****

9b17d019

BENBO (A): A BRAND OWNER WITH OUTSOURCED PRODUCTION

Gang Chen and Jingxuan Wang wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

This publication may not be transmitted, photocopied, digitized, or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e) cases@ivey.ca; www.iveycases.com.

Copyright © 2017, Richard Ivey School of Business Foundation Version: 2017-11-17

On an early morning in November 2013, Eva Liu arrived at her office as usual. As manager of the procurement department of Guangdong Benbo Garments Company Limited (Benbo), she knew the day was going to be challenging. She had been pressured and unable to sleep the night before. She had a grave situation to tackle.

Benbo had outsourced the production of a large amount of its casual pants to Guangdong Cont Garments Manufacturing Company (Cont) that year, and Cont had been unable to deliver a large portion of these by the due dates. To meet the demands from outlets and chain stores, Benbo had been forced to process the orders with its own production lines and deliver the products to stores throughout the nation using express logistics. This meant Benbo faced an increase in costs and a loss of business opportunities. It was high time for a rearrangement of internal administrators and managers, but Liu did not want to interfere with the track record of the procurement department or the career development of its staff.

Liu called a meeting with Cont. She intended to press Cont to take responsibility for the late deliveries and compensate Benbo. Before entering the office, she stopped to breathe in some fresh air and enjoy the warmth of the sun. With her mood adjusted, Liu confidently made her way into the office building and began to prepare for the afternoon meeting.

BENBO: MENSWEAR BRAND OWNER

Benbo, a major casual menswear brand in China, was founded in 2004 by Xujin She and headquartered in Guangzhou. The company had approximately 700 employees (see Exhibit 1) and sales totalling CN¥500 million[[1]](#footnote-1) in 2013 and increasing by 30 per cent per year. Xujin She’s clothing retail experience included successfully operating the retail business of 16 famous brands in China, including G2000 Group, Esprit International, Lawman, Giordano International, and Baleno Kingdom Limited. To build Benbo into an excellent brand in China, Xujin She hired Ben Lagerfeld, a famous master designer from Germany, to be the chief design officer, and Kenbo, Lagerfeld’s right-hand man, to be the senior pattern cutter.

Benbo targeted white-collar male customers in their 20s and fashioned its products around “simplicity and neatness.” Benbo mainly produced casual pants, shirts, T-shirts, and suits, with woollen sweaters, belts, and leather shoes as its coordinates (see Exhibit 2). Casual pants sold in the greatest quantity. The company produced different products each season: long-sleeve shirts for the spring, polo shirts for the summer, suits for the fall, and down jackets for the winter.

Since its establishment, Benbo had been sticking to its operations strategy, “Holding up the two fronts, while letting loose the process in between”—that is, focusing on research and sales while outsourcing production. Benbo outsourced most of its production but kept 15–20 per cent in-house. According to Xujin She, this allowed the company to fill urgent orders and to better manage its manufacturing partners by understanding production costs. Benbo owned 100 stores in major shopping malls and 300 franchised stores, totalling 400 retail stores all over the country. Xujin She also hoped to increase revenue through an e-commerce channel (see Exhibit 3).

COOPERATION WITH OUTSOURCING GARMENT MANUFACTURERS

Design and Production Processes

As a typical clothing brand owner, Benbo was involved in many aspects of design and production, including the design and production of samples, the completion of garment development, and production operations (see Exhibit 4). It took approximately 140 days to develop and produce garments for each season (see Exhibit 5); these processes and production times were comparable with those of other clothing companies in China.

Products for different seasons required different thicknesses and styles, so Benbo used different fabrics to design products for each season. For example, Benbo chose about 20 fabrics for casual pants every season. Only four or five of these would be reused the following season, and others would be reselected subject to changes in the research and development design themes (see Exhibit 6). Fabrics for each season were chosen based on feel, spinning process, density, and other properties. As a result, the design and production for each new season was not just a repeat of the prior season but was adjusted based on demand and different workflows, according to varying design philosophies.

Order Placement Meetings and Demand Forecasting

To determine orders for each year, Benbo held four order placement meetings, in January, March, June, and August. After each meeting, the season’s order quantities were released to outsourcing manufacturers, including Cont, according to demand forecasting. For example, on June 24 and 25 of each year, Benbo held an order placement meeting for the following spring; casual pants, shirts, and coats were the main products available for order in this meeting. Direct-sales stores, franchised stores, and all of Benbo’s departments confirmed the number of products that should be produced according to historical sales data and the market forecast for the coming year (see Exhibit 7).

Before 2012, franchised stores could not change their orders after the order placement meetings. However, some franchised stores experienced deviations from their market forecasts and could not be certain about consumer preferences; this resulted in significant losses for Benbo and the franchised stores when they could not satisfy market demands. Therefore, after 2012, Benbo began allowing franchised stores and direct-sales stores to adjust their order quantities.

Management of Outsourcing Manufacturers

After receiving order placements from Benbo’s commodity department, the outsourcing manufacturers purchased fabrics from designated fabric suppliers for different products. Benbo classified its outsourcing manufacturers into three ranks—A, B, and C—based on the duration of the collaboration, eligible quality rating, and on-time delivery rate (see Exhibit 8). Manufacturers ranked “A” accounted for about 50–60 per cent of the total manufacturing.

The classification of Benbo’s outsourcing manufacturers was a dynamic management process. Benbo reclassified its outsourcing manufacturers based on these classification criteria every year. If an outsourcing manufacturer ranked “A” could not meet the quality or delivery time requirements, it would be reclassified into the “B” rank. If an outsourcing manufacturer that had been ranked “C” performed poorly, Benbo could decide not to renew the outsourcing contract. If outsourcing manufacturers ranked “B” or “C” performed well, they could be reclassified into the “A” rank. Benbo preferred to co-operate with outsourcing manufacturers ranked “A.” Outsourcing manufacturers received different orders based on their strengths. For instance, Cont was one of Benbo’s long-term co-operators ranked “A,” and it excelled in producing casual pants, so Benbo consequently placed orders for casual pants with Cont.

MEETING with Cont

Delayed Delivery from Cont

Cont had always been the top A-ranked outsourcing manufacturer in terms of its quality and on-time delivery. Benbo therefore always outsourced its core product, casual pants, to Cont.

After the autumn order placement meeting in January 2013, Cont received an order from Benbo for an expected quantity of 480,000 pairs of pants. However, this order was changed to 700,000 because of adjustments in sales forecasting and order quantities made by Benbo’s store clients. Even though the workers in Cont worked very hard to finish the orders on time, 150,000 pieces were delayed.

A similar situation had occurred after the summer order placement meeting in August 2012; the number of delayed orders then was 50,000. In the first half of 2013, Cont and Benbo met to discuss how to allocate those losses. In the end, Cont compensated Benbo for ¥0.25 million in hopes of maintaining long-term co-operation.

Benbo suffered significant losses due to the delayed order delivery. To meet demand from the stores, Benbo accelerated its own production speed and used express logistics, leading to extra production and logistics costs. Some products arriving at stores missed the best time for sales, resulting in unpredictable opportunity costs. Moreover, the hastily produced products might have had a negative effect on the brand because their quality was not guaranteed.

Benbo’s Procurement Department

Benbo’s materials and garments were purchased by a specialized procurement department (see Exhibit 9). Liu was the manager of the procurement department, and Herman He and July Zhang were assistant managers. Sally Li oversaw the garment team, Mike Xu oversaw the quality control team, and Elaine Yin oversaw the fabric and accessory purchasing team. Liu had been in the procurement department since Benbo’s establishment. She had worked up to the position of manager of the department because of her outstanding performance.

Xujin She planned to adjust Benbo’s management team in association with the fourth strategic plan put forward in 2012. Adam Yang, the manager of the commodity centre, had been sent to manage the e-commerce department and take charge of the online-to-offline plan. Liu was one of the candidates for the new management position at the commodity centre. If she were transferred to the commodity centre, the two assistant managers and three team leaders in the procurement department might have a chance of being transferred to other positions. Performance of the procurement department in 2013 was thus closely related to possible promotions.

Preparing for the Negotiation Meeting

To prepare for the negotiation meeting, Liu met with He, Zhang, Li, Xu, and Yin:

“So, what do you guys have in mind?” Liu asked. She did not allow the silence to linger. “I believe everyone here deems Cont responsible for our loss, including me. Well, how can we convince Cont then? Any thoughts?”

Xu agreed: “The orders were delayed owing to the production capability of Cont. They of course should be responsible.”

“Yeah, totally,” Yin added. “Our retailers complained because Cont could not deliver on time. And we’ve got outsourcing agents other than Cont. We just have to point out that if they refuse to cover our loss, they simply will be replaced.” Yin was a bit on edge.

He, a senior staff member, was calmer and added, “We cannot replace Cont. They are the best among the outsourcing agents. Casual pants are our core product. We cannot trust other agents when it comes down to the quality of the products.”

“Our actual placement of orders was different from what we expected early this year, but can’t Cont anticipate changes in the situation? Cont’s internal management is to blame,” said Li. She also pointed out with sadness, “Cont has grown into a bigger company, and they intend to develop their own brand. They’ve adjusted their production lines, and they are not as focused as they were with regard to production management.”

Liu added an important point: “There’s one more problem. The general manager has set forth the fourth strategic plan for the development of our company. He intends to rearrange the internal management team to accommodate the plan. This negotiation’s going to be a test for us. Whether we can get as much compensation as possible will leave a mark on our track record, and it might determine the career development of our team, too.”

Zhang added, “Prior to this meeting, we talked informally with Cont, and they were not willing to pay anything extra for the delayed delivery. It’s said that their own brand development has suffered a setback, and their profits are in trouble. But, as required by our internal performance assessment, we need them to compensate at least ¥1.5 million.”

Liu wondered who should be responsible for the loss due to the delay and how she and her colleagues should prepare for the negotiation meeting to fight for more money.

Meanwhile, Xujin She was thinking about the core problem of conflicts with Cont. How could he avoid the recurrence of similar problems in the future? Many brand owners outsourced production processes to improve the response of design, production, and sales—but was the outsourcing business model proper or not?

Exhibit 1: BENBO’s OrganizationAL Structure

Chairperson and General Manager

Chairperson’s Office

Sales Centre

Commodity Centre

Marketing Centre

Research and Development Centre

Finance Centre

Human Resource Centre

Operations Department

Development Department

Training Department

E-Commerce Department

Commodity Department

Procurement Department

Marketing Department

Planning Department

Research and Development Department

Technology Department

Capital Management Department

Financial Management Department

Accounting Department

Auditing Department

Information Department

Human Resource Department

Administration Department

Production Department

Source: Created by the case authors.

Exhibit 2: BENBO’s Sales from 2011 to 2013

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2011 (%)** | **2012 (%)** | **2013 (%)** |
| Casual Pants | 30 | 32 | 33 |
| T-Shirts | 25 | 24 | 25 |
| Shirts | 19 | 18 | 16 |
| Business Suits | 4 | 4 | 4 |
| Down Jackets | 2 | 2 | 2 |
| Other | 20 | 20 | 20 |

Source: Guangdong Benbo Garments Company Limited.

Exhibit 3: BENBO’s Value Chain

Fabric

Colour

Style

Casual Pants

T-shirts

Cotton

Synthetic fibre

Business suits

Shirts

Direct-sale stores

Franchised stores

E-commerce

……

……

……

……

**Design**

**Fabric Sourcing**

**Production**

**(Outsourcing)**

**Sales**

Source: Created by the case authors.

Exhibit 4: BENBO’s DESIGN and Production Processes

Develop materials.

Design and develop first draft.

Finish sample product.

Select samples before the order placement meeting.

Hold order placement meeting.

Collect and place orders by commodity department.

Hand over paper pattern, samples, and documents.

Collect and place orders of materials and accessories.

Production

Warehousing

Source: Guangdong Benbo Garments Company Limited.

Exhibit 5: Time for Each Activity in BENBO’s Design and Production Processes

|  |  |  |
| --- | --- | --- |
| **Detailed Operation Activity** | **Expected Time of Each Activity (Days)** | **Accumulated Time (Days)** |
| Develop materials | 10 | 10 |
| Design and develop first draft | 2–5 | 15 |
| Finish sample product | 10 | 25 |
| Select samples before the order placement meeting | 2 | 27 |
| Hold order placement meeting | 2–4 | 31 |
| Collect and place orders by the commodity department | 5–10 | 41 |
| Hand over paper pattern, samples, and documents | 10–15 | 66 |
| Collect and place orders of materials and accessories | 5–10 | 76 |
| Production | 45–60 | 136 |
| Warehousing | 1 | 137 |

Source: Guangdong Benbo Garments Company Limited.

Exhibit 6: Fabric Properties for Casual Pants FOR Different Seasons

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Spring** | **Summer** | **Autumn** | **Winter** |
| Number of fabric varieties | 18 | 20 | 20 | 16 |
| Number of conventional fabrics | 4 | 4 | 4 | 3 |
| Fabric compositions | Pure cotton fibre and blended fibres | Pure cotton fibre and blended fibres | Pure cotton fibre and blended fibres | Pure cotton fibre and blended fibres |
| Thickness | Mainly thin | Mainly thin | Mainly medium | Mainly thick |

Source: Guangdong Benbo Garments Company Limited.

Exhibit 7: Basic Information ABOUT BENBO’s Order Placement Meetings

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Spring** | **Summer** | **Autumn** | **Winter** |
| June 24–25 | August 29–30 | January 5–8 | March 20–22 |
| **Main Products** | Casual pants | Casual pants | Casual pants | Sweaters |
| Shirts | Shirts | Shirts | Cotton padded coats |
| Coats | T-shirts | Leisure suits | Down jackets |
| — | — | Coats | — |
| **Attendees** | All departments of Benbo | | | |
| Direct-sales stores | | | |
| Franchised stores | | | |

Source: Guangdong Benbo Garments Company Limited*.*

Exhibit 8: Classification of BENBO’s Outsourcing Manufacturers

|  |  |  |  |
| --- | --- | --- | --- |
| **Rank** | **Collaboration Time** | **Eligible Quality Rating** | **On-Time Delivery Rate** |
| A | More than two successive years | More than 95% | More than 90% |
| B | More than two years, but not long-term cooperation | More than 95% | More than 90% |
| C | Less than one year | — | — |

Source: Guangdong Benbo Garments Company Limited.

Exhibit 9: Organizational Structure of BENBO’s Procurement Department

Procurement Department

Garment Team

Quality Control Team

Fabric and Accessory Purchasing Team

Source: Created by the case authors.

1. CN¥ = Chinese yuan renminbi; all yuan amounts are in CN¥ unless otherwise specified; CN¥1.000 = US$0.164 on December 31, 2013; all dollar amounts are in US$ unless otherwise specified. [↑](#footnote-ref-1)