

# 6 New Competitors - Verticals and Vertical Retailers

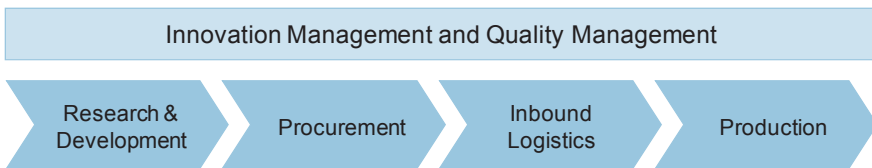
This Chapter explores the business model of a vertically integrated manufacturer/retailer. This pattern of vertical integration is being more and more adopted by traditional retailers engaging in innovation and quality management and even producing their own products.

## 6.1 Value Chain Architecture of Verticals

So-called **verticals** perform or at least coordinate all production and distribution functions right from their founding (“born verticals”). Examples of this type can be found in e-business (**electronic retailing**), but also in store formats. *Dell* ([www.dell.com](http://www.dell.com)), for example, appeals to multiple market segments – from novices to advanced computer users – by selling customised products exclusively over the Internet. *Hennes & Mauritz (H&M)*, *Mango* and *Zara* are successful examples from the apparel industry, in which verticals are gaining market share. **Table 6.1** provides an overview of the global outlet network of *H&M*.

The value chain architecture of a vertically integrated manufacturer/retailer (“vertical”) corresponds to the model of a **producer** or a **coordinator** on the supply-side. Often verticals produce essential shares of their products; a lot of times they even produce all of their products themselves. In these cases, they act as a producer, too (see **Figure 6.1**). *Zara*, for example, a company of the *Inditex Group*, produces around 35 % of its merchandise in manufacturing facilities of its own.

**Figure 6.1** Value Chain Architecture of a Producer (Supply-side)



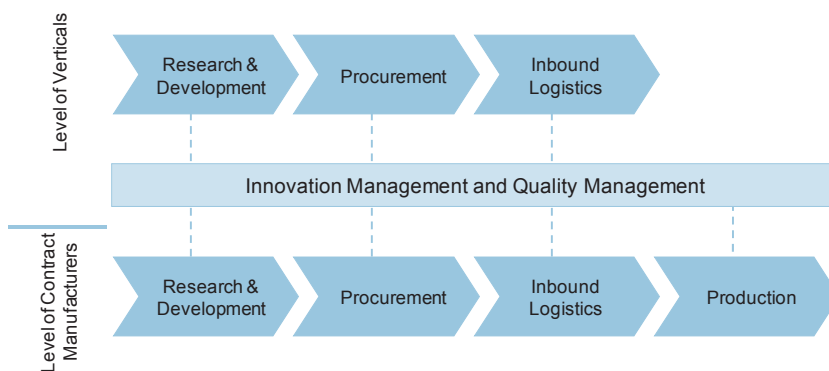
Source: Hertel/Zentes/Schramm-Klein 2011, p. 94.

As a coordinator, verticals control upstream value chain activities such as the procurement, production and logistics of its contract manufacturers through internal innovation and quality management; upstream they concentrate on **intellectual value creation** (see **Figure 6.2**).

**Table 6.1** Global Outlet Network of H&M

Countries	Number of Outlets	Countries	Number of Outlets
Austria	66	Luxembourg	10
Belgium	64	Netherlands	112
Canada	55	Norway	101
China	47	Poland	76
Czech Republic	22	Portugal	21
Denmark	87	Russia	11
Finland	43	Slovakia	7
France	151	Slovenia	11
Germany	377	South Korea	2
Great Britain	192	Spain	122
Greece	18	Sweden	168
Hungary	15	Switzerland	75
Ireland	12	Turkey	1
Italy	72	USA	208
Japan	10		

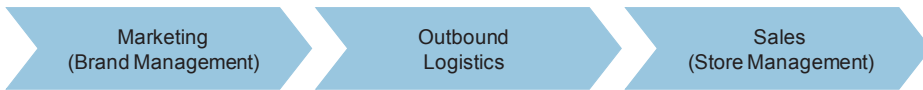
Source: H&amp;M 2011.

**Figure 6.2** Value Chain Architecture of a Coordinator (Supply-side)

Source: Hertel/Zentes/Schramm-Klein 2011, p. 93.

Looking at the demand side of the value chain architecture, verticals sell their merchandise according to the model of **secured distribution**, meaning through equity stores and other channels such as online shops (see **Figure 6.3**).

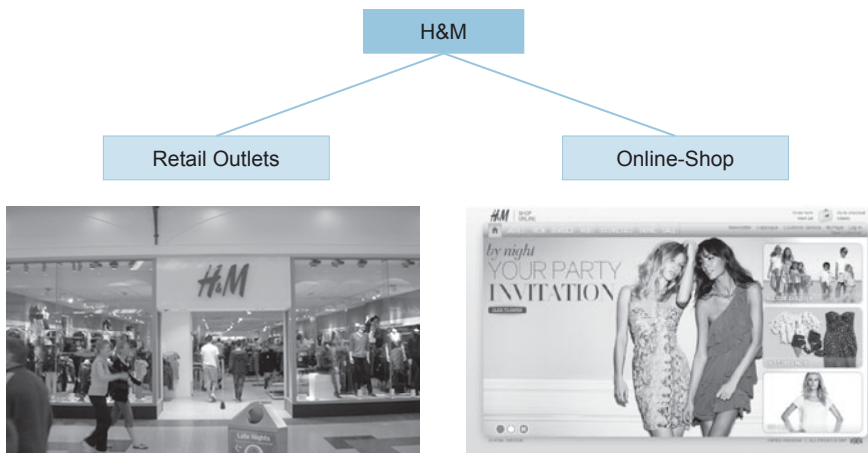
**Figure 6.3** Value Chain Architecture of Secured Distribution (Demand-side)



Source: Hertel/Zentes/Schramm-Klein 2011, p. 98.

As an example, **Figure 6.4** shows *H&M*'s distribution channels (multichannel system).

**Figure 6.4** Multichannel-System of Hennes & Mauritz



## 6.2 Competitive Advantages of Verticals

### 6.2.1 Product Differentiation and Branding

Verticals create essential competitive advantages through their uniform market images. They have direct market access, meaning direct access to the consumer and thus can entirely implement their **retail branding strategies** (see Chapter 9). They control assortment, store layout, merchandise presentation, communication and retail price. This uniform market image guarantees them conveyance of the “fascination” of the retail brand.

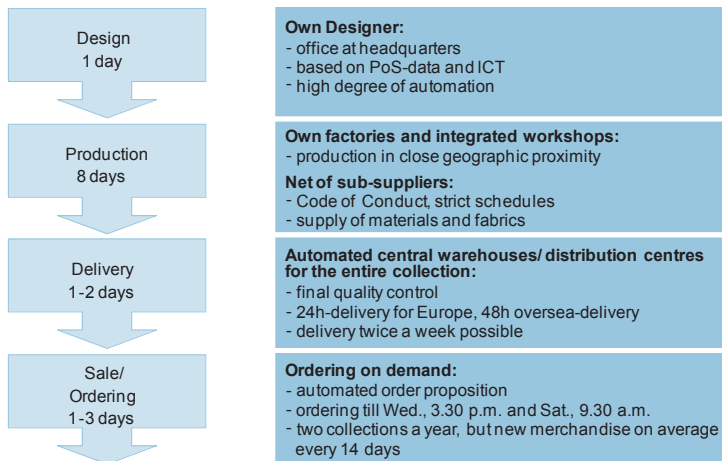
Therefore, they create a **unique selling proposition (USP)** in the sense of exclusivity. Products marked by proper, standalone designs and/or specific qualities that are different from competitors' products are solely available in their outlets, where they are offered in a brand compliant manner.

## 6.2.2 Supply Chain Management

Vertical integration by in-house sourcing or procurement through contract manufacturers not only leads to cost advantages compared with outside suppliers (see Jennings 2001), such as with regard to production and inbound logistics, but also leads to other market-based competitive advantages.

Verticals can create an innovative competitive advantage through a highly efficient supply chain. In this context, "**speed**" becomes a central aspect of the competitive strategies of the so-called **fast-fashion retailers**. *Zara* has essentially influenced this strategic group by optimising its supply chain. As a result of this optimisation, *Zara* has realised the production of a piece of clothing, passing from design through production to delivery and the availability in its worldwide stores within 15 days (see **Figure 6.5**).

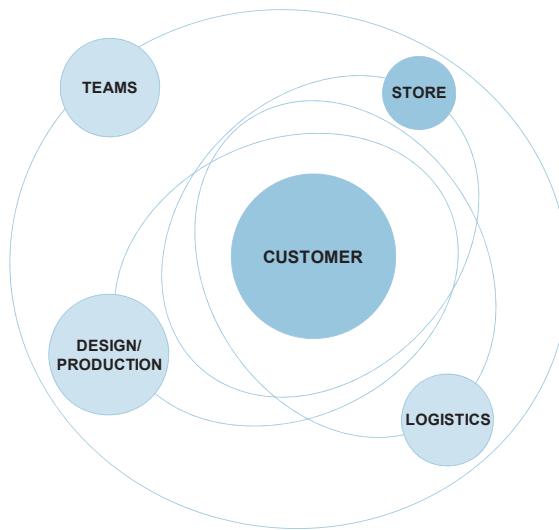
**Figure 6.5** Optimised Scheduling of Processes for Products with a High-Fashion-Rate Through Verticalisation



Source: Ferdows/Lewis/Machuca 2005, p. 84.

Figure 6.6 presents the innovative business model of *Inditex*, the Spanish group that *Zara* belongs to.

Figure 6.6 The Five Keys to the Inditex Business Model



Source: Inditex 2008.

### 6.2.3 Corporate Social Responsibility and Supply Security

Another competitive advantage of an integrated value chain exists in the consistent control of all processes with regard to complying with ecological and social standards. Questions on **corporate social responsibility** (CSR) and sustainability are increasingly important in public debates, but are also necessary elements of future-oriented corporate strategies. At the same time, social and ecological positioning offers potential for corporate profiling. This in turn requires a holistic **compliance management**.

*Hennes & Mauritz (H&M)* can be used as an example of **managing sustainability**. “A shared responsibility means that all departments are now individually responsible for integrating sustainable thinking into their business routines, initiating actions and setting targets. All decisions should be taken keeping People, Planet and Profit in mind. To fully integrate sustainability into the different departments will be a step-by-step process. Sustainability issues influencing more than one department are discussed in the decision-making forum called the Green Room. [...] *H&M*’s shared responsibility approach moves us away from having a CSR department that coordinates our sustainability activity, to a CSR support

department that guides and advises other departments within *H&M* as they set and move towards their individual sustainability goals" (*H&M* 2009).

Sustainability in the sense of the social, ecological and economic responsibility of a company ("**people, planet, profit**") is increasingly complemented with the aspect of **supply security**. Besides the responsible handling of natural resources, e.g. agricultural and metal resources, the question of access to these resources arises on strategic corporate agendas. A growing world population and changing consumption patterns in developing and emerging countries lead to shortages because of an only limited expandable supply, such as of agricultural cultivation areas (see PwC/H.I.M.A. 2010). Thus, **vertical backwards integration** includes not only production but also preliminary stages through to agricultural production, e.g. the cultivation of bio-cotton. Verticals have a competitive advantage over traditional retailers here and (downstream) verticalised manufacturers will exercise the competitive advantage in the same way, too.

For example, companies such as *C&A* and *H&M* can be highlighted. *C&A* emphasises long-term business relationships with suppliers to gain **win-win situations**: "At *C&A* we view the long-term changeover to organic cotton as an essential task within the context of our broader commitment to supporting sustainable agriculture" (*C&A* 2010, p. 103). These long-term partnerships also include cooperations with **non-profit organisations** (NGOs): "In 2005 we joined the non-profit organisation Organic Exchange, which advised *C&A* on the development of a long-term strategy for organic cotton" (*C&A* 2010, p. 104).

*H&M*, too, follows a **partnership approach**: „We work to form close and long-term partnerships with our suppliers as this provides mutual benefits. [...] Working in partnership allows us and our suppliers to plan ahead, to gain knowledge from each other and to develop and grow together. [...] Showing willingness to become such a partner will help suppliers become a key supplier, and include several related benefits, such as long-term order planning and stable orders over time" (*H&M* 2009, p. 28).

## 6.3 Verticalisation of Traditional Retailers

Today, retailers as well as the most important **buying groups** of most sectors work with an increasing number of store brands in their assortments (see Chapter 11). "This development will continue, whereby a clearly modified working method in the conception, management and character of these brands will be added. It will further enhance the triumphal procession of exclusive store brand concepts and it will further increase the importance of these concepts on a retailer's profitability" (Janz/Swoboda 2007, p. 301).

These brand concepts lead to an increasing independence of store brands and cause a disappearance of a clear differentiation between store and manufacturer brands. These brand concepts lead to increasing vertical integration as well. Thus, traditional retailers try to catch up with the abovementioned competitive advantages of verticals not only in the field

of **product differentiation**, but also in areas such as **supply chain management** and **sustainability management**.

**Outside supply** for these companies means control over the upstream value chains of their contract manufacturers through their own innovation and quality management (value chain architecture of a **coordinator**). Besides this form of **controlled production** appears the model of **secured production** (in-house sourcing) through company-owned production facilities.

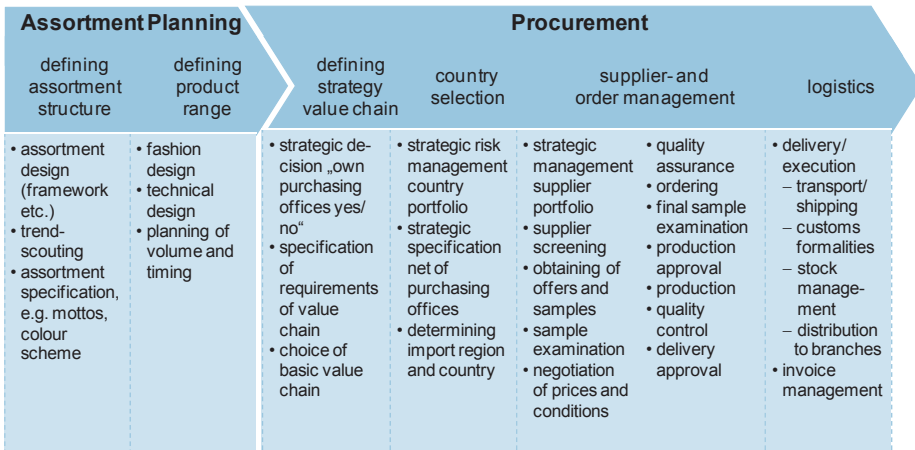
In food retailing, many companies have been verticalised upstream for a long time (e.g. the American company *Kroger* and Swiss *Coop*). Approximately 39 % of the store brand units sold are produced in *Kroger's* 40 manufacturing plants; the remaining store brand items are produced to *Kroger's* strict specifications by outside manufacturers. **Table 6.2** shows the manufacturing facilities of *Coop* in Switzerland.

**Table 6.2** Manufacturing Plants of Coop in Switzerland

Name	Product
Swissmill, Zurich	Switzerland's largest grain mill: baking flours, pasta semolina, flakes, maize, extruder products, flour mixtures
Chocolats Halba, Wallisellen	Chocolate bars, chocolate sticks, assorted chocolates, noisette snacks
Nutrex, Busswil BE	Specialities of vinegar for food retailing (e.g. wine vinegar, cider vinegar, herb-flavoured vinegar), food industry (for cans and sauces) and chemo-technical industry (vinegar for cleaning, decalcifier)
CWK	Manufacturer of chemo-technical and cosmetic products: cosmetics, natural cosmetics, non-aerosols, household cleaning products, organic products, industrial cleaners
Steinfels Cleaning Systems SCS, Winterthur	Products, equipment and services for washing, cleaning and hygiene for bulk consumers and industries
Pasta Gala, Morges	Egg pasta, plain pasta, organic pasta
Reismühle, Brunnen	Organic whole-grain rice, organic risotto, organic perfumed rice, parboiled thai rice, perfumed rice, basmati rice
Sunray, Pratteln	Sourcing, processing and packaging of raw materials such as sugar, edible oils, dried fruit
Bell, Basel	No. 1 Swiss meat-processing company: meat, poultry, fish, seafood, charcuterie, convenience; full-service provider for the retail trade, wholesale trade, the catering trade and the food industry

With the exception of verticals, external production (outside supply) dominates the fashion industry; however, the influence of retailers on the supply chain increases with store brands. To an increasing degree, retailers actively influence the supply chain (see Merkel et al. 2008, p. 32). Retailers create assortments and procure directly. Assortment and procurement sub-processes influenced by retail companies are presented in **Figure 6.7**.

**Figure 6.7** Sub-processes of Assortment Planning and Procurement



Source: Merkel et al. 2008, p. 30.

Although the manufacturing of the finished product remains with suppliers, retailers verticalise the process by taking over the procurement and logistics of fabrics and other “ingredients” (yarn, labels, accessories and packaging). Manufacturers are then supplied with these fabrics and other “ingredients” (Merkel et al. 2008, p. 41). This kind of external production is called the **cut-make-trim mode**.

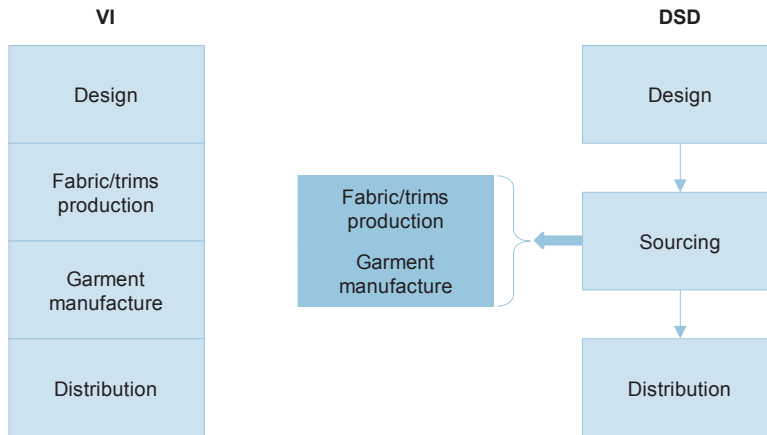
KATAG is an example of a European buying group that, on the one hand, directly influences the marketing of its independent retail partners through an innovative **floor management model** and, on the other hand, influences the production of its contract manufacturers (controlled production) in the Far East by:

- the internal design of the products,
- ecological and social/ethical standards and
- procuring accessories, e.g. buttons.

**Figure 6.8** compares the **vertically integrated model** with the **design, sourcing and distribution model** of the international fashion retail supply chain (see Fernie/Perry 2011).



**Figure 6.8** Vertically Integrated Model (VI) Compared to the Design-Sourcing-Distribution Model (DSD)



Source: Fernie/Perry 2011, p. 279.

## 6.4 Conclusion and Outlook

These developments in connection with the explanations from Chapter 5 illustrate that the competitive retail arena is characterised not only by new store formats, online retailing and multichannel retailing (see Chapters 2, 3 and 4), but also by the competition of value chains and value-creating systems. These value-creating systems compete not only in downstream markets but also along the entire supply chain. In this context, the example of the **agile fashion industry** illustrates competitive advantages that a highly performing supply chain management can create in the sense of the **quick response** concept (QR) (see Chapter 17). While the origins of this concept are in the fashion industry, this concept can be applied to other sectors, e.g. the grocery sector.

Value chains or value-creating systems will increasingly be controlled by manufacturers, in the context of their downstream verticalisation (see Chapter 5) or by verticals, leading to vertically integrated manufacturers/retailers. But, to an increasing extent, traditional retailers such as chains and buying groups will approach these value chain architectures.

## Further Reading

FERNIE, J.; PERRY, P. (2011): The International Fashion Retail Supply Chain, in: ZENTES, J.; SWOBODA, B.; MORSCHETT, D. (Eds.): Fallstudien zum Internationalen Management: Grundlagen – Praxiserfahrungen – Perspektiven, 4th ed., Wiesbaden, pp. 279-298.

JENNINGS, D. (2001): Thorntons: the Vertically Integrated Retailer, Questioning the Strategy, in: *International Journal of Retail & Distribution Management*, Vol. 29, No. 4, pp. 176-187.

LANE, C.; PROBERT, J. (2009): *National Capitalisms, Global Production Networks*, Oxford et al.

## 6.5 Case Study: C&A<sup>1</sup>

### 6.5.1 Profile, History and Status Quo

C&A, a privately owned enterprise, is one of the leading clothing retailers in Europe. The company offers the latest fashion at acceptable prices. C&A collections include the entire family – women’s, men’s and children’s fashion – and target everyone, no matter what age, size and taste. The company focuses on the customer as the key to its success.

The origins of C&A date back to 1841 when Clemens and August Brenninkmeijer opened a textile warehouse in the town of Sneek in the Netherlands. The two brothers from Mettingen in the Münster region of central Germany named the company with their own initials. Originally supplying mainly rural populations with linens and textiles, the brothers came up with an – at that time – innovative business concept. Offering industrially manufactured, made-up products as well as ready-to-wear items of clothing at attractive prices to a broad clientele was revolutionary in 1861. It stood in sharp contrast to the expensive, made-to-order, artisan production of garments typical before then.

The first store proved very successful. This is why the store concept was multiplied in the following years and continued to prosper in its domestic market. International expansion started in 1911 when the first C&A store opened its doors in Germany, followed by the first branch opening in England eleven years later. The Second World War temporarily interrupted the company’s course of international expansion. In 1945, C&A entered the North American market, which marked the beginning of the company’s expansion outocean countries. The following years were characterised by rapid expansion with respect both to the number of retail outlets and to their geographical distribution across Europe. C&A continuously taps new country markets. The most recent store openings took place in 2005 in Russia, in 2007 in China, Turkey, Slovakia and Slovenia and in Romania, Italy and Croa-

<sup>1</sup> Sources used for this case study include the website <http://www.c-and-a.com>, the C&A Report 2010 as well as explicitly cited sources.

tia in 2009. But C&A has also closed stores to streamline its country portfolio. The company exited, for example, the Japanese market in 1993, Great Britain and Denmark in 2000, North America in 2004 and Argentina in 2009. At the beginning of 2011, C&A Europe operated 1,490 retail outlets in 19 countries, employing over 36,000 people.

**Figure 6.9** C&A's Geographical Expansion (Year of Market Entry/Number of Operated Stores)



Source: C&A 2010.

C&A offers more than 10,000 different articles in 190 commodity groups. C&A has eleven exclusive brands in its portfolio: *Baby Club*, comfortable and high quality fashion for babies; *Canda*, complete range of competitively priced quality basic clothing items; *Clockhouse*, latest fashion addressing young adults from 18 to 25 years old; *Westbury*, attractive quality range of classic men's clothing; *Yessica Pure*, clothing for modern and fashion conscious women; and *Your Sixth Sense*, finest quality and classic styles for elegant women. This reflects C&A's highly complex fashion portfolio and its concept of offering fashionable clothes to everyone.

C&A is organised into a holding structure named *COFRA Holding AG*. C&A Europe is one of its subsidiaries. Besides its fashion retail activities, the subsidiary operates a financial services venture named *C&A Money*, offering insurance and financial products to customers in Germany since 2006. In addition to C&A Europe, there are *C&A Latin America* and *C&A China*. Both are subsidiaries of *COFRA Holding AG* as well. Each of the organisations operates independently of one another. At the beginning of 2011, C&A China had 22 retail out-

lets in and around Shanghai and Beijing. *C&A Latin America* operated 188 stores in Brazil and 61 more in Mexico at that time. Besides retail activities, the holding company *COFRA Holding AG* encompasses a group of companies located in Europe, Asia, North and Latin America whose activities include real estate, private equity investments and financial services (Cofra Holding AG 2011). The holding structure was introduced in 2001 because of difficulties in the market. "The coming of *H&M* in clothing retailing entailed big difficulties for *C&A* which had to review its marketing, renew its image and restructure its supply chain" (Cliquet 2006, p. 125). Thus, a clear and efficient holding structure was employed to quicken the decision-making process and to make the entire enterprise more transparent (Textilwirtschaft 2001).

Despite difficult economic conditions and a significant decline in the European clothing market, *C&A Europe* was able to generate a stable gross turnover of 6.59 billion EUR during the financial year 2010/11.

## 6.5.2 C&A's Value Chain Architecture and Competitive Advantages

*C&A* is primarily a trading company and purchases its goods from around 900 suppliers located in 40 countries. The company does not manufacture any of its merchandise itself. It either purchases manufactured and ready-for-sale merchandise (passive sourcing through contract buying) or the products are produced in accordance to *C&A's* specifications (active sourcing through contract manufacturing). Both kinds of sourcing comply with a direct sourcing strategy, meaning that *C&A* does not make use of external intermediaries for its sourcing.

The upstream textile supply chain is organised and coordinated by the company's purchasing organisation, *C&A Buying*. The two head offices in Brussels and Düsseldorf employ around 450 buyers, designers and stylists, working to develop and research the latest fashion trends and to buy final products for *C&A*.

One of *C&A's* channels to directly and actively purchase goods is through *C&A Buying*. This operates eleven buying offices in nine countries. Its employees work directly with *C&A* contractual partners at the local level, visiting the manufacturing facilities and ordering goods on site. The following activities are *C&A Buying's* key tasks:

- Analysis of production markets
- Market analysis of suppliers and production facilities
- Agreeing capacities and production schedules with suppliers and buyers
- Inspection of samples
- Checking workmanship and fit
- Monitoring delivery times

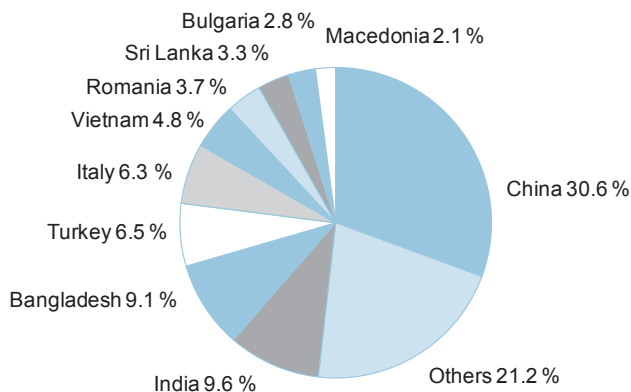
- Quality control and final acceptance
- Coordination of transportation logistics
- Customs formalities.

Another method C&A employs to actively purchase its goods is through a subsidiary, the *Canda OHG*. This sourcing strategy can be classified as contract manufacturing because the subsidiary works with C&A designers, utilises its production knowledge, procures fabrics and other materials and organises the production and shipment of the goods. *Canda OHG* thus controls the entire upstream textile supply chain. The manufacturing facilities with which *Canda OHG* cooperates are mostly located in Eastern Europe and China. C&A obtains around 5 % of its merchandise this way.

C&A also procures goods following a passive sourcing strategy. *C&A Buying* purchases from approximately 500 suppliers located in Europe in the form of contract buying. These suppliers sometimes commission producers who, in turn, may employ the services of sub-contractors. Through this channel C&A buys final and ready-for-sale merchandise. The company thus possesses less control of the upstream textile supply chain compared with following an active sourcing strategy.

C&A purchases its merchandise all around the world. **Figure 6.10** presents C&A's supplier origins.

**Figure 6.10** Percentage of Production Units in Supply Countries



After procuring the merchandise, C&A transports it from the factories to its 13 distribution centres in Europe. From there goods are distributed to local retail outlets. C&A uses a variety of means for long distance transport, mainly in primary distribution. For example, 93 % of manufactured goods are transported by ship, whereas only 7 % are transported by plane. C&A only transports merchandise by air if the clothing might miss the season because of late delivery or if the goods concerned are the very latest examples of a fashion trend that has to be served quickly. C&A aims to further reduce long distance transport by plane through the proper planning of its two main collections, Autumn/Winter and Spring/Summer. By contrast, C&A chooses transportation by rail and truck over short distances, and thus mainly in the context of secondary distribution, to make possible flexible store deliveries on a daily basis possible.

C&A sells its fashion without exception through its proper distribution channels, meaning that no intermediaries are involved in the distribution process. Consequently, C&A has direct market access and thus has a direct connection to the customer. Besides its equity stores, C&A has expanded into e-commerce as an additional direct distribution channel. An online shop in Germany was launched in 2008 after a successful test had been conducted in the Netherlands. Two new C&A online shops, France and Austria, went online in March 2011. Following the successful start-up of its online sales activities, C&A plans a roll out to other European countries in the near future.

Because C&A assumes full responsibility for its products, good quality management is of great importance. Over recent decades, C&A has developed a comprehensive system that ensures the human and ecological integrity and safety of its products. This begins with the manufacture of the fibres, and covers the entire manufacturing chain, concluding with the random sampling of individual products from its stores. The implementation and control of this system is the task of C&A's *Quality Assurance Department*, which operates around the globe and informs suppliers of C&A's quality standards. Active and passive purchasing channels are monitored this way.

Considering the multitude of different supply partners and their interests as well as logistics and distribution, managing the textile supply chain is a challenging task. In this context, C&A has significantly increased the share of active purchases to make it more transparent. This also permits C&A more frequent access to production facilities and allows better control over both capacity management and manufacturing conditions. In 2010, C&A procured about 80 % of its merchandise via direct and active sourcing. To further increase the supply chain's transparency, C&A is steadily decreasing the number of suppliers. This is not always possible because of its strategy to increase active sourcing for which new contract partners need to be tested.

New business contacts have to undergo a selection process based on commercial criteria, such as the product quality and social and ecological conditions in their production facilities. As mentioned above, C&A has clear ethical, social and ecological principles. The company defines safety standards throughout the entire supply chain, from design through production to transport and sales. These standards are binding components of its business

relations and are defined in the C&A Code of Conduct and in the company's General Delivery Instructions. All suppliers are required to comply with these guidelines before the start of a business relationship.

Once in a business relationship with C&A, the company attaches great importance to cultivating long-term, trusting business relationships at all levels: with customers, employees, suppliers and other parties with whom it works together on a daily basis. This can be illustrated by looking at the relationships with contract supply partners, which are of essential importance to the company. More than 40 % of C&A's current suppliers have been cooperating with the company for over 10 years and some of them for over 20 years. C&A's suppliers are regularly evaluated and monitored to guarantee their profitability (Supplier Profitability Report), quality (Supplier Quality Report) and social responsibility (Supplier Compliance Rating). A clear competitive advantage of C&A's integrated value chain exists in the consistent control of all processes. In this context, the company sees it as one of its responsibilities to monitor the consequences of its economic activity, especially in terms of raw materials and energy.

### 6.5.3 Sustainability at C&A

An ever-increasing price pressure and continuously changing trends in the fashion sector pressure all players in the textile supply chain with regard to costs and timely production. If not managed properly, these factors can affect production conditions. This is why C&A made its task to embed the "triple bottom line" principle (people, planet and profit) throughout the entire company. The aim was to obtain greater commitment from each individual and to secure sustainable progress in doing so. To achieve this aim, C&A developed a sustainability strategy with the primary purpose to focus the corporation on the socio-political and environmental challenges of the future. The centre of this sustainability strategy is the materiality matrix (see **Figure 6.11**), which combines the C&A perspective looking outwards and the C&A stakeholder perspective looking inwards. This identifies significant topics of relevance to the company that are capable of contributing to the creation of sustainable development and resource utilisation.

In conformity with its values and standards, C&A continually pursues sustainable development. The company emphasises the continuing importance of sustainability as one of the underlying principles behind its business model. For this purpose, C&A pursues and supports a large number of sustainable activities and social projects. For example, C&A established the *C&A Initiative for Social Development* in the mid-1990s to support sustainable development and to create better long-term prospects for local manufacturers. The company also cooperates with many non-profit organisations such as *Terre des Hommes*, *A Heart for Children*, *Oxfam Ireland* and *Child Helpline International* and *Organic Exchange*. Additionally, C&A set up an *Environmental Working Group* in 1989 to address topics such as waste education, recycling and energy saving. Issues such as saving energy in buildings and in logistics, environmental protection in merchandise presentation and waste disposal processes have been addressed by C&A.

To fully integrate the concept of sustainability C&A bases its corporate culture on clear responsibilities, accountability, trust and transparency in its management structures and procedures. Integrity is the concept C&A emphasises most when making business decisions and commercial dealings.

In recent years, C&A has established a leading position in selling certified organic cotton and has established “Cotton Connect” in partnership with the *Organic Exchange* and the *Shell Foundation*. The aim of the organisation is to transfer its knowledge on the cleaner cultivation of cotton to farmers in C&A’s main cotton market of India. This will help them move forward from today’s conventional farming methods to the production of more sustainably grown cotton.

C&A’s environmental strategy pushes further environmental measures, especially to substantially reduce CO<sub>2</sub> emissions as well as the associated damage of the global climate. The company titles this strategy “C&Are” and assumes long-term responsibility. C&A intends to become one of the leading five companies in the European retail sector in the fields of product safety, organic cotton, carrier bags, packaging and recycling, renewable energies, eco-store and transport and logistics.

Figure 6.11 C&A Materiality Matrix

<b>CONCERN TO STAKEHOLDERS</b>	High	<b>Textile Supply Markets</b> <ul style="list-style-type: none"> <li>• Animal welfare</li> </ul> <b>Retail Operating Markets</b> <ul style="list-style-type: none"> <li>• Gender issues and equal pay</li> <li>• Materials</li> <li>• Environmental impact of products</li> </ul>	<b>Textile Supply Markets</b> <ul style="list-style-type: none"> <li>• Human rights</li> <li>• Employment/working conditions</li> <li>• Code of conduct</li> <li>• Capacity building</li> <li>• Energy consumption</li> <li>• Chemical safety</li> <li>• Water consumption and waste water</li> </ul> <b>Retail Operating Markets</b> <ul style="list-style-type: none"> <li>• Energy consumption</li> <li>• CO<sub>2</sub> emissions</li> <li>• Product safety</li> <li>• Customer satisfaction</li> <li>• Price stability</li> <li>• Stakeholder engagement</li> </ul>	
	Medium	<b>Textile Supply Markets</b> <ul style="list-style-type: none"> <li>• Occupational health &amp; safety</li> <li>• Waste management</li> <li>• Grievance mechanisms</li> <li>• Sustainable production</li> </ul> <b>Retail Operating Markets</b> <ul style="list-style-type: none"> <li>• Climate change implications</li> <li>• Waste management</li> <li>• Customer privacy</li> <li>• Increasing regulation</li> <li>• Life-cycle analysis</li> <li>• Sustainable Consumption</li> </ul>	<b>Textile Supply Markets</b> <ul style="list-style-type: none"> <li>• Supply chain transparency</li> <li>• Community Investment</li> </ul> <b>Retail Operating Markets</b> <ul style="list-style-type: none"> <li>• Employment type &amp; wages</li> <li>• Working conditions</li> <li>• Health &amp; safety</li> <li>• Business ethics</li> <li>• Market presence</li> <li>• Product labelling</li> <li>• Corporate giving</li> <li>• Economic performance</li> <li>• Use of chemicals</li> <li>• Legal compliance</li> <li>• Employee awareness building</li> <li>• Ageing population</li> </ul>	
	Low	<b>Textile Supply Markets</b> <ul style="list-style-type: none"> <li>• Land use and biodiversity</li> <li>• Nuisances</li> </ul> <b>Retail Operating Markets</b> <ul style="list-style-type: none"> <li>• Public policy / lobbying</li> <li>• Anti-Competitive Behaviour</li> <li>• Pollution Control / hazardous substances</li> </ul>	<b>Textile Supply Markets</b> <ul style="list-style-type: none"> <li>• Diversity and non-discrimination</li> <li>• Training and education</li> <li>• Human rights</li> <li>• Collective bargaining</li> <li>• Packaging</li> </ul>	
		Low	Medium	High
		<b>IMPACT ON C&amp;A</b>		

Source: C&A 2010.



## 6.5.4 Conclusion and Outlook

Because the customer is the company's first priority, C&A will continue to satisfy consumers' wishes, needs and satisfaction and thus it intends to maintain permanent dialogue with them. For this the company uses response forms available in stores or the contact page on its website, which customers can use to give feedback, ideas, comments and criticism. Additionally, the company conducts instore interviews to get in touch with its customers. C&A is especially interested in feedback on the range of offered goods, employee friendliness, smoothness of workflow and furnishings and facilities in the stores. The company utilises this information to steadily enhance its product ranges, services and stores to continuously improve quality and raise the level of customer satisfaction.

Between 2002 and 2008, C&A doubled its number of stores, and the company opened 150 stores in 2008 and 2009 alone. Despite the financial and economic crises of recent years, C&A was able to achieve growth as originally planned. As economies across Europe return to growth, C&A intends to accelerate its expansion in both the existing store base and its Internet business.

## Questions

1. C&A can be classified as a "vertical retailer" in the clothing industry. Explain why, taking a closer look at upstream- and downstream-oriented value chain architectures. What are the advantages and disadvantages of being a vertically integrated retailer as opposed to a traditional retailer?
2. In recent years, C&A has significantly increased its share of active sourcing and plans to continue this. Is it advisable for C&A to start manufacturing clothes in its own production facilities and thus exert even more control over the supply chain? Identify the opportunities and risks of clothing retailers becoming producers?
3. C&A pursues many different activities within its sustainability strategy. Explain the concept of sustainability, name the key corporate aspects of the three dimensions of the triple bottom line and classify C&A's different sustainability approaches in these three dimensions.
4. In 2007, C&A decided on a long-term strategy to expand the use of organic cotton for its products. In the context of sustainability, name and explain key drivers for a higher control of the upstream supply chain.

## **| Hints**

1. For a discussion of the advantages and disadvantages of verticalisation see for example, Blois 1972, Jennings 2001 and Vickers/Watson 1991.
2. Consider aspects such as added value in textile production, product life cycles in fashion and dependencies within the supply chain.
3. To name the key corporate aspects of the three dimensions of the triple bottom line see for example the Global Reporting Initiative website. To find additional sustainability approaches check C&A's annual (sustainability) report.
4. Consider corporate drivers on the supply and demand sides.