Loewe: A luxurious industrial model

Producing in-house when most of your competitors outsource their work may seem counterintuitive.

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Loewe, a high-end manufacturer of fashion and leather goods and accessories, had been operating for 150 years with a handicraft-style production system when it was acquired, in 1996, by the international luxury goods group LVMH. Since then, the company has mulled new ways of organizing its production.

In this case study by IESE's Philip Moscoso and Marina Duque, Loewe's senior management had to choose between two starkly different paths.

The first meant giving up manufacturing products altogether and focusing instead on their design and development — an approach that would play to Loewe's strengths. In other words, Loewe would follow the outsourcing model pioneered by many leading brands in the luxury goods sector.

The second option was for the company to manage its own production in an attempt to achieve the same level of excellence it had established in the design and development of leather goods.

To do that, it would have to convert its plant just outside Madrid into a center of industrial excellence by transplanting the knowledge and prestige it had acquired in the design and development of leather goods to the area of manufacturing.

Such a path would involve major risks. Most importantly, if the plant's output did not improve drastically, Loewe products would become less and less competitive.

From outsourcing to in-house?

Much of Loewe's production was traditionally outsourced to external suppliers. Most were small-scale artisans in the Ubrique area of Cadiz province, which was famous for its unrivalled expertise in the leather-goods industry.

The rest of the products were made by the subsidiary Manufacturas Loewe, which brought together the company's production centers in Spain.

On the one hand, focusing on design alone would mean breaking with the past and losing much of the company's manufacturing know-how. On the other, it would allow it to focus on its core business and further develop its network of suppliers.

By contrast, opting for in-house manufacturing would require huge improvements in the productivity of the company's manufacturing plant, which, compared with other factories in the LVMH group, was neither very productive nor flexible, with long lag times.

Lean and flexible

Although transforming a seemingly moribund manufacturing plant into a center of creativity, innovation and excellence seemed an impossible task, there was at least one precedent: an LVMH plant that had recently achieved spectacular improvements in its output, thanks to its application of a "lean management" program.

The improvements were based on three essential factors: the production system, the management of output, and the culture and mentality of workers. For each of these, a series of ambitious but carefully targeted goals was set, with corresponding itineraries.

Lean management required, for instance, reversing the work flow at the plant, moving from a push-based system, in which each section "pushed" material to the next, to a pull-based one, in which each link in the chain "pulled" on the one preceding it, requesting material as demanded by its work flow.

Successful implementation of this system would allow the company to reduce stock on hand and significantly cut lag times.

However, a lean manufacturing model would also require enormous changes in the roles of the plant workers and the structure of the working groups. This, in turn, would mean revising indicators and output control metrics, as well as changing the incentives system — no mean feat, by any means.

Faced with such a tough choice, which path should Loewe executives adopt? Both options had markedly different pros and cons. But once the path had been chosen, there would be no turning back.

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