



EMCC case studies

Industrial change in the textiles and leather sector: Karstadt Warenhaus AG

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Company facts

KarstadtQuelle group

KarstadtQuelle is the largest combined department store and mail order group in Europe in terms of distribution channels and the number of business lines, where it occupies a leading position in Germany and in Europe. In 2002 KarstadtQuelle had sales of €15.8 billion, earnings before taxes and amortisation of goodwill (EBTA) of €293.9 million, and a total of 104,536 employees (approximately 84,000 working full time).

The group business segments are:

- Over-the-counter retail (46.4% of sales in 2002):
 - 189 department stores which are mainly operated under the Karstadt name, supplemented by KarstadtSport, KaDeWe, Wertheim, Hertie and Alsterhaus;
 - 294 speciality store: Wehmeyer and SinnLeffers (fashion), Runners Point and Golf House (sports), Schaulandt/Schürmann and WOM (World of Music) (multimedia).
- Mail order (52.0% of sales in 2002):
 - Universal mail order: Quelle, Neckermann, as well as companies in 15 European countries;
 - Speciality mail order: 22 special mail-order suppliers with companies in 19 countries.
- Services.
- Real estate.

KarstadtQuelle's corporate history started 120 years ago when Karstadt, Hertie and Althoff were founded. The mail order segment Quelle Versandhaus was established in 1927. Neckermann Textilgrosshandel was established in 1948, and two years later they opened a mail order division. From 1977 to 2000, these companies merged into KarstadtQuelle AG.

KarstadtQuelle's goal is to transform itself from a retailing company into an integrated retail and service group. In over-the-counter retailing, it concentrates on three main elements:

1. Further development of the larger department stores (approx. 100) into integrated 'total experience' stores.
2. Restructuring of the business processes, particularly in smaller stores (approx. 80).
3. Expansion through existing and new specialist activities.

In October 2000 KarstadtQuelle adopted a new strategy. The overall strategic goal is to increase value for shareholders, employees, and customers. The focal point of the strategy is a 10-point Value-Added Programme.

Karstadt Warenhaus department stores

The focus of the case study is the Karstadt Warenhaus department store chain. Its main office is in Essen, Germany, and in 2002 the chain employed a total of 37,000 employees. It deals with a product line ranging from textiles and leather to electronic goods and home furnishings. Turnover in 2002 was approximately €6.4 billion. Each department store has a managing director. Product buying and displaying for each department store is mainly done from the main office, based on statistics and sales prognosis in each particular region.

In the department store sector in Germany, Kaufhof is the main competitor to Karstadt Warenhaus. In the textiles sector the main competitors are C&A, Hennes & Mauritz, Peek & Cloppenburg, and Zara.

Market dynamics and company changes

The political climate in Germany has changed during the past five years. For many years, German society was very stable and prosperous. The economic recession in Europe over the last few years has brought about a feeling of insecurity regarding social welfare, pensions, job security, and health care. This means that today's consumers are saving more than they are spending and that price has become the most important buying issue. The result has been a price war in the retail business - especially violent in the case of textile products. As people try to save money, their shopping pattern has changed and discount supermarkets have captured a relatively large share of the textiles market.

Change within the last four to six years has also come about as a result of the Internet. Today, eCommerce platforms are used to a great extent to buy articles. The Internet also gives greater possibilities for controlling the supply chain: production and transportation logistics have become more transparent. Improved buying and supplier efficiency has led to the possibility of retail outlets having numerous seasons per year.

Due to the economic situation in Germany, the number of employees has been reduced over the last five years in order to cut costs. Karstadt has implemented this reduction through a combination of dismissals and retirement, and by not refilling positions as they became vacant for other reasons. The reduction of staff has taken place in a negotiated process with the works council.

Another method introduced recently by Karstadt in a bid to indirectly cut costs and improve efficiency is the specialisation of tasks. A few years ago, sales personnel in department stores had to carry out a lot of different tasks besides selling. The company has now established more specialised work functions, so that sales personnel no longer handle non-selling tasks like stocking shelves or collecting change. For these functions they use other personnel. This specialisation results in a more efficient staff and makes it possible to implement differentiated wages, according to management.

Karstadt Warenhaus is working on implementing the slogan *Besser Karstadt* ('better Karstadt') which was introduced in August 2003. This competitive strategy focuses on good customer relationships, having a broad range of products so that the customers only have to go to one place to shop, and being competent in product knowledge. This implies not only getting better in the eyes of the customers, but also in the eyes of the employees. Functions in head office like logistics, purchasing, and HR have to focus on how to achieve these goals. The slogan is promoted through marketing campaigns, television spots, and conferences with sales and buying departments and with employees at regional level.

The greatest challenge facing Karstadt Warenhaus is that the department stores are losing market shares because customers prefer low-priced, discount products and increasingly purchase their clothes at food discount stores. In addition, price-focused fashion retail chains are growing very rapidly. It is difficult for Karstadt Warenhaus to compete on these terms as they have high costs due to the size of the organisation and the location of the department stores in town centres. The strength of Karstadt Warenhaus is first and foremost the brand 'Karstadt', which according to research has positive connotations for customers: reliable, known, with a big variety of goods, and being in a central location. Internally, the worldwide buying network is also seen as a strength.

The recession in the economy is expected to continue for some years. This will increase pressure on the department stores vis-à-vis the discount shops. The solution to these challenges is for Karstadt Warenhaus to optimise its business practices and become more efficient in all process phases from buying to selling. One of the ways to achieve this is to

optimise the supply chain. In the future, the control of the supply chain will be handled in a system, developed in a partnership with SAP¹, which is going to have new, special functions for procurement, forecasting, and replenishment in the fashion and sports sectors. The employees have been informed through Intranet, lectures, and emails, and have also been informed by the Supervisory Board. According to management, employees are very positive towards these plans and are looking forward to a reduced workload, a less complex system, and a more comprehensive general view of assignments.

Karstadt Warenhaus is planning to increase the annual number of seasons in its department stores. The goal is to maintain the existing level of shares in the market over the next five years. The organisational structure is expected to continue as it is, but the number of employees may be reduced over the next few years. Karstadt Warenhaus intends to build a closer relationship with partners. The future will bring fewer but stronger partnerships with brand suppliers, extended use of vendor-managed inventory, and shop-in-shop systems.

Organisation and market

Each branch of Karstadt Warenhaus has one department which manages the sales functions and one which manages purchasing. Karstadt buys textiles either from importers or directly from manufacturers in Europe and the Far East. It is expected that the abolition of import quotas in 2005 will lead to a large increase in direct textile imports from China. Imports from other Asian countries like Vietnam, Bangladesh, and Indonesia are expected to decline.

For design aspects, Karstadt Warenhaus relies on in-house designers who design single styles and whole collections for the company brands.

It is expected that the workflow will be changed with the implementation of a new SAP system in 2004-2005, which should increase the company's competitiveness as well. The development of the system is seen a response to market demands: Karstadt Warenhaus must get better at planning and buying in order to reduce stocks and to react more rapidly to trends. KarstadtQuelle was the first department store in Germany to use customised software from SAP.

There is no plan to change the location for the main activities, which will remain in Germany.

Supplier relations

Karstadt Warenhaus' supplier relations are mainly based on long-term and strategic considerations. The main office is in charge of supplier relations, and the purchasing departments negotiate procurement terms. The increasing popularity of Internet auctions, however, means that the establishment of a buyer-seller relationship occurs much more rapidly than previously and the duration of such a relationship is shorter.

Karstadt Warenhaus has strong partnerships with brand suppliers. These partnerships include data sharing, for example, as an aid to production planning.

¹ SAP is the largest inter-enterprise software company and the third-largest software supplier, <http://www.sap.com/company/press/press.asp?pressID=2095>.

Workforce and the market

In KarstadtQuelle's over-the-counter retail business segment, the number of employees has decreased by 5,741 from 2001 to 2002 and the number is expected to decline further during the next couple of years.

Many employees work full time and some work part time; quite a few employees are hired on a temporary basis for jobs such as stocking shelves. It is expected that there will be a greater number of part-time jobs in the future.

Language skills have become very important in the Karstadt Warenhaus buying department but not so important in the department stores. While it is deemed important for staff to have good ICT skills, the present level is considered sufficient.

Different employee skills are required with regard to the forthcoming SAP system and employees will have to change their work processes. Part of employee training will be conducted online as eLearning exercises in everyday processes. Beyond this, the users of the system are expected to learn to use it via on-the-job training. The company does not expect any change in the staff skills profile due to the system.

Salary

Salary structures are tied to job roles and to individual performance. The company has designed specialised job functions based on sales processes and has introduced a graded wage system with lower salary levels for the staff responsible for sales support functions such as stocking shelves.

Labour relations

Employees of Karstadt Warenhaus are unionised. Union representatives can participate in steering committees for large projects and are legally entitled to a say on some matters. Some of the issues discussed with management over the past year have been pension contributions, compulsory pension saving, and Saturday opening hours.

Karstadt Warenhaus has specified equal rights policies in their Management Guidelines.

Unions in Germany are expected to lose political influence at a central bargaining level in the future. The management sees this reflected in a decreasing number of union members in Germany. Within companies, unions are still expected to have a central role in local bargaining processes, which has also been the case in Karstadt regarding lay-offs.

Education and training

Karstadt Warenhaus holds introductory programmes and in-house training programmes for trainees and for buyers and sales personnel. In the main office, different courses are held simultaneously: for example, buyers are offered language courses in both English and French.

Introductory training differs according to the employee's educational level. An employee without a university diploma starts with a sales training programme. An employee with a diploma starts in a trainee programme which contains an introduction to the processes in the department stores and in the main office. Afterwards the trainees become store managers or they get to work in head office. It is common for employees to start 'at the bottom' and work their way up.

The education and qualification system is mainly organised at a decentralised level in the departments. There are, however, specific training demands for young managers. Some of the training is 'on the job' while the rest comprises instruction based on individual needs.

The increased use of technology has affected both the contents of the formal training programmes and the way these are carried out. Today, Karstadt Warenhaus has an Internet-based learning platform which can be accessed from work by employees in the buying and sales departments. The platform is considered a success with a growing potential, and it is also used for training employees in the use of new technology.

Preparations for the forthcoming implementation of the SAP system are already underway with courses on the learning platform. The number of such courses will be increased in the year to come.

Research and development

Karstadt Warenhaus carries out research into the transportation market focused on economic issues, and on developments in supply and demand in different markets. Buying officers and regional source managers carry out product market research. Operating at a regional level, they make up a world-wide department. Karstadt Warenhaus has managers who monitor the market and state of the art regarding ICT. Karstadt's Board is working on new business models.

Virtualisation of the workplace

Karstadt Warenhaus is not known for being technologically advanced at the moment, but the new SAP system is expected to bring the company ahead of the competitors. The main issues in implementing a new IT system are efficiency in work flow, cost-cutting measures, and control of the supply chain to meet actual customer demand. At the same time, implementing the new system is seen as a means of implementing a new business model. The company regularly experiments with and invests in different new business models in order to test them and to have a variety of models on which to base future business.

With the use of Internet, communication with suppliers from all over the world is now much easier as distance is no longer important. Due to improved airfreight connections and reductions in air and sea freight due to improved transportation links, transportation is no longer a critical factor.

ICT, both Internet and Intranet, is integrated and very much used in the workflow and processes in the main office. In the department stores, Internet and Intranet are implemented where necessary - each department has a connection, but not each employee.

The use of ICT is expected to increase within the next two to three years. For example, the number of auctions will grow and there will be more use of EDI (processing of manual and electronic accounting).

ICT has changed the organisation of the main office of Karstadt Warenhaus. Everybody uses email and Intranet, and the new SAP system will change the buying process. The new system is not expected to affect the organisation greatly, since the necessary organisational changes due to the exploitation of ICT are seen to have happened already, in that all central business processes and logistics have been streamlined. ICT is used for controlling and steering buying processes, logistics, sales in all of the divisions, and for receiving and giving information internally and externally.

A large part of the business is still based on personal communication that cannot be replaced by electronic mail. Due to ICT, buyers will probably travel less in the future. KarstadtQuelle has been familiar with the mail order system for many years, and from that point of view eBusiness has barely affected the organisation. The use of Internet has for some time made it easier to delocalise production and the number of countries that are Internet accessible will increase in the future.

ICT is regarded as a strategic issue because it enables Karstadt Warenhaus to change their work processes so as to bring about competitive advantages, improved efficiency, and cut costs through speeding up the supply chain. They are therefore in a position to react rapidly to market trends and hence have the right products available at the right time.

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Source list

This case is based on a personal interview with Dr Oliver Janz, Secretary to the Board, KarstadtQuelle AG, in October 2003, and on the following sources:

Information on KarstadtQuelle, available at <http://www.karstadtquelle.com>.

KarstadtQuelle AG publication: Facts & Figures 2002/2003, available at:
http://www.karstadtquelle.com/download/KQ_datunundfakten_e_2002_2003.pdf [accessed on 10 November 2003].

Informations on KarstadtQuelle and SAP, available at:
<http://www.sap.com/company/press/press.asp?pressID=2095> [accessed on 15 December 2003].