear and sports clothing. Castrette has an overall production capacity of about 120 million items per year.

Moreover, Benetton has recently changed its relationships with suppliers. In order to take advantages of labour cost differentials, Benetton has relocated some of its outside contractors abroad (Table 16.2).

However, interestingly enough, Benetton has adopted the original Castrette model in the countries it has relocated to – Spain, Portugal, Tunisia, Croatia and Hungary, etc.– recreating, on a smaller scale, directly controlled production poles. Thus, foreign poles are composed of a subsidiary (totally or partially owned and directly managed by Benetton) which coordinates the production activities of a group of the SMEs (small to medium-sized enterprises), often set up and managed

Table 16.2 Localisation of the foreign production poles

Name	Headquarters	Workshops location	Benetton's equity share
Benetton España S.L.	Castellbisbal	Spain	100%
Benetton Lda.	Maia	Portugal	100%
Benetton Tunisia S.àr.l.	Sahline	Tunisia, Morocco	100%
Benetton Ungheria Kft.	Nagykallo	Hungary, the Ukraine, the Czech Republic, Poland, Moldavia, Bulgaria and Romania	100%
Benetton Croazia	Osijek	Croatia, Slovenia, Serbia	100%
Benetton Korea Inc.	Seoul	Korea	50% (joint venture)
Egyptian European Clothing Manufacturers	Alexandria	Egypt	50% (joint venture)
DCM Benetton India Ltd.	New Delhi	India	50% (joint venture)

by ex-Benetton employees or Italian contractors. For example, Benetton Hungary (a foreign subsidiary of the group) coordinates the production activities of outside contractors in Hungary, but also in the Ukraine, the Czech Republic, Poland, Moldavia, Bulgaria and Romania. These production poles make to order: the Castrette pole chooses what is to be produced by each of the foreign production poles, which then, independently, decide how they allocate production tasks among the SMEs they are linked to. Articles produced abroad return to Italy, where they are prepared to be shipped to the final customers.

The foreign production poles focus on one particular type of product and use skills already existing in the area: T-shirts are made in Spain, and jackets in Eastern Europe. Consequently, high-quality production is ensured. At the moment the foreign contribution to Benetton's production is still limited, given that the 70 per cent of Benetton's output is still produced in Italy, but it will increase in the future.

Lastly, it should be noted that even the system of production in the original Italian establishment of Castrette has changed. Indeed, activities that used to be considered critical, such as quality controls at entry and on finished goods, cutting out and dyeing, have been transferred to subsidiaries. Currently, the Castrette pole focuses on such operations as: elaboration of the marker sheets for the computerised fabric cutting system (using CAD and CAM systems), which are then sent, using electronic support, to foreign production poles (for example in Tunisia and Hungary); cutting out prototypes; and, quality control of diverse intermediate phases. Clearly the process of moving production to international subsidiaries and contractors has increased both the necessity for, and the needs, of integration and communication between Castrette and the foreign production poles. Through improved communications, the separate actors of the supply network can coordinate the timing of the various phases in the best way, so as to reduce production lead-times to the minimum. Today, production lead-times are between 35 and 40 days whatever the product may be. However, in the garments sector, the critical factor in time compression does not depend so much on the tailoring phase, but rather on the supplies of raw materials.

In order to overcome this potential problem, Benetton has, over the years, gradually increased the degree of upstream vertical integration to incorporate its textiles and threads suppliers. Indeed, Benetton's main supplier of raw materials – which provides and guarantees 60 per cent of the woven fabric, 90 per cent of cotton knit fabric and 90 per cent of carded and combed wool – is 85 per cent controlled by Benetton itself.

Both upstream vertical integration and partnership relationships with external suppliers have made it possible for Benetton to transfer upstream quality controls on textiles/threads. This, in its turn, allows the materials purchased to be sent direct to workshops and external producers without further controls, thus reducing transport costs and cutting production lead-times overall.

Nevertheless, Benetton has decided to maintain direct control of the logistics phase and has invested heavily in automating logistics processes in order to achieve total integration within the production cycle – from customer orders to packing and consignment. Indeed, today, the average time for consignment is seven days and 10 million garments could be sent out all over the world each month.

Reshaping the retail network

Benetton's traditional approach of direct retailing entrusted to third parties represented one of the Group's most successful strategies for many years. However, this strategy no longer seems to be able to sustain Benetton's presence on the market. The retail market has recently been characterised by a general tendency to increase the average size of retailing outlets, up to 1500–3000 square metres – the so-called megastores. On the contrary, the average size of Benetton's retail outlets has remained much smaller. Benetton risks seeing its locations suffocated by the aggressive market penetration strategies of its international competitors, whose retail outlet's average size is larger.

In order to face this challenge Benetton has decided to reorganise its commercial policies and change the size of its retail outlets by:

- enlarging its retail outlets, wherever possible, so as to be able to display the whole range of Benetton (or Sisley) products, garments, shoes and accessories
- focusing, where such expansion is not possible, each retail outlet in one market segment and/or product (for example only men's, or only women's products, or only knitwear, or lingerie and/or garments for the seaside etc.)
- opening new large retail outlets (500–2000 square metres) in the main shopping streets and areas of big cities.

Alongside the strategy of rationalising retail outlets, which are still organised using the traditional licensing formula, Benetton has taken on a far greater challenge: the Retail Project. Since November 1999, Benetton has been working on a project which seeks to flank its traditional retail network of licensed retailers with a direct sales network, which will be made up of medium to large-size shops directly owned and managed by the Treviso-based company itself.

The Retail Project, which entails complete downstream integration, represents a marked change in the traditional Benetton model of business organisation. With the Retail Project, Benetton is seeking to challenge competitors, focusing on selling garments with a high styling content, on continuous rotation of the products displayed in outlets and on very large display areas. By opening and directly managing its own retail outlets, Benetton is also able to get closer to the final consumer, thus obtaining more information and reinforcing its image, in a business where fashion is more and more unpredictable, subject to lightning changes and where, as a result, quick response to the market is a key success factor. Moreover, through an information system that directly links Benetton's own retail outlets with headquarters, the firm knows exactly how many, which size and what colour of article has been sold, how much it was paid for these and what remains on the shelves in the shops. Thus, Benetton is able to design and produce collections on the basis of continuously updated information.

By the end of 2000 Benetton had already set up more than 60 megastores throughout the world, and a further dozen have been opened so far during the year 2001. Benetton aims to have 100 megastores worldwide by the end of 2002. So as to give maximum visibility to the Benetton brand, the first megastores have all been opened in major cities, such as Paris, London, Rome, Milan, New York, Tokyo, Sao Paulo, Moscow, Hong Kong, Wien, Brussels, etc.

Reorganisation of the sports business

After the merger with Benetton Sportsystem, the Benetton Group has had to develop a way of coping with two, distinct businesses: casual wear and sportswear/sports equipment. In doing so, Benetton has tried to exploit to the utmost the possible synergies between such businesses. In the short term, the greatest and most easily realised synergies concern all activities linked to sportswear, while the biggest differences are found in the area of sports equipment.

The world market for sports equipment and clothing is, typically, made up of 20 per cent sports equipment and 80 per cent soft clothing (sportswear and footwear). Currently, the 88 per cent of Benetton Group turnover in the sports business derives from sports equipment and only 12 per cent from sports clothing. Benetton intends to expand its sportswear (clothing) business with respect to its sports equipment activities, given that, usually, in the clothing sector – both casual and sports – a leading firm can aim to achieve a 20 per cent margin, whereas in the sports equipment sector even a leader can only hope to achieve an 8 per cent margin. The short to medium-term aim is to attain a turnover in the sports sector where 60 per cent derives from equipment and 40 per cent from sports clothing, while in the medium-long term Benetton aims to mirror the distribution typically found in the world market (20 per cent sports equipment and 80 per cent soft clothing).

In order to support its strategy, Benetton has been investing heavily in sportswear development, trying to offer very wide Playlife and Killer Loop collections, ranging from the top level to the most economic items, and offering not strictly technological clothing items, but rather items designed to attract a broader spectrum of consumers. On the contrary, in the sports equipment business, Benetton is seeking to consolidate the images of its brands by continually offering products which are highly innovative, both in terms of performance and in terms of the features they incorporate.

The initiatives so far set up are:

Design of sports equipment

Over the past two years Benetton has invested more than $5 million in high-technology systems specifically for designing sports equipment. The aim is to offer products with a high technological content, which the final consumer will really be able to perceive as being better than those of competitors. This strategy wishes – to a certain extent – to persuade the large distribution chains to necessarily include Benetton's products in the range they offer because final consumers do expect this. From the organisational point of view, all the sports equipment-related R&D activities have now been concentrated in Italy, in Venegazzù, Treviso county, whereas formerly they were spread out all over the world (rollerblades in Minnesota, skis in Austria, etc.). In this way, the decision-making process should become more effective and the management of common services more efficient. The concentration of all R&D activities in one place – an open space of about 2000 square metres where more than 100 people work together every day – also aims to exploit possible synergies within the product innovation process to the maximum. Indeed, such choice multiplies cross-fertilisation opportunities, as project leaders and researchers can easily share information and knowledge about both materials and production processes. Moreover, people involved in R&D activities can also share their distinctive cultures and skills which once were not only part of different 'worlds' (different companies, products, brands, etc.), but also of different mentalities, such as the US one – typical of Prince and Rollerblade – and the Italian one that refers to Nordica.

Operations management

The reorganisation of the production process has been based on two main guidelines: on the one hand, the need not only to minimise manufacturing costs but also to cut the costs of transporting materials and part-finished items from one site to another; on the other hand, the need to both maintain and constantly expand the know-how associated with the quite handcrafted style of production activities. This reorganisation of operations has been carried out by:

- concentrating production of ski boots, skates, skis, attachments and accessories in the production plant at Trevignano, in Treviso county. The Trevignano plant has been designed similarly to the Castrette pole centralising just the high value-added manufacturing and logistics activities
- delocating the whole or part of production of some products in countries where labour costs are lower (for example, part of the rollerblade production in Hungary and China)
- concentrating management and control of sportswear production at Castrette so as to exploit as many synergies with the production of casual wear as possible.

Retail network

The process of merging with the casual wear business has also affected commercial and marketing activities which previously were entrusted to the Benetton Sportsystem European subsidiaries. This made possible both more direct monitoring of the market and closer relations with major customers (for example with large specialised chains). Moreover, concentration has also helped to eliminate all the fixed costs that arose from maintaining intermediary structures, such as trading companies, which were replaced by agents. In this way, both warehousing and distribution have been completely rationalised. More specifically, Benetton has tried to optimise its distribution network structure in two ways: (1) by developing, within the large sports shops of the distribution chains, special areas dedicated to displaying and selling Benetton's sports equipment brands, and (2) by constructing a new specific network of Playlife retail outlets, repeating the model successfully developed in the casual wear business. In 2000, Playlife brand reinforced its image in the sportswear market after it was chosen as the official supplier for the Italian team sent to the Olympic Games in Australia. The other brand with which Benetton commercialises its sportswear products is Killer Loop, which is destined for a young, extrovert public. Moreover, interestingly enough, Benetton is attempting to develop partnership commercial relations with its direct customers, the big specialised distribution chains. This allows Benetton to change from a make-to-stock production approach (usually imposed by the large distribution chains) to a make-to-order one, according to a new kind of commercial agreement that is called Blade Express Formula. Benetton offers special commercial credit to customers that accept the Blade Express Formula and does not produce on the basis of forecasts any more, thus avoiding warehousing (very risky, given the rapid rate of obsolescence in the sports products sector). Currently the Blade Express Formula covers 70 per cent of total orders.

Fabrica and United Web

One of the distinctive traits of Benetton is the way in which it is continually seeking new means of communication. Such a search, in recent years, has led the company to undertake advertising campaigns that have been based on social and universal themes, such as racism, AIDS, nature conservation, and life and death.

Benetton's interest in communication led it, in 1994, to set up a centre for the research and development of communication, Fabrica – a Latin word which means workshop – an incubator and a catalyst for the cultural inheritance of the Group. Headed by an international scientific committee which ensures the strategic, cultural and communication validity of the project, Fabrica has invested in creativity and brought young people and experimental artists from all over the world, as guests, to the huge complex near Treviso, which was designed by the architect Tadao Ando and inaugurated in September 2000. Fabrica occupies a total area of 11 000 square metres. It has a cinema, an auditorium, libraries, laboratories and photographic studios. The projects so far carried out by Fabrica have involved many different non-profit organisations, such as the Food and Agriculture Organisation (FAO) and SOS Racism, as well as both cultural institutions and museums in various countries. It has been recognised as an emergent, lively cultural centre, esteemed and appreciated at the international level. Some successful examples are the special award won by the movie *Blackboards* at Cannes Film Festival, 2000 and the Golden Lion won by the movie *Dayereh* at Venice Film Festival, 2000.

Even in the world of the net-economy, Benetton has found an original approach. In order to manage its e-commerce venture, Benetton has founded a company – United Web. The declared short-term aim of United Web is not increasing sales by introducing a new form of distribution, but is rather exploring and being present in an area which is considered to be potentially very interesting as a means of (1) reinforcing contacts with customers, and (2) making Benetton's products and style known to an increasing number of potential customers. The Benetton.com site has been conceived not simply as a virtual shopping centre where customers can buy Benetton products online, but rather as a horizontal portal, through which Internet navigators can find a far wider and more varied offer of services. These services range from critics' reviews of the latest LP by the singer Björk to holiday offers in Thailand, from the chance of listening to the latest CDs by Ricky Martin and Britney Spears to a summary of the spiciest gossip about VIPs in the public eye. All the time, while the visitor is listening to pop music, or reading reviews and gossip, images of products on offer that can be bought online run along a banner at the bottom of the screen.

United Web seeks to take advantage of the development of electronic transactions and confirms Benetton's attitude to innovation in a medium – the Internet – compatible with its business philosophy and global image. Entering the e-business world is consistent with Benetton's communication strategy and with the attempt to provide consumers with a comprehensive experience, a lifestyle. Therefore, United Web represents not only an additional distribution channel (business-to-customer B2C), but also an opportunity to transform all the relationships among the actors of the network.

As to the future, e-procurement and online services for the distribution network are only a few of the projects on which Benetton managers are currently working.

Questions

1. *Identify and summarise the main differences between the conventional and the new Benetton networks, addressing product design, supply and production, and retail networks, both in the casual wear and sports businesses.*
2. *Identify and discuss the major characteristics of Benetton's innovative strategy to design and manage its global supply network.*

Reference

1 Some versions of the Benetton story can be fund in Signorelli, S. and Heskett, J. (1984) *'Benetton', Harvard Business School case no. 6-985-014*, Harvard Business School Publishing Corp.: Boston; Dubini, P. (1991) 'United Colors of Benetton' in *Corporate Transformation*, ed. A. Sinatra, Kluwer Academic Publishers: Norwell, Massachusetts, 415–446; Harrison, B. (1994) *Lean and Mean: The New Landscape of Corporate Power in the Age of Flexibility*, Basic Books: New York.