

**BENETTON**

**STM 160 - INTERNATIONAL MANAGEMENT**

**Professor: Jane Salk**

**Section 2, Tuesday (13:00-16:15)**

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## **BENETTON – HISTORY AND PRESENT STRUCTURE**

When Luciano and Giuliana Benetton, both grown up under the harsh conditions of war and post war Italy, founded Benetton group in 1965, they probably did never dream that one day their company would among the most famous in the fashion industry. Yet, 34 years later, Benetton is present in 120 countries and Edizione Holding, the holding company of the family is now making a yearly turnover of XXX billion Lira<sup>1</sup>. Not at least due to their controversial advertising campaigns which sparked strong reactions around the world, from outright ban to art awards, Benetton has become known worldwide.

After the opening their first store in 1968 with a surface of only 40 square metres things were looking upwards soon. With the first successes, Luciano's and Giuliana's younger brothers, Gilberto and Carlo joined the business and since then Benetton has always relied on family and friends in their growing need for executives<sup>2</sup>.

Thanks to an attractive design of their products with a bold choice of colors, a franchise system which allowed for expansion without large investments, a closely coordinated production and innovations in manufacturing techniques, Benetton rapidly conquered market shares, first in Italy, then in Europe and overseas<sup>3</sup>. In 1985, their annual turnover had reached 900 billion Italian Lira and their network included 3000 point of sales, mostly in Europe<sup>4</sup>.

Since the late 1980s, Benetton is firmly engaged in a diversification strategy. Starting with the acquisition of ski-boot manufacturer Nordica in 1989, the group first moved into the sportssector. Other sport brands were acquired soon afterwards, like Kästle for skis and mountain bikes, Killer Loop for snowboards, Prince for tennis rackets or Rollerblade for inline skating. In 1992, these activities were bundled in a separate division, called Benetton Sportssystem. The production of sports equipment was supplemented by the production of sports wear, the aim being to provide the customer with both the equipment and the clothing, thus realizing synergies from the existing

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<sup>1</sup> <http://www.benetton.com/www/index.html>; originator: Benetton.

<sup>2</sup> Case Study, "Cas Benetton", p.2/3, taken from the course STM 111- Strategie et Management, professor: Gilles van Wijk, ESSEC Business School (see bibliography for complete address).

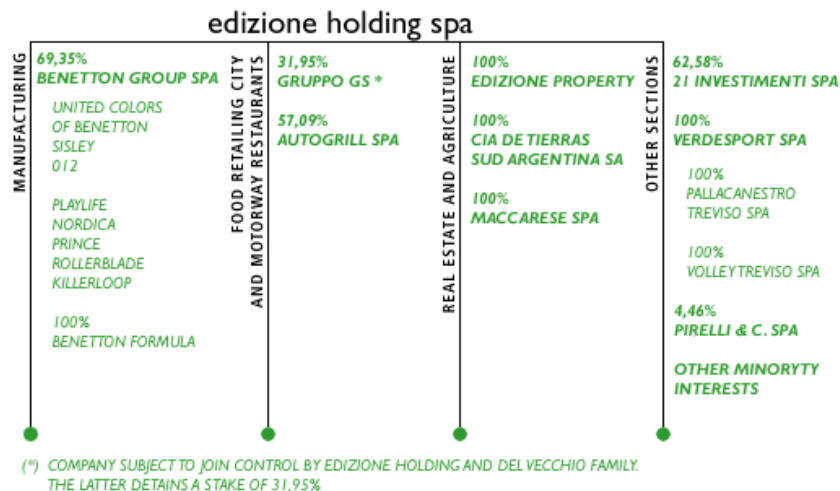
<sup>3</sup> Case Study, "Cas Benetton", p. 2, taken from the course STM 111- Strategie et Management, professor: Gilles van Wijk, ESSEC Business School (see bibliography for complete address); AND: "Les nouvelles couleurs de Benetton", Figaro Economie, 15828, July 10, 1995, page 5.

<sup>4</sup> Case Study, "Cas Benetton", p. 3, taken from the course STM 111- Strategie et Management, professor: Gilles van Wijk, ESSEC Business School (see bibliography for complete address).

textile manufacturing facilities<sup>5</sup>. Benetton Sportssystem is the fastest growing division of Benetton group and it already represent 21,3% of turnover<sup>6</sup>. With 55% of its sales realised in North America, it is also much less focused on Europe<sup>7</sup>.

While Benetton Sportssystem was still in connection with its original business, in the 1990s Benetton diversified into areas which were rather far from it, like retailing or the restaurant business. The acquisition of shares in Autogrill, world leader in catering services for travelers, and GS Gruppo, leader in the Italian food distribution sector, left the Benetton family with 700 supermarkets, 21 hypermarkets and over 650 restaurants, producing a combined turnover of more than 13,000 billion Lira (more than three times the turnover of the actual Benetton group)<sup>8</sup>. Reasons for this diversification into areas remote from their core business might be found in the wish to take advantage of the privatization of national industries presently in progress in Italy and to profit from the potential development in the food retailing sector<sup>9</sup>.

At present (1998), the different acquisitions and participations of Benetton are integrated into Edizione Holding, the holding company of the Benetton family, which also includes Benetton group itself. Edizione Holding realised in 1998 a consolidated net turnover of 9,148 billion Italian lire and net operating profits of 268 billion lire. An overview of the structure of the holding is given in the following graphic<sup>10</sup>:



<sup>5</sup> “Les nouvelles couleurs de Benetton”, Figaro Economie, 15828, July 10, 1995, page 4/5.

<sup>6</sup> Annual Report 1998, taken from <http://www.benetton.com/investors/directors.html>.

<sup>7</sup> “Les nouvelles couleurs de Benetton”, Figaro Economie, 15828, July 10, 1995, page 5.

<sup>8</sup> “Les nouvelles couleurs de Benetton”, Figaro Economie, 15828, July 10, 1995, page 6; AND: <http://www.benetton.com/wwa/index.html>; originator: Benetton.

<sup>9</sup> “Les nouvelles couleurs de Benetton”, Figaro Economie, 15828, July 10, 1995, page 6; AND: <http://www.benetton.com/wwa/benettongroup/benetton/file020799.html>; originator: Benetton.

<sup>10</sup> <http://www.benetton.com/wwa/company/file2050.html>; originator: Benetton.

In the following, we will concentrate on Benetton group itself, as it represents the original business of the family and is the most international of all the different segments of the holding. In 1998, the group realized a turnover of 3.834 billion lire and a net income of 293 billion. Its sales were still mainly concentrated in Europe (70%), though the trend is going to the faster growing markets outside the groups home continent<sup>11</sup>. We will have a look at its international strategy, examining the different parts of the value chain on how they respond to the ever growing internationalization of the business. In doing so, we will point out strengths and weaknesses of Benetton's approach and conclude by proposing possible changes for the future.

## INTERNATIONALIZATION ALONG THE VALUE CHAIN

We will now take a look at different parts of the value chain of Benetton, and examine where and how they respond to the internationalization of their business.

### *Sourcing*

Concerning sourcing, Benetton applies different strategies for each of its factors of production.

### **Financial Resources**

The Benetton group relies on internal financing. Although Benetton is quoted, it remains in the hands of the family holding that holds 69,9% of its shares (1998)<sup>12</sup>. With this structure of capital, the family has all control rights over the group, and does not have to negotiate extensively with other shareholders about strategies or dividends. Only for their few foreign countries, for example Egypt<sup>13</sup>, Benetton has joint ventures, allowing the group to share the risk of operating in those countries. On the other hand, this means that tapping international financial markets for capital is only possible to a rather low extent, which might be a constraint for growth. Currently, the Benetton group does not seem to have any problems of liquidity, though.<sup>14</sup>

### **Human Resources**

Concerning human resources, Benetton is a real family group. Top management posts are reserved for members of the family or close friends, allowing for a quick understanding and maintaining control over operations. On the other hand, this means

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<sup>11</sup> Annual Report 1998, taken from <http://www.benetton.com/investors/directors.html>; AND: "Les nouvelles couleurs de Benetton", Figaro Economie, 15828, July 10, 1995, page 4.

that the pool of competent managers is per definition very limited, which may lead to problems in staffing at one point of time.

Most of the labor that is needed from manufacturing and selling Benetton products, is not directly employed by the company. Rather, they rely on independent entrepreneurs at both ends of the value chain. This brings a lot of flexibility, and helps keeping costs down.

### **Raw Materials**

Raw material sourcing is the one sourcing activity that is really internationalized. Benetton being the world's largest buyer of wool (6000 tons per year (1997))<sup>15</sup> as the main factor for their clothes, and Italy not being really known for its large scale sheep farming, they have to look around the world for excellent quality at the best price.

## ***MANUFACTURING***

### **Manufacturing Process**

The manufacturing process is one of the best known features of Benetton. The Group relies on a network of 350 small local firms around its manufacturing sites in the Veneto in Northern Italy<sup>16</sup>. This allows them to be very flexible in changing the amount of production, and to benefit from the lower labor costs of those companies compared to employees of Benetton's own production facilities. This network of suppliers close to them being one of Benetton's competitive advantages is reflected in a concentration of production in Italy<sup>17</sup>.

The design of all collections is done by Benetton who then sends production orders to the suppliers around.

The knitted, but unfinished products are sent to the two main production sites at Castrette, where they are finished, dyed, and packed to be distributed worldwide, and where more complicated pieces are manufactured entirely. The site is responsible for quality control as well. The automated distribution center of Benetton is one of the

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<sup>12</sup> "Benetton frappé de furie expansionniste", *Le Nouvel Economiste*, 1095, Oct. 16, 1998, p.72f.

<sup>13</sup> "Le groupe benetton entend développer ses ventes de vêtements hors d'Europe". *Les Echos*, 16903, 5/22/95, p.16.

<sup>14</sup> "Benetton frappé de furie expansionniste", *Le Nouvel Economiste*, 1095, Oct. 16, 1998, p.72f.

<sup>15</sup> "Benetton encore plus réactif", *L'Usine Nouvelle*, 2589, Apr. 3, 1997, p. 41.

<sup>16</sup> Cf. "Benetton encore plus réactif", *L'Usine Nouvelle*, 2589, Apr. 3, 1997, p. 41.

<sup>17</sup> 90 % of Benetton's production are in Europe, and Italy alone accounts for 80%. Cf. "Benetton encore plus réactif", *L'Usine Nouvelle*, 2589, Apr. 3, 1997, p. 41.

most sophisticated ones in Europe, insuring quick delivery under four weeks to all Benetton shops around the world<sup>18</sup>.

### **Outsourcing vs. Integration**

The organization structure described above is Benetton's answer to the question which activities of the value chain should be controlled within the company, in order to effectively and efficiently serve their markets.

For Benetton, this was mostly a question of outsourcing vs. integration. Low value-added steps such as knitting were sourced out. This allows for low fixed and variable cost, as Benetton does not have to invest in the machinery that is used for knitting, and can benefit from the lower wages of those smaller companies.

The strategically important functions such as design, dying and finish, and quality control and distribution are kept under the control of Benetton.<sup>19</sup> Integration also meant that Benetton, in the face of complaints about high sales prices, had to rationalize operations to compensate for higher wages and lower all in all production costs. By integrating and automating logistics, Benetton was able to save 60% of the costs over the last ten years<sup>20</sup>.

In the face of relatively high wages in Europe, another step in making production cheaper was to move production from the "heartland" Northern Italy either down to the south, where wages due to high unemployment are lower compared with the North, and increasingly to countries such as Brasil, China, Egypt, India, or Korea, where production is dedicated to local markets only, though.<sup>21</sup>

## ***Sales***

### **Franchises**

Benetton sells its products through 7000 rather small stores in 120 different countries. These stores are with very few exceptions independent, run by entrepreneurs who are responsible for their own profit. By relying on the franchise system, Benetton can expand very quickly into new markets without having to invest a lot of money. At the same time, this system is self-regulating, meaning that Benetton does not have to bother about the management of the shops, or when a shop should be opened or closed. This is the task of the owners.

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<sup>18</sup> Cf. "Benetton encore plus réactif", L'Usine Nouvelle, 2589, Apr. 3, 1997, p. 40.

<sup>19</sup> Cf. "Benetton encore plus réactif", L'Usine Nouvelle, 2589, Apr. 3, 1997, p. 41.

<sup>20</sup> Cf. "Benetton encore plus réactif", L'Usine Nouvelle, 2589, Apr. 3, 1997, p. 40.

## **Megastores**

But the company increasingly opens so called megastores in important cities, at highly frequented places, such as 5<sup>th</sup> Avenue, New York<sup>22</sup>, or Oxford Circus, London<sup>23</sup>. These stores have extraordinarily large surfaces of more than 1000m<sup>2</sup>, and allow to present the whole range of Benetton products, thus increasing penetration with the customers.

## ***MANAGEMENT***

But how does Benetton manage this complex international network of suppliers and franchises?

### **Business System**

An important factor in coordinating Benetton's activities is the worldwide electronic network linking all shops as well as the production sites with Benetton headquarters<sup>24</sup>. This leads to standardization of management practices as well, as the network is based on one business system. It allows to compare sales outlets all over the world, and to respond quickly to market trends by adjusting production according to the information gathered worldwide.

### **Informal Contracts, Family and Friends**

In managing the network, Benetton not only relies on electronic data processing, but also heavily on personal relations. On the supplier side, Benetton places much importance on personal relationships. The production responsible knows them personally, and often there are no formal contracts that explicitly describe the way how Benetton and its suppliers work together.

Within the company, all important posts are occupied by members or friends of the family, and originally, also franchises were only given to friends<sup>25</sup>. This can ensure quick communication and easy decision-making on the top management level.

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<sup>21</sup> "Les nouvelles couleurs de Benetton", Figaro Economie, 15828, July 10, 1995, page 5.

<sup>22</sup> Cf. "Benetton encore plus réactif", L'Usine Nouvelle, 2589, Apr. 3, 1997, p. 41.

<sup>23</sup> "Benetton ouvre une surface de 1600m<sup>2</sup> à Londres", Journal du Textile, 1466, Sep. 16, 1996, p.12.

<sup>24</sup> "Benetton informatise ses magasins", Le Monde Informatique, 737, Oct. 10. 1997, p. 21.

<sup>25</sup> Case Study, "Cas Benetton", p.3, taken from the course STM 111- Strategie et Management, professor: Gilles van Wijk, ESSEC Business School (see bibliography for complete address).

## **Philosophy**

Benetton also promotes a very clear philosophy among its business partners. It is strongly influenced by Luciano Benetton himself, and emphasizes cultural understanding and equality of people. It is a guideline for all operations, unites the network around common values, and thus helps keeping it together and leading it into one direction.

## ***MARKETING***

In marketing, Benetton is on the one hand following the strategies of other competitors, but also has a very particular Benetton way.

### **Megastores**

The presence with megastores in important fashion centers such as Milan, Paris, London, or New York helps promoting the brand among the innovators among the fashion conscious customers of the world, who in turn act as a trend setters for other potential buyers. This strategy can be found with most of the other well known fashion brands, that also market by selling in the right places.

### **Unique Campaign**

Advertising campaigns are centrally co-ordinated, under the auspices of Luciano Benetton himself and the house photographer Oliviero Toscani.

The strategy for Benetton's for advertising is to communicate in the almost 100 markets they do business. The problem was and is that different markets respond to different trends and are experiencing different climates and seasons at any particular time, therefore it is impossible to represent the 4000 pieces of yearly product offerings in an appropriate and representative way throughout the world. That is why Benetton has chosen to create brand awareness through non-product image advertising that positions the company as a socially active company. Consequently, Benetton spends only 4 per cent of its annual profits on advertising and communication<sup>26</sup>. This strategy, though, is not without exception. Though for the main brand United Colours of Benetton advertising campaigns are the same, Benetton could not stick to this strategy for all its brands. For example, for 012, the children's wear collections, had to

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<sup>26</sup> "Approach unites fashion in 120 countries", Business Korea, Seoul, Jan. 1999.



be adapted locally, as the importance that is placed on how (expensively) children are dressed varies greatly across cultures<sup>27</sup>.

## THE ESSENCE

What can we learn from this description of the way how Benetton products reach the customer? Benetton, as much as any other company, had to find its own structure and processes that lead to and maintain competitive advantage. It had to adapt to the circumstances of the specific industry, country, and market Benetton is operating in.

How can we thus summarize Benetton's approach? We would describe Benetton as an "ethnocentric network", whereby ethnocentric in this specific case not only refers to a specific nation, but even to a family culture, as the company is centered in its operations in Italy, and heavily influenced by the family - in terms of management and values. In order to grow, Benetton bets on penetration of existing markets through diversification, for example into sportswear, as we can see from the megastores and the sportswear brand "Playlife"<sup>28</sup>. On the other hand, the company further internationalizes by expanding sales to the fast-growing markets of Eastern Europe and Asia<sup>29</sup>.

Due to being a textile manufacturer centered around the family and Treviso in Northern Italy, and head of a network of small suppliers and worldwide outlets, Benetton faces challenges in all areas of its operations. In this report, we talked about the most important ones, which we identified to be sourcing, manufacturing, management, sales and marketing.

To sum up, we described the specific set of strategies that Benetton uses to gain global efficiency, be locally responsive, and learn and transfer knowledge and information internally<sup>30</sup>, and what kinds of mechanisms the company applies to coordinate its network: as any other company, Benetton developed its own mixture of centralization, standardization, and socialization:

Centralized, and thus under direct control are strategically important areas (design, manufacturing, marketing); standardization is applied for information systems and ordering, but socialization is in our opinion most probably the mechanism of most

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<sup>27</sup> Case Study, "Cas Benetton", p. 10, taken from the course STM 111- Strategie et Management, professor: Gilles van Wijk, ESSEC Business School (see bibliography for complete address).

<sup>28</sup> "Les nouvelles couleurs de Benetton", Figaro Economie, 15828, July 10, 1995, page 4 and 6.

<sup>29</sup> "Les nouvelles couleurs de Benetton", Figaro Economie, 15828, July 10, 1995, page 4.

importance. We derived this from the way Benetton deals with suppliers on a basis of trust and oral arrangements, and how the family's philosophy is promoted throughout the network. Personal relations, friendships, and shared values are a strong link that help keeping any organization together.

### **And the future?**

But will it always be like this? We do think that also Benetton does and will have to change to respond to a changing environment, and to changes in the scale of its operations.

The company may increasingly go abroad with its production in the clothing sector. On the one hand to lower production costs which is crucial in a competitive business such as the textile industry, and on the other hand to be more responsive to the new markets that develop in Asia and Eastern Europe. As these trends continue, and as production and sales of the sports equipment activities are already concentrated in Northern America<sup>31</sup>, the center of Benetton might eventually move away from Italy, thus forcing Benetton to become a truly, in terms of Hedlund and Kogut, "heterarchical" company<sup>32</sup>.

This will, in our opinion, eventually influence the company's family- and friends-management approach, which in the long run might not be sustainable. Operations in countries with very different cultures, and in new market segments require specific knowledge about manufacturing conditions and consumer preferences. We believe that this knowledge cannot be present within one family from a single culture only. So Benetton may want to diversify its management as well as its operations in order to stay responsive to the needs of its various customers.

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<sup>30</sup> cf. "Managing across borders: New strategic requirements", C.A. Bartlett and S. Goshal, Sloan Management Review, 28, (Summer 1987), pp. 7-17.

<sup>31</sup> 55% of Benetton Sportssystem's turnover realized in North America, "Les nouvelles couleurs de Benetton", Figaro Economie, 15828, July 10, 1995, page 5.

<sup>32</sup> cf. "Managing the MNC: The end of the missionary era." G. Hedlund and Kogut, Mimeo, December 1988.

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### **Internet**

- Benetton homepage on <http://www.benetton.com> (1998 annual report also taken from there).