

Challenges faced by li and fung



**ASSIGN
BUSTER**

Overview:

Li & Fung is business to business company, working as a third party or middle men between retailers and suppliers or manufacturers. The company has been operating successfully in this market since its establishment in 1906. Li & Fung was started as a partnership venture in China and was known as an export trading company with overseas merchants as main customers. Later Li & Fung also entered into the business of warehousing and manufacturing. The company was shifted from being a family owned business to listed company by the third generation of the family.

The company deals in both soft and hard goods, but focuses more on hard goods as they offer higher margins as compared to soft goods. The company was operating on the old traditional model of physical offline existence. But the advent of internet technology has somewhat changed the scenario and has raised serious concerns about the profitable company's operation. There has been a trend that the online competitors of almost every business are outclassing their offline competitor organizations and firms.

Li & Fung has been also concerned about the emergence of different online business to business companies which can decrease the company's market share and profitability. The management of the company is looking for different ways and strategies in order to cope up with this threat. It is important for almost every company to change and modify their business and operations according to changing contexts and situations otherwise the company will not be able to operate profitability.

The management of Li & Fung understands this fact and is always ready to incorporate new technology into the business operations. The company is looking to go for a defensive and offensive strategy at the same time and is introducing online operations along with offline operations. This will not only defend the company's position against the online business to business companies but will also give competition to them because of good and high reputation of the company.

Problems Facing the Organization:

The different problems faced by Li & Fung are listed below in order of priority or importance:

- The increasing trend of internet technology and online companies and business has posed a serious threat to the competitiveness of the traditional offline companies.
- The online business unit of Li & Fung which has been established with the name of lifung. com can result in cannibalization of the company's offline services and business.
- The uncertainty of the success of online business model created by Li & Fung targeting small and medium sized enterprises (SMEs).
- The possibility of other strong competitors to copy the online business model of the company.
- The expertise required for the efficient handling of online business model.
- The employees' resistance to installation and usage of new technology and business models and concepts.

Discussion:

The main problem which is being faced by Li & Fung is the threat of losing profitability and market share because of the emergence of business to business online companies. With more and more companies using internet technology as well as increasing number of online businesses coming up have posed a serious threat to the competitiveness of the traditional offline companies. Because companies can operate at a lower cost and can reach more customers across the world by using internet, therefore with less investment and targeting more customers in more markets, this has become one of the major threats for Li & Fung.

Also because Li & Fung has been majorly selling its products traditionally like an offline company therefore as the company has started its online business unit as well with the name of lifung. com it can hurt the core competency of the company through which it was generating revenue. And this can outclass or cannibalize the company's traditional way or operations and business.

Besides this, one of the main distinguishing features of Li & Fung was that it was focusing more on traditional methods to sell the products however, this focus has also been changed and it would change the overall organizational culture and its strategies. Besides this, employees would have to learn new methods and new ways to do the business and they need to be trained again. So it might create a mess for the employees and the management of the company. Thus, new challenges would be faced by the company and this new challenging situation can be a threat for the company as it can hurt its customer base and its current service quality.

Besides this, the other threat faced by Li & Fung is that the company has started their online business to cope up with the industry trend however, the success of online business model created by the company is uncertain as it is targeting small and medium sized enterprises (SMEs). As the company has not been involved in doing business online therefore Li & Fung does not have the expertise and people to manage this emerging industry trend and therefore the future of the company is a big question mark.

Strategic Organizational Alternatives:

The possible strategic organizational alternatives which can be thought for as formulating beneficial and profitable future strategies are:

- The company can convert its offline business to the online business.
- The company can operate with both business models i. e. traditional brick and mortar model and new concept of online business which will complement each other.
- Another strategic option is that company offers different business models for different target markets according to their needs and requirements.
- The company can involve employees in the change process and can conduct learning and training programs in order to make the process of change smooth.

The first three strategies are mutually exclusive and company has to decide on any one of it. If company decides to convert its offline business to the online business there is possibility of huge cost cutting and large profit margins but the company has to work on building an altogether new image

in the mind of consumers. At the moment the company is being positioned and recognized as a traditional old business model company.

The second strategy foster that online business can complement the offline business of the company this again will provide an opportunity to compete with the business to business online companies but this can result in increasing costs of operations.

The third strategy of introducing different business models for different target markets will help the company to develop and increase the market size and business but this can result in cannibalization of the company's traditional offline business model.

The fourth strategy is not mutually exclusive and company will have to incorporate this strategy will any other strategy it decides to implement.

Scenarios:

The different environmental and organizational scenarios that can be faced by the company are:

- The business to business online companies outclass the company's offline services. There is very little possibility of likelihood of this event to occur because of the efficiency and competitive advantage Li & Fung has created in the market.
- The failure of the online venture of the company with the name of lifung. com. This scenario also has very little possibility because the company has done proper research about this decision.

- The failure or collapse of the technical support and basis required for starting online business. There is a possibility of this event because the company has entered into contract with Castling group for the technical expertise and the staff of Li & Fung is untrained. If at any later stage there is problem or issues in the contract or the contract is terminated the company will be facing problem on part of technical expertise.

Conclusion:

It is necessary and mandatory for companies to change and adapt themselves according to the changing conditions and circumstances. Same is the case with Li & Fung, the company is successfully operating according to its traditional old business model but the advent of new internet technology has posed serious threat to the competitiveness of the business.

In order to operate profitability and remain competitive in the market the company has to incorporate the new technology into its operations and have to formulate not only defensive but also offensive strategies to retain the market position and increase the market share.