Li & Fung Ltd.

N. Viswanadham
n.viswanadham@gmail.com

Source: Harvard Cases, Book by Jerry Wind et.al
Contents

- Li & Fung
- Competencies of Li & Fung
- The Service Chain Process @ Li & Fung
- Price Target
- Ecosystem Model
  - Resources
  - Service Delivery Mechanisms
  - Institutions
- Performance
- Governance
- Conclusions

N. Viswanadham
Ecosystem Aware Global Supply Chain Management

Li & Fung

N. Viswanadham
Li & Fung

- **B2B trading service provider**
- **Who are its customers?**
  - Large retailers and manufacturers of labor-intensive, low-cost consumer goods. Majority of them hail from the US and Europe
  - Small retailers and manufacturers who lack the volume
- **Competitors**
  - **Customers' staff** could perform the same functions as Li & Fung in searching out, inspecting, analyzing, and selecting factories for each order, and then making inspection visits to track the supplier's progress on the order.
  - **B2B companies** need to prove that they can do better than the customer’s employees. Thus competition comes from
    - Large companies with international supplier networks like Li & Fung
    - Small outfits that have a good knowledge of suppliers in a small region or small product area
    - Large customers who have the capital to invest and operate their own buying offices
- **Threats: Disintermediation via New technologies**
Li & Fung Business Model

• Li & Fung makes no products of its own. Rather, it “orchestrates” the production of goods by others.
  – It draws on a vast global network of highly focused providers to arrange for private-label manufacturing, primarily on behalf of US and European clothiers.

• For a specific product or client, Li & Fung assembles a customized set of specialized providers to handle everything from product development to the sourcing of raw materials, production planning and management, and, eventually, shipping.

• If glitches pop up at any stage of the intricate process along the network, the company can quickly shift an activity from one provider to another.
Borderless Manufacturing

Assembly
CHINA

Shell
KOREA

Lining
TAIWAN

Filler
CHINA

Zipper
JAPAN

Label, elastic, studs, toggle and string
HONG KONG

Made in Hong Kong
William Fung: “Chasing low-cost labor around Asia.”

*Imperative driving Li & Fung's continual international expansion*

- Arbitrage Network companies expand into new countries either to tap new, lower cost labor markets or to reach new customers.
  - Simultaneous growth on both sides may strain administrative resources
- Li & Fung's international growth is entirely of the former sort: it opens new branch offices and develops suppliers in new countries.
- Software services company like HCL America have a single source country and expand by opening selling offices in new countries.
Li & Fung Manufacturing Network

- Li & Fung has ties with more than 8,000 factories
- Managing 3,000 factories, each with around 500 workers, would make one responsible for managing over Four million workers!”
Ecosystem Aware
Global Supply Chain Management

Competencies of Li & Fung
A Company has three kinds of capital:

1. **Financial capital** which is cash on hand, reserves in the bank; assets, etc.

2. **Human capital**: Employees with intelligence, combined with education and experience.

3. **Social capital** which is relationships with other players who get opportunity to use its financial and human capital.
What are the Products L&F offers to the clients?

Network, Relationships & Knowledge

The company's sources of competitive advantage lie in the scope and timeliness of its knowledge and in the number and depth of its relationships.
Li & Fung offers to clients: Network, Relationships & Knowledge

- Relationships with factory owners and managers: Suppliers often gave priority to orders from Li & Fung customers, because they knew they would pay on-time and not reject finished goods for spurious reasons.
- Connections (“government contacts in Hong Kong and Beijing,”, “ability to reduce impact of quota restrictions”)
- Li & Fung has in depth Knowledge of the manufacturing capabilities, special skills, and business practices of each country and each supplier and can help customers choose among the manufacturing options its network provided.
- Li & Fung managers keep themselves informed of the
  - changing labor costs in different countries and allocate production to least expensive countries.
  - different trade restrictions each country imposes, such as tariffs or quotas, or imports from each of its trading partner and free trade agreements.
Li & Fung targets to consume 30-70% of its production capabilities and capacity of its 7500 suppliers. This gives priority attention from the factories for its end-customer (or retailer) orders, while at the same time avoiding complete dependence of the factories on Li & Fung orders.

Li & Fung cultivates trust by paying several visits to the suppliers during the production process.
- The first visit is scheduled prior to production for raw material inspection and acquisition.
- Next visit occurs after the first batch of garments is produced to stem quality problems prior to full production.
- The third visit follows for packing supervision and final quality assurance.

If the garments do not pass inspection, the supplier is allowed to replace defectives.
L&F offers to the Clients Knowledge of the Ecosystem

- Knowledge of the manufacturing capabilities, special skills, and business practices of each country and each supplier.
  - Knowledge allowed Li & Fung to help customers choose among the manufacturing options its network provided.
  - For example, they knew which countries made leather jackets most skillfully and which at lowest cost, how easily each factory could obtain raw materials, and what official signatures in each country were required to import raw materials.
What is the Core Competency of Li & Fung

- LF focuses on designing the best possible path across a global network for delivering the right product to the right place at the right time at the right price.

- A company’s strength lies not as much in the capabilities it possesses as much as competencies it can connect to.

- Capability to connect to competencies - the core competency of network orchestration - is as important as firm specific capabilities.
The Service Chain Process @ Li & Fung
The Li & Fung Service Chain

- Consumer needs
  - Product design
    - Product development
      - Raw material sourcing
        - Factory sourcing
      - Manufacturing control
  - Forwarder consolidation
    - Local forwarding consolidation
      - Customs clearance
        - Shipping control
          - Ecosystem Aware
            - Global Supply Chain Management

N. Viswanadham
A Typical Order Flow @ Li & Fung

- Upon receipt of the order within a division, Li & Fung dissects the manufacturing process and optimally allocates the work at each step to its global supply partners.
- The manufacturing process is divided into two sub-processes: the front-end (sales, design) and the back-end (logistics, banking) & the labor-intensive middle portion.
- The front and back-end are performed in Hong Kong
- The middle portion is further decomposed into various tasks and Li & Fung finds the best factory to perform each task.
- The entire process is integrated using IT and logistics
Order Flow at Li & Fung

Order for garments

European retailer → Li & Fung’s division

Order processing
• Procurement
• Production & control
• Logistics

Yarn procurement from Korea

Weaving and dyeing in Taiwan

Zippers from Japan and China

Manufacturing in Thailand

- Plant 1
- Plant 2
- Plant 3

Useful material and accessories from other parts of Asia

Delivery to customer
An order from a European retailer to produce 10,000 garments: *Journey through L&F*

- For this customer L&F might decide to buy yarn from a Korean producer but have it woven and dyed in Taiwan.
  - So They pick the yarn in Korea and ship it to Taiwan.
  - The Japanese have the best zippers and buttons, but they manufacture them mostly in China. LF goes to YKK, a Japanese zipper manufacturer, and orders zippers from its Chinese plants.

- Because of quotas and labor conditions, they determine that, the best place to make the garments is Thailand.
  - Everything gets shipped there.

- If the customer needs quick delivery, they may divide the order across five factories in Thailand.

- LF customizes the value chain for every order.
An order from a European retailer to produce 10,000 garments: *Journey through L&F*

- Five weeks after the order, 10,000 garments arrive on the shelves in Europe, all looking like they came from one factory, with colors, for example, perfectly matched.
- The logistics and the coordination are exceptional.
- A new type of value added to produce a truly global product.
- The label may say "*made in Thailand,*" but it’s *not a Thai product.*
- It is not about which company can do the best job. It is about pulling apart the value chain and optimizing each step – and doing it globally.
Price Target
The concept of “Soft $3”

- Product design
- Sourcing
- Logistics
- Wholesale retail
- Information management

The cost that is spread throughout the distribution channels – the “Soft $3”
How do you reduce the soft $3? : An Example

- The limited sources shirts from LF: Order fulfillment time 30 days regardless of order size
- The shipment arrived at the distribution center in Columbus, Ohio where the shirts were sorted by size, price tagged and repacked as right assortments for each retail store.
  - The travel by sea took 30 days and the relabeling and repacking took 15 days.
- The limited and LF worked out an arrangement where garments were price tagged (barcoded) & sorted in factories in Asia and were air shipped to a cross-dock

The entire chain is optimized