

IB CASE -3 (CO1,CO5)

Benetton in the fast lane

Famous for its shocking advertisements Benetton started in 1955 as a small business. Luciano Benetton and his family started by selling coloured sweaters door to door in Treviso, Italy. Over time a regional network of family, friends and agents set up a closely monitored set of distinctive retail outlets. Over a 15-year period Benetton built up 300 affiliated but independently owned outlets in Italy and a factory with new methods to dye and condition wool. Benetton was not directly involved in the retail outlets, who received high quality products at low costs. Parts of the manufacturing savings are realized by outsourcing to neighbouring subcontractors.

Today Benetton has kept this loose network of independent production subcontractors and distribution agents but has now built up to a global network of over 7,000 retail stores. Of these, Benetton owns only about 50 flagship stores and the great majority are operated by independent entrepreneurs. Over 80 per cent of production still takes place in Italy and the company is still 72 per cent owned by the Benetton family.

Benetton is one of those successful global companies that were partly successful because its production and design concept was built on a strong home base. It then expanded the marketing end of its business through closely monitored (but not owned) independent stores. These were able to use the Benetton brand name and distinctive colours and were supported by clever international advertising.

Benetton does not advertise its clothes directly. Rather its advertisements are for a "lifestyle". The "United Colors of Benetton" ads are designed for a homogeneous global consumer interested in fast cars and a fast lifestyle. Benetton goes in for cutting-edge advertising that grabs public attention. This creates an image of new-age awareness, as Benetton advertising has featured Formula I cars, AIDS, high art, and "attitude".

How well this plays out globally is uncertain. For example, in 1988 Benetton had 700 retail stores in the US but by 1995 it only had 150. Is this because Benetton has too European an image to succeed in middle America? How can an Italian family firm understand the American lifestyle from its European bases?

- 1) Is Benetton a multinational enterprise?
- 2) What are the country-specific factors that have helped Benetton be a success?
- 3) What are Benetton's firm-specific advantages?