

Case Study 4

The Benetton supply chain

One of the best known examples of how an organization can use its supply chain to achieve a competitive advantage is the Benetton Group. Founded by the Benetton family in the 1960s, the company is now one of the largest garment retailers, with stores which bear its name located in almost all parts of the world. Part of the reason for its success has been the way it has organized both the supply side and the demand side of its supply chain.

Although Benetton does manufacture much of its production itself, on its supply side the company relies heavily on 'contractors'. Contractors are companies (many of which are owned, or part-owned, by Benetton employees) that provide services to the Benetton factories by knitting and assembling Benetton's garments. These contractors, in turn, use the services of sub-contractors to perform some of the manufacturing tasks. Benetton's manufacturing operations gain two advantages from this. First, its production costs for woollen items are significantly below some of its competitors because the small supply companies have lower costs themselves. Second, the arrangement allows Benetton to absorb fluctuation in demand by adjusting its supply arrangements, without itself feeling the full effect of demand fluctuations.

On the demand side of the chain, Benetton operates through a number of agents, each of whom is responsible for their own geographical area. These agents are responsible for developing the stores in their area. Indeed, many of the agents actually own some stores in their area. Products are shipped from Italy to the individual stores where they are often put directly onto the shelves. Benetton stores have always been designed with relatively limited storage space so that the garments (which, typically, are brightly coloured) can be stored in the shop itself, adding colour and ambience to the appearance of the store. Because there is such limited space for inventory in the stores, store owners require that deliveries of garments are fast and dependable. Benetton factories achieve this partly through their famous policy of manufacturing garments, where possible, in greggio, or in grey, and then dyeing them only when demand for particular colours is evident. This is a slightly more expensive process than knitting directly from coloured yarn, but their supply-side economies allow them to absorb the cost of this extra flexibility, which in turn allows them to achieve relatively fast deliveries to the stores.

- a) Draw out the Benetton supply chain and identify the major operations objectives of Benetton's retail operations, Benetton's physical distribution operation and Benetton's factory and its suppliers
- b) How well do these three interconnecting sets of operations fit together? Explain your reasons.