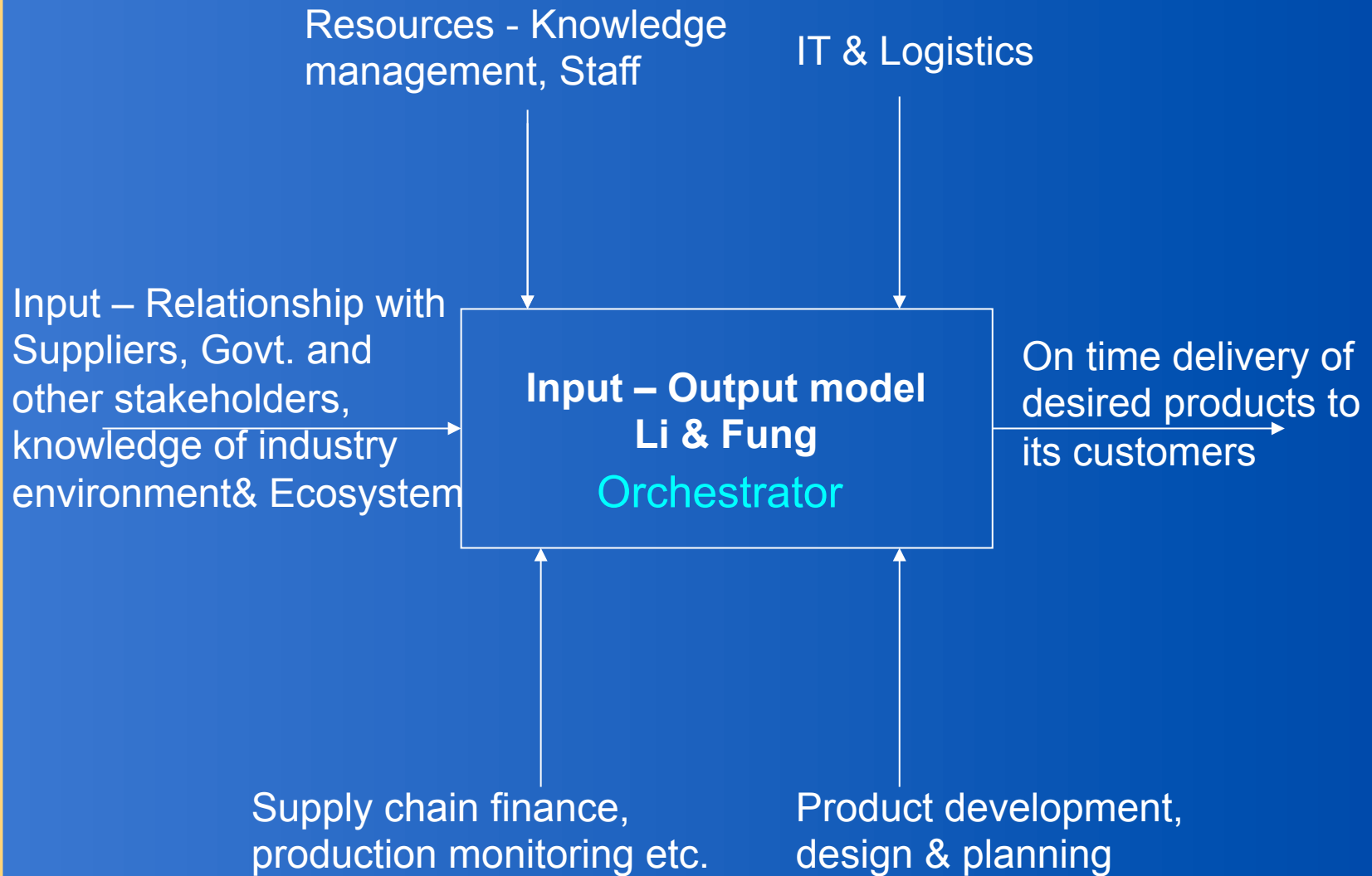


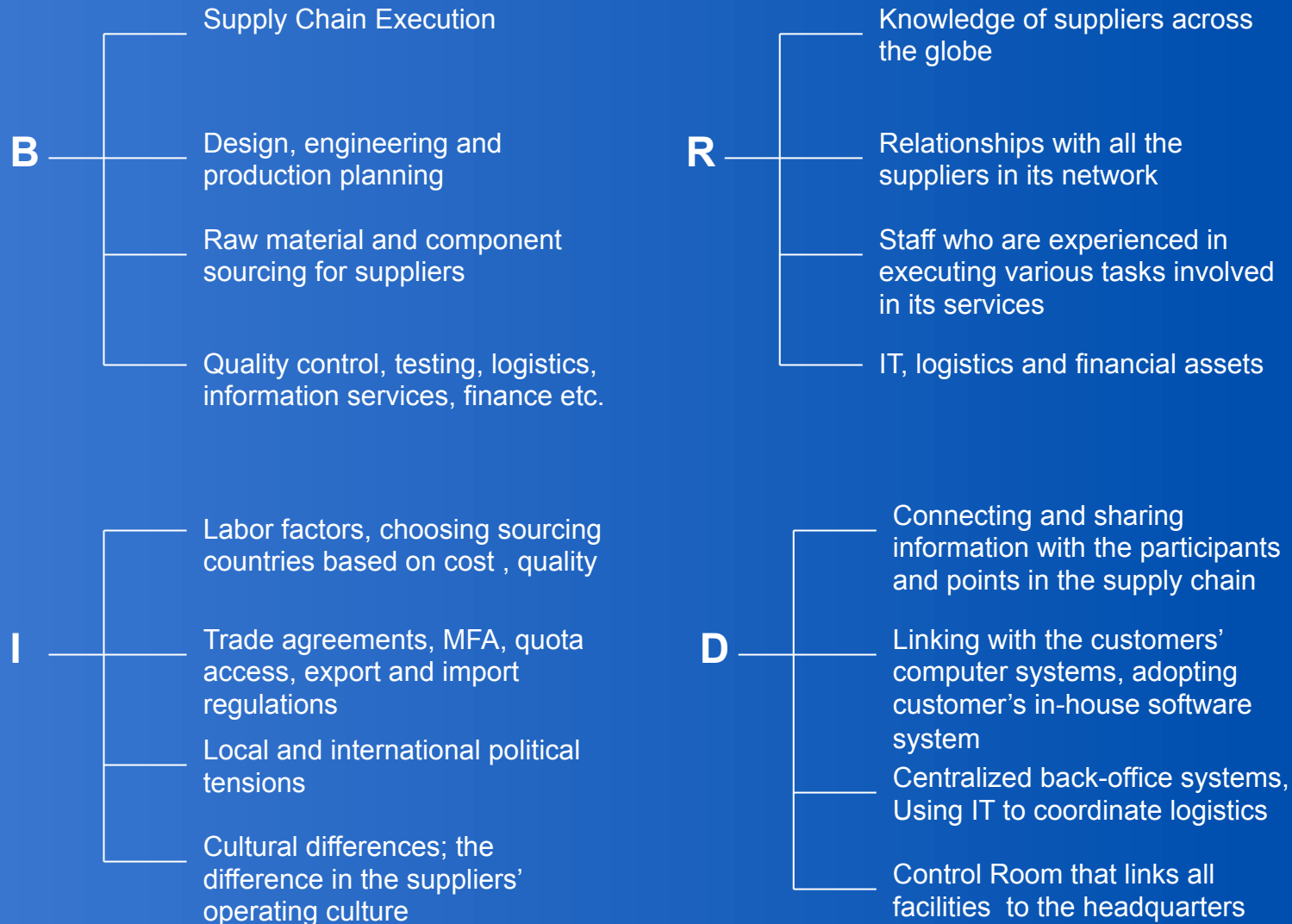
The Ecosystem model

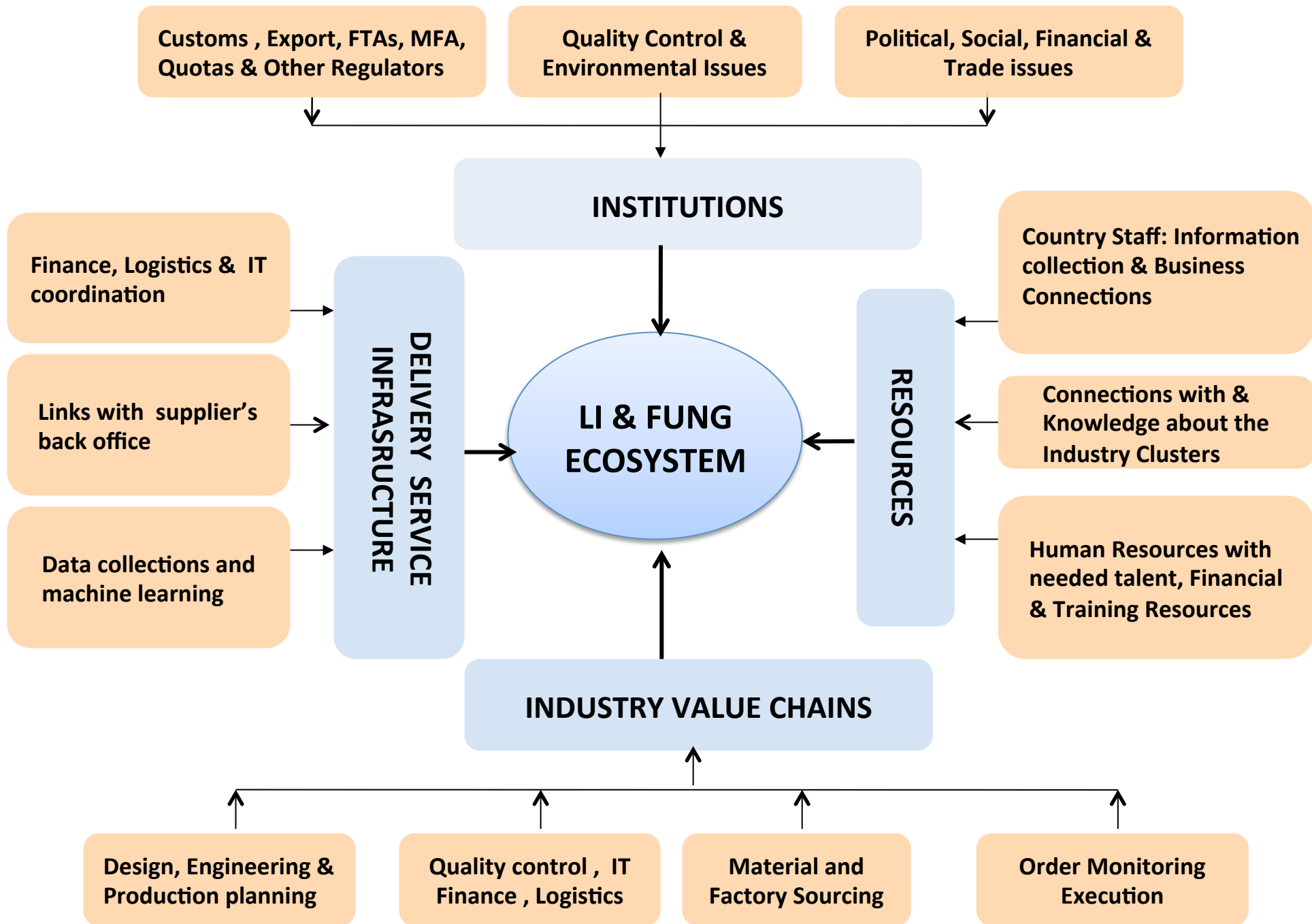
Orchestrator : Input-Output Model



Ecosystem Aware Global Supply Chain Management

Attributes of the elements of BIRD





Resources

Li & Fung vs Traditional Traders?"

- Li & Fung has ties with more than 8,000 factories in 40 countries
 - Enables low cost, larger-scale manufacturing (Using more than one factory for an order),
 - Benefit of resilience (relying on a few manufacturers has risks of losing projects because of drop in quality, insufficient manufacturing capabilities, financial problems, etc).
- Connections with 8,000 factories, each with 500 workers, provides access to over four million workers!"
 - Through its network the company gets the benefit without having to manage 4 M workers

Technology in the Service of Business

- Information based decision making is fundamental for Li & Fung business. Developments in IT & AI can be a threat
 - In 1997, B2B exchanges began to expand with the speculation that traders like Li & Fung will be disintermediated. Li & Fung started Studio Direct which it shut down in two years.
- The relationship that LF seeks with its customers is narrow and deep. It is not a one point of contact but a multilevel issue-CEO to CEO, Manager to manager, shipping clerk to shipping clerk, etc.
- While technologies such as video conferencing, Internet advertising, RFID tags for supply chain visibility, etc can aid human decision making , human touch still remains an advantage

Service Delivery Mechanisms

The 4 Cs of Li & Fung

- Connections (“government contacts in Hong Kong and Beijing,” “ability to reduce impact of quota restrictions”)
- Communications (IT system,)
- Control of quality (attention to detail)
- Consolidation of shipments (logistics)

IT & Logistics

- IT as a core strength : Sophisticated IT and centralized back-office systems
- Focused on connecting and sharing information across its headquarters, customers, sourcing offices and factories, warehouses etc.
- Logistics is very important and managed very well as each product travels across supplier countries moving in the most optimized value chain for it to assume the finished form

Other Value Added Services

- Value-added services
 - Knowledge management service
 - Monitoring supplier's work on its customer's orders
 - Assure quality and on-time delivery
 - Supply chain finance, design & planning in supply chain
- Quality assurance
 - Inspect/ supervise an order and it varies with the complexity of the manufacturing process and the supplier's degree of experience with Li & Fung and the customers

Institutions

Institutions: Economic factors

- International division of labor
 - Allocation of production to least expensive countries (hence dependent on labor prices)
 - Frequent changes in the relationships between labor costs in different countries
 - Challenge always is to “chase productive, low-cost labor around Asia”
- Trade restrictions
 - Each country imposing different restrictions, such as tariffs or quotas, or imports from each of its trading partner (complicating the estimates of cost of manufacturing)
 - Most important being the Multifibre Arrangement (MFA) for textiles since textiles dominated its business
 - Yearly quotas for the amount of each textile product that could be exported by each lower-cost country to each higher-cost country

Performance

Cost Management

- **Reduction of customer inventory**
 - By speeding up time-to-market and leveraging supply contracts across factories and product lines, Li & Fung helps customers keep inventory low.
 - It does this by reserving capacity with standard apparel items that it can easily switch to expand capacity for fashion sensitive orders
- **Price and quality**
 - Li & Fung's different product divisions have quality control managers responsible for types of products within defined regions.
 - One of Li & Fung's major strengths a particularly difficult task when manufacturing orders are spread among several factories
 - By managing the supply chain and ensuring quality
- **Low risk to customer**
 - By managing the supply chain and ensuring quality before shipping an order, Li & Fung reduces returns from unsatisfied customers.

Cost Management

- **Delivery**
 - Li & Fung consolidates shipments to different customers in the same market achieving economies of scale
- **IT network**
 - Through proprietary extranet clients to look up project status
- **Trade financing to Suppliers**
 - By providing them with financing, Li & Fung can prevent delays due to problems of financing and speed up time-to-market.

Ecosystem Aware Global Supply Chain Management

Exhibit 10 Yearly estimated savings to Li & Fung customer over using own buying office, according to Li & Fung (amounts in U.S. dollars).

Total orders	\$10,000,000
Cost of maintaining Hong Kong buying office	
Expatriate office manager	
Salary	\$100,000
Benefits (primarily housing)	\$200,000
20 staff @ \$30,000/year	\$600,000
Rent for 3,000 square feet	\$180,000
Other expenses (travel, phone, supplies, etc.)	\$300,000
Total	\$1,380,000
Commission paid if orders placed through Li & Fung, @ 7%	\$700,000
Savings from using Li & Fung	\$680,000

Note: Customers could not achieve the same level of service using their own buying office as they could get from Li & Fung.
For example, a Hong Kong buying office would not provide easy access to suppliers in other Asian countries.

Governance

Li & Fung Governance

- Build the Company around the Customer
- The supply chain starts with a customer's need and ends with a customer solution

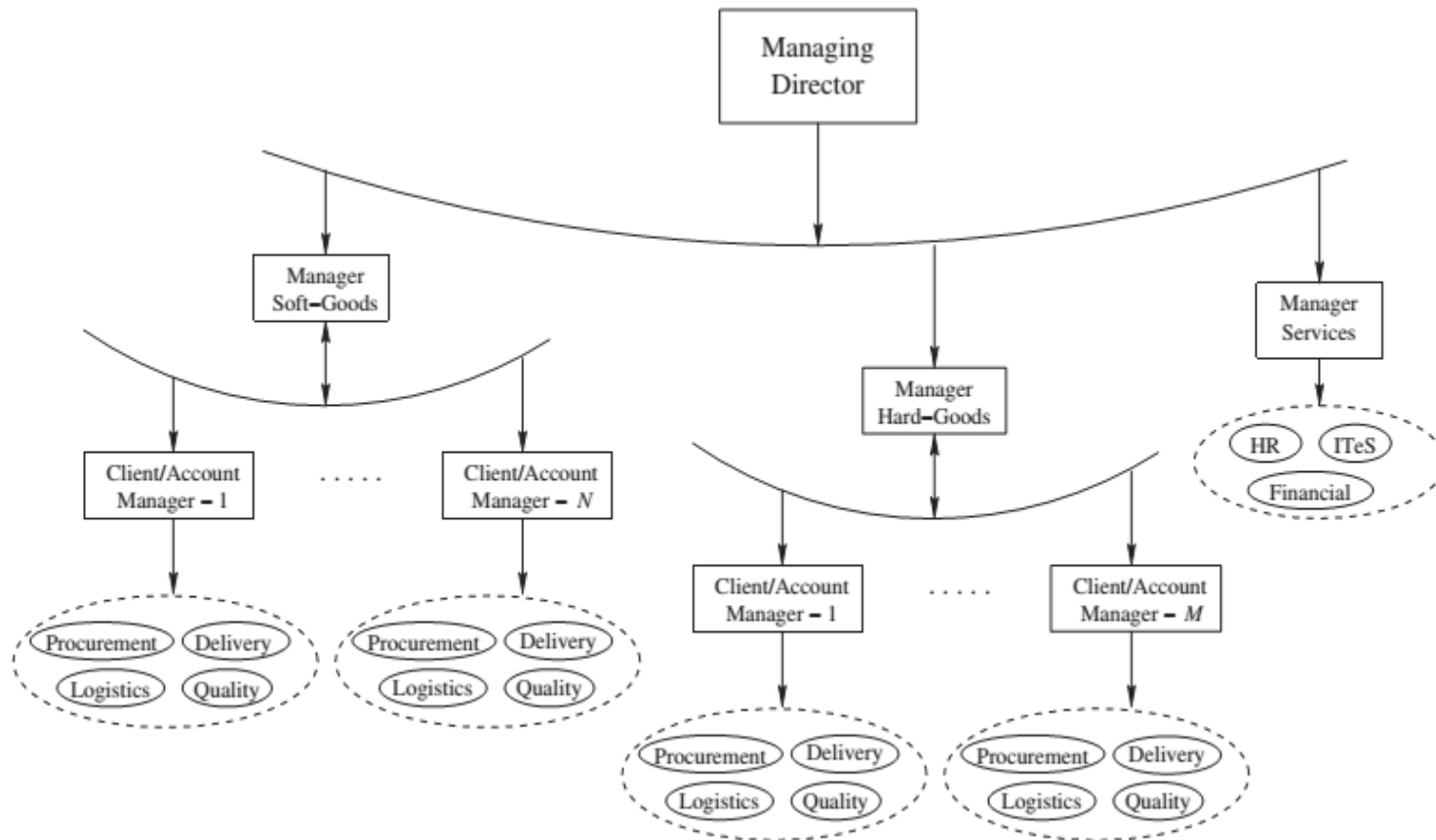
Customer-Focused Divisions

- Customer-focused divisions are the building blocks of Li & Fung.
- Each of them is kept small and entrepreneurial and is run by a lead entrepreneur.
- Li & Fung provides them the financial resources and the administrative support of a big organization, but each division is given a great deal of autonomy.
- All the merchandising decisions that go into coordinating a production program for the customer are made at the division head level.
- Li & Fung maintains a larger number of divisions (around 60) and divisions are a portfolio that are created and collapse, almost at will .

Li & Fung's Organization Structure

- Each customer is allocated to a division that handles all of that customer's orders using Li & Fung's network (A division may handle more than one customer)
- Thus Li & Fung staff in each division become experts on their customers' needs and develop relationships with customers' staff
- Members of a division will receive the same commission revenue no matter which supplier they use thus making them behave impartially.
- Compensation heavily depends on the division's financial performance but not on the choice of suppliers for a customer
- Centralized support services frees traders from drudge work

Li & Fung Governance Structure



Conclusions

- Li & Fung is an excellent example of orchestration.
- These can be followed in lots of service industries as well as agriculture.