

MSC to share our view: How to further reduce the costs for the Textiles Manufacturing Industry

Manufacturers are facing never ending problems of uncertainty in China textiles quota, the appreciation of RMB, the rising international oil prices and the inflations, etc. All these are pushing up the costs of manufacturing. Now, for the enterprises, the “High Cost” era has finally come. How can the problems be solved? How can these enterprises get through it or even turn the crisis into opportunities?

Hong Kong's apparel industry is already facing a tough environment brought about by the ever-changing international-trade situation. Besides, most of the manufacturers have set up factories in the PRC and this has led to their concerns over the RMB appreciation. They reckon a further hike in RMB is possible. That means those who rely on cheap labour costs and hence lower selling prices will face more challenges on the international market. As evidenced by the “**THE BOILING FROG**” - boiling the frogs with warm water story, enterprises often misapprehend the situation with their own subjective views, misbelieving that the circumstances are not critical.



(Systems thinkers have given us a useful metaphor for a certain kind of human behavior in the phenomenon of the boiled frog. The phenomenon is this. If you drop a frog in a pot of boiling water, it will of course frantically try to clamber out. But if you place it gently in a pot of tepid water and turn the heat on low, it will float there quite placidly. As the water gradually heats up, the frog will sink into a tranquil stupor, exactly like one of us in a hot bath, and before long, with a smile on its face, it will unresistingly allow itself to be boiled to death)

Furthermore, they tend to feel relieved with a belief that they still have enough time for adjusting everything they can. But the fact is that this situation has already reached a point where one's conception is obviously distorted by the general circumstances. This will then be too late. In fact, the enterprises' current situation is just as described in the abovementioned story, in which the frogs are just awaiting death.

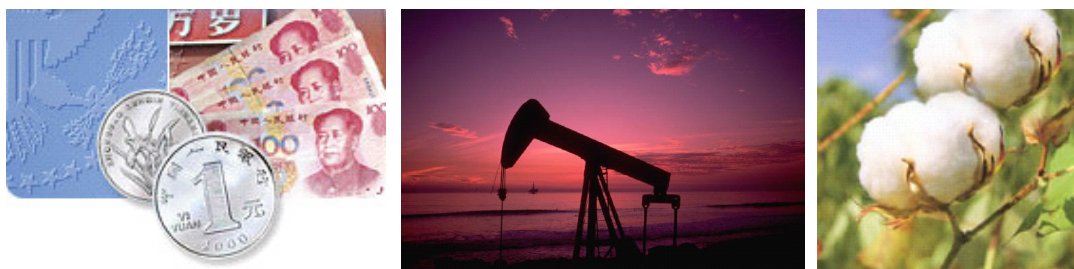
Effects of the Limitations on Textiles Exports are gradually Emerging

The strong growth in textiles exports in the first half of the year was mainly the result of enterprises vying to get their products cleared off at the ports, after some uncertainties surrounding the trade disputes with the US and Europe over the textiles quotas. According to statistics released by the PRC's Customs Department, the textiles quotas provided by the US have been used up for all but one category – combed cotton yarn. Meanwhile, the clearing

rates for certain textiles exports – flax or ramie yarn, bed linen and table+kitchen linen – to European Union are either over or near 100%. These textiles exports, which are subject to various limitations set by the US and European Union, are indeed highly affected by current and future incidents like those trade frictions and RMB appreciation issues, starting from the second half of 2005. Exports growth is going to slow down.

Growth in the Industry to Slow Down in the Second Half of 2005 – And Another Tough Year: 2006

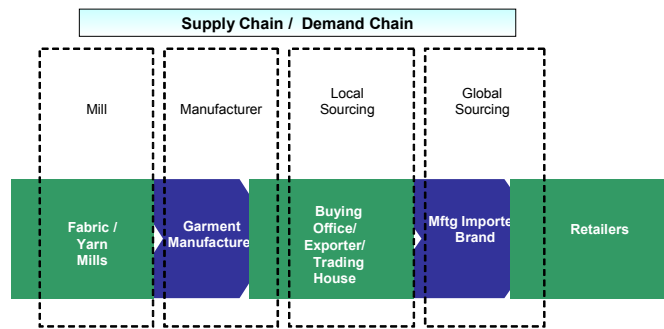
Looking at the fundamental background of the apparel industry, we can almost be certain that the costs of enterprises are going to rise, on the back of a lower production of cotton and a hike in crude oil prices. Meanwhile, the finish-up of the new quotas as well as the RMB appreciation will also pound exports, further intensifying competition in the industry. Therefore, the profit margins of the entire apparel industry will be thumped in the second half of the year, making 2005 a year of general downtrend. Before the trade frictions between the PRC and the US are resolved, the whole apparel industry looks set to be clouded by uncertainties, and hence anxieties. Looking ahead, that will be the major negative associated with the development of the textiles and apparel industry. As we look towards the second half, most of the industrial players are already gearing up for R&D works, cooperation with international peers, enhancing technological expertise and product quality as well as improving competitiveness. At the same time, they are also promoting internal sales while integrating and constructing the entire production network platform. This is a step towards building up a systematic entity with good management strategies, helping them consistently improve on the integration and development of their global implementation plans and supply-chain management. These all will be critical to their survival.



Cost-Savings Brought about by the Computerized System will Result in Practical Benefits

During the industrial era in the last century, many enterprise leaders have already foreseen the benefits to be brought about by enterprise automation. However, constrained by the computer technology levels at that time, the abovementioned plans could only be carried out with the help of some very simple independent industrial software tools. In fact, the solution was more like an ad-hoc one which was aimed at curing specific issues only. Then come the new-age second generations of the enterprises and the bright entrepreneurs who understand just how well efficient operation could be supplemented by advanced technological systems. They all understand that these systems can help them boost production and improve process flow efficiencies. In this year of 2005 – a post-quota era – competitiveness is getting tenser and if the enterprises cannot solve all those problems regarding industrial arrangement and setting up of rules, they will not be able to survive at the end. Should the manufacturers be able to swiftly, punctually and cost-efficiently complete the manufacture of their products and deliver them out, “Enterprise Resource Planning” (“ERP”) software will be the tool to help them finish the task. In a period of deteriorating margins, knowing how to save costs through the use of information technology will be the key to success.

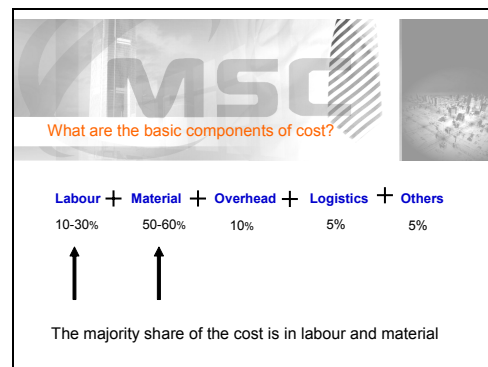
A brief introduction to show the broad coverage of MSC ERP system in the apparel industry's supply chain



MSC Apparel ERP Solution

The “MSC Apparel ERP Solution” is a software product specially designed for the apparel industry. Nowadays, global information technologies can have a more and more significant effect in the apparel industry's supply chain. Therefore, apparel manufacturers will need a complete resource management and production system to handle and monitor those complicated and tedious processes. This will surely help them raise their efficiencies. MSC's Apparel ERP Solution has an extensive coverage, which spans from the product's original idea (sample) to other works provided for the buyers on sampling, ordering, raw material planning and calculation, as well as inventory management, product shipping and tracing. In fact, most commerce chambers and universities in Hong Kong do agree that, with the help of ERP software, manufacturers can more effectively monitor the whole production process. In addition, it can help the manufacturers re-coordinate the enterprises' internal resources, so as to lower costs.

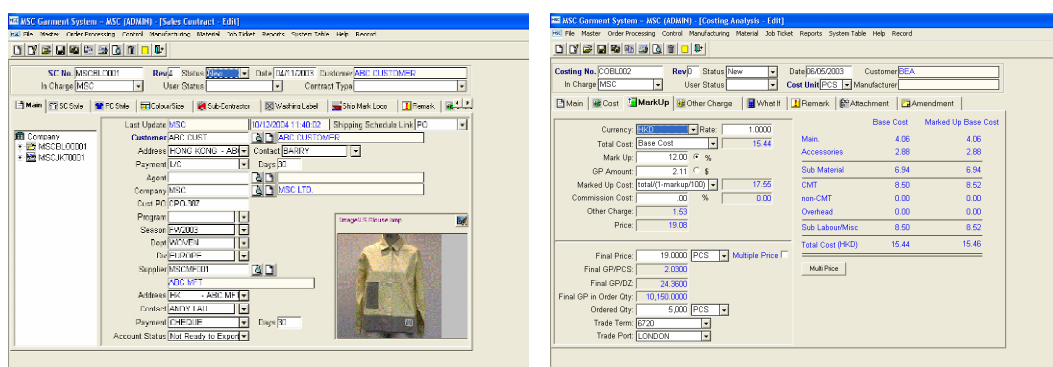
The Key to Reducing Costs



Manufacturing price composes of different cost elements of which wages and raw materials account for the majority of the total cost

MSC ERP can help enterprises to control operating cost through:

1. **Streamlined workflow** – The system transfers some traditional back-office workload (from fax ordering, production scheduling to process recording, etc) to a network which connects the clients with the suppliers, so that the entire process will become script-less. The ERP system can streamline the time needed for manual ordering works. At the same time, the associated improvement in efficiency also allows the enterprises to negotiate for better payment terms with the suppliers, indirectly lowering their raw material costs. All these will enhance the transparency of information regarding their global processes and work towards a smooth running of the enterprises' worldwide operation. The system also instantaneously performs cost analysis and assists the enterprises in manipulating more effective cost-controls.



The image shows two screenshots of the MSC Garment System. The left window is titled 'MSC Garment System - MSC (ADMIN) - [Sales Contract - Edit]' and displays a form for editing a sales contract. It includes fields for 'In Charge (MSC)', 'User Status', 'Contract Type', 'Last Update (MSC)', 'Date (2005/11/07)', 'Customer (MSC)', 'Address (HONG KONG - ASIA)', 'Contact (SCARY)', 'Company (MSC)', 'Phone (5933 388)', 'Fax (5933 388)', 'Email (LIVE@MSC.COM)', 'Account Status (Not Ready to Export)', and a small image of a yellow shirt. The right window is titled 'MSC Garment System - MSC (ADMIN) - [Costing Analysis - Edit]' and displays a costing analysis form. It includes fields for 'Costing No. (CBL002)', 'Rev (New)', 'Date (2005/2005)', 'Customer (SCA)', 'In Charge (MSC)', 'User Status', 'Cost Unit (PCS)', 'Manufacturer', and a table of costs. The table has columns for 'Base Cost', 'Marked Up Base Cost', and 'Total Cost'. The 'Total Cost' is 15.44. The 'Marked Up' is 12.00. The 'Price' is 19.08. The 'Final Price' is 19.08. The 'Final GP' is 24.800. The 'Final GP in Order Qty' is 5,000. The 'Trade Port' is LONDON.

2. **Raw material cost control** – After some thorough works by the ERP system, top-up raw material orders can be effectively estimated. Furthermore, order delivery can be more closely monitored and hence controlled. All these information will then be sent to the client's EDI system, so that the buyer and seller can be more efficiently matched. Due to the presence of more complete material purchasing which facilitates bulk ordering, an enterprise can negotiate for a better price and hence lower its own material cost. MSC ERP equips the enterprises with BOM, material requirement planning, purchase-contract drafting, material request forms printing, finished-product receipt, etc. Other analysis reports on material inventory controls and material costs will also assist the enterprises' management in better control.

MATERIAL REQUEST						
ATTN 致: Kevin Chu			REQUEST ORDER 物料需求通知單 : MRPP002			
ORDER NO. 製單: POPP002			ORDER SHIP DATE 貨期: 16-NOV-2005		PORT 站埠: HONG KONG	
STYLE 款號: MSC0001			QTY 數量: 6,634 PC		PAGE 頁數: 1 OF 1	
			DATE 日期: 07-AUG-2005			
MATERIAL NO.	DESC / COLOUR	SIZE	CONFIRM QTY	UNIT PRICE	AMOUNT SUPPLIER	EXPECTED DEL
物料編號	摘要 / 顏色	呔碼	數量	單價	(HKD)金額 供應商	預算物料貨期
Y001	1/5.5 50% 50% 50% 人選看					
	BLACK		4,352.26 LB	HKD 12.0000/LB	52,227.12 MF	15-SEP-2005
	orange		2,177.44 LB	HKD 12.0000/LB	26,129.28 MF	15-SEP-2005
	white		2,177.44 LB	HKD 12.0000/LB	26,129.28 MF	15-SEP-2005
Y002	1/4 50% 50% 50% 人選看					
	BLACK		3,771.95 LB	HKD 12.0000/LB	45,263.40 MF	15-SEP-2005
	orange		1,887.11 LB	HKD 12.0000/LB	22,645.32 MF	15-SEP-2005
	white		1,887.11 LB	HKD 12.0000/LB	22,645.32 MF	15-SEP-2005
YGC-49	4YG 拉鍊					
	BLACK	10	227.72 PC	HKD 1.2000/PC	273.26 CHICHEON	15-SEP-2005
	BLACK	11	56.91 PC	HKD 1.2000/PC	68.29 CHICHEON	15-SEP-2005
	orange	10	113.90 PC	HKD 1.2000/PC	136.68 CHICHEON	15-SEP-2005
	orange	11	28.50 PC	HKD 1.2000/PC	34.20 CHICHEON	15-SEP-2005
	WHITE	10	113.90 PC	HKD 1.2000/PC	136.68 CHICHEON	15-SEP-2005
	WHITE	11	28.50 PC	HKD 1.2000/PC	34.20 CHICHEON	15-SEP-2005
TOTAL AMOUNT 總金額 (HKD):					195,723.03	
REQUESTED BY 登單人 : Mission System Consultant						
REMARKS 備註 :						

3. **Shortened lead time from order taking to delivery** – The ERP system enhances the industry's overall supply-chain management while working towards cost savings and profit making under the cooperation between the clients and suppliers. It can also help an enterprise lower its inventory levels and streamline its entire process, so as to increase its overall yields.
4. **Production loading and scheduling coordination** – With the ERP system's speedy reporting and testing functions and hence its ability to detail the bottleneck situation at the production line, an enterprise can coordinate its production progress so as to obtain high yields. The system automatically assesses the use of its machines and lets the manufacturer know how to direct proper production schedule, according to its clients' order levels. This way, they would be able to achieve an optimal level of works amongst their workers, spaces and machines, hence raising productivity and lowering costs.

- [illegible]

-
- The screenshot shows a Windows 95 desktop environment. A single window titled 'MAG 00000001' is open, displaying a text-based interface. The window has a menu bar with 'File', 'Edit', 'Format', 'View', 'Tools', and 'Help'. Below the menu bar is a toolbar with various icons. The main content area is divided into two columns. Each column has a header section followed by a list of items and a barcode. The left column is labeled 'MAG 00000001' and the right column is labeled 'MAG 00000002'. Both columns list items with their respective dimensions, materials, and finishes. The interface is typical of a legacy database or inventory management system.
- | MAG 00000001 | MAG 00000002 |
|--------------------------|--------------------------|
| CONTRACT# 107 v 81 | CONTRACT# 107 v 81 |
| BAK7073 | BAK7073 |
| Nylon Tarpaulin | Nylon Tarpaulin |
| Var. Size 75x v 130x | Var. Size 75x v 130x |
| Fib. Content 100% Nylon | Fib. Content 100% Nylon |
| Fab. Finish Freshmark | Fab. Finish Freshmark |
| Fab. Width 60"X61" | Fab. Width 60"X61" |
| Fab. Weight 4.02oz/sq yd | Fab. Weight 4.02oz/sq yd |
| MAG 00000005 | MAG 00000005 |
| CONTRACT# 107 v 81 | CONTRACT# 107 v 81 |
| BAK7073 | BAK7073 |
| Nylon Tarpaulin | Nylon Tarpaulin |
| Var. Size 75x v 130x | Var. Size 75x v 130x |
| Fib. Content 100% Nylon | Fib. Content 100% Nylon |
| Fab. Finish Freshmark | Fab. Finish Freshmark |
| Fab. Width 60"X61" | Fab. Width 60"X61" |
| Fab. Weight 4.02oz/sq yd | Fab. Weight 4.02oz/sq yd |
| MAG 00000009 | MAG 00000009 |
| CONTRACT# 107 v 81 | CONTRACT# 107 v 81 |
| BAK7073 | BAK7073 |
| Nylon Tarpaulin | Nylon Tarpaulin |
| Var. Size 75x v 130x | Var. Size 75x v 130x |
| Fib. Content 100% Nylon | Fib. Content 100% Nylon |
| Fab. Finish Freshmark | Fab. Finish Freshmark |
| Fab. Width 60"X61" | Fab. Width 60"X61" |
| Fab. Weight 4.02oz/sq yd | Fab. Weight 4.02oz/sq yd |

Other Benefits from MSC ERP

When enterprises plan for its strategies, their managements will have to put in a great deal of time and effort, working closely with various other departments. The manufacturers have to perform sales forecasts, material-inventory planning, production planning during the entire process. Obtaining information on all these processes is very time-consuming and certain information may not even be available for collection at all at the terminals. This makes it even more difficult for swift collection of data. Sometimes, the enterprises may hope for the more-updated information and data (such as daily or weekly information) but for some different reasons, they can only get monthly information at the end. These factors will post obstacles to the smooth operations of the enterprises.

Nowadays, most manufacturing sectors have only monthly sales reports available to them. Thus, they can only carry out forecasts on sales and productivity on a monthly basis. While there are discrepancies between purchasing raw materials and production, most of the production processes are based on market forecasts done perhaps a few months earlier. Therefore, to facilitate better production, some experienced management staff will then pre-arrange the purchase of raw materials while the sales department will also complement the management with the provision of data regarding the appropriate amount of supply. All these production-forecast data will then be passed to the manufacturing base. Eventually, most manufacturers will face the same dilemma – a lack of information but data overload (or overload of unanalyzed data) at the same time.

With its focus on the apparel industry, MSC ERP's main function is likely to help the enterprises optimize their resource allocation. With a strategic viewpoint centred on ERP, the cutting-edge information technology (sometimes with the complementary works of RFID process flows for data collection minute by minute) will allow the enterprises to target on their resources – namely staff, materials, finances, time, etc for better allocation decisions.

Hong Kong's apparel industry enjoys the advantage of being situated at the most convenient section in the Asia Pacific region. Most industrial players have set up their headquarters in Hong Kong. Regarding their business strategies, they also have their production bases set up in the PRC or overseas due to production-scale and cost concerns. Meanwhile, they also have to equip themselves with a quick sense of reacting to critical matters and a complete management strategy. In fact, these enterprises all look for a set of unique application and process-flow control system, so as to allow them to communicate and share information at different places. In general, a trend towards electronic development in the apparel industry is likely to see the new economy to be based on ERP in the future. Coupled with needs such as quick response, co-opetition (a blend of cooperation and competition) and collaboration, it has then become very critical for the enterprises to be able to align supply chain management, product information management and global information utilization together, so as to sustain growth and development. The best tool to provide information necessary for business operation – not only to achieve goals such as communication and convening conferences, but also to introduce interaction amongst the management staff and hence establish a tool for data / information exchanges and process controls amongst staff of different departments and other related business people – has got to be MSC Apparel ERP Solution.