

# Li and fung: internet issues essay



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Li & Fung is a Hong-Kong based company that provides value-added services across the entire supply chain. Li & Fung has been operating for about a century. It was founded in Guangzhou, china, in 1906 by Fung Pak-Liu and Li To-Ming. Li & Fung was a family owned business until the 1970s where it transformed into a public company that is professionally managed. The Li & Fung Group is an international group specializing in exports sourcing, distribution, and retailing. In August 2000 Li & Fung invested heavily in the use of internet technologies to support its business, and launched lifung.

om, a business-to-business e-commerce portal. The following write up conducts an analysis of the historic strengths and strategy of Li & Fung, the capabilities of Lifung. com and the risk associated with using the internet technologies. Li & Fung was able to outperform many of its competitors within the same industry for reasons that stem from its effective management, relationships with suppliers and customers, and operations.

First, the management team of Li & Fung is well educated and informed about the market. For instance, William earned his MBA from Harvard Business School and Victor completed his Ph. D. in economics at Harvard University.

The knowledge they acquired from their studies helped them to transform the business from a family owned business to a professional one, and helped them to integrate a planning and budgeting system into the business.

William and Victor were open-minded and adaptive. For instance, when new technologies are introduced into the market, Li & Fung usually adopts it aggressively to gain advantage over competitors. Second, Li & Fung worked

in both hard (such as toys) and soft (such as clothing) market. This diversity helped Li & Fung to avoid the risk associated with functioning in one market.

Third, Li & Fung provided value-added services across the entire supply chain in 32 countries around the world. Supply chain customization provided benefits to both Li & Fung and its clients. Li & Fung were able to shorten orders fulfillment time, which reduced inventory costs. Also, it reduced matching and credit risks and offered quality assurance to its customers. In addition, it formed a global sourcing network and obtained economies of scale and therefore offered lower costs and more flexible sourcing than its competitors. Furthermore, Li & Fung provided up-to-date fashion and market trend information to its clients, which made the clients more flexible to changes in their industries.

Fourth, Li & Fung controlled and owned strategic links in the chain. For instance, it offered raw material sourcing to some manufacturers, and this ensured greater quality control and brought larger and thus more cost-effective amounts of raw materials. Fifth, Li & Fung was entrepreneurial, allowing and giving senior managers the freedom to run the work as they see fit. Li & Fung had 90 teams worldwide. This decentralized structure “ allowed for adaptability and rapid reaction to seasonal fashion. ” Sixth, Li & Fung had a corporate culture that not only allowed but encouraged diversity, or in Victor’s words “ keep the culture so that it remains humble, agile, and responsive all the time and keep the people externally focused.

” Seventh, as an international company that operated for more than 100 years, Li & Fung enjoyed an outstanding reputation. Companies that desire

to grow should adopt well studied strategies, and Li & Fung is not an exception. It adopted a combination of organic growth, expansion through acquisition and extension of its supply chain to new markets via the Internet. The organic growth strategy includes “ receiving more orders from existing clients, and [securing] new mandates from strategic clients.

” To achieve this strategy Li & Fung extended and diversified its network around the world and established new offices in countries as diverse as Bangladesh and Manchester, England. In 1996, Li & Fung adopted a “ three-year plan” system, which sets a different goal every three years. In 2000, the growth strategy helped Li & Fung to outperform the Hang Deng Index by over 75%. Additionally, Li & Fung adopted the acquisition strategy.

The acquisition strategy was “ based on buying rival sourcing companies, thereby gaining new client accounts, integrating their operations, and eventually bringing the operating margins of these acquired units up to Li & Fung levels. Li & Fung acquired companies like Swire Group and Camberley. By adopting this strategy Li & Fung was able to control a larger portion of the market and increase its market share. In addition, Li & Fung grew in size and became five times the size of its two closest local competitors, William E. Connor and Colby International. Furthermore, Li & Fung started an internet initiative of its own as a new strategy for growth.

Li & Fung started the initiative by launching an intranet that linked Li & Fung’s offices around the world, and the manufacturing sites. This intranet facilitated and simplified internal communication. It allowed real time orders and shipments to be tracked, and allowed online inspection by providing

online imagery. Later, an extranet was established that linked Li & Fung to its major customers. The extranet allowed the development of products online as well as order tracking. It also streamlined communication as orders moved through the supply chain.

Pursuing further growth, Li & Fung selected a new market segment that includes small and medium sized companies. Li & Fung served this segment by launching lifung.com. The new website offered customization options to the clients and shortened the order fulfillment days and facilitated communication and order placement.

Although Li & Fung adopted the internet; the old-economy mindset was still used and as a result lifung.com leveraged several capabilities of Li & Fung. First, before starting lifung.com, the company conducted a market research to decide on the market segment and its needs.

Conducting a market research was uncommon for On-line companies. But because of the old-economy mindset Li & Fung decided to conduct it. Second, provided that Li & Fung have economies of scale, it was able to lower its prices compared to competitors while operating with large sized companies. For the SMEs, Li & Fung captured economies of scale by “ concurrently manufacturing the aggregated orders while giving SMEs enough differentiation of embellishment choice (i. e.

color, pockets, label) to enable them to each have a different product. ” By doing so, Li & Fung was able to charge SMEs 10% - 15% commission which is far less than what competitors charge (usually between 25% and 30%).

Third, Li & Fung offered a wide array of customization options to the SMEs.

Clients of Li & Fung were able to develop their products online, and then place the orders with no minimum order size. Clients were also able to track their orders and they were able to change the order as it progressed. Fourth, the way Li & Fung financed lifung.

com was atypical for an internet company as well. Given that Li & Fung come from a traditional background it didn't want to raise money the way on-line companies do and so it raised \$250 million for going on line by placing 60 million shares through underwriter Goldman Sachs. Fifth, the intranet and the initial extranet allowed users to transfer and get data easily. Lifung. com provided the same benefits to SMEs.

Lifung. com improved the visibility of the supply chain, and thus provided greater speed and reliability of order fulfillment and customer service. Sixth, the online company, similar to the offline one, adopted a "business-to-business" model, which took a "back-to-basics" approach by implementing Li & Fung's supply chain management know-how to SME on a "back-to-back" order basis. " This old-economy standard was important because it reduced inventory risks for lifung.

om, as it previously did for Li & Fung. Although many benefits are associated with going online, risks accompany the new strategy. The cost of the project is high, about \$200 million, and in the case of failure, Li & Fung would go through major financial problems. In addition, if lifung. com was not managed well, the reputation of Li & Fung would be harmed. Lifung.

com was based in San Francisco while Li & Fung was Hong-Kong based. This independency of the two systems might result in problems with order

placement or order fulfillment. Moreover, since the market of SMEs is considerably large, lifung. com might fail in serving all customers. The quality of service issue in this case could tarnish the reputation of Li & Fung and result in the loss of value by customers.

In addition, since Li & Fung was new in the SMEs market, competitors might be able to reduce the fees that they used to charge SMEs and thus make the lifung. com unprofitable. I think that going on line seems a reasonable strategy for Li & Fung. The SMEs market was underserved and it wasn't offered differentiation options. By offering customization options and lower fees for SMEs, Li & Fung can target this segment and serve them profitably. Also, by aggregating the orders of the SMEs, Li & Fung can gain economies of scale and thus enduring lower costs.

As a result of having low costs, Li & Fung can gain competitive advantage over its rivals. In addition, Li & Fung is familiar with the old economy know how and it is successful with what it does. This can be integrated into the online company and result in a good performance. Moreover, operating lifung.

com from the US might be advantageous in terms of being close to its clients. However, high security system should be imposed, in order to prevent hackers from getting access into Li & Fung's information. The systems should be matched in a good way and checked regularly in order to avoid such problems. Today, and by looking at the website (lifung.

com), it seems that lifung. com has failed in serving SMEs because the website doesn't include a portal where SMEs can place orders. The website <https://assignbuster.com/li-fung-internet-issues-essay/>

today includes only information about Li & Fung's activities and operations. In addition, looking at the performance graph in the next page we can see that Li & Fung achieve the lowest return in 2003 i.

. after going on line. Nevertheless, it seems that Li & Fung was able to continue its success and recover the losses incurred by this strategy (look at the figures in the next page). In conclusion, Li & Fung is a major company and in order for Li & Fung to expand and survive in the highly competitive environment of today, it has to adopt well studied strategies that increase its proficiency. This can be achieved by providing value-added services and adopting tripartite growth strategies or other strategies that aim at improving the position of Li & Fung.