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FAST FASHION.  
BENETTON AND ITS  
MAIN COMPETITOR  
INDITEX (ZARA)

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*To my mother,  
Andromaqí.*

*“You may never know what results come of your  
actions, but if you do nothing, there will be no results.”*

*Mahatma Gandhí*



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# INTRODUCTION

The growth of global trade and the reduction of restrictions implemented by many governments around the world have generated benefits linked to the possibility of having available a large range of suppliers from all over the world. This means more competition, better prices, better services and a better result for the final consumer.

The transformation of consumer behaviors, oriented towards the search for highly personalized products and services, and the evolution of technology available today have changed the nature of the market. To operate in a market where there has been a drastic reduction of time to market of the products, with high technological innovation and the new production philosophies the speed and the quality of services offered are fundamental.

Zara and Benetton are two clothing brands that are very famous around the world. Both are currently considered fast-fashion companies, which is a way to say companies that offer to consumers trendy garments and quickly renewed. The fashion industry now has reached saturation, it is populated by many competitors and a way to attract customers in their stores is refresh constantly the range of products with the latest fashion trends.

The first chapter deals with the analyzing of the supply chain starting from the origins of clothing, from fibers, to the strategies of internalization in the era of globalization that we are living today.

The second chapter talks about the two structures, the traditional one and the fast fashion. The chapter continues by showing the evolution of these structures and the importance of time to market in fashion.

The third chapter deals with the Benetton Company. After a brief introduction on the company profile and the innovation of the postponement dyeing, which made the company famous, are analyzed the main changes in strategies taken like the orientation of the company from market driving to market

driven. The chapter continues with results and with the main difficulties encountered during the application of this change.

The fourth chapter is dedicated to Inditex (Zara), the Spanish company that serves as a benchmark for all the other companies of the sector. The great process innovation, introduced by Zara has invented the term "fast fashion". In fact the company is considered the founder of the fast fashion. After examining the success of the group brands, are analyzed the elements that make up the business model like design, production, distribution and stores.

The last chapter compares the two companies in order to enhance the common features, but above all to highlight the elements between the two businesses that ensure greater business performance.

# CHAPTER I

## 1. APPAREL SUPPLY CHAIN

### **1.1. Introduction to the supply chain**

The Fashion sector has always been, and still is, one of the most important businesses for the Italian economy and is recognized and appreciated internationally. The peculiarities that characterize the main companies in the sector appear a lot varied due to the operating methods, the technologies used, the reference markets and especially the organization of the supply chain.

The supply chain represents the articulated group of companies that contribute to the production, distribution and marketing of a given product. The structure of the Italian chain in the sector is decidedly complete, with upstream companies producing semi-finished products for the subsequent phases and downstream companies that deal with the marketing of the finished product. The completeness of the supply chain is also visible in terms of processed materials; wool, cotton, artificial and synthetic fibers with a prevalent geographical concentration in the northeast area. The typical structure of the companies that belong to the supply chain is medium-small company with high specialization, recurring innovation, high skills and flexibility necessary to ensure a rapid response to customer requests.

The representation of the supply chain has undergone constant changes over the years as a result of a vertical integration process downstream developed through the direct possession of sales points, a phenomenon that has characterized

the distribution system of the main competitors of the Benetton group<sup>1</sup>. To this is added the development of the Fast Fashion model, which highlighted the importance of the point of sale as the driver of the supply chain, so a supply chain driven by distribution rather than by industry.

Operations are closely linked to upstream textile companies and to the interrelations existing between the production and distribution companies. A business model like a network where a high level of integration leads to clear advantages in terms of efficiency and flexibility. The geographical proximity and the small size of the companies in the sector favored cooperation and allowed to reach a high level of specialization and a significant reduction in production times. Greater is the level of coordination in the supply chain greater is the level of competitiveness of the companies.

We can divide the supply chain into different phases that can be grouped into two macro sectors:

- Upstream sectors: include the initial and actual production phases or production of the raw material, spinning, weaving and dyeing;
- Downstream sectors: include the final steps for the completion of the head and the subsequent marketing or finishing, packaging and distribution.

Among the various activities, the one that is acquiring greater importance, so much that to be considered the distinctive element of the supply chain is undoubtedly the distribution, as it actually represents a point of direct contact with customers to constantly monitor the evolution of tastes, customer needs and thus direct the operation of the entire process. In this context, a company that has

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<sup>1</sup> Marco Ricchetti, Enrico Cietta, Il Valore della Moda, Industria e Servizi in un Settore Guidato Dall'Innovazione, Bruno Mondadori, 2006

<sup>2</sup> Stefania Saviolo, Salvo Testa, Le Imprese del Sistema Moda. Il Management al Servizio della Creatività. Etas, 2000.

shown its best understanding of the importance of the distribution channel is Inditex (Zara), able to respond in a flexible and immediate way to market developments<sup>2</sup>.

The actors of the supply chain operate with very different timing and procedures.

The period between the weaving phase and the packaging one is very large. The Fairs of the sector play an important role where the presentation of the yarns takes place. One of the most important is Modain Fair, in Milan. The very long timings mean that the yarn is presented about two years before the item is actually available in store.

In a continuous changing market, with an increasingly high level of uncertainty and unpredictability, an integrated and coordinated supply chain is the primary tool to guarantee a winning service, to achieve a competitive advantage through a collaborative attitude, transparency and sharing of all basic choices that underlie the success of the supply chain<sup>3</sup>. The increasing of competitive pressure requires that today companies need to find new areas for improvement within inside and outside the company.

The purchase of the finished garment by the consumer take place a few months after the definition of the purchasing policies of the shopkeeper that take a very high risk. A risk that is not only interested to the shopkeeper but has a direct impact on the entire production chain. Adopting a new model of production based on orders has solved the problem. A production process that is activated only after the order is received, when the contacts with the customer have already been started and substantially improved. The idea is to produce what will be sold with a reasonable certainty. This is possible only through a coordinated supply chain that

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<sup>2</sup> Stefania Saviolo, Salvo Testa, *Le Imprese del Sistema Moda. Il Management al Servizio della Creatività*. Etas, 2000.

<sup>3</sup> Enrico Cietta, *La Rivoluzione del Fast Fashion. Strategie e Modelli Organizzativi per Competere nelle Industrie Ibride*, Franco Angeli, Milano, 2009

guarantees a compromise between the high level of risk and the total risk aversion by the part of manufacturer.

The supply chain develop a selection process of what are the projects to be supported, the ones that respond to market demands. After identifying the most suitable yarns and fabrics, the persons in charge in the design of the collections begin to prepare the first samples. These samples will be the subject of a careful screening by manufactures. Those that result most suitable will begin to be produced.

After this phase, shopkeepers will have to define the size of the order and its composition like product lines, colors, etc. The phase in question is undoubtedly a crucial one because once the orders have been defined it is possible to proceed the production process. The ways, in which this type of integration is realized are very different, closely related to the organizational form that is considered most appropriate. For example, the supply chain of the Benetton group is characterized by having a high level of coordination but poor integration. Inditex operates through a high vertical integration, from the production phase of fabrics to design.

We can conclude that there is no universal winning structure but rather a plurality of organizational forms that are competing in the market.

## **1.2. Supply chain analysis**

Fashion system is an aggregate of extension and complexity that can be considered a "cluster"<sup>4</sup> of sectors of importance and weight that are variable but

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<sup>4</sup> Group of independent servers (usually in close proximity to one another) interconnected through a dedicated network to work as one centralized data processing resource. Clusters are capable of performing multiple complex instructions by distributing workload across all connected servers. Clustering improves the system's availability to users, its aggregate performance, and overall

closely intertwined. We have the tendency to focus our attention only on finished products such as garments, knitwear, accessories, etc. which in reality are the result of a long and complex chain of phases and activities from which interaction depends a good part of the success that the product obtains on the market.

A trendy dress is much more than the creative effort of a stylist: it is the result of the use of innovative fibers woven with specialized machinery in fabrics confined in the shapes and colors that the same fashion system offers through fairs and specialized operators. And that is not all: in the affirmation of a style, the role of the distribution that selects the supply upstream, and the critical eye of the specialized press, is also fundamental<sup>5</sup>. This system of interrelations can be broken down into several parts and according to different logics. A first important distinction is between phases upstream of the production cycle, which produces semi-finished products for the subsequent stages, and downstream phases, which produce and distribute final consumer goods. On this distinction is founded a basic concept for the analysis of the fashion system: the concept of supply chain. With it we mean the itineraries followed by the product in the production-transformation-distribution process, and the coordination and integration between the production phases from raw materials to industrial and distribution phases. Each supply chain is therefore composed of several phases that constitute real sectors, further segmentable internally according to commodity and price range criteria. The fashion system also includes sectors (complementary sectors) not disposed along the production cycle from raw material to the finished product, but which play a support role for the entire supply chain: the instrumental mechanics sector and

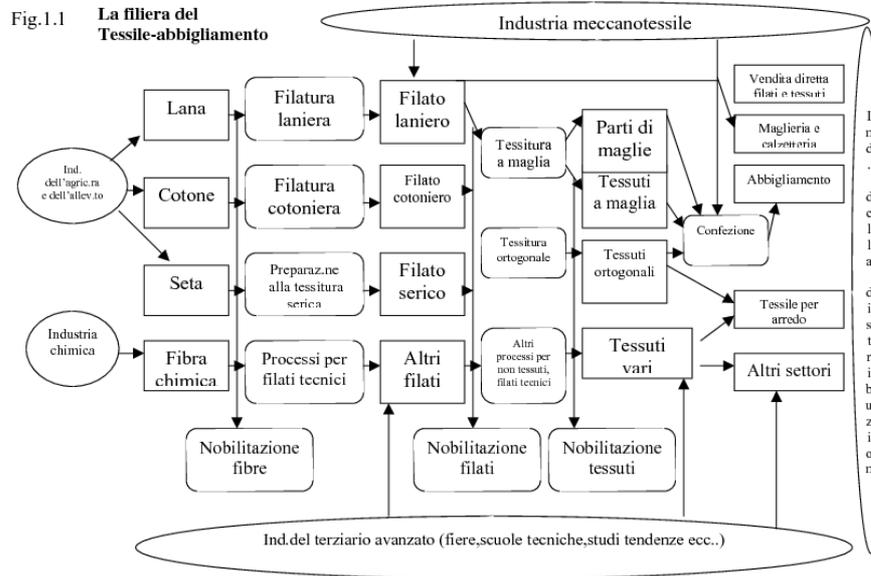
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tolerance to faults and component failures. A failed server is automatically shut down and its users are switched instantly to the other servers.

<http://www.businessdictionary.com/definition/cluster.html> Consulted [02/01/2018]. So a Cluster is also a group of economic operators and organizations that their competitive advantage is increasing thanks to their collaboration.

<sup>5</sup> Stefania Saviolo, Salvo Testa, *Le Imprese del Sistema Moda. Il Management al Servizio della Creatività*. Etas, 2000.

the various sectors of the advanced tertiary sector like specialized publishing, trade fairs, agencies, advertising and communication, design studies, etc.



Fonte: SAVIOLO S., TESTA S., *Le imprese del sistema moda*, Etas libri, Milano, 2000.

*Figure 1.1. Textile/Apparel supply chain<sup>6</sup>.*

In the Figure 1.1. is represented a summary of various different phases that make up the textile and clothing supply chain. It starts from the fibers to the distribution of the finished product.

The structure of the textile supply chain is made by three main sectors<sup>7</sup>:

❖ Fiber sector

<sup>6</sup> Stefania Saviolo, Salvo Testa, *Le Imprese del Sistema Moda. Il Management al Servizio della Creatività*. Etas, 2000.

<sup>7</sup> Stefania Saviolo, Salvo Testa, *Le Imprese Del Sistema Moda. Il Management al Servizio Della Creatività*, Rizzoli Etas, 2005.

- ❖ Textile sector:
  - ◇ Wool compartment;
  - ◇ Cotton and linen compartment;
  - ◇ Silky compartment;
  - ◇ Finishing compartment;
  - ◇ Various textile sector and technical products.
- ❖ Clothing sector:
  - ◇ Fabric clothing department;
  - ◇ Clothing section in knitwear and hosiery.

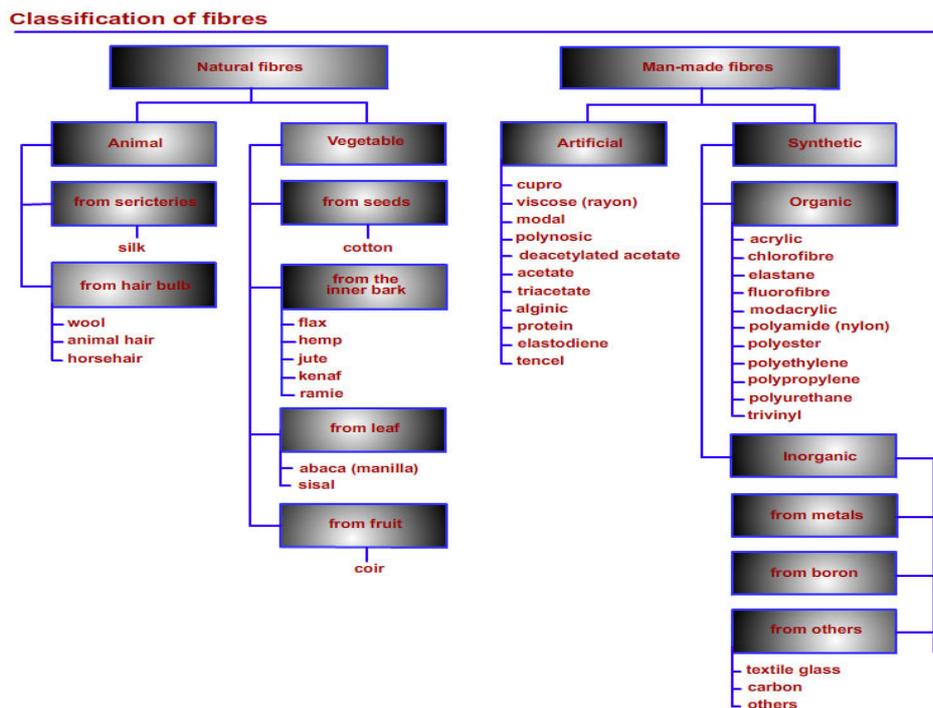
The idea of the analysis is to provide a complete overview of the functioning of the textile supply chain. The management creativity in these sectors is a management of borders, a management aimed at promoting the process of innovation in all parts, in all actors, skills and resources that fulfill the needs of customers.

### **1.2.1. Fiber sector**

Fiber producers make up the first sector in the textile supply chain. Fiber is the smallest component of a fabric, but it is also the one that gives many qualities like color, weight, solidity etc. Fibers can be natural or chemical. The natural ones come from animal, from wool and silk, or from vegetable, from cotton, etc. The chemical ones are made by man, called differently also man-made, through the use of existing products in nature, such as cellulose, or petroleum derivatives. The chemical fibers are divided into chemists are divided into two large families: artificial and synthetic. Artificial fibers are obtained from chemically transformable natural raw materials, such as wood cellulose and generally have properties similar to natural fibers of vegetable or animal origin. The synthetic fibers derive from different polymers obtained through chemical synthesis. Some glass fibers

and ceramic ones fall among those produced by man. The real advantage of man-made fibers over natural ones stays in the fact that they can be "tailor-made" according to the specific applications they are intended for. Therefore, bright or opaque, elastic or rigid fibers, soft or rough, delicate or ultra-resistant, colored or transparent, can be obtained under the need. As they are built in laboratories, chemical fibers are much more numerous than natural ones. There are currently around twenty types, classified under a generic name of which the different producers propose their own commercial variants. The most notable of these are cellulose acetate, polyether, acrylic, polypropylene and elastomeric fibers<sup>8</sup>.

In the Figure 1.1. are shown the two categories. The Natural fibers, as the name says are the one that are given from the nature and, are divided in two categories:



*Figure 1.1. Classification of fibres<sup>9</sup>*

<sup>8</sup> Stefania Saviolo, Salvo Testa, Le Imprese del Sistema Moda. Il Management al Servizio della Creatività. Etas, 2000.

<sup>9</sup> <http://gpkktt.weebly.com/classification-of-textile-fibers.html> Consulted [22/04/2017]

The ones that comes from animal and protein fibers and the vegetable and cellulosic fibers. “Natural fibers have been used to make textiles since prehistoric times and are still used today. Nowadays, natural fibers including animal (protein) fibers and vegetable (cellulose) fibers make up almost 50% of the textile fibers produced annually in the world.”<sup>10</sup> Natural fibers come from leaves, seeds, fruits, inner barks, hair bulb, etc so they come from cotton, coir, ramie, kenaf, flax, jute, sisal, pineapple, milkweed, sheeps, wool, horsehair, silk, goat, cashmere, rabbits, angora etc.

“There is also one natural mineral fiber, asbestos, though this is no longer used because it has been found to be carcinogenic.”<sup>11</sup>

The man-made fibers are divided in two categories too: the artificial (or differently called regenerated) and the synthetic. The last one is made by combining chemical parts and is divided in two categories: organic and inorganic.

The regenerated fibers use cellulose<sup>12</sup> as raw material. “Regenerated cellulose fiber was the first man-made fiber applied in the textile and apparel industry and in the early days of its development, during the 1850s, had the popular name “artificial silk” as manufacturers hoped to produce an artificial fiber to replace silk”<sup>13</sup>. Some example, as shown in figure 1.1, of regenerated fibers are:

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<sup>10</sup> Rose Sinclair, Textiles and Fashion Materials. Design and Technology, Woodhead Publishing Limited, 2015

<sup>11</sup> Rose Sinclair, Textiles and Fashion Materials. Design and Technology, Woodhead Publishing Limited, 2015

<sup>12</sup> Cellulose is “The chemical processing of short cotton fibres, linters, or wood pulp produce fibres like rayon, acetate, and triacetate. Other materials modified to produce fibres include protein, glass, metals, and rubber. Cellulose or cellulosic fibers are fibers structured from cellulose, a starch-like carbohydrate. They are created by dissolving natural materials such as cellulose or wood pulp, which are then regenerated by extrusion and precipitation. Cellulose fibers can be used to create a wide range of fabrics, from a heavy denim or corduroy to a light muslin or organza. Examples of cellulose fibers include hemp, linen, cotton, ramie, and sisal.”  
<https://www.heddels.com/dictionary/cellulosic-fibres/> consulted [27/04/2017]

<sup>13</sup> Rose Sinclair, Textiles and Fashion Materials. Design and Technology, Woodhead Publishing Limited, 2015

viscose, polynosic, acetate, triacetate, elastodiene ecc. There are 4 main categories of regenerated cellulose fibers: lyocell, viscose, acetate and cupro. Each of them has a different production process.

“Viscose rayon fiber is produced by making alkali cellulose and reacting it with carbon disulfide to form cellulose xanthate. Viscose rayon is the dominant regenerated cellulose fiber accounting for more than 93% of the regenerated-cellulose and cellulose-derived fiber market.

Lyocell rayon fiber is produced by directly dissolving cellulose into the solvent N-methylmorpholine-N-oxide (NMMO). Lyocell rayon is a new generation of regenerated cellulose fiber with environmentally friendly processing and improved fiber properties. Current production of lyocell fiber however is still limited, at less than 5% of the rayon fiber market.

Cupro rayon fiber is produced by dissolving cellulose into cuprammonium solution and then wet-spinning to regenerate cellulose. Because this process needs to use high-price cotton cellulose and copper salts, cuprammonium rayon is not competitive with viscose rayon and ceased commercial development after World War I. Today, only a few manufacturers (such as Asahi in Japan and Bemberg in Germany) still produce cuprammonium rayon to supply a niche market for artificial silk and medical filter materials.

Acetate is a cellulose-derived fiber rather than a regenerated cellulose fiber. It is produced by acetylating cellulose using acetic anhydride liquid with a sulfuric acid catalyst. The resulting cellulose acetate is dissolved in acetone and spun into fiber through a dry spinning process. The application of cellulose acetate fiber is limited to cigarette filters only and it accounts for about 2% of the total market for cellulose fiber.”<sup>14</sup>

Fibers can be classified also as Staple and Filament fibers. Staple fibers are short, usually from 2-3 to 15-20 centimeters, and are usually natural fibers. The

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<sup>14</sup> Rose Sinclair, *Textiles and Fashion Materials. Design and Technology*, Woodhead Publishing Limited, 2015

other one, the filament, are long, have indefinite length and are the man-made fibers. Usually fibers have three types of properties: Mechanical (rigidity, elasticity, strength, ecc), Chemical (reaction and resistance to light, to organic solvents, to acids, ecc) and Physical (density, flexibility, appearance, fineness, length, ecc). Every fiber has different properties and can be combined together to give birth to fabric with different properties.

The fibers sector is the area where the most important innovations, in terms of research of new functionalities and new materials, are made particularly the chemical fibers. But the possibility that technical innovations be included in the finished products depends on the interaction, in the innovative process, with the downstream phases: spinning, weaving, and packaging.

### **1.2.2. Yarns.**

The fibers (or filament) can be twisted or not to creates the yarns that can be Monofilament (mono because the yarn is made by just one single filament), Multifilament (multi because the yarn is made by many filaments twisted together) and Straple (that can be a mix of filaments that can be also different twisted together creating special yarns). So the yarns are fibers blended together to create yarns with high qualities or also low qualities, depending where they are going to be used (in high or low quality products). Usually fibers selection are based on their properties to create yarns with high functionality, high performance, for economic reasons, for more elasticity, for more comfort, for more uniformity, for better good looking, ecc. So the properties of types of fibers that are used for blending establish properties of the yarns (or the fabric because the yarns are transformed into fabric and textile and then into apparel). “The types of fibers used for blending determine the final properties of the yarn or fabric to a significant degree. A single-component fiber such as 100% polyester can provide excellent

strength, abrasion resistance, durability and easy-care properties. On the other hand, 100% polyester would be clammy, slippery and uncomfortable to the wearer. Similarly, 100% cotton or viscose fibers due to their hygroscopicity and thermal conduction properties provide excellent comfort properties to the wearer but have disadvantage of creasing, the need for repeated laundering, low color stability and low abrasion properties.

Blending cotton or viscose rayon with polyester fibers would combine the advantages of both fiber types, thereby minimizing the weakness of each fiber. The synthetic fibers polyester and nylons are used along with natural fibers such as cotton and wool to produce fiber blends that now have established applications in the apparel sector.

The fibers selected for blending should be compatible with respect to several attributes such as fiber length, fineness (denier), strength, extensibility and dyeing behavior. Although the purpose of blending is to achieve better properties in the final product, a mismatch of attributes would lead to quality and uniformity issues that would counteract the purpose of blending.”<sup>15</sup>

### **1.2.3. Fabrics.**

Fabric is the third stage of production of textile. Fibers (the first stage of production) are the raw material used to create yarns (the second stage of production). Yarn is the process that fibers are transformed into long wire and then are transformed into fabric by many ways, the most used are weaving, knitting, nonwoven.

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<sup>15</sup> Rose Sinclair, Textiles and Fashion Materials. Design and Technology, Woodhead Publishing Limited, 2015



Figure 1.2. Example of cotton fibres.



Figure 1.3. The creation of yarn.



Figure 1.4. The creation of fabric/textile.

### 1.2.4. Textile sector.

The textile sector includes the transformation of fibers into yarns and fabrics. Some transformation stages, which are also defined as semi-finished products, are: the preparation and spinning phase of the fibers, the weaving and the finishing phases.

Weaving is the major and the oldest process of producing fabric. It consists in interlacing each other two different sets of yarns, called weft and warp yarn. As is shown in the picture 1.5 the warp yarn is running vertically and the weft yarn is running horizontally and in this simple way creating fabrics.

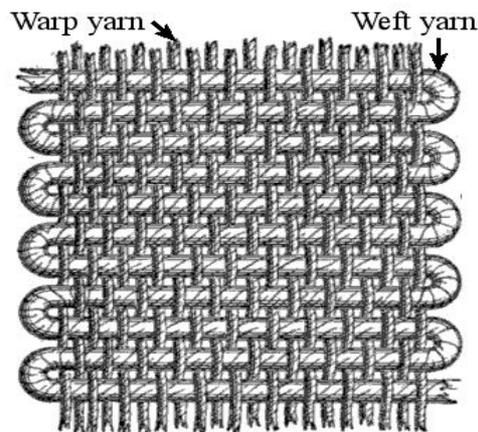


Figure 1.5. The weaving process of producing fabric.<sup>16</sup>

The weaving process is made by machinery but is possible also by hand using a device called loom. There are many types of looms that usually differ on

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<sup>16</sup>[http://www.globalspec.com/learnmore/materials\\_chemicals\\_adhesives/composites\\_textiles\\_reinforcements/industrial\\_fabrics](http://www.globalspec.com/learnmore/materials_chemicals_adhesives/composites_textiles_reinforcements/industrial_fabrics) consulted [03/05/2017]

their shape and the technology used, some of them are: table loom, dobby loom, computerized loom, etc. The basic functions (to keep the warp thread under pressure while the weft thread are interlaced and beaten to create the fabric) are the same in every loom but the form and the mechanism can be different.

Knitting is the second most used process of producing fabric. The structure of knitting is able to adapt or to be adapted to many different functions and activities. The properties of the knitted structure are flexibility, comfort, light and resistant, etc. Its manufacturing is made by intermeshing loops. “Historically, there are many different

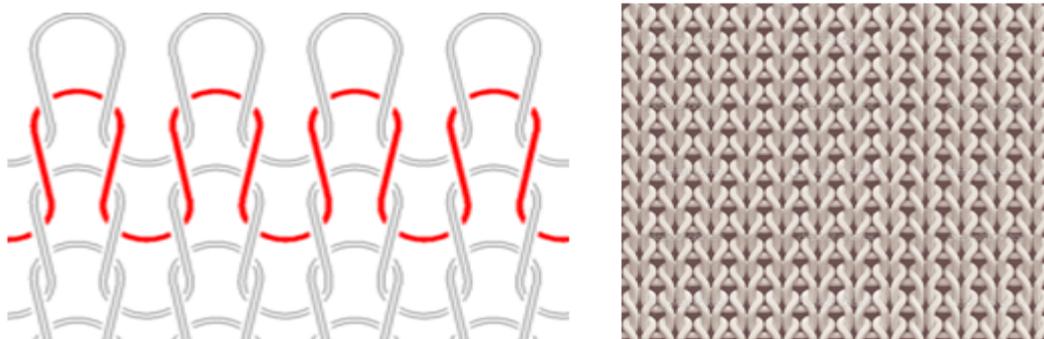


Figure 1.6. The knitting process of producing fabric.<sup>17</sup>

ways of forming the loops, including knotting yarns together and using a spool with pins inserted. However, the technique that has become most associated with fashion knitwear (weft knitting) is derived from either hand or pin or needle

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<sup>17</sup> <http://textilelearner.blogspot.it/2014/02/spirality-correction-system-scs-of.html> consulted [04/05/2017]

knitting. Hand knitting usually involves two large needles or pins and a single end of yarn. This method can be traced back to the fifteenth century in the United Kingdom (UK), where the unique properties of the material obtained were utilized for the manufacture of stockings. Of course, as with all textile manufacturing, knitting is no longer a cottage industry. Hand knitting is considered a skilled craft, and most modern knitwear available on the high street is produced using sophisticated computer-controlled machinery. Since William Lee's pioneering invention of the stocking frame in 1589, there has been much technological innovation. There are now two distinct types of knitting technologies, which ultimately produce vastly different fabrics for specific applications (weft and warp). The mechanical knitting process has been perfected so that different weights of materials can be produced at extremely fast speeds to the highest quality, often combined with complex patterning and texture. The properties of knitted fabrics are vastly different from those of woven fabrics. Knitted structures are less stable, more flexible and generally have better drape than their woven counterparts. The recent trend towards casual dress has increased the popularity of knitted garments significantly. Today, the knitting industry holds a larger market share in clothing and fashion applications, with many retail companies employing specially trained knitwear designers and technical staff to create innovations season after season."<sup>18</sup>

### **1.2.5. Clothing sector.**

About the downstream phases of the supply chain, there is a general tendency to speak of the product of clothing, without distinction between the two

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<sup>18</sup> Rose Sinclair, *Textiles and Fashion Materials. Design and Technology*, Woodhead Publishing Limited, 2015

types of finished product that are manufacture and knitwear. There are technological, productive and market differences between the two products: the manufacture activity includes cutting and sewing activity from orthogonal fabrics and knitted fabrics and the knitwear activity of producing knitted garments starting from yarns that can be in wool yarns, cotton yarns or mixed. The main phases of the production cycle that are the same in all the fabric or mallet segments are the cutting, the packaging, the ironing and the control and packing operations of the finished garment. The packaging phase is subdivided into some sub-phases: stitching, thermo adhesive and welding, possible embroidery or quilting.

While various phases of the cycle have been involved, in the recent years, by automation of processes, in particular the cutting, inside the package the stitching phase still has a very high incidence of the cost of the manufacture, which makes the productions uncompetitive in the most industrialized countries.

Regarding to the structure of the companies, in first approximation the most representative groups of companies producing apparel can be distinguished according to the following classification<sup>19</sup>:

- 1) Large industrial companies, sometimes integrated into textile groups, with quite a complete range of products belonging to different segments with high brand image and present on international markets. Some of them are: GFT Group, Marzotto Group, Miroglio-Vestebene Group, Ermenegildo Zegna Group, Benetton Group, Stefanel, Max Mara Group, Fila etc.
- 2) Famous "Griffe" with a high international vocation, with their own production or licensing companies, with a highly diversified

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<sup>19</sup> Stefania Saviolo, Salvo Testa, *Le Imprese del Sistema Moda. Il Management al Servizio della Creatività*. Etas, 2000.

range of products, even outside of clothing like accessories, perfumes, household items, etc. Some of them are: Armani, Valentino, Versace, Ferrè, Krizia, Missoni, etc.

- 3) Medium industrial companies, with a limited range of products, with their own or licensed brands, focused on specific sectors like men's and women's clothing, casual sportswear, active wear, underwear, hosiery etc. With a greater vocation to the national market although in the phase of progressive internationalization. Some of them are: Aeffe, BVM-Les Copains, Maska, Corneliani Group, La Perla Group, Belfe, Colmar, Golden Lady etc.
- 4) Small and medium-sized companies, producers of specialized products like clothing for children, technical sports clothing, fine knitwear, etc. and fashion accessories like ties, scarves, etc. These companies produce and sell with their own brand or license on the national market and sometimes also on the international.
- 5) Subcontracting companies of the previous companies, distinguishable in their turn into "third parties", capable of realizing the finished garment or most of the related parts of it. And "faconisti", companies that are smaller and often artisanal, which perform exclusively packaging and finishing activities on semi-finished products owned by their clients.

### **1.3. From quotas system to liberalization.**

The growth and the strength of the exchange flows between countries have had significant changes over the last forty years. One of the effects of globalization has been the rapid extension of the processes of cooperation and economic integration between rich countries and their restriction to the rest of the world. The attempt to manage these processes or to obviate the negative consequences has given rise to numerous interventions by governments and international organizations over the years.

The General Agreement on Tariffs and Trade (GATT) was established in Geneva on 30 October 1947 and currently has ninety countries with four fifths of world trade. The World Trade Organization (WTO) established in the context of the United Nations Conference on Trade and Employment in 1947-'48 to prevent abuses, abuses and discrimination against countries in international trade but entered in operation only at the beginning of the 60s.

Attempts to liberalize the trade in textiles and clothing under the GATT have had greater difficulties than other products since this sector has been governed by special agreements that have allowed industrialized countries to impose quantitative limits on imports from emerging economies to protect their industries.

With the progressive affirmation in the international market of countries in rapid industrialization, industrialized countries had a high increase in imports of cotton textiles products.

As a result of pressure from producers in industrialized countries, special and discriminatory agreements have been used to regulate trade in this sector. The first of these agreements was the Short Term Cotton Arrangement of 1961, followed by the Long Term Cotton Arrangement, from 1962 to 1973, and finally by the Multi Fiber Arrangement (MFA) which is the most significant, from 1974 to 1994. Only in the mid-90s started the dismantling of this mechanism, which precluded important markets to developing countries.

The Multi Fiber Agreement (MFA) regulated international trade in the

Textile-Clothing sector since 1974 until the end of the Uruguay Round 1994. According to the MFA import quotas could be agreed by bilateral agreements or unilateral actions to defend internal markets, which could be damaged by high import quotas.

“The Multi-Fiber Arrangement (MFA), which established quotas and preferential tariffs on apparel and textile items imported by the United States, Canada, and many European nations since the early 1970s, was phased out by the World Trade Organization (WTO) between 1995 and 2005 via its Agreement on Textiles and Clothing. The concern of many poor and small developing economies that relied on apparel exports was that they would be pushed out of the global trading system by much larger, low-cost rivals, such as China, India, and Bangladesh.”<sup>20</sup>

The MFA therefore stands outside the GATT agreements on international trade, particularly as regards the two guiding principles of non-discrimination between countries and the non-quantitative restriction on imports.

The declared objective of the Multi Fiber Agreement was to favor the progressive expansion and liberalization of world trade in textile products, by reducing barriers to trade, while avoiding distortive effects on individual markets and individual production lines. In fact, the MFA limited the import of textiles and clothing, through bilateral agreements or unilateral actions. These measures were allowed when an increase in imports caused, or was likely to provoke, "market turbulence" and serious difficulties for local industries.

Industrial countries used the Multi Fiber Agreement above all as a tool to protect their markets, limiting imports from developing countries.

In changing their production from large volumes of lower quality to more sophisticated and higher quality products, developing countries have increased international competition precisely where industrial countries were specialized, which were looking for more restrictions.

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<sup>20</sup> Gary Gereffi, Stacey Frederick, Policy Research Working Paper 5281, The Global Apparel Value Chain, Trade and the Crisis. Challenges and Opportunities for Developing Countries, 2010

In all the years in which it has remained in force, extensions to the Multi Fiber Agreement have been negotiated several times, including additional provisions and including new products. Furthermore, in several cases, the signing of bilateral agreements has made it possible to significantly limit the expansion of the quotas compared to the provisions of the Agreement. At the end of the application period Dec. 1994, the MFA had 44 member countries representing the majority of countries with strong interests in the exchange of textile and clothing products, including China, which joined the WTO only at the end of 2001.

The Multi Fiber Agreement was replaced, starting from Jan. 1995, by the Agreement on Textiles and Clothing (ATC). This is a transitional agreement, which responds to the objective of regulating and facilitating the transition from a complex system of quantitative restrictions on imports to a liberalization of the sector.

The ATC is the only agreement that presents an expiry date, from Jan. 2005 it no longer exists, and the entire sector is now included in the GATT regime.

Some of the elements that characterized the ATC are<sup>21</sup>:

- ◇ *Product coverage.* All products subject to MFA quotas are included in the agreement;
- ◇ *An integration program and a liberalization program.* Integration to regulates the progressive return of products under the GATT regime over a period of 10 years. A liberalization program to regulates a progressive increasing in quotas for products not yet integrated;
- ◇ *A mechanism to protect internal markets.* Extraordinary actions can be taken in defense of internal markets if it is shown that imports have increased significantly and that they are seriously damaging the economy of the country. The actions undertaken must set import limits at levels not lower than those actually applied in the last 20 months. The limitations may remain in force for up to three years;

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<sup>21</sup> <https://www.wto.org/index.htm> Consulted [06/01/2018]

- ◇ *Establishment of a "Textile Monitoring Body (TMB)*. A specially established supervisory body, with the task to examine all measures and actions taken in compliance with the provisions of the Agreement. Consisting of a president and 10 members, the TMB made decisions based on consensus. The TMB dealt with the evaluation of the cases of implementation of the internal market safeguard mechanisms.

The ATC had to set up, over a decade starting from 1995 to 2005, the liberalization of trade in the sector through the integration in the non-discriminatory regime of GATT and of increasing quantities of textiles and clothing, following a path articulated in four phases. During these phases, increasing quotas of textiles and clothing have been gradually integrated into the non-discriminatory GATT regime. The fourth and last phase of this transition process, which is the termination of the Agreement, took place on Jan. 2005. With the end of the Agreement any pre-existing quantitative limitation on imports of textiles or clothing has automatically was not valid anymore.

In these ten years of application, the ATC has been severely deny by the developing countries, or better it was deny the application by the USA, the EU and Canada, the main export markets.

According to what was signed in 1994 countries with import limitation quotas would have to reduce them gradually to zero by Jan. 2005. However, the categories of products liberalized in the first three phases have been those in which the quotas were less used. While those relating to products on which the European Union and the USA had more competition, were obliged to decay only in the last phase.

This represented ten years of "bonuses" for the European and American industry, which continued to have large profit margins, exploiting relocation and outsourcing.

If the Multi Fiber Agreement was an instrument of protectionist policy, the ATC should have been the path towards the application of the GATT requirement for the general elimination of quantitative restrictions.

"The removal of quotas on January 1, 2005 marked the end of over 30 years

of restricted access to the markets of the European Union and North America. Retailers and other buyers became free to source textiles and apparel in any amount from any country, subject only to a system of tariffs and a narrow set of transitional safeguards that expired at the end of 2008. This caused a tremendous flux in the global geography of apparel production and trade, and a restructuring of firm strategies seeking to realign their production and sourcing networks to accommodate new economic and political realities.”<sup>22</sup>

From Jan. 2005, the entire world textile sector is fully liberalized, with a high increase in Asian imports, in the US and in the EU. Many analyzes agree that the only productive reality ready to reap the benefits of the abolition of the MFA is China. Since 2005, there has been a change in the structure of European imports, and Italian in particular, at the same time a progressive growth of Asian market share, which not only penalizes other importers but also changes the structure of the internal market, subtracting market shares to those Italian productions that base their competitive advantage on the price factor.

The liberalization of the textile/clothing sector in the long term will lead to an increase in well being industrialized countries. This is as a consequent of a more efficient allocation of resources and therefore a reduction in consumer prices. In the short and medium term, the exit from the ATC system generates a loss of market shares for producers in industrialized countries. For the European Union, the impact of this process has different proportions for the various member countries, depending on the differentiation of their industries, as well as on the industrial and commercial sectors strategies done by each country. For Italy the impact of the liberalization of the sector should be less relevant, due to the greater diversification of production that would positively affect the capacity to compete on international markets.

Textiles/clothing is a key sector for the economies of many developing and developing countries. Therefore, the abolition of the quota system generates new

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<sup>22</sup> Gary Gereffi, Stacey Frederick, Policy Research Working Paper 5281, The Global Apparel Value Chain, Trade and the Crisis. Challenges and Opportunities for Developing Countries, 2010

opportunities and new challenges for these countries. The improvement in terms of well being for developing countries is therefore due to the liberalization of the textile and clothing sector. This improvement, however, is not homogeneously widespread. It is distributed and differs according to geographical areas and above all depending on whether or not preferential agreements have been signed with industrial countries.

China, India and Pakistan are the countries most favored by the abolition of the quota system, having been the most damaged by this commercial practice. It is China that counts the highest growth in production and this thanks not only of lower labor costs, but also because of its strong textile tradition has been added the great experience in the financial and marketing sectors of Hong Kong. China is already a power in the sector, and its exports increase everyday.

#### **1.4. Internationalization strategy in the globalization area.**

Over the years globalization has increased more and more and has allowed the shortening of distances. There has been a progressive evolution in free trade and communication and all this has led to an easier mobility of goods on international level, making exchanges much cheaper from the economic point of view.

Globalization has allowed companies to develop strategies for internationalization because with globalization there has been an enlargement of the markets that has led to the correlation of tastes and consumer choices. The fashion industry is certainly a sector involved in this process of internationalization because usually companies to be competitive try to adopt an internationalization strategy.

Internationalization is not a new phenomenon the fashion sector. Many companies adopted this strategy trying to establish themselves on the markets and using this strategy to combat competition.

The textile and apparel companies are looking for cheaper sources, trying to reduce their costs and therefore trying to increase their profits. Very important for companies is not only the aspect of acquisition of the goods but also the aspect of production and processing. Producing in other countries it can be cheaper and it can be a lower the cost of labor and therefore less cost for the company. Another fundamental aspect of why companies adopts the internationalization strategy is that selling all over the world the brand and the products of that brand get more and more recognition. The products are brought to the attention of the new markets and this would lead to new potential customers and to the affirmation of the brand on the market.

Making that the brand to be known worldwide is a very important factor at competitive level because it leads the company to be distinguishable from its competitors and to identify its own positioning in the market. A very important factor linked to the international recognition is also the advertising.

The internationalization as mentioned above is very important for the textile and clothing sector but not all companies apply the same internationalization strategy, because each company is different from the other and adopts a different model.

The clothing company assumes its own strategy based on the objectives settled and differs from the competitors either on the basis of price or on the basis of quality. Some companies in the textile-clothing sector are not entirely internationalized because they only partially refer to the acquisition of garments in other countries, or only to increase the volume of sales outside their national market. Others companies like the ZARA, Benetton, H&M, GAP etc. base all their strategies on the recognition of the products and the brand at an international level thanks to a global product offering. These companies have advantages by carrying out several stages of their production chain in different countries, from

production to sales of the product.

From what has just been said, it can be said that internationalization is very important for the textile and clothing sector, for companies that want to be recognized abroad but also for companies that simply want to benefit from the economic aspects.

## **1.5. The Italian textile and apparel industry.**

The Italian textile and clothing industry plays a primary role in the global panorama and in particular in those markets where the producer has the possibility to structure its offer on elements related to quality and product creativity rather than the price. About the price, the high competition of the emerging countries it result difficult to combat, being based on cost strategies. So maximizing the quality / price ratio of its products must represent the main focus, the guideline for companies of the sector. These can be possible thanks to a flexible organizational structure that is based on direct relationship with the consumer.

At the origins of the success there are a number of peculiarities that since the early seventies have strongly contributed to the development of the sector.

In those years, in fact, a widespread phenomenon was developed, the downsizing of large companies in favor of the expansion of numerous small / medium sized businesses that were concentrated in industrial districts and have specialized themselves by achieving a high level of know-how.

At the time the distribution structure already had distinctive elements and specificities that were very strong compared to the other European markets due to a very fragmented offer, small shops served by wholesale companies and a very detailed demand which represented an important stimulus in achieving a adequate degree of specialization.

Starting from the early eighties the development of the Italian companies

towards the foreign market highlighted the strong appreciation of the market for Made in Italy, which with its connotations of innovation and differentiation was immediately rewarded. This led to the creation of a universally recognized system, which is based on the quality of the offer. A flexible system, which succeeded in creating a high level of integration between the operators and guaranteeing an improvement in the performance of the operators and of the system as a whole.

The dynamism of Italian companies was realized mainly thanks to complete relationships between them, with the ability to develop products with high quality content as an element of distinction respect to other companies in the sector and to generate economies of scale that affected the entire supply chain.

To success contributed also the capability of the Italian industry to anticipate certain trends, such as the focus on product quality, which is possible through the development of advanced production facilities, technologies and processes suited to meeting market needs, high flexibility and high level of integration with the creation of a real network with close relationships of collaboration.

The competitive advantage achieved by Italian companies was also favored by the process of disinvestment in the textile / clothing sector that characterized some European markets which, scared of not being able to face the competition of emerging countries which set their strategy entirely on the factor price, they decided to exclude themselves by failing to fill the gap in terms of innovation and competitiveness.

In this context, the Italian distribution system, developed through a capillary structure of retail stores, has represented for a long time a barrier for foreign operators.

Finally, the integrity of the supply chain has allowed Italian companies to strengthen their competitiveness in the market, with a solid position of leadership thanks to a system that has its roots on a large number of companies operating in the sector, often characterized by a higher level of specialization and thanks to a medium / small structure but at the same time a flexible one.



## CHAPTER II.

### 2. TRADITIONAL AND FAST-FASHION STRUCTURE

#### 2.1. Introduction

Fashion studies highlights how clothing and fashion represent more than just consumer goods, they contain very important meanings for the individual and its relationship with the society. Fashion says something about the wearer, but also something about the social context of that person: the meaning of fashion wear is always relative to a person, a place, to a context. In other words, fashion is a cultural product insofar as its "value" is closely related to the "context" in which it is consumed.<sup>23</sup> The fashion product has a "hybrid" nature, in which the immaterial value is significantly higher than the material one.

The logic of renovation of collections, which represents the elements of the Italian fashion creativity, is totally based in the product.<sup>24</sup> For many years the famous fashion designers and major fashion brands have focused entirely on renovating fashion products ignoring other variables such as segmentation, placement, price ranges and services. The need to combine the product culture with market orientation it needed a continuous research of equilibrium between two processes, one focused on aesthetic component and one focused on economic

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<sup>23</sup> Enrico Cietta, *La rivoluzione del fast fashion. Strategie e modelli organizzativi per competere nelle industrie ibride*. FrancoAngeli, 2008.

<sup>24</sup> Stefania Saviolo – Salvo Testa, *Le imprese del sistema moda. Il Management al servizio della creatività*, Etas, Milano, 2000.

and competitive components. Market orientation and positioning allows to define, to filter and express new trends in an original way.

Traditionally, fashion companies are structured with two different organizational models that are conceivable just like two insurance systems, models that optimize the relationship between remuneration and risk, between expected costs and expected income. The two models, on one hand, the "programmed" system or traditional one and the "ready-made fashion" or fast fashion on the other, must be taken as a theoretical reference, since in reality, even before the fast fashion approach, a series of mix arrangements of the two solutions makes the difference less clear.<sup>25</sup> However, differences remain due to the two different approaches of the structures: the traditional structure try to predict long-term future consumption trends, which in the fashion sector two year to complete a collection is an eternity, and trying to gather as much information as possible. Fast fashion instead focuses on the short term and seeks to exploit the opportunity of selling at the moment. It does not aim to know everything, but only the information that is relevant for their business.

In all sectors the business offer system consists in one or more product lines. In fashion sector product lines are replaced by product collections. The concept of collection is based on the principle of seasons. The collection comes from the French *haute couture*<sup>26</sup> where the *couturier*<sup>27</sup> used to present a limited collection of new products.

The creation of a collection can be designed according to two models that correspond to two different structures of organization of the entire production chain: the programmed structure and the ready-made fashion or fast fashion structure. The choice of one or other model influences deeply the timing and the

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<sup>25</sup> Enrico Cietta, *La rivoluzione del fast fashion. Strategie e modelli organizzativi per competere nelle industrie ibride*. FrancoAngeli, 2008.

<sup>26</sup> *Houte couture* means the High fashion or Alta moda.

<sup>27</sup> *Couturier* means the dressmaker. The first independent dressmaker was, the British, Charles Frederick Worth that moved to Paris in the mid 1800's.

ways of the realization of the project. The programmed structure also called traditional structure has a succession of sequential and distinct design phases. The fast fashion structure generates continuous flow of new products and mini collections with very short life cycle.<sup>28</sup>

In the two models change the roles and the positions of the actors involved. In the programmed structure the project is driven from the production area so the industrial firm as a driver of the entire supply chain. In the fast fashion structure, in the contrary, distributors are the one driving the whole chain.

## **2.2. Traditional structure.**

A new collection start with the analysis of the competitive environment, defining the position on the market, defining the target of consumers, price and the use of the products. Defining the positioning of the collection involves the strategic manager, the brand manager, the entrepreneur, the style designer and market manager. The process of forecasting and developing trends is based on the research and sharing information between various actors in the chain and also by personal interpretation of companies.

The general fashion trends comes from the interaction of some actors like the Bureau de Style, the trade fairs of half-finished products and the fiber producers.

Bureau de Style or forecast institutions are working groups made up of sociologists, fashion designers and materials expert who work in contact with national and international opinion leaders in producing and selling information on

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<sup>28</sup> Marco Ricchetti - Enrico Cietta, Il valore della moda. Industria e servizi in un settore guidato dall'innovazione, Bruno Mondadori, 2006.

fashion trends.<sup>29</sup> They are mostly located in France and specifically in Paris. Their work is the first since they have to provide information to fabric and fiber producers and represent the first step to the new collection. The bureau de style proposes publications as a key tool for indicating future fashion trends. These publications provide information about colours, appearance of materials, elements of shape often through images, photos, landscapes, proposing everything that causes feelings and possible developments without closing the possibilities in a single trend but leaving room for many trends. The Bureau de style produces tools not only for the creative area of the company but also for the image and communication choices in all levels of the textile and clothing chain.<sup>30</sup>

Fiber producers are the first to inform and give some inputs about the new fashion trends and they do it through their own research thanks to Bureau de style proposals.

Yarn and textile fairs are places that express a synthesis of fruitful results from the re-elaboration of other sources. At the fair part of the orientation and selection job is already done because the samples of yarns and fabrics shown incorporate the latest trends identified by consulting companies that dealing with fashion trends like Bureau de style. The fairs are a meeting point for the actors of the industry and promote the emission and exposure to messages that can influence the representation of fashion trends. Messages between operators are also issued through separate meetings with the task of transmitting information that are intended to form a final synthesis of elements, like colours, effects, shapes and so on, that characterize the latest fashion trends. The fair presents a series of well defined topics where each producer makes public its information, its ideas, its results that are elaborated and translated into yarns and fabrics during the long

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<sup>29</sup> Stefania Saviolo – Salvo Testa, *Le imprese del sistema moda. Il Management al servizio della creatività*, Etas, Milano, 2000.

<sup>30</sup> Simone Guercini, *La conoscenza di mercato del vertice d'impresa. Casi di produttori di tessuti*. 2003.

process, that took place in the previous months. The fair is the moment where everybody communicates everything in a limited space and in a limited time.

Innovations that take place in the upstream stages of the production chain feed innovations in the downstream stages. The creation and development of an innovative project in clothing need to be shared by yarn and fabric producers. In the upstream stages there are the same organizational forms that regulate creative projects in clothing. They involve creative areas, productive areas, brand management and collaboration with designers and external technicians. In the production of yarns the presentation of a new collection requires to show the effect of the new yarn in the fabrication of the fabric. The main difference is in the tightest link between the creative area and the production area. It is the industrial firm that play the leading role of the entire creative project in the traditional structure, while in the fast fashion structure this role is played from the distribution firm.<sup>31</sup>

The starting of a new collection begins after the collection and analysis of trends information. This stage implements all the skills involved in the realization of the collection like the creative area including external consultants, brand management area, the manufactures area and the business area. The project of a new collection starts when the sales campaign of the previous year is done. So when the new collection starts are known information about the success or not of the last collection information about models, textile and other variants. In this way are known the first information regarding the start of the new season. A practical way to communicate information to the style office is the analysis (sell-in and sell-out) of previous collections through meetings. This analysis is done to get indications of which models of the previous season to re-propose and what modifications need to take place to incorporate the results of the new trend analysis. There are defined the characteristics of the new models that need reflect

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<sup>31</sup> Marco Ricchetti - Enrico Cietta, *Il valore della moda. Industria e servizi in un settore guidato dall'innovazione*, Bruno Mondadori, 2006.

and incorporate the results of new trend analysis and the maximum price of the various components that make up the collection. With the end of this stage it starts the realization of the models from the style office and external design stylists.<sup>32</sup>

A fashionable business, generally works on three seasonal collections at the same time, analysing the sales results of the past season, monitoring the current season's performance and sets up the collection of the coming season. The garment maker starts working for the new collections from three to twelve months before the presentation to the customers (to distributors). For the European companies usually there are two collections annually spring / summer (S/S) and autumn / winter (A/W) preceded and followed by pre-collections, flash collections, end-of-season seasons. American retailers, on the contrary, usually produce up to twenty-four mini-collections per year to continually renew their merchandise on the stores.

<i>1) Trends analysis by the Fiber makers</i>	<i>October / November of the year N</i>
<i>2) Collection of information spinners and weavers - start of technical cycle.</i>	<i>March of the year N + 1</i>
<i>3) Presentation and sale</i> <i>-yarn</i> <i>-Woven</i>	<i>July of the year N +1</i> <i>September / October of the year N + 1</i>
<i>4) Fairs of clothing</i> <i>-man</i> <i>-woman</i>	<i>January of the year N + 2</i> <i>March of the year N + 2</i>
<i>5) Delivery to stores</i>	<i>July / August of the year N + 2</i>

Table 2.1. The schedule time of the main five stages for the creation of collections in the programmed system /traditional structure. Example of autumn / winter collection. Sources<sup>33</sup>

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<sup>32</sup> Marco Ricchetti - Enrico Cietta, *Il valore della moda. Industria e servizi in un settore guidato dall'innovazione*, Bruno Mondadori, 2006.

As is shown in table 2.1 traditionally it takes about two years, from the selection of trends and raw materials to the sales of the products to the consumers, to create a collection.

The first activities of the traditional structure start from October of the year N with the trend analysis by the fiber makers. Starting from October fabric manufacturers begin the project for the next proposal to the textile manufactures. The ordering, production and delivery of yarns needed to make samples generally occur in parallel with the fabrication phase of the fabrics themselves.

In February / March of the year N + 1, for about two months, the production of the samples take place. During this time the fairs are held, with the delivery of the fabrics to the manufacturers of clothing. Fairs are very important tools to provide visibility to the proposals of the year and to define the fabrics that are most suitable for the future collection. The selection of the fabric samples is carried out with the analysis of the previous collection, the definition of the models to be proposed, the market evaluations and consequent prospects. After this selection the orders take place. We have to distinguish between continuous fabrics, which relate to those presented in the previous collections in terms of structure, colours, composition and patterns, so the fabric manufacturer works on expectation, taking into account the reordering point and innovative fabrics for which the supply phase may be problematic, because in some samples distributed the fabric it is not definitive but pending for definition. In these cases the requests can be met sometimes over 120 days due to the complexity of the fashion. Clothing manufacturers start to make the orders of the fabrics, needed for the production of the samples, already at the fairs. The manner in which fabrics manufactures respond to the request of samples varies according to the type of yarn concerned. Starting from June / July of the year N + 1 the clothing samples are made and also

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<sup>33</sup> Simone Guercini, La conoscenza di mercato del vertice d'impresa. Casi di produttori di tessuti. 2003.

the first orders of fabric are made. After completing the samples of the collection, it starts the sales campaign and the presentation of the collection to the sellers. On this occasion the sellers choose the models that best fit to the characteristics of their customers. This allows to define the most successful models which are going to be the ones most required. And one of the crucial stages is open, that is, the collection of orders from customers that lasts about three / four months from July to October. At this point fabric manufactures order the yarns on the orders that they have received. Part of "dark" orders consists mainly of continuous type of fabrics, unlike those based on actual orders that often provide a high level of customization. In September of the year  $N + 1$  the whole collection of orders is made to the clothing manufactures and the production process starts. In January and March of the year  $N + 2$  the clothing fairs starts and the orders are made again. The delivery to the stores for the sale to the costumers is made on July / August. The model described is adapted to the structure of each company with significant changes.

### **2.3. Fast fashion structure.**

Starting from the 90s the long supply chain crisis has led fashion companies to shorten the production and distribution system by jumping or merging some categories of operators. The transformation has been realized through the control of distribution with single-brand stores and with greater integration of the network of industrial suppliers. The traditional model of has been under pressure by the speed that the information is available today, thanks to new technologies. Also consumers are become more unpredictable. In such a context, investment in research becomes less exploitable because it is not defensible unless through

careful brand policy and a very strict control of distribution.<sup>34</sup> The increasing of information has facilitated the "falsification" but also has required greater selective capacity and stylistic consistency on products.

Fast fashion solves some key problems for fashion companies that compete in a market of hybrid products. Higher is the level of coordination in the supply chain higher is the level of business competitiveness in the industry. For a successful supply chain there should be collaborative and transparent behaviors, between the actors in the chain, which should share all management choices taken. It solves the risk problem, it manage the creative system and the production chain.<sup>35</sup>

The problem of the risk associated with the production of tangible / intangible products is connected to the high unpredictability of demand. The managing of risk it is complicated by the fact that the risk of a particular production varies in the different production phases. It is higher in the upstream phases when the information is not that much and clear and it is smaller in the downstream phases when it is closer to the market. To make the business more risky in the fashion market, there is the increasing role of fixed costs and unrecoverable costs. With two kinds of costs companies are pushed to modify their business model.

Another problem, solved by fast fashion model, is the managing of the creative system. The growth of intangible products in the fashion production chain implies the definition of a creative system that can operate in a dual way, which is innovating and at the same time incorporating the latest trends. This means managing a complex production chain, consisting of creative inputs in which coordination is essential and decisive because of the low defensibility of innovation. It is important and relevant the speed with which companies can innovate because only continuous innovation allows to defend hybrid products from imitation.

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<sup>34</sup> Enrico Cietta, *La rivoluzione del fast fashion. Strategie e modelli organizzativi per competere nelle industrie ibride*. Franco Angeli, 2008.

<sup>35</sup> Enrico Cietta, *La rivoluzione del fast fashion. Strategie e modelli organizzativi per competere nelle industrie ibride*, Franco Angeli, 2008.

The third key problem, solved by the model, is the managing of the production chain from industrial phases to sales in the stores. The need to reduce time-to-market<sup>36</sup> to reduce the risk requires finding appropriate production solutions that often are a trade off between several related and interdependent variables. The performance of a given input depends on what other inputs are associated within the production process. So the effectiveness of the supply chain depends on the abundance of certain factors in a given time and in a given place.

Fast fashion companies do not worried to identify season best sellers and their strategy it is not to collect information from others but is more. They start the production thanks to the efficient interpretation of market signals. Their production, creative and distribution system is very similar to the traditional system companies. The activities carried out are more or less the same but the timing on which the company operates is different. Large, internationally and well-known companies do not use samples because the stores are owned fully controlled by the company. Usually they do not do samples, which serves as visual tools to show to the potential customers at fairs. Not using samples, which slow down production, the company becomes more efficient.

Some of the efficiencies are in the speed of responding to the market, customer service quality, customer care and cost benefits. The increasing of competitiveness pushes the companies to focus on quality, differentiate their products and reduce delivery time. Time, the ability to respond quickly to the needs of consumer, can be a discriminating element. In the present market competition is closely related to the concept of speed, defined as delivery speed, but also concept, design and product definition. In the apparel industry timing can

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<sup>36</sup> Length of time taken in product development process from product idea to the finished product. It is a critical component of time based competition. <http://www.businessdictionary.com/definition/time-to-market.html> consulted [15/08/2017]

be translated into the need to reduce the processing time of the entire supply chain from design to distribution to all stages upstream and downstream.

Most of the efforts to reduce response time traditionally focus on production. It is important, however, to understand that a JIT (Just In Time)<sup>37</sup> logic applied to textile / clothing can lead to truly significant results in terms of time reduction only if attention is focused on optimizing the total time of the product crossing in the whole production chain. The goal of time compression for decision-making and inter-organizational coordination between different actors, such as weavers and confectioners, and between packaging and distributors.<sup>38</sup>

Fast fashion model allows the reduction of inventory stocks and reduce the error rate resulting from incorrect forecasts. This is possible through a constant market monitoring activity and a rapid redesign of production and distribution. Using this model the company will be able to offer its products and compete in a rapidly evolving environment. The goal is to increase profitability by reducing the time spent on activities that cannot provide value by cutting production costs, by eliminating inefficiencies and wastes. A structure that can quickly introduce new products into market, being able to serve the customer better and faster, and

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<sup>37</sup> JIT is Pull' (demand) driven inventory system in which materials, parts, sub-assemblies, and support items are delivered just when needed and neither sooner nor later. Its objective is to eliminate product inventories from the supply chain. As much a managerial philosophy as an inventory system, JIT encompasses all activities required to make a final product from design engineering onwards to the last manufacturing operation. JIT systems are fundamental to time based competition and rely on waste reduction, process simplification, setup time and batch size reduction, parallel (instead of sequential) processing, and shop floor layout redesign. Under JIT management, shipments are made within rigidly enforced 'time windows' and all items must be within the specifications with very little or no inspection. It was developed and perfected by Taiichi Ohno of Toyota Corporation during 1960s and 70s to meet fast changing consumer demands with minimum delays. <http://www.businessdictionary.com/definition/just-in-time-JIT-inventory.html> consulted [11/08/2017].

<sup>38</sup> Cipriano Forza, Andrea Vinelli, Quick Response La compressione dei tempi in progettazione, produzione e distribuzione, 1996, Cedam.

pursuing a high degree of customization. It is about switching from a reactive attitude to a proposition one, based on the simple finding that it is more beneficial to prevent rather than correcting posteriorly, behaviour that can reduce costs. It is therefore necessary to deeply innovate the whole supply chain from the manufacturer to the point of sale. Integration that affects all actors in the supply chain and it requires mutual collaboration throughout all stages and all actors. Collaboration like: reliable, timely and expeditious information; durable and integrated supply relationships; the involvement of suppliers in product design and product development; reducing chain inefficiencies and greater customer satisfaction.

Fast fashion was used for the first time in the 1980s in the US clothing industry, based on the need to contain the production times. In the 1990s some companies of the fashion industry like GAP, The Limited etc. ... developed a model with a working cycle that was around 500 hours. Within a few years, continuous evolution allowed some market giants H & M, Inditex-Zara to set a market response time of about 170 hours. A market response that was based on a structure able to be adapted quickly and continuously to Customer demand. The creation of around 20 collections per year was aimed to constantly attracting potential customers throughout the year and continuous monitoring of the daily sales allows them to update day after day their production program. In order to obtain positive results in the fashion industry it is necessary to operate in two areas: Internally, trying to improve the control function in the production and externally, reducing logistic lead-time throughout agreements with suppliers and outsiders. The central aspect for the development of the production cycle in order to obtain satisfactory results in terms of competitiveness, it is not enough to involve top management only in the study and definition of these improvement processes but it is essential to be defined and shared the same behaviour from all the members of the supply chain.

### **2.3.1. Fast fashion and its evolution.**

The consumption crisis of the early 90s, the replacement of clothes with other goods, the globalization and the launch of a liberalization process started in 1998 with Bersani law<sup>39</sup> that have profoundly affected on the number of fashion stores. The transformation of the distribution has certainly required a transformation of all the chain's operators and affirms the fast fashion.<sup>40</sup>

The independent retail has been put under pressure by the increasing competition on the market and from the swift replacement with the chain stores. Also wholesalers have gone into crisis, the one specialized in the intermediation of low-cost and high-tech commercial products typical of traditional fashion. The same wholesalers found themselves disoriented for the changes. They have seen a huge reduction of the market share owned by their customers. The growing need to organize with international supply systems, the research by companies of connections with less passages of brokerage has reduced the space for traditional fashion and created a favorable environment for the new challenge of fast fashion. It was significant also the pressure practiced by the low-priced offer from countries with more cost-effective systems. The appearance in Italy of the large distribution and international clothing chains did that the Italian fashion companies revisit their competitive model.

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<sup>39</sup> Pier Luigi Bersani is an Italian politician and was Secretary of the Democratic Party (DP), Italy's leading centre-left party, from 2009 to 2013. Bersani was Minister of Industry, Commerce and Craftsmanship from 1996 to 1999, Minister of Transport from 1999 to 2001, and Minister of Economic Development from 2006 to 2008. [https://en.wikipedia.org/wiki/Pier\\_Luigi\\_Bersani](https://en.wikipedia.org/wiki/Pier_Luigi_Bersani) Consulted [17/08/2017]

<sup>40</sup> Enrico Cietta, *La rivoluzione del fast fashion. Strategie e modelli organizzativi per competere nelle industrie ibride*. Franco Angeli, 2008.

The development path for the distribution of clothing in Italy has followed three major guidelines that correspond to the three major advantages of organized distribution chains compared to the independent retailer:

- a) Better exploitation of the information flow by the production system in reference to data on sales trends, end-season inventory and inventory data in general.
- b) Logistics optimization, which is the direct consequence of an improvement in the ability to exploit information flow available from companies. This has made possible to unify the management system of raw material supply, of production and of product management at points of sale, helping to reduce the time to market and also the risk associated with the classic normal production / sales cycle.
- c) A point-of-sale communication policy consistent with the image of the product. Even in the softest downstream formula like franchising<sup>41</sup>, the affiliate has the opportunity and sometimes the obligation to operate in line with the communicative strategy of the brand. The layout, design and decor of the point sales, the display cabinet design and the periodic promotions are in fact elements that are often regulated by the franchise contract. The

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<sup>41</sup> Franchising is an arrangement where one party (the franchiser) grants another party (the franchisee) the right to use its trademark or trade name as well as certain business systems and processes, to produce and market a good or service according to certain specifications. The franchisee usually pays a one-time franchise fee plus a percentage of sales revenue as royalty, and gains (1) immediate name recognition, (2) tried and tested products, (3) standard building design and décor, (4) detailed techniques in running and promoting the business, (5) training of employees, and (6) on-going help in promoting and upgrading of the products. <http://www.businessdictionary.com/definition/franchising.html> Consulted [18/08/2017]

relationship with the consumer is managed with a unique logic by optimizing investment and making it easier to achieve the marketing goals that the company aims.<sup>42</sup>

It is this relationship aspect that is crucial for the success of chains in the Italian distribution model. The decisive point of this process is in fact the need of the production company not to delegate the product to others and in particular to the independent distribution system. Fashion companies invest many resources in image care and in the positioning at the consumer mind. Care that results in a great choice of store location, store layout, and product selection on the shelves. Activities that need to be strictly under control and so become more difficult to delegate to independent or multi-brand shops. This has ended to make the production and distribution boundaries less clear as a result of downstream integration of manufacturing companies and as a result of upstream integration of the distribution companies. Companies have exploited the distribution as an internalization tool to acquire new markets.

The chain of stores is the format that best incorporates the advantages of modernity and at the same time the peculiarity of the Italian market, where commercially available stores do not fit all the characteristics of large distribution. The distribution modernization of the last 10-15 years is relevant in understanding the fast fashion phenomenon. It is sure that, as a result of this process, the production and distribution has progressively been integrated. These because, on one hand, the new brands are largely the result of a downstream integration of the producer but also because, on the other hand, the same distribution system has been able, thanks to globalization, to have cheap supply sources.

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<sup>42</sup> Enrico Cietta, *La rivoluzione del fast fashion. Strategie e modelli organizzativi per competere nelle industrie ibride*. Franco Angeli, 2008.

In the 90's the competition switched in the distribution area rather than in the productive area. It happened because companies discovered that it was a complementary condition to compete in the market. This step signed the beginning of a new business model. A business model that demanded new skills such as the manager of the development of the commercial network, new investments, new acquisitions and an internalization process. Higher controls of distribution has led to the need for products diversification and towards a total look range of products, for a better commercial exploitation of the stores.

The growth of distribution costs by the investments in new stores or franchising contracts has made necessary to increase sales to share the fixed costs, which started growing. The strong communication control over the brand facilitated a business-oriented marketing policy. The growth in distributive and promotional investments, the growth of the smallest size to compete, the increase of the number of chains that needed to be activated to fulfil the total look offer increased the risk.

The growth of the total offer was an effect of the new bigger size of the sale stores but also an effect of the total look offer. These growths reduced the space for errors in forecasting the demand. The independent retail that for sure has the opportunity to get to know the local market better and to gain more information on the trends of customers demand, has less chance of transmitting these information because the manufacturers that are using this channel of distribution use a higher number brokerage levels like agents, wholesalers, distributors etc. The feedback given from the independent retail or multi-brand stores is less manageable by manufacturers than the ones from single-brand stores because the information are organized in a standard and homogeneous manner so can easily be processed, thanks to the computer technology and even in real time.<sup>43</sup>

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<sup>43</sup> Enrico Cietta, *La rivoluzione del fast fashion. Strategie e modelli organizzativi per competere nelle industrie ibride*. Franco Angeli, 2008.

## 2.2.2. Fashion market and its trends.

The definition of trends is considered very essential especially at the upstream stages of the supply chain, like fibbers, raw materials, fibbers, textiles ecc, in order to produce proposals capable of addressing designers and companies. If the trend identifies the direction in which fashion moves, then the market will decide whether it is a broad-minded and medium-term trend or if it can only be exploited at the season level.

Understanding the degree of persistence of a trend is the most delicate and risky aspect for fashion companies.<sup>44</sup> The seasonal trends get stronger in the commercial relationship between the individuals that works in the whole chain. The producers of fabric, yarn ecc collaborate closely with their clients and with opinion leaders to incorporate the latest trends into the products, produced by them.

Analysis of trends is based on the identification of phenomenon that is not directly related to the fashion and is not temporary, that allows to focus more in the major trends in the society. The most important trends are consumer trends. They are like a forecast for the future consumers behavior. Because of the growing interconnection between countries, thanks to globalization, the trends tend to be more common in many countries, especially in industrialized economies. There are many trend specialists and institutions around the world, some of them are: Trend lab<sup>45</sup>, Naisbitt<sup>46</sup> etc. To understand the trends and offer innovative products the companies need to have a continuous internal research inside their businesses.

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<sup>44</sup> Stefania Saviolo – Salvo Testa, *Le imprese del sistema moda. Il Management al servizio della creatività*, Etas, Milano, 2000.

<sup>45</sup> <http://www.trend-lab.com> consulted [27/072017]

<sup>46</sup> <http://www.naisbitt.com> consulted [27/072017]

The sources that continuously fuel the internal research process are generally two: the exploration of marketing research and the exploration of product style.<sup>47</sup>

The exploration of marketing research consists in analysing trends of social cultural type and gives prediction of medium long term of the society. It, also, analyses the relationships between all players, actors in the system and the competition between them representing key sources to analyse market trends and verify business positioning.

The exploration of product style deals with technical-aesthetic aspects such as machinery, industry representatives, industry fairs, clients, consultants, fabrics, technical magazines and so on.

### **2.2.3 The fundamental importance of Timing in fashion.**

Some of the characteristics of the fashion market products are short life cycles, high volatility, low predictability, and strong role of impulsivity at the time of purchase etc. High volatility because can be influenced by many factors for example by the testimonials used in advertised campaign, by actors in the movies, by singers, by culture, by weather and so on. Low predictability because is very difficult to forecast the demand. Short life cycles because usually the product is designed to catch the feelings, the mood, and the state of mind of the people in a particular period. And strong impulsivity on purchasing because fashion products have the characteristic that the buying decision has to be made at the moment of purchase, so impulse buying.

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<sup>47</sup> Stefania Saviolo – Salvo Testa, *Le imprese del sistema moda. Il Management al servizio della creatività*, Etas, Milano, 2000.

These characteristics joined with others like the concern of constantly refreshing the collections in the stores and style (usually is a short time characteristic) has increased the need to reduce the "lead-time".

Fashion companies understood the fundamental role of Time to compete in the market and adopted three kinds of lead-times: Time to Market, Time to Serve and Time to React.<sup>48</sup>

- a) *Time to Market*: The ability to understand as quickly as possible what will be the future style trends on the market and translate them concretely into their products. Businesses capable of doing so will efficiently develop their own organizational system and will be able to better face their competitors. On the contrary, those who fail to shorten the time to design, produce and distribute will face two potential problems: first, a loss caused by missed sales opportunities, and secondly, the risk that the goods will be able to the store when the consumers already changed their mood and move towards to other products categories. So their products might be labelled or results out of date and out of fashion. The new strategies are based on the search for greater flexibility and frequent batch dispatch of smaller products, aspects that can also increase the speed of lead-times. The modern industries make it possible by using the latest generation of software such as CAD (Computer Aided Design) or CAM (Computer Aided Manufacturing) that allows working more precisely and quickly.
  
- b) *Time to Serve*: The time that goes through the moment that the retailer makes the orders to the supplier and the moment in which the delivery is taking place. In the traditional system stocks of goods are even demanded

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<sup>48</sup> Martin Christopher, Robert Lowson & Helen Peck, CREATING AGILE SUPPLY CHAINS IN THE FASHION INDUSTRY, International Journal of Retail and Distribution Management, Vol. 32, 2004.

with a nine-month advance, which is extremely a long time and has become unsustainable because the constant demand for new products increases the risks of obsolescence. However, a long distribution time that is not caused by the slowness in the manufacturing phase, but rather by the range needed to place orders and to fill in the necessary documents. A bureaucracy that is often the reason for significant trade slowdowns. This is especially the case when some of the supply chains are located abroad and therefore, in addition to preparing the documentation, it is also necessary to bear additional costs, such as transport costs. Therefore, a business organization will be efficient when it can minimize distribution costs in order to avoid having to others like obsolete costs, inventory transport costs etc.

- c) *Time to React*: The time that companies need to identify what the real market demand is, to adapt their offer. Real demand is what consumers are more likely to demand day after day or even hours later. The speed of changing of preferences let us to understand how crucial is the temporal aspect for a fashion company. It is very difficult to have the actual final demand clear, especially when the firm relies heavily on outsourcing or tends to relocate. In the classical production chain, every retailer have to reorder the merchandise to the wholesaler, who in turn has to submit another request to the supplier. The more these actors are far from one another the more is the probability that the manufacturer will rely on less accurate estimates of consumption trends. The only way that fashion companies can prevent the risk of leaving part of consumers unsatisfied due to lack of products is to order extra quantities of stock, but if they are too much could result in a loss for the company. The time needed to collect more information is also far greater than the time customers are willing to wait for to meet their needs. This time span is named "lead-time gap". In the 1980s, to overcome these issues, strategies based on the concept of quick response and in particular new organization models began to be widened. In these models the companies besides the role of producers were also in

charge of the role of logistics. This is what happens within the fast fashion model.

The entire production cycle, from design to the point of sale, in traditional structure companies has a timing that is more than a year. This kind of structure tends to shift the risk in the downstream level because eventual wrong forecast reflects directly on distributors. In fast fashion structure companies use strategies designed to shorten all Supply Chain processes, in terms of time needed to pass from the creative idea to the production and to the final consumer and also in terms of logistics and transportation.

In Fast Fashion companies the use of traditional structure is in contrast with the characteristics of the business, mainly with the short life of the product and therefore it is not consistent with the need to increase the speed of rotation of the goods offered.

The time-based competition<sup>49</sup> involves reduction of time at each stage of the productive chain, starting from the timing of supplying up to the manufacture and sale in order to reach the goal. The very short time between the designing of the product and its marketing makes possible to offer a product where there are included the latest trend.

The traditional production model is replaced by the Quick Response model, that is the set of process innovations aiming to create a greater demand and supply synchronization through the reduction of lead-time. This strategy is adopted across the whole chain through the continuous collection of market data and a flexible production ready to respond to demand variations.

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<sup>49</sup>Concept that time is a resource and a firm that make better use of time (in responding to the changing market situations and other environmental conditions) acquires a competitive advantage. The term was coined by the US consultant George Stalk, Jr., of Boston Consulting Group and popularized by his book "Competing Against Time". <http://www.businessdictionary.com/definition/time-based-competition.html> consulted [30/10/2017]

Quick Response in Fast Fashion focuses on bidirectional flow speed, from downstream to upstream and sharing of information within a chain that is highly integrated. Innovation of system is the collection, interpretation and the translation of information in final products. Innovation of system is also being flexible which is very important when companies are operating in variable and risky markets. Quick Response aims on reducing the potential factors of inefficiency in the whole chain, optimizing logistical and informational flows from production to distribution level. In particular, it allows improving the flexibility of production processes, increasing the stock availability in stores and reducing warehouse stocks.

## CHAPTER III

### 3. BENETTON GROUP

#### **3.1. Benetton group story.**

Benetton group was founded, in 1965<sup>50</sup>, in Treviso (Ponzano Veneto) by four brothers Luciano, Giuliana, Gilberto and Carlo Benetton. Their first company was called "Maglierie di Ponzano Veneto dei fratelli Benetton". The Benetton family begins production and sales of knitwear items in 1955 with Edizione Company<sup>51</sup>. After ten years of experience they founded Benetton group.

Due to the economic difficulties that the Benetton family went through, the oldest of the four brothers, Luciano started to work in a known clothing shop in Treviso as a shop assistant. In this job he experienced direct contact with costumers and understood the way that the store was management was not so functional. The costumers could not see the items because they were not displayed in the shop, as we are used to see today. The items were kept in boxes that were not accessible by customers but only by the staff of the shop. In a way like this it was no access to the items to see their quality.

Entering in a daily contact with the tastes of customers Luciano could realize directly by himself that people felt the need for what the market still did not offer. Also allowed him to notice how the market continued to offer the same clothes and not offering that kind of product that people needed to get dressed in a proper way

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<sup>50</sup> <http://www.benettongroup.com/it/gruppo/profilo/storia-gruppo/> consulted [18/11/2017]

<sup>51</sup> "Edizione" is the company with which the Benetton family has diversified its investments. Edizione was founded in 1955.

when they were off of their working time. As Luciano was a sportsman it was like he had guessed what was the product that were able to meet the new needs of comfort and functionality, leaving the movements free, or in other words "the sweater". This working experience was very important for Luciano but also for future stores of Benetton group.

Also Giuliana started working in a knitwear workshop. The beginning of the Benetton group's history, as we know it today, can be traced back to the day when Giuliana produced a yellow sweater for her brother Gilberto. At that time, seeing a sweater dyed with such a particular color was unusual, but at the same time attractive. It was a big success among Gilberto's friends, who began to request similar sweaters. The Benetton brothers understood the potential of the new trend that they unintentionally launched. They decided to quiet their jobs and start working together to produce colored sweaters. They were not fully aware of the product innovation they had created.

At the beginning they started to produce only sweaters for independent local retailers. Soon they began to expand in Italy, they open, 1966<sup>52</sup>, their first shop in Belluno and then in 1969 open their first shop in Paris, in Europe and after all over the world.

At the end of 80s the export constituted 60% of the turnover. In 1980 was opened the first shop on Madison Avenue in New York, in 1982 in Tokyo and then in 1989 began the expansion of Eastern Europe and the Soviet Union. The other important opening shops that need to be mention are: In 1999 they opened a megastore in Hong Kong; In 2000 they opened new shops in Holland, Belgium, Italy and megastores in in Hamburg, Moscow and Japan; In 2004 they opened new stores in Europe like Berlin, Spain and France; In 2008 they started to expand in Mexico; In 2009 they opened a new store in Istanbul etc.

From the beginning of the company it was clear that the Benetton brothers wanted to manage the company: Luciano was responsible for the promotion of the product and the sales, Giuliana was responsible for the design and also for the

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<sup>52</sup> <http://argomenti.ilsole24ore.com/benetton.html> consulted [19/11/2017]

design of the garment, Carlo was responsible for the production and Gilberto was responsible for financial management<sup>53</sup>.

Some years after the production of sweaters, they began to diversify the products portfolio. They started producing t-shirts and jeans. These, at the beginning, were sold under different brands like Jeans West, Tomato etc because in the group did not had the knowledge and know-how necessary to produce these products with the same quality as the sweaters. Therefore for not ruining the reputation of the group these products were not sold immediately under the Benetton brand.

Benetton is one of the most famous clothing companies in the world. Its international presence has been consolidated since the early stages of development. Today the group is present in 120 countries around the world with more than 5,000 shops<sup>54</sup>. His trademark is famous everywhere and his style is recognizable thanks to the presence of multiple identity components. Their focus has always been to establish on the market with an innovative image brand that is proposing a new type of clothing to the market. A type that is intended for young people target with the best quality price ratio. Benetton has a casual style thanks to the use of a simple design but with careful attention in the colors that partly revolutionized the traditional hinges of the classic sector Italian. The growing approval reached on the Italian market has brought to a fast affirmation of the company. From the beginning the factors that have determined the success are cost leadership and valorization identity of the products.

Benetton Company has always had as target young people and has always been proposed to them with an innovative image compared to competitors. The product is one of the elements that drive the purchases of this market segment. The prices, together with the products are the more stringent motivations in defining customer preferences. Aware of these mix Benetton have always tried to keep both these variables in mind. From one part the product, with the will to

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<sup>53</sup> Giovanni Favero, I Colori Del Successo, EGEA, 2005.

<sup>54</sup> <http://www.benettongroup.com/it/gruppo/profilo/breve/> consulted [19/11/2017]

make it as much as possible similar to customers trends, and from the other part the price, trying to offer good quality at the right price. To reach these objectives the company has used multiple strategies of marketing mix, has made a large use of advertising impact, has used strategies of widespread presence on the territory, has used policies of relocation to low labor cost countries etc. Some of these strategies, for example: the relocation to low labor cost countries can be considered good or bad but this is depending on our way to look things.

In the fashion sector Benetton group operates in three distinct segments:

- a) Casual: shoes, accessories and clothing sold under the brands, United Colors of Benetton, UnderColors and Sisley<sup>55</sup> thanks a very large network of stores around the world.
- b) Sports: shoes, accessories and clothing sold under the brands, Playlife and Killer Loop through Playlife stores, there are not that many stores.
- c) Complementary Activities: This represents a business related to the previous two. It is composed mainly of sales of raw materials, semi-finished products, industrial and advertising services and revenues from real estates owned by the company.

Leaving apart the complementary activities Benetton Group is simultaneously involved in two different fronts: the traditional segment of casual wear (for which the brand has been known for years, from the beginning) and the sports segment in which the company is not doing that well. While the first segment is the core business of the group the sports segment instead represents an attempt at

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<sup>55</sup> The meeting with Benetton takes place in 1974, when the Group, sensing its potential, acquires the rights for its exclusive use, but it is only since 1985 that Sisley takes on an independent personality. <https://it.sisley.com/chi-siamo/> consulted [19/11/2017]

diversification undertaken to enlarge the commercial offer and exploit synergies of knowledge and experience accumulated. It is however true that the sport segment has always been a strong source of riskiness. The affirmation in a market like sport segment, which is not in expansion and in which Benetton has less established skills, it is not easy. For this reason this field of activity represents just a small part of the overall business.

Over the years, the Benetton Group's business has expanded in various sectors and areas. But the main business of the Benetton Group is the fashion industry. Benetton wants to transmit an "Italian Style", through the quality, style and passion merged in the United Colors of Benetton, Under Colors of Benetton, Sisley and Playlife brands.

- United Colors of Benetton represents the daily look, suitable for working time and for free time. There are clothing for men, women and children and there are also accessories, glasses, perfumes and suitcases.
- Undercolors offer collections of underwear, beachwear, sleepwear and accessories for men, women and children using style and colors according to the latest trends.
- Sisley is a simple but refined brand that incorporates the latest design, created to allow the customer to express your personality and determination.
- Playlife<sup>56</sup> was offering collections of simple and sporty clothing.

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<sup>56</sup> Playlife, Killer Loop and some other brands are dismissed today. The brands that under which Benetton sells its products are: United Colors of Benetton, Undercolors of Benetton and Sisley <http://www.benettongroup.com/it/gruppo/business/marchi/> consulted [20/11/2017]

The Benetton Group is based on innovation and tries to spread itself as a lifestyle. It is a state-of-the-art company in terms of colors and in terms of revolution of the point of sale. Benetton has its production network and a unique commercial network, exploiting a universal communication that it immediately becomes a phenomenon of custom and cultural debate.

In his unique own way, Benetton was global before globalization. They adopts one vision of fashion as a global village where young people of everywhere and every race live together. They travel the world at the same speed, crossing geographical, political and ideological borders and boundaries.

The Group pays attention and takes care to the environment, as well as to the dignity of people and transformations of our society. We can say that the group has always been dedicated to combine economic growth and social commitment, competitiveness and attention to the environment, business and ethics. People, their moral values, their daily work capacity, their desire to look to the future and be better, are always at the center of every program and action taken by the company.

In the eighties, Benetton passed from a family-run company to a managerial company. They hired specialized managers from outside the company. Thanks to the advice of these managers, in order to minimize the risk of business and maximize profits, the company started the internationalization strategy. They gave the right of licensing their brand to foreign companies, so that they could sell and produce Benetton branded goods in their reference markets. By doing this foreign companies accepted to take all the business risk. This internationalization strategy is very convenient especially in the case they want to test new markets at zero risk. If the licensing experience was successful, in the new market, they were used to create joint ventures with these foreign companies. In this case of Joint Venture the business risk is bigger, as it is taken over by both parts. But bigger risk means also bigger profits and bigger control over the management of the entire production chain. They created foreign production subsidiaries, but only after testing the market and after the confirmation that the market had a lot of potential. They had to do like this because this form of investment is the most onerous and the most risky so they need to be sure by testing the market. They use this gradual approach

to enter in Asia and America markets. It was unthinkable to produce in Italy, to dye the garments in Italy and send them to the other part of the world. Some of the major problems they had are: timing (the time needed to transport the products), costs of transport, the problem of customs restrictions, etc.

### **3.1. Benetton business.**

Benetton commerce exploits market development strategies through two different distribution channels: wholesale around 75% and direct sales around 25%. As we can see in the Fig. 3.1. wholesale channel is based on a network of independent partners, around the world, that shops are not own by Benetton and are coordinated by commercial representatives agents.

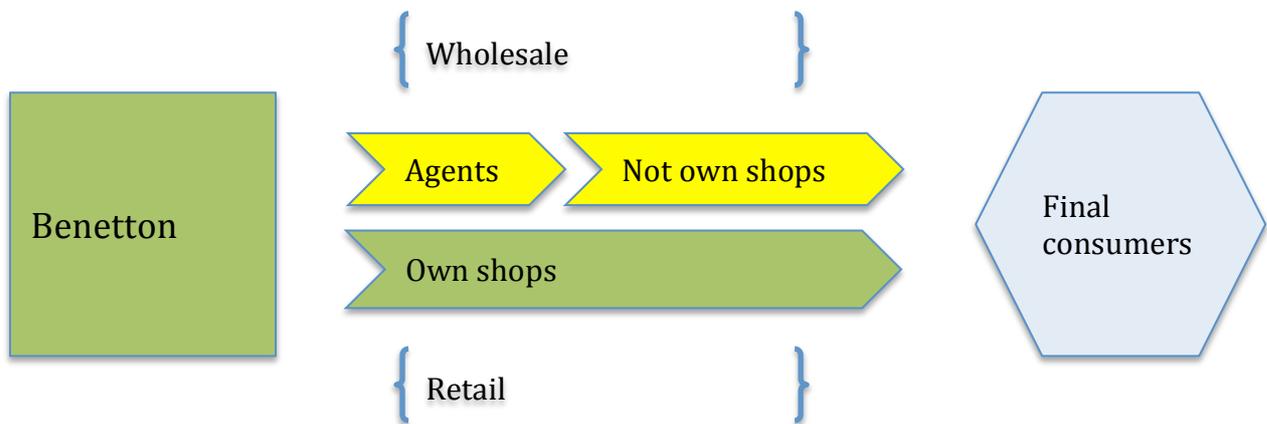
“The conventional Benetton network used to sell the products through a number of agents. The agents who sell the product will sign a contractual agreement with shop owners and they are also responsible for developing the market in their area. Benetton provided the necessary services for selling the products”. 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”<sup>57</sup>.

From the beginning Benetton relied on third parties for the sale of products, granting exclusivity in the distribution of the brand using franchising contracts. The shopkeeper does not have to pay royalties for the exploitation and use of the brand, but he is not even guaranteed the territorial exclusivity. And there is no refund for the unsold products. Shopkeepers are often real business partners that

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<sup>57</sup> <https://writepass.com/journal/2016/11/benettons-innovative-strategy/> consulted [10/12/2017]

owns dozens of shops. They represent a significant economic interest for the company and have a role far more important than that of simple affiliates.



*Fig. 3.1. Benetton distribution channels.*

The direct sales distribution channel, shops that are own directly by Benetton, is aimed at developing presence in areas with high growth potential and areas that are not yet covered by partners. The own shops are also used for marketing reasons like "iconic" points of sale, which are very attractive for the final consumer. The Group focuses on attracting the customer to the point of sale, as well as putting the final consumer at the center of the target. In fact, through the ownership and control of some stores, Benetton can have a direct relationship with customers and understand their preferences in advance and more easily.

### **3.1.1. Benetton formula.**

To understand the characteristics of Benetton Company it is necessary to go over the main phases that have led a small family-run business to become one of the largest fashion producers in the world. The Benetton journey is made of choices by the protagonists of a unique business history. The organizational and managerial choices made by the company during the first twenty years are the choices that made the fortune and represented the real source of success for the creation of the so-called "Benetton formula". But these choices represent today, because of the changes of the market, the main restrictions and the most important obstacles that the company is not able to overcome to win the current competitive challenge in the market.<sup>58</sup>

We can say that the main aspect that characterizes Benetton is represented by a very strong integrated structure. They have a direct control of the entire production chain, from the producers of the raw material to the distribution. This control is made possible not by directly owning the production facilities or by directly owning the points of sale but by exploiting partnerships with them. Thanks to these partnerships Benetton has expand very quickly and without a need of heavy investments. In this way Benetton shift the business risk to its partnerships, so the to third-party collaborators (both sides: on the production side and also on distribution side). This was the great and strategic choice that has made history of the company. So in few words: create a network of collaborations and share the risk with them. From the production side this mechanism guarantees the advantage of being able to reduce or increase the production level according to the market demand without the need to deal with fixed costs. From the distribution side this involves a series of intermediaries such as agents and retailers that in Benetton structure are the key players and as they have to share

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<sup>58</sup> Paola Somma, *Un Ventennio di Mecenatismo*, Corte Del Fontego, 2011.

the risk they should share also the remuneration of the business. The distribution part takes an important portion of the profits.

Giovanni Favero<sup>59</sup> wrote a book on Benetton and says that fundamental for initial success of the company and its development was the easy way with which the Benetton brothers managed and accumulate a wealth of personal relationships in diverse areas, from the commercial sector to the banking sector, but also to the artistic one.

Luciano Benetton, the oldest of the brothers and the patron of Benetton group, has always known how to use at best its communication skills. His ability to involve people in his entrepreneurial adventure was extraordinary, showing also his qualities as a politician. He has been also a politician, elected to the Senate, with the list of the Republican Party. The Legislature in which he was nominated it last only two years, from 1992 to 1994<sup>60</sup>.

During the 70s the company made some very innovative choices that allowed obtaining great results in sales and having an important first phase of growth. In particular the introduction of single-brand shops guaranteed to Benetton products a unique visibility. At the time, the choice to look for external collaborations has been an obligatory choice, due to the limited availability of capital that Benetton family had at the beginning of the business. The real key step was achieved thanks to the introduction of dyeing the garment. This innovation represented an new upset the rules of the market. The ability to adapt the color of knitwear according to the customer preferences, has transform the sweater from a secondary garment to a primary or basic garment.

The relationships with the shops were entrusted to independent agents. They supported Benetton for a series of activities and also for the opening of new shops. The relationship between Benetton and the agents had significant changes over the years and today they have a high influence on the sales process and are a

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<sup>59</sup> Giovanni Favero is an associate professor at the University of Venice Ca' Foscari. He is a professor of Business History and wrote different books including " Benetton i colori del successo".

<sup>60</sup> <http://biografieonline.it/biografia-luciano-benetton> consulted [12/12/2017]

sort of tool with which the company approaches the market. The opening of single-brand stores had immediately positive effects. It helped stimulating the growth and shifting from a production based only on knitting to a production of casual wear offering to the consumer a complete and coordinated range of clothes. In the 70s Benetton shops were differed from the other shops, they were smaller around 50 square meters against 100-150 square to the competitor ones. Smaller shops means lower costs for example lower rent of the shops, less management costs, etc.<sup>61</sup>

These aspects that in the past represented the factors that allowed the company to growth in just a few years today are the main aspects that do not allow it to operate profitably in the current competitive environment and face the competition of large international retailers.

The company had to face the first crisis in the 70s. The sales went down due to the presence of aggressive competitors combined in an almost saturated market. At the beginning the company decided to respond to these difficulties with large investments, opening new owned shops. These investments did not get the result that was expected so the group return to the previously adopted model, relying completely on franchising. To further expand its boundaries Benetton decided to expand in Europe. This was one of the most successful choices in the history of the Benetton. Also in the choice to expand in Europe, a series of licensing relationships were established with various local partners showing that the affiliation and commercial collaboration was the only way for a rapid and successful expansion in new markets.

The first contrasting signals of franchising system shows up during the 80s when emerged some problems related to the organizational system created. When Benetton tried to reduce the autonomy of commercial partners to create more advantage for itself it clashed with the independence granted from them. It was a consequence of a structure that did not allow direct control of the functions, so no controls on data sales. This aspect, in the 90s, turned into a real contradiction in

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<sup>61</sup> Giovanni Favero, *I Colori Del Successo*, EGEA, 2005.

the when Benetton needed to constantly monitor the sales data of the shops, and this was able thanks to the evolving of technology. As its commercial partners were independent they did not give the possibility to Benetton to have the sales data. These data were exploited from the other players of the sector with great results thanks to a total direct control over the whole distribution network. Since that contrast, Benetton has tried to operate with supplementary interventions aimed at compensating the gap that was being created. They started by enlarging the surface of the shops and by opening new megastore owned directly by Benetton, with the attempt to align itself with the competitive context that was being created. The total conversion from franchising to own shops, however, was impossible. Benetton knows it very well because with the commercial affiliation has built an empire. To the difficulties with its affiliates Benetton, in recent years, has had to face the difficulties resulting from a high competition with international giants of distribution like Zara and H&M etc. These, giants of distribution, have a revolutionary way to understand fashion, supplying trendy products at lower prices, below the market average, and have an innovative structure that let them achieved incredible success in just a few years.

### **3.2. The main innovations of Benetton group.**

The fashion system has passed, and is still passing, through a phase of strong change. The reasons of these change are coming from two fundamental factors: the crisis in the textile/clothing sector, that affect all the companies involved in the production chain and the consumers changes, that pushed companies to adapt to the new consumers needs.

The first factor led to the need for the major companies of the sector to strength their brand and in the same time pursuing stylistic innovation for the creation of a

competitive advantage. Many of them moved their production towards countries with low labor costs.

The second factor that concerns mostly to the European markets has pushed towards the reduction of time to market and delivery times of the new products and also towards a higher quality service to meet the needs of consumers. The last ones are often variable in the short term. It is not enough to present quality products at affordable prices. To survive in the today market it is necessary to be able to create innovative products that incorporate the fashion trends and developments.

For these reasons the companies have tried to strengthen the image of their brands, have tried to personalize and create more attractive sales points, have focused more on collections with high fashion content, have tried to shorten design and delivery times in order to be able to promptly follow the consumers preferences. They had to make radical changes in operating methods and by doing these it is possible to overcome the difficulties of the traditional production system, which is now obsolete, and it is no longer able to respond to market needs. There has been a constant growth of the population in western countries. Growth that took place in a highly inhomogeneous manner as the incidence of high age groups is decidedly greater than a few decades ago. There was a progressive evolution of the families, with a reduction in the number of children and an increase of singles. The individual income has increased, as also the autonomy of this income has increased. This has led to the emergence of previously unknown and not applicable purchasing behavior, such as for example unscheduled and distributed shopping during the year. If before the purchase of clothing products appeared more concentrated in the beginning of the season. That showed that the purchase was functional to the need to use the item bought in the beginning of the season. Today this process looks completely changed, very inhomogeneous and difficult to prevent the consumers' choices. Today consumers, mostly women, visit the shops more frequently and buy for desire, for pleasure. So it is a need for change, for being more fashion and not to satisfy a specific need of functional use. It is therefore essential that companies focus on small production and well distributed throughout the year, to be able to respond more precisely to people

needs and create the possibility that consumers can find new goods every time they visit the shop. The creation of new buying opportunities stimulates consumers, and creates a mechanism in which are rewarded only the companies that are able to rotate goods quickly and present products at a reasonable price.

Some of the innovations that are introduced by Benetton are:

- **New way of dying the garment:** It is the fundamental innovation for which Benetton is known by everyone. This technique is considered by some to be the predecessor of fast fashion, as the garments were no longer made with pre-dyed threads, but the dye was postponed in such a way as to match the most requested colors of the moment. The Benetton designers designed the products using CAD technology<sup>62</sup>. The drawing was directly sent to the machinery that cut the row fabric, forming the shape of the garment. After the assembly of the various parts external sub-contractors carried out the product. Once the product was completed was ready for the dyeing process. The retailers, for each collection spring and autumn, had to order the number of "non-dyed" sweaters with a year in advance, but they had specify which color to tint them once the sales season began. The dyed garment has therefore allowed a drastic reduction of costs mainly due to two main

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<sup>62</sup> CAD, or computer-aided design and drafting (CADD), is technology for design and technical documentation, which replaces manual drafting with an automated process. CAD is the use of computer technology for product design and design documentation. CAD/CAM applications are used to both design a product and program manufacturing processes, specifically, CNC machining. **CAM software** uses the models and assemblies created in **CAD software** to generate toolpaths that drive machine tools to turn designs into physical parts. CAD/CAM software is used to design and manufacture prototypes, finished parts, and production runs. <https://www.autodesk.com/solutions/cad-software> consulted [14/12/2017]

reasons. The first reason is less cost for storage that means also less unsold products. And the second reason is that it has brought some very important benefits for Benetton, faster adjustment to the colors of fashion asked by consumers which means higher sales and therefore greater profits.

- **Store layout:** At the beginning the Benetton stores were organized in the classic way, the goods were behind the counters and the selling was super-assisted by the personnel who showed the products to the customers. Thanks to the architect Tobia Scarpa<sup>63</sup> the layout of the stores was demodulated, creating the symbol store "My Market"<sup>64</sup>. Characteristics of this new concept was the elimination of the counters, the elimination of the barrier between the goods and the customer, the introduction of the display to show the goods and the creation of showcases in such a way that from outside of the store you could see the product that are inside. In this way were reduced personnel costs because less personnel was needed to serve to the costumers. What was very important thanks of being more close the consumers to the products, the sales staff could listen the comments of the

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<sup>63</sup> Italian architect and designer, Tobia Scarpa was born in Venice in 1935, where he graduated in Architecture (IUAV) in 1969. A versatile and curious designer, his long career saw him involved in architecture, restoration, outfitting, design, graphics, teaching. In the sixties he established himself as a leader in the industrial design by collaborating with various important Italian and international companies, including Molteni&C and Unifor. Between 2001 and 2009 he devoted himself to teaching at the Universities of Venice and Alghero.

He received numerous international awards. In 2008 he was awarded with the Compasso d'Oro for his achievements during his career. His works are exhibited in many museums worldwide and his monographic exhibitions were held in Milan, New York, Chicago, Toronto, San Francisco, Los Angeles, and Bordeaux. Many articles in national and international magazines and essays featured him.  
<https://www.molteni.it/en/designer/tobia-scarpa> consulted [14/12/2017]

<sup>64</sup> "My Market" was the fist store open in Belluno in 1969.

customers on the garments directly at the point of sale, and eventually suggestions for improving the product<sup>65</sup>.

- **Franchising system:** The majority of the shops where the goods were sold were not owned by Benetton, but by affiliated dealers. Benetton developed Franchising system to manage relations with the sales points and was one of the first company in Italy to implement this system. It was characterized by the elimination of wholesalers in the value chain by selling directly to retailers. By doing this Benetton had a greater margin on sales. The most important was that the business risk was reduced at minimum because they did not buy back the unsold products. The retailers had to deal with the unsold items. In many cases Benetton helped (financially speaking) the new retailers for the opening of new stores and by doing this gained the loyalty of the shopkeepers. The advantage for the shopkeepers was that they could sell a well-known and strong brand and the advantage for Benetton was that Benetton itself defined the store layout although Benetton did not own the stores. Usually in the standard franchise contracts the franchisee is required to pay royalties for the use of the image of the brand but Benetton did not apply any royalties and the shopkeepers had to sell on its products and there was no territorial exclusivity for them.<sup>66</sup>
- **Relations with suppliers:** Benetton is a classic network company. They decentralize the most of their activities to subcontracting companies. In the 80s and 90s large part of the production was trusted to hundreds of local subcontractors in the textile industrial district of Treviso and surroundings. The relations with suppliers had the same aims like the relations with shopkeepers. They, both suppliers and shopkeepers, were aimed to maximize profits, minimize risk and support a rapid and solid growth.

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<sup>65</sup> Giovanni Favero, Benetton, I Colori Del Successo, Egea, 2005

<sup>66</sup> Giovanni Favero, Benetton, I Colori Del Successo, Egea, 2005

Benetton was used to pay its sub-suppliers less than its competitors, but it was created a strong loyalty and trust between them. Lower pay was compensated by sending to its suppliers regular orders, by transferring the technology and the know-how. It was in this aspect that Benetton's approach was different from that of other manufacturing companies. The continuous training of subcontractors and their continuous updating in new technologies allowed the creation and development of the industrial textile district in the Veneto region. The textile district was made from thousands of small and medium businesses.

- **Advertising:** thanks to collaboration with the photographer Oliviero Toscani and his advertising campaigns Benetton brand has become one of the most popular brands around the world. The images used by him in the advertising campaigns were quite shocking and unconventional. Those images (we can see some examples below) gave to Benetton the image of a multi-ethnic and unique brand. The slogan "United Colors of Benetton" derives from an advertising campaign realized by Toscani in 1984 called "All the Colors of the World". With this slogan Toscani wanted to explicitly associate the company's brand identity with the values of peace, racial equality and multi-ethnicity. With his unconventional ideas Toscani created the concept of social advertising: through the images he transmitted to the people the commitment that Benetton had taken in talking about social-political issues such as war, drug abuse and racism. In the advertising campaigns the image of Benetton and its products were never showed up. The goal of advertising was to make people talk and think about the social problem represented in advertising itself. In this way the images, used in the advertising campaigns, captured the attention of the media around the world and turned into a free and viral advertising for Benetton.

Some examples of Benetton advertising are:

- UNHATE campaign: as the name says and as we can see in the Figure 3.2. there is no reason to hate each other. “According to Alessandro Benetton<sup>67</sup> the UNHate campaign wanted to send a “message about the need to overcome the culture of hate, through dialogue and the understanding of differences (...)”<sup>68</sup>



*Figure 3.2. A picture from Unhate Campaign<sup>69</sup>*

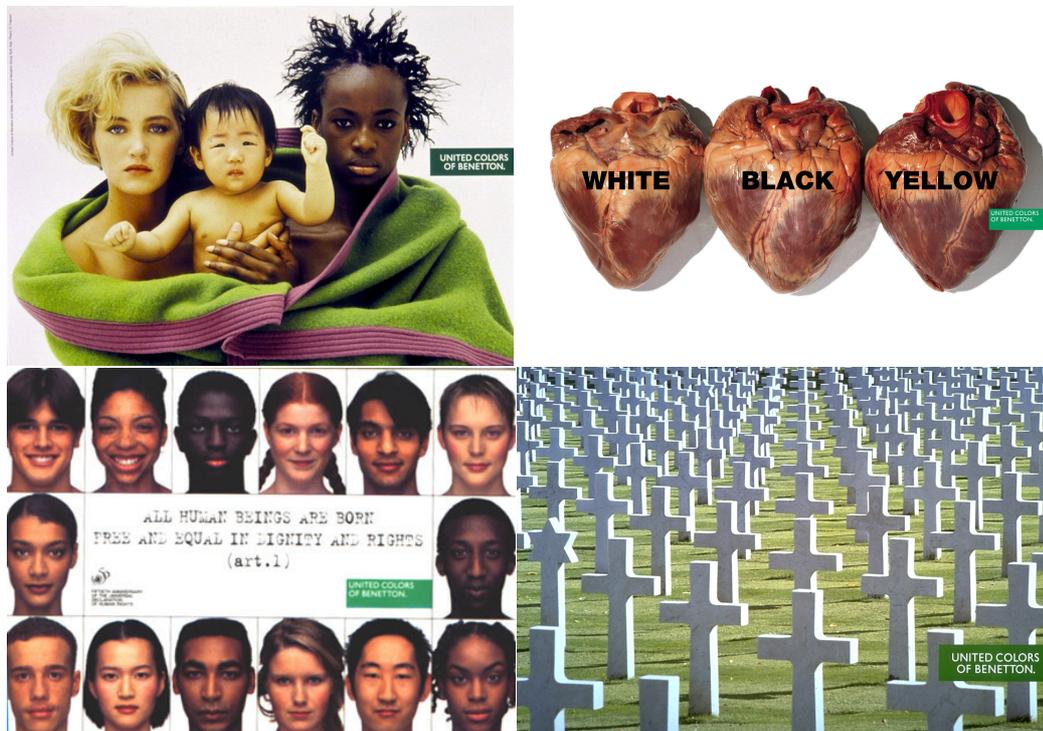
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<sup>67</sup> Alessandro Benetton is the son of Luciano Benetton. He was born in Treviso, 02/03/1964 and was Chairman of Benetton Group from 2012 to 2016.

<sup>68</sup> <https://soldin60secs.wordpress.com/2012/06/24/controversial-unhate-campaign-united-colors-of-benetton/> consulted [15/12/2017]

<sup>69</sup> <https://soldin60secs.wordpress.com/2012/06/24/controversial-unhate-campaign-united-colors-of-benetton/> consulted [15/12/2017]

The controversial UNHATE campaign was launched in Nov. 2011 and had a great impact on worldwide especially in social networks.



*Figure 3.3. Pictures from Unhate Campaign<sup>70</sup>*

### **3.3. From a leader to a follower.**

Benetton has been a leading company in fashion market. The arrival, on the Italian market, of new competitors has put this status into crisis. The new

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<sup>70</sup> <https://soldin60secs.wordpress.com/2012/06/24/controversial-unhate-campaign-united-colors-of-benetton/> consulted [15/12/2017]

companies have an innovative organizational structure that is defined as market driven. The last term means that the orientation of the company should be: learning, understanding and responding to customer behaviors and not ignoring them. The business activity should be therefore based on understanding and reacting to consumer preferences and behavior, through market research and through constant introduction of incremental innovations. This perspective is quite different from the market driving companies. These companies do not observe the market to know the new emerging trends and consumer demands but they simply limit themselves to make out new collections by imposing their style. Instead market driven companies before designing new items they make market research, looking at what style begins to emerge among people (usually the young ones) and what is not emerging but was expected to emerge. Analyzing the sales helps to understand which items are the most appreciated and helps a lot with the new collections. Only after having clear which items are appreciated by the customers, they begin to produce more of them. Today only the companies that have internalized this orientation to know before if the customers will buy their products or will not.

Benetton was losing market share. The company understood that the business model that bases the creation of value starting from design, and relies on advertising campaigns to guide tastes consumers had become obsolete and was not working anymore. They started to make a change of strategies and oriented them to meet the needs of customers. They try to do it in the fastest and most efficient way possible and then oriented towards the creation of a more competitive company.<sup>71</sup>

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<sup>71</sup> Raffaele Filieri, (2015) "From market-driving to market-driven: An analysis of Benetton's strategy change and its implications for long-term performance", *Marketing Intelligence & Planning*, Vol. 33

At the beginning of 2000s the most important goal was to respond as quickly and as efficiently as possible to the needs of customers. And this goal was achieved by remodeling the company's operating strategy. They focused their attention on the speed and the quality of market response in order to reduce time to market. These changes has been implemented by transferring a very big part of the resources that were used for advertising to investments in information technology (IT), to re-engineering processes, to training their staff, to the delocalization to reduce production costs and increasing the real estate investments. Being the direct ownership of the stores was a necessary condition to give the possibility of all these changes to start. These because if they do not have direct access to the sales data then it would have been un-useful to install an integrated information system that could collect data on consumers and fashion trends in real time.

Benetton started to integrate the company vertically entry to entry into emerging markets. Vertical integration is the decision to integrate within the company organization quite all the stages of the value chain. Usually these choices are made in order to gain control over inputs on the production also called "upstream integration" or outputs also called "downstream integration" or both stages.

Starting from the 1980s, Benetton began to buy the shops where its products were sold and started to build new ones in the most famous streets around the world giving birth of its downstream integration. Later, at the end of the 80s, started to acquire important textile and knitwear factories in Italy, which supplied most of the raw materials necessary for the production having its upstream integration. In this way the whole value chain has been brought and was under Benetton's control.<sup>72</sup>

There are many advantages that come from a vertical integration. For example from the internal point of view the main advantages are that many intermediate

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<sup>72</sup> Paolo Crestanello, Giuseppe Tattara, A Global Networ and Its Local Ties. Restructuring of The Benetton Group, Working Paper, Department of Economics Ca' Foscari Universtity of Venice, 2009.

steps are eliminated so becoming more effective and efficient and a more precise coordination. From the competitive point of view some advantages are that it is possible to obtain greater value and greater ability to control the competitive environment. There are also more opportunities to differentiate the products.

To have daily access to the sales data and market information and also to increase control over the value chain Benetton started acquiring the ownership of stores. This project was very long and did not lead to the desired results because the group was unable to buy the existing stores and therefore had to build new ones with more costs.

The commercial area has been reorganized focusing on two main sales channels the wholesale distribution and the stores. Independent agents managed the relationships with the wholesale distribution and area managers managed the relationships with stores. The last ones act as intermediaries between Benetton and the retailers and their main job is to coordinate the production and to make sure that the items arrive on time in the stores.

Despite the great innovation of the postponed dyeing garment, until 2003 there were only two collections Autumn/Winter and Spring/Summer. The retailers had to make the majority of their orders, around 70/80 %, around eight months before the starting of the commercial season. The rest of the orders, 20/30 %, was mainly of reorders and the introduction of new products during the sales season was an exceptional event. Because of this rigidity, the company was not able to capture the latest trends of the fashion market. Usually customers after visiting the shop one time at the beginning of the season they had no reason to come back because they knew that they will find the same products until the end of the season. And the result of this system was loss of revenue.

To overcome this problem, has been developed the dual supply chain, the most sensitive collections to the market trends are produced in Eastern Europe and North Africa because delivery times are lower. These are the flash collections.

The other ones, the standard collections, are instead produced in Asia in order to take advantage of lower costs of production<sup>73</sup>.

In this way it was possible to increase the number of collections, reducing by 30% the price of standard collections and decreasing the minimum quantity of orders prior to the sales season. Doing so pre-season orders and flash collections<sup>74</sup> are handled differently. The standard orders are directed according to the push-demand model. So it is Benetton that pushes the items designed in the market and then decides what retailers should order. This is made with the aim of launching a new fashion and attracting consumers. The orders of the flash collections are instead managed using the pull-demand model through which the items are designed according to the latest customer feedbacks and then distributed to the shops. This integrated system has given the reduction of costs and the reduction of lead-time.

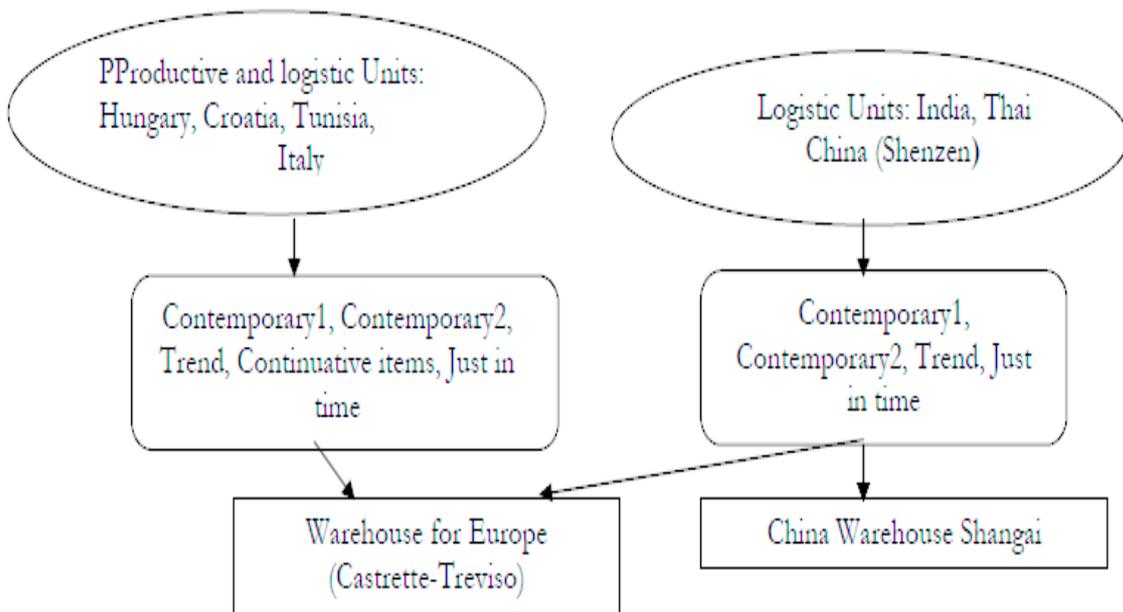
“The traditional seasonal collection was split taking the names of *Contemporary1* and *Contemporary2*. Each one of these collections has a time-to-market that varies between 4 and 8 months and is articulated in 4 launches: Spring, Summer, Autumn and Winter. Additionally, during the selling season, Benetton introduced three collections: “*Trend*” a collection more sensitive to the fashion tendencies with time-to-market between 1 and 4 months and the collections “*Just in time*” and “*Continuative items*” that use standardised raw materials (“*Continuative items*” is manufactured on stock) and are brought to the market in a very short time (7 days if the products are made in Italy and 15 days if imported from abroad). While “*Just in time*” aims to satisfy fashion sensitive

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<sup>73</sup> Paolo Crestanello, Giuseppe Tattara, A Global Network and Its Local Ties. Restructuring of The Benetton Group, Working Paper, Department of Economics Ca' Foscari University of Venice, 2009.

<sup>74</sup> Flash Collections are those launched during the season to meet consumer demands and consumer trends.

consumers, “*Continuative items*” guarantees that a collection’s core products are restored in a very short while”<sup>75</sup>.



*Figure 3.4. The global value chain of the Benetton Group*<sup>76</sup>

The majority of companies have focused to reduce time to market, adapting the production mode according to the type of product offered, which is expected a long cycle for basic products, and a short cycle for products with the high fashion

<sup>75</sup> Paolo Crestanello, Giuseppe Tattara, A Global Network and Its Local Ties. Restructuring of The Benetton Group, Working Paper, Department of Economics Ca' Foscari University of Venice, 2009.

<sup>76</sup> Paolo Crestanello, Giuseppe Tattara, A Global Network and Its Local Ties. Restructuring of The Benetton Group, Working Paper, Department of Economics Ca' Foscari University of Venice, 2009.

content. Doing so, it is possible to satisfy the consumer in a more rapid and concrete way, in line with the real needs of the market. But to be able to offer an increasingly large part of trendy garments it is necessary to produce different micro-collections during the season, which respond to real preferences. From these basic premises is easy to understand the importance of the ready and flash and the rapid assortment of those products that have proven to be successful. But to achieve such an objective it is necessary that the production and logistics chain are able to always offer a timely response to the market and allow to guarantee a reduced crossing time of the garment, from the stylistic creation phase to the distribution.

### **3.5. Benetton logistic.**

“Benetton Group has direct control of the logistics phase, both for industrial production and for the purchase of finished products, and has made investments in the modeling, organization and automation of logistics processes with the objective of achieving total integration within the production cycle, from orders to packaging, to deliveries”<sup>77</sup>.

Benetton has production sites all over the world, for example in Asia, Italy and Eastern Europe. But Benetton has only two main storage sites / two big warehouses that collect the finished goods produced all over the world. One in Castrette (Italy) and one in Hong Kong (Asia). In Castrette are collected the goods that are destined for European markets, while in Hong Kong are collected the goods that are destined for Asian markets. A centralized IT system allows these storage sites to check the goods in stock. Then the IT system can communicate to specific suppliers how many and which items to produce, the timing of the order

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<sup>77</sup> <http://www.benettongroup.com/it/gruppo/business/logistica/> consulted [20/12/2017]

and the delivery date. Once the goods are delivered to the predefined warehouse, they are distributed to different retailers all over the world. The automated sorting system at Castrette can manage orders from over 5000 stores worldwide individually. The items are automatically sorted, packaged and sent through a tunnel up to the automated distribution center. The distribution center is able to manage eighty thousand packages per day with a staff of 24 people. From this distribution center the products are then sent to the sales points.

Benetton has invested heavily in the automation of logistics with the aim of achieving total integration of the production cycle, starting from consumer orders to the delivery of finished products.

### **3.6. Benetton delocalization.**

Till the eighties all the Benetton items were totally produced in Italy. And till the beginning of the 2000s most of the production was carried out in Italy. The first production plants abroad were opened in France, Scotland and the United States and then in Spain and Portugal. The ones in Scotland and in United States were closed. Despite this expansion, foreign production weighed only 20% of total production, so a truly ridiculous share compared to today's multinational companies. In these years, the main reason for relocating production was not so much to contain costs, but rather to bring production closer to the reference market and to reduce the risk of currency exchange. With the appearance of new competitors on the world market and the adhesion of Italy to the European monetary union, Benetton has changed its perspective and began to look abroad as an opportunity to reduce costs of production, to buy raw materials at a lower price and then to compete with the lower prices of competing companies such as Zara, H & M and Mango. Benetton has therefore relocated production first of all to Hungary, then to Romania and Croatia. In Tunisia he has relocated production

mainly of cotton and denim sweaters because Tunisia is specialized in the production of these types of garments. The factories in France, Spain and Portugal lost importance over time and were therefore closed<sup>78</sup>.

Today only 33% of the items are produced in Italy, a percentage that will decrease more and more over time. Most of the garments are produced in Eastern Europe particularly in Hungary, Croatia and in North Africa. The Asian producers, located mostly in China and India, are becoming more and more important.

The delocalization process was carried out very quickly: from 2004 to 2005, production abroad increased by 13 million items. These thanks to the opening in 2004, of a new production site in China and the consequent closure of many relationships with the Italian subcontractors. The Asian suppliers, unlike the European ones, offer a "complete package production" service: Benetton simply sends them a draft of the items to be produced and buys the finished products. The products are delivered at the expense and under the control of the Asian supplier in the two warehouses and then distributed in various stores. The total package production in 2007 represented 37.6% of the total production volume with a constantly growing trend. This important supplying strategy has made Benetton much more similar to international clothing retailers, such as H & M, Gap and Marks & Spencer, which essentially buy the finished product from large external producers and then sell them in their own stores<sup>79</sup>.

The relocation of Benetton's production abroad has brought great benefits for the company like decreasing in labor costs, fiscal and economic incentives, flexibility and less time to market but also a general impoverishment of the Veneto industrial district which was created by Benetton itself.

The delocalization of production had a negative impact in the industrial district of Veneto that had been created around Benetton. From 2003 to 2007 the

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<sup>78</sup> Paolo Crestanello, Giuseppe Tattara, A Global Network and Its Local Ties. Restructuring of The Benetton Group, Working Paper, Department of Economics Ca' Foscari University of Venice, 2009.

<sup>79</sup> Paolo Crestanello, Giuseppe Tattara, A Global Network and Its Local Ties. Restructuring of The Benetton Group, Working Paper, Department of Economics Ca' Foscari University of Venice, 2009.

share of products produced in Italy rose from 38% to 10.5%, which absolute terms means 26.3 million items less. The rest was produced in Asia (32%), Tunisia (20%) and Eastern Europe (28.5%). With the passing of the years the quantity of goods produced in Italy has always been decreasing, and consequently also the number of sub-suppliers belonging to the Benetton network has decreased a lot. Suffice it to say that from 2007 to 2008 the number of Italian subcontractors went from 208 to 116 and, to date, only a few of them continue to produce for Benetton. As a result, the number of staff employed in Benetton and the total value of the orders also decreased<sup>80</sup>.

The willingness of Benetton Group to become a market driven company, shows the importance for the company to adapt and to satisfy the change of customer trends better than the competitors, rather than to create new needs or new trends through radical innovations.

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<sup>80</sup> Paolo Crestanello, Giuseppe Tattara, A Global Network and Its Local Ties. Restructuring of The Benetton Group, Working Paper, Department of Economics Ca' Foscari University of Venice, 2009.

## CHAPTER IV

### 4. INDITEX (ZARA) GROUP

#### 4.1. Inditex group story

To better understand the characteristic of the company and the motivations of its extraordinary success it is important to start by giving a look to the Group's origins.

The Spanish entrepreneur Amancio Ortega (founder of the group) was born in 1936, in Busdongo de Arbas, a village of 1,300 inhabitants on the border of Leon and Asturias regions. He has humble origins and is the last of four brothers. His father was a railway man and his mother a housewife. The family moved to La Coruña, where Amancio was at the age of fourteen. Ortega, with only middle school education, began to work as a bellboy in the city's most elegant tailor's shop, La Maja, delivering shirts, jackets and coats to notables and entrepreneurs from all over Coruña.<sup>81</sup>

This experience, gained, and the ambition of creating something of his own, pushed him in the early Sixties, with the small capital granted by Banco Pastor, the current value of 25 thousand euro, to set up his own company. He called his first company Goa<sup>82</sup>, which is the anagram of his name initials. He started his business by producing underwear and bathrobes. Later on he had the brilliant idea of

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<sup>81</sup> [http://www.repubblica.it/venerdi/reportage/2016/01/15/news/da\\_zero\\_a\\_zara-131336483/](http://www.repubblica.it/venerdi/reportage/2016/01/15/news/da_zero_a_zara-131336483/)  
Consulted [07/12/2017]

<sup>82</sup> [https://galicia.economiadigital.es/directivos-y-empresas/goa-invest-la-constructora-de-zara-gana-el-doble-que-copasa-y-el-triple-que-san-jose\\_374229\\_102.html](https://galicia.economiadigital.es/directivos-y-empresas/goa-invest-la-constructora-de-zara-gana-el-doble-que-copasa-y-el-triple-que-san-jose_374229_102.html) Consulted [07/12/2017]

reproducing and copying the famous, very expensive and prestigious collections of high-class brands. But these collections were made for lower-middle class customers, by reducing the quality of the products he could offer them at a much lower price. In those times of the Spanish history, during the Franco's dictatorship and in a period of weak economy, the new products found easily a wide approval, making rapid, solid and growing market.

When it was the time to invent a brand name to market its products, Ortega thought of "Zorba", but there was already a registered trademark under this name, he decided to put the name "Zara".

The first store was opened in 1975, in a central street of Coruña. To attract customers in his first store, he filled the window with chickens and rabbits and to attract the attention of the people who were passing by and making them curious to discover what was that shop about. That was his first and only advertising campaign. The fashion concept of Zara was well received by the public and its network of shops was extended to the main Spanish cities. This shop was a real success among the public, to such a success that within a few years Ortega opened other 9 stores in the main cities of Spain. At the same time he also founded his first two factories in Arteixo, a city very close to La Coruña. In the same city, in 1984, was inaugurated the first logistics center of 10,000 square meters.

In 1985 was founded Inditex, the holding that included all the satellite companies that dedicate their entire production to the Zara chain. This was the key moment when logistics became a cornerstone for the future business model that supported the impressive following growth. Despite the success achieved and the thousands of stores open all over the world, the group's business model has never changed. Always has placed consumers at the center of its attention, being as close as possible to them in order to be able to adapt to their requests as quickly as

possible. The goal of the Inditex group is to offer the highest quality products to all consumers in the world at the same time, creating a sustainable business.<sup>83</sup>

Below are the dates with the most significant events of the group, which represent, also, its progressive expansion at the international level.<sup>84</sup>

In 1988 was opened the first Zara store, outside of Spain, in Porto (Portugal) and after a short time in the United States, France followed then in 1989 with the opening stores in New York and 1990 in Paris.

In 1991<sup>85</sup>, was launched a new brand under the name of Pull & Bear. The Group acquired 65% of Massimo Dutti Group, for later to acquire the entire brand. In 1998 was acquired another chain brand, Bershka, with the intent to fulfill the needs of the younger female public. The year after, Inditex acquired Stradivarius, with which the group raise to five the number of controlled commercial chains.

“The Pull&Bear chain of fashion stores was born, a result of a market segmentation strategy initiated by the Inditex Group. This was the moment when people were demanding a basic fashion style influenced by international trends, fashion that could also quickly adapt to their needs, with three fundamental premises: fashion, price and quality. The underlying idea of Pull&Bear was to bring fashion to the people.”<sup>86</sup>

In 2001 another brand was added to the group with the launch of Oysho, a lingerie chain. The same year, May 23th, Inditex got listed on the stock market and

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<sup>83</sup> <https://www.inditex.com> Consulted [18/12/2017]

<sup>84</sup> <https://www.inditex.com> Consulted [18/12/2017]

<sup>85</sup> [https://www.pullandbear.com/it/en/company-c57003.html?subsectionId=company\\_01\\_01](https://www.pullandbear.com/it/en/company-c57003.html?subsectionId=company_01_01) Consulted [18/12/2017]

<sup>86</sup> [https://www.pullandbear.com/it/en/company-c57003.html?subsectionId=company\\_01\\_01](https://www.pullandbear.com/it/en/company-c57003.html?subsectionId=company_01_01) Consulted [18/12/2018]

expanded its business in the following markets: Ireland, Puerto Rico, Jordan, Czech Republic, Iceland, Italy and Luxembourg.

The fact that the entry into the Italian market took place more than ten years after the start of the internationalization process it can be perhaps due to the fact that the fashion sector in Italy it is complex, it is a highly competitive environment characterized by a strong tradition and notoriety. To enter in the Italian market it is therefore necessary to have a good level of experience and to be aware of the dynamics and characteristics of this market.

In 2003 was founded Zara Home dedicated to the manufacturing of home textile products and retailing various housewares. The same year, in April, it was opened the second logistical platform of the *Plataforma Europa*<sup>87</sup>, the second distribution center near the city of Zaragoza (Spain), able to support more than a thousand stores. This second platform comes to improve the distribution process and complete the first center of Arteixo (Coruña, Spain).

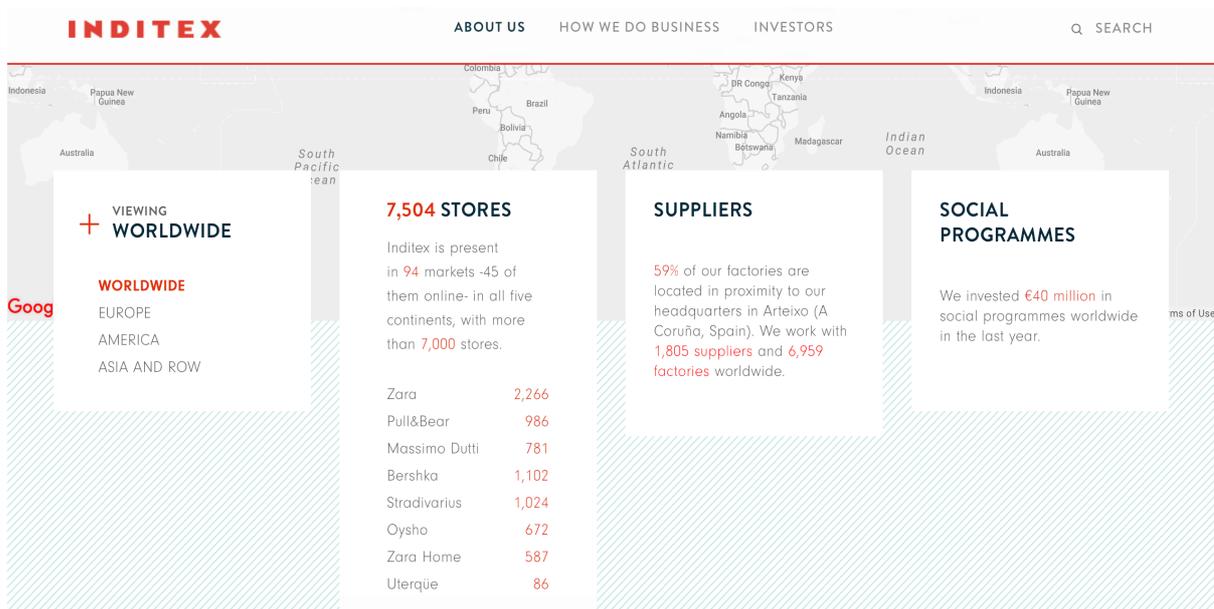
The following year, in 2004, the Group opened the 2,000th sale point, in Hong Kong, and reached its presence in 56 countries in Europe, the Americas, Asia and Africa.

In 2007, Zara Home launched the Group's first online store and also two new Logistics platforms, one located in Meco (Madrid) and one in Onzonilla (León).

In 2008 was launched, the Uterqüe, a concept store focused on fashion accessories. The same year Inditex reached 4.000 stores, around the world by opening in Tokyo and expands the presence in 73 countries, opening in Korea, Ukraine, Montenegro, Honduras and Egypt.

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<sup>87</sup> [https://galicia.economiadigital.es/directivos-y-empresas/la-plataforma-europa-de-inditex-en-zaragoza-cumple-una-decada\\_331164\\_102.html](https://galicia.economiadigital.es/directivos-y-empresas/la-plataforma-europa-de-inditex-en-zaragoza-cumple-una-decada_331164_102.html) Consulted [18/12/2018].



*Figure 4.1. The presence of stores' group around the world.<sup>88</sup>*

Every year the Inditex group invests many resources to open new stores in countries where it is already present, but also to penetrate in new markets. Today Inditex is a worldwide leading fashion retailer, owning different commercial brands, 7504 stores in five continents and 94 countries<sup>89</sup>.

Over the years, the Inditex group has expanded its portfolio of brands, each of which offers proposals of different styles, in order to get as close as possible to the wishes and demands of consumers. In this way, Inditex has multiplied its sales channels with the goal of better satisfying customer expectations.

“We place the customer at the **very center of our business model**. Knowing and delivering exactly what our customers want demands meticulous

<sup>88</sup> <https://www.inditex.com> Consulted [19/12/2017]

<sup>89</sup> <https://www.inditexcareers.com/portalweb/it/inditex> Consulted [19/12/2017]

organization, close attention to detail, and industry-leading technological innovation in every part of our value chain.

Whether we are designing, manufacturing, or distributing our products, we are always looking at how our operations can improve customer service and the quality of the customer experience – while honoring the commitments to sustainability that our customers expect from us. Listening to feedback, analyzing real-time sales data, making short production runs, and investing in state-of-the art logistics allows us to pinpoint and meet customer needs, refreshing our stores with new styles twice a week.”<sup>90</sup>

Currently the group own eight brands:

1) Zara: the group flagship brand.

2) Pull & Bear: launched in 1991 to accomplish the strategy of segmentation of the market by the Inditex group. At that moment, there was a demand for basic style fashion, influenced by international trends, and which respected the three fundamental principles: fashion, price and quality. The driving idea behind Pull & Bear was to bring fashion to people. The brand collects the latest international trends, mixes them with the influences of the street and music, and reinterprets them into its own way, transforming them into comfortable and easy to wear garments, obviously at the best price. Today, there are 986 Pull & Bear stores around the world.

2) Massimo Dutti: purchased, the same year, in 1991, today it is present in many countries with 781 stores spread all over the world. This brand represents an urban, cosmopolitan, independent and polite profile.

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<sup>90</sup> <https://www.inditex.com/how-we-do-business/our-model/customers> Consulted [20/12/2017]

- 3) Bershka: created in 1998, it is a brand that its aimed teenagers market. It is present in England, Turkey, South America, the Arabian peninsula and Japan and has 1102 stores around the world.
  
- 4) Stradivarius: purchased in 1999, the brand is dedicated solely to the female world. There are 1024 stores.
  
- 6) Oysho: created in 2001, is the group brand dedicated to lingerie. There are 672 stores.
  
- 7) Zara Home: created in 2003. There are 586 stores. In 2007 was launched the website zarahome.com.
  
- 8) Uterqüe: launched in 2008, it is a brand specialized in fashion accessories, shoes and bags.

Although all these brands share the same business model, each of them operates in complete autonomy. Each brand is managed with its own head office, with its own designers and with its own logistics centers, all located in Spain.

The Inditex Group controls more than one hundred companies operating on the activities such as design, production and distribution of products. The uniqueness of its management model, based on innovation and flexibility, has transformed Inditex into one of the largest retail fashion groups. The awareness of fashion, creativity, quality design and the need to offer a quick response to the market demands has led to a rapid international expansion of the Group.<sup>91</sup>

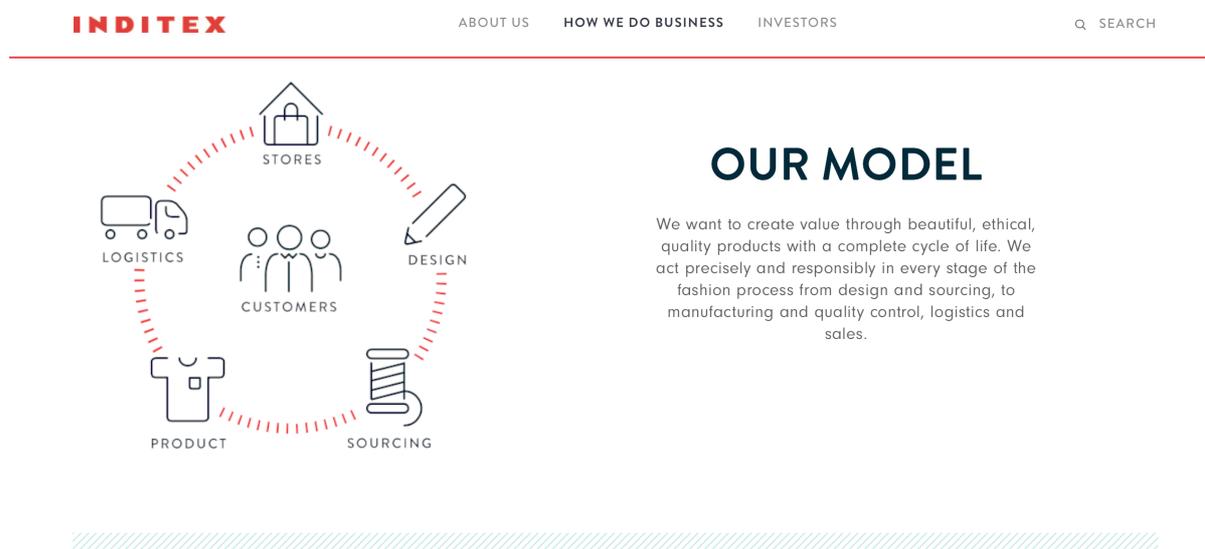
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<sup>91</sup> Belmiro Do Nascimento Joao, Antonio Carlos Freddo, Gabriela Negrao De Figueiredo, Ana Paulo Maiochi, Intenacionalizacion En La Industria De La Moda: El Caso Zara, Revista Galega de Economía, vol. 19, 2010.

## 4.2. Inditex business.

If we compare Inditex's business model to other business models, developed by competitors, we can see that it is characterized by a higher degree of vertical integration. The entire production and distribution phases are internalized and carried out by the group subsidiaries: design, manufacture, logistics and sales in owned shops.

Despite a high degree of vertical integration, Inditex relies on a flexible structure and a strong customer orientation in all its areas of activity. The most important element of the organization is the store, a space designed to make comfortable the meeting of customers with fashion and, at the same time useful in obtaining relevant information and feedback from the customers that helps understanding the degree of satisfaction and the trends.



*Figure 4.2. Inditex business model.<sup>92</sup>*

<sup>92</sup> <https://www.inditex.com/en/how-we-do-business/our-model> Consulted [17/01/2018]

The key of success of Zara and the other chain brands, owed by the group, is the ability to adapt the offer in the shortest time possible and satisfy the customer wishes. For Inditex, time is the main factor to be considered, even before production costs. The vertical integration allows reducing time to market and at the same time to have a great flexibility. The result of this model is a decrease in stocks and it reduces the risk to the maximum. The success of the collections lies in the ability to understand and assimilate the constant changes of trend fashion, designing new models that meet the needs of customers.

Inditex takes advantage of the flexibility of its business to adapt to the changes that may occur during the year. In this way Inditex is able to respond to all the changes with new products, which are presented in the store as soon as possible. The models of each campaign are developed entirely by creative teams of the different chains. There are more than three hundred designers constantly developing new possible collections based on information received from retail stores and from market trends<sup>93</sup>.

As mentioned before, almost all the processes of the production takes place within the group, that through its companies deals directly with the purchase of fabrics, design, cutting and finishing, and leaving only the packaging stage to specialized companies located in the north-western quadrant of the Iberian Peninsula. For external suppliers, for the most part in Europe, they often receive both the fabric and other elements necessary for the production of the garment from the group.

The selling moment it is, both, the end of the processes but also the beginning, because of its use as a terminal for collecting information that gives feedbacks to the design teams and informs about every type of customer requests.

Like for most of the companies operating in the retail market, the store windows have a fundamental role in advertising the products. Inditex and especially Zara, have always placed their shops on the main commercial streets all

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<sup>93</sup> [www.inditex.com](http://www.inditex.com) Consulted [20/01/2018]

over the world. The design inside the stores responds to the goal of creating a comfortable space in which the collection becomes the protagonist, thus eliminating any barrier between the products and the customer.<sup>94</sup>

Inditex opted, from the beginning, for distribution to use self-owned stores and the group manages and owns the majority of the stores. Only in small markets, or in countries of different cultures, the group has expanded through franchise agreements with leading local companies in the retail sector.

For what it concerns the stores layout, window display, the products, human resources, training, logistics optimization of, both, self-owned and franchised stores follow the same guide lines, ensuring the necessary homogeneity in the management and the global image of the group brands.

### **4.3. The main innovations of Inditex group.**

What has made the Inditex group one of the most important fashion groups in the world has been the transformation of the traditional business model. Inditex introducing the process innovation also called differently fast fashion, instead of product innovation has ensured a stable and solid growth in the world of fashion. Inditex and its brands, globally known, are an example for all companies that want to enter in this market and those that already operate. The success of the Inditex group it can be due to the fact of not having invested in product innovation, as these kind of innovations can be imitated and copied easily by followers and

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<sup>94</sup> Nebahat Tokatli, Single-firm case studies in economic geography: some methodological reflections on the case of Zara, Oxford University Press, Journal of Economic Geography, 2015

competitors. So the innovation in the production process it is a much more challenging element to implement and therefore also to copy.<sup>95</sup>

In addition to process innovation, Inditex pays also attention to the environment that surrounds it, both in terms of sustainability and of store design. The group invests resources to open new stores, but also to renew the look of existing stores, in order to make them more eco-sustainable. Thanks to the new type of furniture, more durable than the previous one. It is estimated that the total of eco sustainable stores of the group (about 51%) allow saving 20% of electricity and 50% of water consumption compared at a conventional shop. By 2020 the Inditex group aims to renovate all stores around the world, making them eco-efficient. The store design it is not only aimed for attracting consumers' curiosity and renewing their interest in the proposed clothing items. Inditex thinks about the sustainability of its stores and the environment. In 2014 was launched a pilot project in Brazil called "Fabricado no Brasil". All the garments produced and sold in Brasil are printed a QR code on the label through which the consumer can know the details on the production of the article, including the identity of the manufacturer. The purpose of this project is to guarantee to the customers that all the products sold by the group have been made following the appropriate legal measures on labor protection and the environment.<sup>96</sup>

The consumer is at the center of the group's business model. For this reason Inditex constantly thinks of new solutions to improve the service offered to the customer. In 2014 a Radio Frequency Identification (RFID) technology was implemented, which allows a more precise management of the product in the store and therefore a better quality of customer care. Thanks to this technology it is possible to trace every single garment, from the warehouse to the store sale, having always updated information on the distribution process. The purpose of

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<sup>95</sup> <http://www.nytimes.com/2012/11/11/magazine/how-zara-grew-into-the-worlds-largest-fashion-retailer.html> Consulted [20/12/2017]

<sup>96</sup> [https://www.inditex.com/documents/10279/246651/AnnualReport\\_2014.pdf/60eef29d-7a6c-43f5-b811-e63a9f7786fe](https://www.inditex.com/documents/10279/246651/AnnualReport_2014.pdf/60eef29d-7a6c-43f5-b811-e63a9f7786fe) Consulted [20/12/2017]

this system is to respond as quickly as possible to the requests made by customers in the stores. One of the greatest advantages of this technology is that to locate items faster and more precisely. When a customer asks a shop assistant in a store if a particular item is available, the sales employee can in real time consult the availability of the article in that store, in another store and even in the online sales platform. So in this way the sales process is simplified. The shop assistant does not have to verify physically the availability of the item at the point of sale and the customer is offered a better and faster service indicating to him or her instantly where he can find the item he is looking for. In 2014, all the logistics centers and nearly 1,000 points of sale worldwide adopted this technology. Inditex aims to incorporate this system in all Zara stores, and then expand it to other brands.<sup>97</sup>

#### **4.4. The Group logistics.**

As mentioned in previous paragraph, Inditex group, is distinguished by the very high degree of vertical integration, dealing directly with the purchase of fabrics, design, cutting and final finishing, leaving only the packaging phase to secondary suppliers. Inditex group directly provides eventual suppliers, with fabrics and any other elements necessary for the production of the collection.

When it comes to logistics, all products, regardless of their origin, are sent to the logistics centers of each of the brand chain like Zara, Bershka, Pool&Bear, etc. From these big warehouses the products are distributed simultaneously to all the stores all over the world.

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<sup>97</sup> [https://www.inditex.com/documents/10279/246651/AnnualReport\\_2014.pdf/60eef29d-7a6c-43f5-b811-e63a9f7786fe](https://www.inditex.com/documents/10279/246651/AnnualReport_2014.pdf/60eef29d-7a6c-43f5-b811-e63a9f7786fe) Consulted [20/12/2017]

In the case of Zara, distribution takes place twice a week and always includes new models. This allows a constant renewal of the offer. The logistics system, which is based on computer applications developed by the company's teams, allows the delivery of a received order within 24 hours for the European retailers and more or less 48 hours for those in America and in Asia.

The logistic centres in Spain are: Arteixo (La Coruna), Naròn (La Coruna), Meco (Madrid), Zaragoza, Leon, Tordela (Barcelona), Sallent de Llobregat (Barcelona) and Elche (Alicante). The creation of new distribution centers, such as the European platform in Zaragoza, and the technological development are the characteristics of the Logistics model of Inditex.

In the Inditex Group there is a very strong interaction with the customer, which is placed at the center of the Group business, because it is considered a real competitive advantage. Another important factor of success of the Group is the tight correlation between suppliers and production companies, which allows the flow of information a real time. So being able to exchange this crucial information, about the status of demand and supply, in real time and having a very efficient logistics, that cuts considerably the delivery time, it becomes the Group very flexible. The flexibility is given also by the freedom of choice that any retailer store has. In fact the quantity and the items to be sold are not imposed from the top but the orders are based on the local observations and predictions on what can be sell more in that moment. This strategy allows to keep at minimum the stocks and also to have a lower percentage of unsold products. Therefore, the exchange of information, in real time, between stores and the group suppliers is essential for an efficient teamwork. Obviously, it is important to plan deliveries and react quickly and flexibly to the new trends.

## 4.5. Zara business.

In the fashion industry, the company and brand Zara, with its presence of 2266 stores around the world, it is a very important business reality.

Zara is the first brand created by Inditex, which currently operates with eight brands developed as mono-brand chain stores on international scale. Each of them is dedicated to a specific market segment. Zara alone makes about 60-70% of the group's total turnover.

The headquarters of the Zara brand is located in Arteixo, a city close to Coruña. The same city is also a logistics base for shipping and receiving goods and raw materials from all over the world. Zara collections are sold online in 26 countries, including in China. Thanks to the close collaboration with Tmall.com China is the largest online sales platform.<sup>98</sup>

Zara is the most known and most important brand of the Inditex group, both in terms of turnover and brand reputation. Approximately each year are inaugurated one hundred new Zara stores in the world, and many of them are modernized.

Zara offers at particularly reasonable prices, clothing for men, women and children that are inspired by the collections of the most famous designers. The majority of Zara products are produced and distributed in just two weeks.<sup>99</sup>

The Zara business model is characterized by a high vertical integration. All the production processes are controlled by the group like design, production stages, logistics and distribution. The distinctive features of this business model, on which all the other elements are based, are:

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<sup>98</sup> <http://www.scmp.com/business/companies/article/1608495/zara-open-store-tmall-boost-growth-china> Consulted [21/12/2017]

<sup>99</sup> Belmiro Do Nascimento Joao, Antonio Carlos Freddo, Gabriela Negrao De Figueiredo, Ana Paulo Maiochi, Intenacionalizacion En La Industria De La Moda: El Caso Zara, Revista Galega de Economía, vol. 19, 2010.

- Flexibility
  
- Focus on the consumer

What has made this business model a successful model is the ability to adapt all products to consumers' tastes and preferences in the shortest possible time. In fact, for Inditex the number one priority is speed, not costs. All these are possible thanks to the vertical integration of processes that brings numerous advantages like shortening the supply chain times and increasing production flexibility, keeping the stock and the risk of unsold at minimum.<sup>100</sup>

The strategy of the company, based on an integrated operating structure, allows to control the entire Supply Chain and to renew part of the offer up to twice a week. By constantly renewing the collections, the company managed to recreate a feeling of scarcity of goods, giving the idea that items available today might not be available the day after. By doing so they are encouraging customers to buy impulsively the desired item at the first time they see them because conditioned by the "fear" of not finding that same item in a second moment.

A young line and a great portability characterize the style of the Zara. These characteristics mean that the designs of Zara clothes are suitable for both informal and formal situations and also special occasions.

The collections for the upcoming seasons start to be prepared three to six months, before launching the collection, with the design and the acquisition of at least 65% of the fabrics, the remaining being subordinated to the market response.

The orders of finished products, made entirely from suppliers outside the group, are:

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<sup>100</sup> [www.inditex.com](http://www.inditex.com) Consulted [23/12/2017]

- 15-20% of the total between three to six months before the start of the season,
- 50-60% close to the season opening and the remaining, during sales, in order to substantially reduce the trend risk.

First to be delivered in the stores, at the beginning of the season, are only the so-called "basic collections", which are around 15-20% of the total offer usually, placed on the market. In fact, the major part of the collection is subject to variation, based on continuous revisions and additions, dictated by the commercial information collected from customer feedback, from the network stores around the world. Thanks to this strategy stocks of products are very small and also the quantity of discounted products sold during the end of the season sales is significantly reduced to small quantities.

The reduction of supply time depends on the ability to manage the entire supply chain, which can allow the company to reassess and eventually to make small changes. The time to market for an existing and successful Zara item is equal to two weeks and for a totally new designed item it is not more than five weeks.

The design is obviously the starting point of a new collection and the process is divided in three main phases:

- Design the style of the future items with the choice of fabrics, colors and accessories combinations. Market and stylistic research are done in this phase;
- Computer graphic review of the "sketches" previously developed with choice of sizes and models. This stage is the industrialization of the collection;
- Creation of prototypes for each model.

The Zara designers seek for inspiration following the classic the prêt-à-porter specialists, photographic services of the most famous world fashion fairs,

fashion magazines, etc. These sources are integrated with daily information collected from the retail network as previously mentioned, by totally involving store staff in the analysis of the market and in the success of the collections and in the implementation of appropriate adjustments.<sup>101</sup>

Regarding the fabrics' supply, a key subject for Zara and for all the Group, is that Inditex owned company Comditel. This company, has its operational headquarters in Spain, is playing a fundamental role by producing large part of the finished fabric demand and managing the raw materials. The raw materials are mainly fibers to be transformed into fabric, the acquisition of unfinished fabrics, the printings and finishing process. The fabrics that are not made inside the group or by the companies owned by the group are purchased from suppliers outside of the group, mostly located in Europe and a small part in Asia and Central America.

Internal production focuses mainly on articles with high turnover and on those with the greatest risk of fashion and for which represent the key of the group's brand image.

In the recent years, however, there has been a trend to reduce the percentage of "in house" work in favour of external management, partly explained by observing changes in the structure of the collections, which shows a company orientation towards developing and enhancing the "basic" component of the collections.

A solid network of external laboratories manages the assembly of the garments; the majority of them are located in Spain and Portugal. Zara supports them with the technological and logistic support necessary to optimize delivery times and the quality standards. The logistics play a fundamental role in the management of resources, contributing to the competitive advantage and success

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<sup>101</sup> Andrea Runfola, Simone Guercini, Fast Fashion Companies Coping with Internationalization: Driving the Change or Changing the Model, *Journal of Fashion Marketing and Management: An International Journal*, Vol. 17, 2013.

of Zara. Particularly, the distribution management is an absolutely crucial factor, it is ensuring the regular flow of merchandise to the sales outlets and maintaining adequate stock quantities.

Everything rotates around the large distribution platform “La Coruna”, which is the primary hub for both, Zara self produced items, in the company's plants, and those made by external suppliers, that are gathered in the platform, before being distributed all over the world.

On an operational level, the warehouse layout is divided into two parts:

- One for the folded goods like sweaters, shirts, etc.;
- Another one for hanging garments like jackets, coats, etc.

The structure of the warehouse it is highly technological, with automatic sorters able to track and move the items, to choose them by type, model, size and color, and prepares the packages for shipment in special containers.

Basically, the sorter picks the items to be shipped from the stock and builds the package, with the highest speed and precision. The orders to be shipped to stores are activated "on demand", and on a regular and predetermined model. Supplies are made twice a week with an average length time of 24-36 hours deliveries in Europe and 24-48 hours in the rest of the world.

## **4.6. Zara production.**

Zara has always focused on having suppliers close to its headquarters, rather than having cheap suppliers. Factories close to the headquarters make more

than 50% of the production of the entire group. The almost total vertical integration of Zara means that a large part of the raw materials purchased and production is carried out directly by factories owned by Inditex: they are more than 100 and deal with a wide range of activities in the textile, manufacturing and distribution sectors.

Generally speaking, the production of the basic collections is commissioned to suppliers outside the group, mostly located outside of Europe, because these are more price-sensitive than time-sensitive: given that they are realized in advance, they can be packaged also in Asia, where delivery time is higher, but production costs are lower. The collections designed during the sales season, which are characterized by a greater risk of fashion, are instead produced mainly by factories controlled by the group and located in Europe. These because, if you want to enrich the store of new products twice a week, it is necessary to have production near to the logistic center that sorts and delivers the garments to the various stores in the world.<sup>102</sup>

The peculiar characteristic of Zara's business model, which differentiates it from that of its competitors, is the twice-weekly delivery to new garments. This is why, to meet this promise that is given to customers, for the group seems more logical to produce closer, than more economically. This is where the vertical integration trade-off rises upstream of the supply chain: it allows a much faster response to fashion followers, but does not allow production efficiency to be achieved.

The average time that passes from the conception of a new product to its appearance in stores is 4-5 weeks, while the re-assortment of old products revisited has a lead time of 15 days. Given that other retailers in general need 6 months to design a new collection, and another 3 to produce it, Zara is twelve times faster than its competitors. The advantage of not completely outsourcing

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<sup>102</sup> Roberto Vona, *Modelli di management e dinamiche competitive nel sistema moda: il caso Zara*", articolo pubblicato in *Finanza, Marketing e Produzione*, 2004.

production consists in having a flexible supply chain: in the case that some items do not receive positive feedback from consumers, they are immediately delayed from production, without paying penalties and without creating unsold goods.

The Inditex group has always proudly communicated that the production of its garments was carried out by factories controlled by the group and located mainly in Spain. In fact, in 2001, after becoming a listed company, it was announced that they also asked to suppliers outside the group, located all over the world, to produce her collections. What has never changed over time is the slogan of the group "over 50% of Inditex's manufacturing takes place in supplier from proximity". This means that Zara, despite the growth in absolute terms of garments produced, continues to control a substantial part of its in-house production. The concept of suppliers close to the headquarters has been interpreted differently over time. While up until a few years ago "suppliers in the near future" meant the factories located in Spain and Central Europe, now means the suppliers in Eastern Europe, where production costs are lower. So, although the percentage of products packaged by local suppliers has not changed, the way to define who the local suppliers has been changed.<sup>103</sup>

Currently, the group has 10 clusters of suppliers located in Spain, Portugal, Morocco, Turkey, India, South East Asia, Bangladesh, China, Brazil and Argentina: in 2014 they produced 91% of total production.<sup>104</sup> The fact of being able to count on such a large number of its own suppliers guarantees the maximum flexibility of the production chain which is a fundamental element for fast fashion companies.

Zara has copied the dyed garment technique from Benetton, in fact about a quarter of the garments are bought by the group before being dyed: just like Benetton, the clothes are colored only when you are sure of the most appreciated color and therefore the best selling in points of sale.

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<sup>103</sup> Nebahat Tokatli, Single-firm case studies in economic geography: some methodological reflections on the case of Zara, Oxford University Press, Journal of Economic Geography, 2015

<sup>104</sup> [https://www.inditex.com/documents/10279/246651/AnnualReport\\_2014.pdf/60eef29d-7a6c-43f5-b811-e63a9f7786fe](https://www.inditex.com/documents/10279/246651/AnnualReport_2014.pdf/60eef29d-7a6c-43f5-b811-e63a9f7786fe) Consulted [20/12/2017]

## **4.7. Zara distribution.**

The distribution is generally affected by the internal conditions of the target country that is chosen as business market. The selection strategy of new markets has always been based on research for similar markets to the ones that are already served, with small entry barriers and a basic level of economic development.

Zara has a centralized distribution system, which guarantees a competitive advantage, minimizing the delivery time of the goods. The distribution system is also customer-oriented, as it allows maximum flexibility to ensure that collections in stores are periodically updated.

The logistic function is essential to create the competitive advantage of Inditex. All goods, regardless of where they were produced, are shipped to one of these logistics centers. After having inspected the products, they are immediately sent to the various stores all over the world using a logistic software designed inside the company. The group's philosophy is to use warehouses as a place to move goods, rather than where to store them. For this reason, most of the clothes are shipped within a few hours, and in no case remain in storage for more than three days. Furthermore, to increase the delivery speed, shipments are scheduled by time zone and sent by air or land transportation.<sup>105</sup>

The time that elapses between the receipt of the order at the distribution center and the delivery of goods in stores is on average 24 hours for stores in Europe, up to a maximum of 48 hours for stores in the rest of the world. This means that it is possible to ship 45,000 items per hour, equivalent to 2.5 million items per week.

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<sup>105</sup> John Fernie, Leigh Sparks, Logistic and retail management, Emerging Issues and New Challenges in the Retail Supply Chain, The institute of logistics and transport, 2004

With this efficient logistics system, every store, anywhere in the world, receives the new products twice a week, the opposite of the traditional retailers who receive new items one, or at most two times per season. Early delivery is scheduled only at the beginning of the season, the basic collection, which represents about 15-20% of the total offer.<sup>106</sup>

Before entering in a new market are analyzed the macroeconomic data, possible developments of the country's economy, the to assess the disposable income of the population, the salaries of employees, the real estate market, etc. After this initial analysis Zara has always carried out a careful study of the sector, so the textile market and its customers. The management that are responsible to the company's expansion evaluates the local competitors, the layout of retail clothing businesses, collect information about commercial practices, prices, consumers preferences, opportunities of purchasing suitable properties in strategic positions in order to offer to the future Zara store the best possible visibility.

The first Zara store that opens in a new country market it is generally in the most important commercial city of that country. This in order not only for the obvious commercial potential but also for marketing purposes. The first shop serves as a pilot shop, a laboratory in charge of collecting data about the customer preferences and the market potential, therefore to elaborate an empirical analysis and set a future strategy for the brand.

Once that is decided the new market to enter it must be develop an entry strategy. Zara and all the other Inditex brands are known, from the early stages of the Group, for preferring self-owned stores, which guarantee total control. In some cases, however, franchising or joint venture agreement with some local partners is required.

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<sup>106</sup> Roberto Vona, *Modelli di management e dinamiche competitive nel sistema moda: il caso Zara*", articolo pubblicato in *Finanza, Marketing e Produzione*, 2004.

Franchising is generally adopted in countries with small markets, countries with strict legal requirements, or in countries with high entry barriers and high economic risks. In these cases there is a risk of not creating sufficient brand awareness therefore the company tries to keep the control as much as possible on franchisee decisions. When a single country license is usually granted the franchisee can then proceed with the opening of more stores. Cyprus is an example of franchising, a country with a small market where the brand Zara was completely unknown. In this case the entry with the franchise allowed to lower the risk of negatively affect coming from the unknown brand image that can push in failure the new stores.

The joint ventures, on the other hand, are used for larger markets of particular interest for the group as for Japan and Germany. Furthermore, the presence of foreign markets entry barriers pushes Zara to search for local partners who can provide local expertise to overcome any problems. Some problems can be the precluded access to real estate market, specific features of the distribution system, etc. Zara has collaborative agreements with the Otto Versand Group in Germany and with Bigi in Japan.<sup>107</sup>

The Inditex group has invested heavily in the internationalization of its brands. In the early years focused mostly on the European markets, leaving out the other non-European countries a while. This in order to reduce costs and therefore increase profit, having customers closer to production means less logistic costs and less transaction costs. European customers have more similar preferences among them compare to Asian or American customers.

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<sup>107</sup> <https://www.ukessays.com/essays/marketing/timeline-of-zaras-entry-into-international-markets-marketing-essay.php> Consulted [14/01/2018]

### **4.7.1. Zara shops.**

Shops are the place where the business begins, because it is where the design process begins, and where it ends, because it is the place where the collections are presented. Therefore they play an essential role in representing the image of the brand.

The shops play two main roles:

- 1) A meeting point between consumers' desires and the offer of group products,
- 2) Source of information for designers and sales staff.

The information captured by the sellers on consumer requests gives life to the production process of the product that arrives in the shop as quickly as possible.

The main characteristics of the points of sale are:

- Privileged locations: Zara stores are located in the most important shopping areas of the largest cities in the world, usually in cities with more than one hundred thousand inhabitants. In many cases historical shops have been chosen, with particular architectural constructions.
- Storefronts: they are the visiting card of the shop, the first visual contact of the consumer to the offer of the brand. Given that group policy does not provide for large investments in advertising, for Zara the role of shop windows is even more important, as it serves as an authentic source of promotion of the range. For this reason, about 75% of the goods displayed in the shop window are changed every month, in order to inform customers about new items arrived at the store.

- Interior and exterior design: each store is individually designed, in order to make the most of the available space and guarantee maximum comfort to the customer. As in the Benetton stores, here too any barrier between products and consumers is eliminated.

All the shops in the world have the same layout: white prevails, modern furniture with many mirrors and a spacious sales point. In addition, the windows tend to be the same in all the stores in the world: in this way the global image of the prestigious and elegant brand is accomplished.<sup>108</sup>

- Coordination between the proposed goods and consumers, thanks to an effective layout: customers can easily identify the area where they can look for what they need.
- Customer care: the shopping experience is surrounded by a qualified and always available staff. They constantly attend courses on customer care, encourage freedom of movement within the store and support the consumer only if the latter is addressed to them. In this way, the customer inside the store does not feel the pressure of having to buy a garment, a pleasant sensation that positively increases the shopping experience.

Most of the group stores are owned. This allows the information collected in the various stores to arrive at the central office more quickly. The franchised stores, on the other hand, do not communicate the quantities sold and the customer's observations daily to the franchisee company, losing a lot of useful data for the designers.

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<sup>108</sup> <https://martinroll.com/resources/articles/strategy/the-secret-of-zaras-success-a-culture-of-customer-co-creation/> Consulted [23/12/2017]

## 4.8. Zara formula.

The winning formula of Zara's strategy is to give consumers what they want, at the lowest possible cost and in the shortest possible time. This is only possible if there is total control of each part of the production and distribution cycle.

Zara's strategy is entirely based on factor time and not on costs. Often offers an alternative for higher couture and more expensive brands meeting the needs of the fashion market and becomes a replacement product for many consumers, both for the lower cost and fashion component. However, these achievements keep Zara under continuous pressure to maintain the competitiveness, by seeking continuously the rotation of the garments in order to ensure a product always new and competitive in line with new customer's desires. It should be considered that since 2000, the fashion industry has been going through one of the worst periods of its history. But it is not just a matter of conjunctures. The demand and supply have also significantly changed in the fashion market. The demand of expensive fashion products, in developed countries, which were facing economic decline and crisis, has been reduced. New markets have developed and grew exponentially, such as China, India, Russia, etc. As for the supply, competition has intensified not only within each market segment, but also between segments. The great merit of Zara was to fit perfectly into this new context, taking full advantage of it.

The most important sources of Zara's competitive advantage and strategies are described and listed below:

- **Vertical integration** - Being a vertically fully integrated company, Zara has total control over all the activities of the production chain: from design, to the purchase of raw materials, to production, distribution and sale in the shop. This structure allows the company to have a great flexibility in production, minimizing the stock in the warehouse and consequently the risk of unsold. This approach is very close to the concept of the make-to-

order strategy<sup>109</sup>, which allows solving the problem of excessive inventory, a typical problem of the make-to-stock strategy<sup>110</sup>. The production is also based on the pull system: the quantity and quality of what to produce is determined downstream, substantially from the choices and requests of the customers, and not from the forecast on the demand made by the company itself. Thanks to this orientation Zara, and the Inditex group as a whole, managed to prosper even during the economic and financial crisis that involved Spain and all the countries in which the group operates. This success stems from the fact that the managers of the company have become aware from the beginning of the fact that it is always the consumer who determines the production. Every garment that Zara produces has been in one way or another requested by the customers. A business model so tuned with consumers is immune to cycles of financial crises.<sup>111</sup> The total control of the value chain allows Zara to react promptly to the changes in fashion trends and consumer behaviors. The store managers of the various Zara stores, around the world, communicate daily to the designers of the central office which garments have been more appreciated and which less. Give

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<sup>109</sup> Make to order (MTO) is a business production strategy that typically allows consumers to purchase products that are customized to their specifications. The make to order (MTO) strategy only manufactures the end product once the customer places the order, creating additional wait time for the consumer to receive the product but allowing for more flexible customization compared to purchasing directly from retailers' shelves. [Make To Order \(MTO\) https://www.investopedia.com/terms/m/make-to-order.asp#ixzz56A3tqHG](https://www.investopedia.com/terms/m/make-to-order.asp#ixzz56A3tqHG) Consulted [22/12/2017]

<sup>110</sup> Strategy of an organization to produce products based on anticipated demand. Made to stock is the opposite of made to order where items are produced based on actual demand or orders from customers. When accurate forecasting of demand is possible, the make to stock strategy can be very cost effective. The downfall of this strategy is possible over production due to unrealistic forecasting of demand. <http://www.businessdictionary.com/definition/make-to-stock-MTS.html> Consulted [22/12/2017]

<sup>111</sup> <http://www.nytimes.com/2012/11/11/magazine/how-zara-grew-into-the-worlds-largest-fashion-retailer.html> Consulted [23/12/2017]

indications on any changes to be made to existing articles and ideas for designing new ones. In this way all the shops have the opportunity to buy products with a new or renewed design twice a week.

- **Short production cycle** - Zara responds quickly to demand changes. It is able to do it because it is relying on a totally self-integrated production process. The company is a unique example among the textile giants, which are used to subcontract manufacturing to other companies. These companies are often located in Asian countries with less labour regulations. Zara, like the other Inditex group brands, prefers to subcontract only some final operations, like the assembling of the final products and has independent factories close to its headquarters in La Coruna in order to get everything *just in time*.

Zara is a champion of innovation thanks to its business model. All the phases of the production process like creation, design, production, logistics, distribution and sales are under direct control and are carried out by the group itself, based in La Coruna. Being close creates the advantages of a shorter time to market and increase flexibility, reduce stocks and small-unsold products. All these advantages reduce the risks of trend miscalculations. These characteristics of the production cycle cancel almost completely the traditional concept of seasonal collections, the so-called spring-summer and autumn-winter. Today, instead, we have a number of micro collections that are created on many other sources of inspiration and can be tailored for other specific moments of the year.

- **Total absence of advertising campaigns** – The choice of Zara of not advertising is motivated, not only by matter of cost but also, by the impressive number of items designed every year. With the short time market of Zara, traditional advertising is impossible, but we can say also useless. It is useless because there is no need to photograph the product because it is already present in the stores. Instead, it is necessary to collect in real time data, through an advanced information system and forecast the

changes of consumer tastes. The big fashion brands spend, an average of, 3.5% of their turnover for communication campaigns. The success of the company comes from talented designers that can do “cool hunting<sup>112</sup>” and are efficient in understanding the trends before the others, and quickly translate them into fabric choices and designs.

- **Constant renewal of fashion proposition** - the permanent sharing of ideas that occurred in the late years, the life choice that has become more and more public by using social networks have increased the preferences to evolve and change much faster than before. Trends are the result of the creativity of great designers, but also of the consumption behaviors, are, also, the result of the imagination in wearing clothes and combining ideas. Having a rigid pattern of not changing th look it is not applicable anymore to our current life. Especially to those who interpret fashion as a game, and enjoy by frequently changing their look. Zara was, and still is, incredibly smart and intuitive in breaking the rules and respond immediately to the changing way consuming clothes.
- **Lead-time reduction** - The goal of Zara is to have the fastest time to market possible. The stores are always provided with trendy items and customers who go there to buy a trendy dress always find them. In this way the cost of lost sales it is reduced at minimum. This is possible because Zara is able to quickly identify a successful fashion trend and in the same way to produce it in a very short time. In this way, items with the latest trends of the moment are always present in the stores. Choosing to have a fast

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<sup>112</sup> The practice of observing current trends and predicting where the youth demographic will shift in trends in the immediate future. Cool hunters are the individuals doing the cool hunting, many of whom are able to accurately predict upcoming trends in fashion and technology.

<http://www.businessdictionary.com/definition/coolhunting.html> Consulted [19/01/2018].

production chain Zara sells most of its items at full price and makes very few discounts, in this way increasing profits.

The advantage of having a short lead time and small production gives the possibility to promptly correct any errors in the production of items that do not correspond the tastes of the customers.

Although the supply chain is focused on reducing time to market, Zara is able to offer customers clothing at affordable prices. This brand has made the idea of "cheap is chic"<sup>113</sup> and has changed the way people spend their money. Buying in Zara stores can be defined as an impulse purchase because whoever enters the store hardly goes out empty. It has the perception of making a deal, buying an item with the latest fashion, similar to that of famous designers, at a very affordable price, it is an opportunity that hardly can be missed.<sup>114</sup>

- **Same collections all over the world** - Zara use the economies of scale and offer the same collections in all countries. In fact, the brand is present in 94 countries. Zara has understood that consumers currently have more or less the same tastes all over the world. This means that once a fashion trend has been identified, this is almost certainly global. For this reason, Zara do not segment its market by age, lifestyles and ethnicity, as usually do the competitors, but has a global target: youthful and fashion-conscious people. About 80% of the items produced are substantially standardized for all the countries.

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<sup>113</sup> Cheap is Chic is a fashion blog for everyone. Economic leaders, latest trends, post-style outfits, cheap alternatives and much more. <http://www.cheap-is-chic.com> Consulted [22/12/2017]

<sup>114</sup> <http://www.nytimes.com/2012/11/11/magazine/how-zara-grew-into-the-worlds-largest-fashion-retailer.html> Consulted [23/12/2017]

Even the concept of the stores is the same in all the countries and do not change from state to state, because the target of the store in Tokyo is the same as the one in Brooklyn.

- **Use of Information technologies** - To have a short lead-time, it is necessary to rely on information technologies that allow designers to be informed about what customers want. Every day, all the data and feedback collected flow into the company database. The designers check these data daily and, thanks to the information they obtain, constantly create new lines and make the necessary changes to the existing ones. More than 10,000 new articles are designed and produced each year. Moreover, thanks to the information contained in the integrated system of the company, the designers can see all the available stock of raw materials. This allows them to design a garment with raw materials that are already available in stock. In this way they do not have delay production of the new model, as they will have if they do not have the row materials available in stock. Also in terms of distribution, technology plays a fundamental role. The automation of the order management and the minimum human intervention guarantee that every order is processed in the correct way and all the stores are always supplied with the products they need.
- **The logic of limited** – it is quite unusual to talk about scarcity in a sector that is well known that the supply is higher than the demand. The ability of creating scarcity in this case came as an “other side of the medal”. On one side there is the fast and constant renewal of the available items, on the other side, not knowing if a certain garment will be still present in the shop the following week, it is more likely to buy it, transforming the purchase of clothing into impulse buying. The secret of Zara and its contribution to contemporary culture is that customer feels that must take advantage of the opportunities offered right away, tomorrow the garment might be unavailable. By reducing the amount of garments produced for each collection, Zara reduces the costs of unsold and of less profit if these were to

be sold on sale. Since the assortment in each Zara store changes from 70 to 90% every month, customers, once they are interested in a garment, feel the pressure of having to buy it immediately because they are afraid of not finding the same garment any more if they go to the store the following week. This, combined with the low prices offered for the garments, means that each customer concludes the purchase. Only by feeding this sensation of artificial scarcity customers are pushed to impulse buying.<sup>115</sup> Furthermore, the awareness of always finding new items increases the frequency with which consumers visit the stores.

Another benefit of producing less quantity is that if a collection does not sell as expected, there is not that much to sell during the discount season as the quantity produced is small. If a product is sold very quickly, there is no need to reorder the production, as there is already ready another collection that replaces it. In this way the stores are always supplied with new items. If a garment is no longer available at the store, customers do not search for it in other stores, but still remain in the Zara store because they have many other alternatives to choose from. Having finished the availability of a product helps sell another one. A characteristic that is very appreciated by consumers is that Zara offers much more choice of trendy clothes than competitors.

- **Focus on target customers:** a high percentage of consumers perceive themselves as shopaholics, eager for trendy clothes to appear in line with the latest trends. Furthermore, they are strongly influenced by the media and celebrities. In this sector have been identified two main targets: the so-called "fashion innovators" representing 16% of the market and the so-called "fashion followers". Fast fashion retailers, like Zara, are concentrating

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<sup>115</sup> Roberto Vona, *Modelli di management e dinamiche competitive nel sistema moda: il caso Zara*, articolo pubblicato in *Finanza, Marketing e Produzione*, 2004.

mainly to "fashion innovators", whom are the young people with an income that allows them to buy fashionable clothing more frequently.

- **Focus on target pricing** - the price strategy followed by Zara is the so-called market-based pricing according to which the price of the products is set according to the customer. The price is set starting from the expectations and the value perceived by the customer, it is estimated their willingness to pay. To get this information, Zara analyze the first store opened in a new country that usually a flagship store, in order to define the correct marketing mix to be applied in all the other new stores in the same country. Logically, more far a shop is located from the production site (Spain), more expensive are the products. This because it is the final customer who pays the costs of transport from Spain to the stores. For example, garments in Northern Europe cost an average of 40% more than in Spain, 10% more in other European countries, 70% in the Americas and even 100% more in Japan.<sup>116</sup>
- **Efficiency in shops** - Zara stores are very customer friendly, very large, with optimal lighting, with a precise order of the products by model and color, excellent visibility of garments with price tags translated into all currencies. The friendly and available shop assistants are in optimal number in order to avoid queues at the cash desk, and the chance to try without problems many clothes in the dressing rooms, are making the purchase operation even more enjoyable.
- **High traffic location** - the company uses to open a flagship store in which presents the widest variety of products to be offered. The aim is to implement the initial first impression of the brand in the new market. Only

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<sup>116</sup> <https://mpk732t12016clusterb.wordpress.com/2016/05/02/zaras-secret-to-success-retail-its-pricing-strategy/> Consulted [24/12/2017]

after it spreads and develop, choosing primary central locations and major shopping centers with different sizes, pointing at building in a medium-term period a coverage of main areas of the country. To guarantee this positioning, the Spanish brand uses a strong vertical integration with all the products designed by the style division located in Portugal.

- **Flexible manufacturing and fast logistics** - competitors pack everywhere, while Zara concentrates production in Galicia and northern Spain. The Group also works with factories in the area, but it produces over around 60% of the merchandise own factories.

## CHAPTER V

### 5. BENETTON AND ZARA, COMPARISON OF THE TWO COMPANIES

#### **5.1. Introduction.**

As is written on the previous chapters, at the beginning the two companies, Benetton and Zara, have adopted two completely different business models. Over the last twenty years the majority of the companies that operates in the fashion sector had incorporated into their business at least some fast fashion elements. These, in order to remain competitive in their core market.

The main difference that distinguishes the two companies is the kind of innovation that they have introduced in their business. A kind of innovation that has allowed them to be famous around the world. Benetton is famous for its product innovation, they invented the postponed dyeing garment. While Zara is famous for its process innovation, they created the fast-fashion.

What do they have in common? The location. Both companies are located in Europe, their headquarters, Benetton in Italy and Zara in Spain. Given their geographical proximity, they face similar challenges. The textile and fashion industry is quite mature and there is no longer room for product innovations in the market. The strategy they are currently pursuing to compete in the international market is not the same for both companies. Benetton has been focused from the beginning on a global strategy, which is offering the same products in all the shops around the world, in order to fully exploit economies of scale. Zara has moved from a global strategy to a transnational one, which it is a mix between the global

and local strategy, in order to aims to balance of production efficiency with adjustment to local preferences.

## **5.2. Differences on production.**

Benetton production chain is based on a network of subcontractors, while Zara aims to centralize as soon as possible the production. Zara has maintained the key functions of the business model in Spain, while Benetton has outsourced more and more all the functions in foreign countries.

Most of Zara's suppliers are located near the headquarters, while the companies that produce for Benetton are almost all located in low-wage countries. The first difference between the two companies is already evident here: while Benetton's production strategy aims at containing costs, Zara's aim is to have all the production phases close to the its headquarter in order to maintain the highest possible control.

Zara produces most of the items in-house, outsourcing only a minimal part. In this way Zara can be very flexible and this flexibility allows planning and reprogramming production according to market needs. Usually each collection is produced in small quantities, always with the aim, in mind, of minimizing the risk of unsold items. On the contrary, Benetton's production chain is based on a network of subcontractors mainly located in Eastern Europe, Asia and Africa. Only the items with the highest added value are produced in-house, while all the rest is outsourcing. The advantage of this strategy is that the company faces lower personnel costs and do not need to use maximum production for covering fixed costs as was used to do in the past. It has been thanks to this way of maximizing the production that has allowed the group to expand quickly without needing huge capital and labor force to invest. However, producing in this way it is not possible to re-program quickly the production in order to respond to changing trends in the market. The trends are a fundamental element on which today is based the

competitive advantage of fashion companies. Benetton produces large quantities per each collection, but the number of launches of collections is much smaller than Zara. An advantage that has Benetton in comparison with its competitors is that the quality of fabrics used is higher and this gives for sure more value.

### **5.3. Differences on distribution.**

Benetton has developed a dual supply chain with two main distribution areas: one in Europe, with logistics centers in Italy, Croatia, Hungary and Tunisia and one in East Asia, with distribution centers in China and India. The distribution centers in Asia serve as a sorting center to provide the stores located near that area, while the European distribution centers supply the shops in Europe and the surrounding areas.

In the contrary, all the logistics centers of Zara are located in Spain. So as a consequence, all the goods produced transit through these distribution centers, in order to be sent to the stores. The lead-time of the two companies is very different, and it is precisely in this aspect that Zara emerges as an example for all fashion companies. While the time to market for a flash collection of Benetton ranges from 1 to 4 months, for Zara it is 15 days if the design of the garments has been simply updated or a maximum of 5 weeks for the new collections.

Benetton has invested heavily to reduce the delivery time of the collections that is usually 7 days for deliveries in Italy and 15 in the rest of the world. What makes the difference today in a fashion store are not the basic collections, but the flash ones. These ones capture customers who want to wear the latest trend.

Zara with the same speed in which it delivers the new items, collect back those that are not appreciated by consumers and therefore that do not have rotation in order to replace these products with new collections. In the contrary, since Benetton does not guarantee the return service of the unsold products to its franchisees, you can find items that do not match the tastes of customers. As these

items do not match the trends of the market the only way to be sold is during the end of the sales period with 50 or 70 % discount.

#### **5.4. Differences on supply chains.**

Zara is characterized by a greater integration of the value chain, upstream and downstream, and by higher control on it. Zara has an innovative approach as it can guarantee a good amount of customization, without sacrificing mass production. A mass production that is made by many collections and each one in small quantities, on the purpose to reduce, as much as possible, the risk of unsold products. So, Zara has an agile supply chain made up by flexibility, by fast adaptation to the latest market new trends and by risk reduction. They have succeeded in identifying the right trade-off between productive inefficiency, lead time and centralize production. This approach is the opposite of the Benetton supply chain.

Zara although have to deal with a variable demand, try to minimize this variability by obtaining information from the market. It is possible to limit the risk of interruption of supply by controlling directly most of the production process, by keeping available part of the production capacity of the machines and by frequently sending new items to the shops.

Benetton instead, has not yet reached the complete integration of the supply chain, neither upstream and neither downstream. Most of the production is entrusted to external suppliers and only a small part of the stores are owned. These are quite two big limits to compete in the fast fashion world of today.

## **5.5. Differences on advertising.**

Benetton became famous thanks to the advertising campaigns created by Oliviero Toscani. From the beginning the promotional aspects have played a fundamental role for the development of the brand at a global level. Next to the huge investments in classic promotional channels, the group has given visibility to its brands through sponsorship on sporting events like Formula Uno, Rugby, Basketball, etc.

Today the most effective channels, for communicating with people, have changed. Nowadays companies are looking more for interactive media, such as social media, blogs, word of mouth, etc. Benetton still believes a lot in the promotional channel for increasing sales.

Zara, on the contrary, has never given particular importance on investments in advertising. It invests 0.3% of revenues in advertising campaigns that is much lower the competitors in the same sector. This choice can be imposed by the very short lead-time of the collections. In fact, there is no material time to promote new items every day. For this reason Zara eliminated the need to advertise the brand in newspapers and other print media. The products are advertised by themselves, thanks to the shop windows of the stores that are located in the main streets of the main cities. Zara's brand reputation has grown a lot thanks to the word of mouth. The main advantage of having almost free advertising is that of investing money, that should be used for advertising, in other fields like: purchasing new stores, research and development to improve production processes, new projects, refinement the company to achieve maximum efficiency, efficiency and customer satisfaction, etc.

## 5.6. Differences on shops.

Both Benetton and Zara were driven by the same motivation that is for new markets, for internationalization. Despite this common basis the expansion abroad has been implemented differently for each of them.

Zara has penetrated new markets mainly through the acquisition of new stores, in this way having all the control. Benetton has chosen the franchising formula, hiring agents who visit the various stores to collect collections orders. The difference between the two is that Zara owns 85% of the stores, while 90% of the Benetton points of sale are managed in franchising.

Benetton has reduced at the beginning the investment risk, because if the point of sale had not been profitable the business risk fell on the franchisee, but now it is suffering the consequences of this decision. Zara is able to get all the information that comes from the point of sale, and analyze them, since the stores are owned. For Benetton it is not possible to do the same, it is impossible to adjust the collections based on the feedback of consumers.

According to this results Benetton business model should change:

- By increasing upstream integration, by selecting a central supplier, that should be controlled by Benetton, which ensures the quality in production, fast time to market and exploitation of economies of scale.
- By increasing downstream integration, reducing distances with consumers through getting the ownership of stores. In last years, Benetton has started to manage directly some points of sale in areas where franchisees did not perform as well as were the expectations.

Even from the number point of sales around the world, we can see that Benetton is suffering compared to Zara. While Benetton is closing stores, Zara continues to open new ones, expanding its presence globally.

## **5.7. Differences on online sales.**

Online sales are another element that marks the difference between the two companies. Zara invests a lot and believes a lot in online sales, as they represent an added profit that, in the absence of online stores can be lost. Every year it opens new online markets because, compared to traditional stores, they represent a lower investment risk and can be consulted from any part of the country. It is very helpful for those who do not live near a Zara store and give them the possibility to be updated to the latest collections and also gives the possibility to buy the products although they are living far away from a traditional shop. You can purchase Zara branded products not only from the official website but also from the official app that is available for both Android and iOS operating systems. From the Zara app you can consult the new collections just launched, filter the assortment by category and of course make orders.

Benetton does not give that much emphasis to the online sales. In fact it has not been introduced an official Benetton app for all mobile devices, but only for those who have the iOS operating system. Benetton is therefore losing a big opportunity as the number of online shoppers in Italy, but especially in other countries, grows rapidly every year. For example in Italy fashion is the main e-commerce sector for the number of buyers, 4.2 million, and accounts for 11% of total online sales in Italy. This figure becomes even more interesting when compared with the online fashion sector of other countries like in England for example 81% of items of clothing are bought online, which means that this sector in Italy still contains many opportunities that the companies must be able to exploit.

For all these reasons it is desirable that Benetton expands its online sales network, implementing a multi-channel strategy, combining and integrating the use of the various sales channels, such as stores, the web, social and mobile, in order to get as many customers as possible.

## CONCLUSIONS

Benetton and Zara may look similar but in reality they are structured differently. They both had taken inspiration from each other. Zara has copied the product innovation of Benetton, postponement dyeing, and Benetton has copied from Zara the model of fast fashion by reorganizing its supply chain to introduce more collections during the year.

But what differentiates them the most is the model of internationalization they have chosen. Benetton has chosen the franchise model and Zara has chosen to be the owner of the stores. This diversity is a fundamental element that can explain the different performances that characterize the two companies. While Zara is able to respond immediately to the new needs and the new trends in the market, Benetton has longer time reaction because, not having the ownership of the stores, it cannot have the daily data on the sales. Therefore is not able to understand in a short time what flash collections to launch in order to satisfy the wishes of customers. The production phases plays, also, a key role in the different success of the two companies. Zara has the ability to manage and reprogram the production of garments according to market needs, since it manages a large part of the production by itself. Benetton, on the other hand, cannot count on a flexible production as it delegates the manufacture of collections to a network of subcontractors outside the group.

Zara is seen as a reference company in the fashion industry and currently on the international market it performs better than Benetton. The competitive advantage of a company in fast fashion is given by having total control of the whole value chain, by integrating vertically all the functions of the production process, both in upstream and in downstream. This integration is in order to shorten the production cycle and to minimize the time to market. Zara is a Benetton competitor, but not vice versa.

Over the years, Benetton has forgot its core business (that is the textile and clothing sector), focusing its energies and resources in other sectors, thus losing

the advantage that has been created thanks to the rapid transformation of the textile industry. This distraction has facilitated the rise of the competitors in the field and has led to an impoverishment of the value of the brand. It is good to pay constant attention to how the fashion sector is evolving. In fact, even before the arrival of the fast fashion, Benetton was one of the leading companies in the fashion world and even Zara could be bypassed in the future by another company. So the Spanish company should not remain tied up on its business model (as did Benetton, losing the great wave of fast fashion), but should constantly monitor which strategies are using the other competitors in the market in order to not change its position from a leader to a follower.

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