European Foundation for the Improvement of Living and Working Conditions

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Industrial change in the textiles and leather sector: Redgreen A/S

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Company facts

Redgreen A/S is a company producing nautically-inspired fashion clothing. Its headquarters (stock, administration, marketing, and design) is located in the city of Stilling, Denmark. Established in 1983, the company has since 1988 been a significant player on the European market, opening shops in Germany and a number of other European countries.

At the outset, its main products were nautically inspired fashion wear aimed at the older customer. Since then, the product range has expanded. Redgreen A/S now produces both standard fashion wear as well as offering products with a higher functionality that reflect the needs of people engaged in nautical sports - this includes clothes with special coatings that are designed to be wind and waterproof. Redgreen is still a fashion company and therefore its priority is the production of goods that reflect fashion trends; however, it tries to avoid becoming a ‘slave’ to these ever-changing trends. It combines its fashion focus with the extra-functionality products.

In 1992, the financially solid Hanssen Holding A/S took over Redgreen and the company expanded in its geographical spread within Europe as well as in terms of turnover and number of employees (from 131 in 2001 to 142 in 2003).

However, as the table below shows, the company has faced some difficulties in recent years with a year end deficit of €3938.8 million in 2000-2001.

Table 1: *Financial data* (in '000 euro)

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
Turnover	52,351.2	52,922.9	53,910.8	52,614.4	54,524.2
Annual result	-4,325.9	117.5	-3,938.8	-2,904.5	128.5

This development may to a large extent be accounted for by earnings difficulties on the German market. More than 50% of turnover is derived from exports, and Germany is by far the most important market. Since the company operates within the fashion industry, it is very sensitive to economic fluctuations. Customers still need clothing, but there is a growing tendency to buy cheaper textiles in locations such as supermarkets. Redgreen A/S is focused on offering competitive products, but its prices are in the higher end of the spectrum.

Redgreen A/S has from the beginning focused on mature customers. During the recession that began in the late 1990s, revitalising the brand and widening its product range became necessary. In the light of this strategy, Redgreen decided in 2003 to take over Danwear, in order to significantly expand its product assortment. Furthermore, the expansion resulted in better opportunities to exploit economies of scale through a more cost-efficient use of stock and administrative capacity.

Today, Redgreen A/S still carries the Redgreen brand of nautically inspired fashion goods for the older customer, but also has Imitz (younger women), Choice (classic style), and Liva (outsize women).

Recent turnover in Redgreen A/S has been positive and the company has good expectations for the future due to major initiatives which focus on revitalising the brand and creating a sound basis for further expansion.

Market dynamics and company changes

As mentioned above, the company recently experienced problems with sales and earnings in international markets - mainly in Germany. At the same time, the company has taken over Danwear and focused on streamlining the organisation in order to exploit economies of scale.

As a result of economic pressures, a number of initiatives have been launched. First, Redgreen A/S has changed its retail sales structure. Traditionally, the company has been responsible for running a number of flagship shops (shops selling only Redgreen products located at upmarket locations) as well as a number of sales outlets in department stores. This has necessitated much administrative resources, given the turnover taking place in these shops. Therefore, an independent company, RG-Retail, was set up within the Hanssen Holding Group. The new company has taken over responsibility for managing most independent shops and franchises. This has enabled Redgreen A/S to focus on core activities such as branding, stock, and design, while others take care of the retailing. Redgreen positions itself today as a wholesale company with one very big customer: RG-Retail. There are several other retail customers with around four-five stores, but RG-Retail is by far the largest individual customer with responsibility for around 40 stores.

Another pressure on Redgreen A/S comes from the huge number of competitors on the market. These include other fashion companies such as Hennes & Mauritz, but in recent years significant competition has also come from clothing sales in grocery stores and big supermarkets. While supermarkets are perhaps not direct competitors, since Redgreen is a fashion company, these types of stores are today also offering goods with a high fashion content, and in adverse economic conditions customers could pay more attention to the price tag than ever before.

The merger with Danwear has expanded Redgreen's previously narrow customer target group. Redgreen can now offer branded products to a wider spectrum of customers, which is seen as beneficial. The real benefit, however, stems from the opportunities to exploit common administration, stock and production. This is the short-term strategy: in the long term, this should manifest itself in increased turnover and profitability. Redgreen sees this development as a general trend within the textile industry. Over the next five years, Redgreen could expand further or be taken over by another big company. Redgreen has the financial as well as organisational set-up to exploit economies of scale. The company may have experienced economic problems, but as part of the Hanssen Holding Group it has the financial capacity to position itself in the market as a major player.

The decline in the German market turnover has led to other recent developments. Redgreen has recently started to look at other markets, including Russia, Finland and Spain. The company has no activities on the American market as in the company's opinion entering the American markets would require huge capital investments. There are examples of companies entering the American market with some initial success but with many long-term problems. On the other hand, Redgreen recognises that there are some American competitors on the European market, but feels that American textile companies could face difficulties in Europe due to the very fragmented and culturally diverse market. Fashion trends vary a lot between the different markets, and it requires great company insight to be able to satisfy all the different needs, not just in terms of the design of the goods but also in relation to store design. Nevertheless, in order to compensate for the decline in German sales, Redgreen has entered new markets in Europe. The expense incurred through opening new markets can be seen as one of the reasons behind recent negative company profitability. At the same time, there has been the expense of closing down some European shops and of delegating management responsibility to the new company, RG-Retail.

Finally, Redgreen A/S has focused much effort on what it terms 'revitalising the brand'. This means new design concepts for the products, but is also relevant in terms of retail structure. While management of the shops has been outsourced to RG-Retail, Redgreen still has to focus on developing shop equipment for the outlets in order to ensure that the goods are presented in the right environmental setting. The inclusion of the new brands also means attracting new customer groups with different tastes in fashion. Marketing activities must take these different needs into account.

In recent years, production has also changed. Redgreen A/S relies on a number of suppliers to produce the goods sold in the shops. Most of these suppliers are located in Asia or Turkey, but some are based in the southern part of Europe as well as in eastern Europe. Redgreen believes that suppliers located in southern Europe are only working on design and outsource the actual production to neighbouring countries in, for example, North Africa.

Redgreen has a long-term relationship with its suppliers. The main rationale for this is found in terms of flexibility. While Redgreen has a turnover of roughly €54.5 million per year, it cannot really be considered a big company. It can be hard to find a supplier who is ready to produce the limited quantities that are needed of some products. By establishing long-term relationships with selected suppliers, some flexibility is secured. The suppliers are ready to fill small orders, which they can produce at a competitive price, because they know that sooner or later Redgreen will come with a bigger order.

However, the company feels that the old notion of China being ‘the sweatshop of the world’ needs to be revised taking into account recent developments. The state of technological evolution and competence levels in China is rapidly improving. In the beginning, the Redgreen designers had to specify very carefully what they wanted the suppliers in Asia to produce. Nowadays, however, while some design continues to be carried out in Denmark, it is increasingly common for the suppliers to also have responsibility for the design and creative processes. Redgreen sees this as being very beneficial as it enables them to focus on their core competence: brand management.

Today, Redgreen still sees itself as being a fashion company. Nevertheless, a clear focus on core competencies has meant that it changed from being a broad company having all functions internally to being a company having responsibility for a brand.

In the future, Redgreen sees many of these developments being common to the European textile industry. While there will be more consolidation throughout Europe, it is a well-known phenomenon that production is moving to Asia at an increasing pace, parallelling the rapid development of Asian competence levels and technological infrastructure. In order to survive in today’s climate, textile companies need a significant back-office capacity, a number of brands, and intelligent market insight. Furthermore, companies need to be open for new retail structures and distribution models. Even though Redgreen faces significant competition from supermarkets, it would not hesitate to start selling its goods via this channel should the opportunity arise. However, if this happens Redgreen must remember that it is primarily a fashion company and thus the settings in which the sales take place need to reflect the nautical ethos that is built into the brand, as the brand is the company’s most important asset.

Organisation and the market

Redgreen has gone from being a centralised to a highly decentralised company, where the focus is maintained by outsourcing several functions.

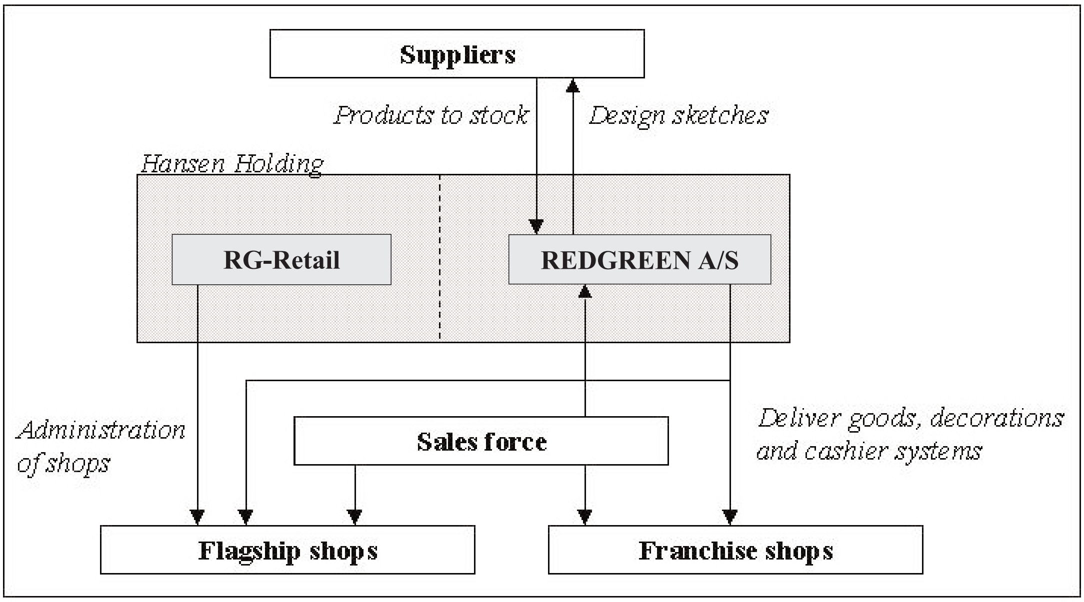
There are still flagship shops that are located at prime addresses, which only sell Redgreen products. These were previously managed directly by Redgreen and are managed today by the independent but affiliated company RG-Retail. Furthermore, Redgreen has a significant number of franchises. The latter group includes independent shop-owners who have, for instance, set up a sales outlet in a department store. Redgreen acts as a wholesaler to these shops and is responsible for collection development, stock management, shop decoration, and general marketing.

Attracting customers and getting the goods over the counter is of course of first importance. However, it does not logically follow that the retail activities need to be administratively managed by the same company that produces the goods. This is a valuable lesson that Redgreen has learned. Redgreen focuses on the brand and brand management and is aware of the fact that the brand has certain values which are not only related to individual goods but also to the surroundings in which sales takes place. Redgreen A/S therefore works closely with the shops and supplies cashier systems as well as decorations, while the administration of the shops has been delegated to the independent company RG-Retail.

On the production side, all production is outsourced to independent suppliers, most of whom are located in Asia or Turkey. As discussed above, these suppliers are independent companies with whom Redgreen has a long-term relationship in order to maintain flexibility.

Redgreen operates almost exclusively with on-demand production, but there are some basic goods which are also produced as stock. All goods are delivered to the central warehouse in Denmark, and from there they are distributed to the individual stores. It is crucial that procurement, stock, and sales functions be tightly integrated for the on-demand production system to work. Redgreen has used on-demand production with great success, which has required a significant investment in an integrated ICT system (discussed in the final section below).

Even though it is more and more usual for suppliers to be involved in the creative design processes, the main responsibility for design lies with Redgreen. Included in the new ICT system is a design module where designers draw sketches and send them electronically to the suppliers in Asia and Turkey. The model shown below illustrates the links between Redgreen, RG-Retail, suppliers, and retail stores.



Redgreen has organised the company in such a way as to accommodate the needs of the market. The company has an effective retail structure as well as a strong integration between designers and manufacturers. The time-to-market for new products is comparable with that of its main competitors – ranging from a very short time frame (three to four weeks) for basic products such as t-shirts in a specified colour up to eight to 12 weeks for more sophisticated products.

Redgreen's main challenge is to achieve a substantial breakthrough for their brands, and the company is working intensively to obtain this. Furthermore, the company expects that the heavy investments in consolidation and scale benefits stemming from improved administration, ICT, and new markets will soon start to pay off. The positive balance in the 2002-03 financial situation points in this direction.

Workforce and the market

Consolidation and a focus on core competencies have had a major influence on the employees and their skills requirements. When Redgreen took over Danwear, there were layoffs in administrative positions, since there were redundant staff in functions such as book-keeping and stock management.

However, the company also found that the competence profiles for people working within the textile industry had changed - and continues to change - rather drastically. Production competencies are no longer central, whereas design and especially marketing and branding skills are crucial. Redgreen nevertheless sees it as essential for employees to have a good practical insight into the textile industry: ideally what is needed is a combination of practical sectoral skills and theoretical business understanding. At Redgreen this has led to a change in recruitment policy over the past few years. Company recruitment emphasises employees who have sales and marketing competencies rather than just traditional technical competencies.

International trends have also shifted. The textile companies in Asia are no longer only sweatshops, but are now companies whose employees often have a high level of education which is comparable to that of their European counterparts. Design is no longer viewed as a task only for employees working at the main office but as a process which can be carried out collaboratively. In this way, much market intelligence information is actually obtained via cooperation with subcontractors. These subcontractors are often subcontractors for many other fashion companies; they not only manufacture products but are an invaluable source of information about the latest design trends.

Education and training

Redgreen organises extra training for their central employees when necessary. More interesting is the organisational learning that takes place where Redgreen is involved in projects concerned with the development of new textiles and materials. Lately, Redgreen has been involved in a project for the development of new methods for sustainable production, which has proved to be a good learning experience.

The company produces sophisticated products and knows how to manufacture goods in a sustainable way. However, Redgreen feels that customers do not pay much attention to this and in some instances are not ready to pay the extra price. It is important to be able to offer good products at a competitive price, but it is also important for the brand to exhibit values that the customer can identify with and considers worthy.

Virtualisation of the workplace

Redgreen has invested significantly in a new ICT system that binds the company together. This system has two central components: forecasting (stock management, procurement, and sale) and design integration.

While the administration of the shops has been delegated to RG-Retail, Redgreen A/S still has the responsibility for delivering cashier systems to the individual shops. Thus it is possible for the central head office to follow sales in the individual stores and combine this with information from the integrated stock management system as well as information coming from the sales team. It is possible to extract reports from the system at all times, and in order to further speed up the system some of the salesmen now have mobile access so they can instantly add sales data to the system. The result of this new integrated system is that forecasting and procurement are both faster and more reliable.

The system contains a product development management module for designers and suppliers. Designers draw their sketches in this system which contains all necessary information - design, measurement, parts lists, and inventory - and this information can be transferred directly to the suppliers.

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