

# MSC – A Critical Part of the Fashion Industry

Amidst a world trend of rapid technological changes, nearly all kinds of industry will see the struggling between innovative ideas and the conservative mode of business. MSC truly understands this and thus has developed a set of management-system platform (ERP + RFID) which can accommodate these changes in the fashion industry.



## Hong Kong Fashion Festival Allows the Industry to Shine

The recently held Hong Kong Fashion Week, World Boutique Hong Kong and Hong Kong International Fur & Fashion Fair have further enhanced Hong Kong's status as Asia's premier fashion merchandising centre. Furthermore, they also provided an important sales and trading platform for the brand designers in the Asia Pacific region. As a result, we can easily see how attractive these big fashion shows and exhibitions can be. In fact, the fashion world is ever-changing, as we have already seen how the general fashion trends can transform the whole fur industry. Nowadays, the fur apparels have become more diversified and more weightless, with the help of some advancing technologies. More trends are now being seen in the fur industry, with more colours, styles and designs. The fur apparels have become more and more popular as a consequence.

Hong Kong's fashion industry is now in need of some one-stop services, which include design, manufacture, marketing and distribution. No matter if they are ODM (original design manufacturers) or OEM (original equipment manufacturers), Hong Kong's apparel enterprises should all be able to provide their customers with some high-quality services. They should appreciate their own ability to advance with the changing time and should therefore aim for some breakthroughs in areas like design, manufacturing technology and operation management models. Here comes the Supply Chain Electronic Management (which complement with the advanced ERP and RFID technologies).

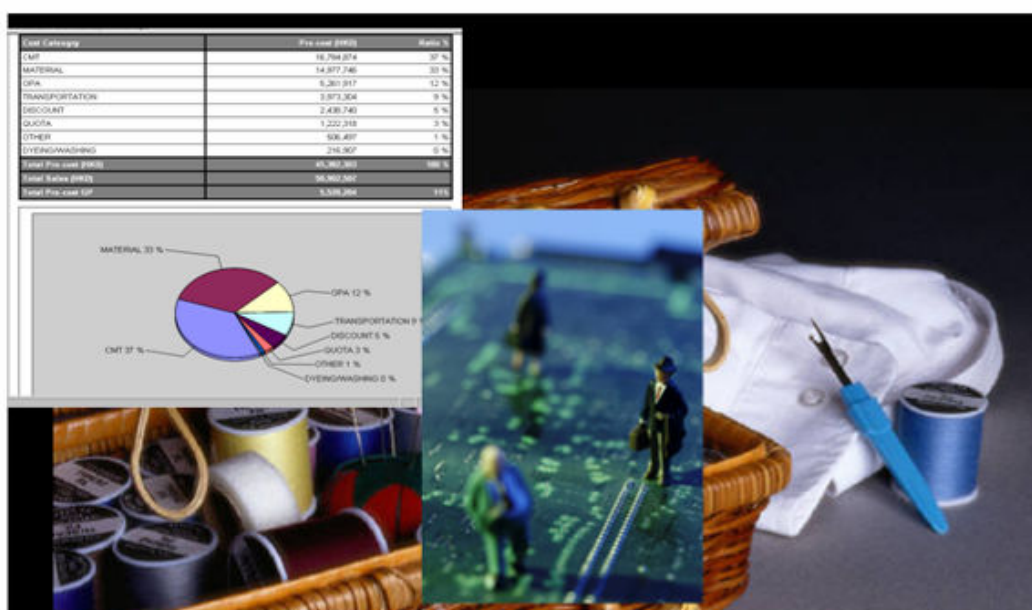


## Look at Supply-Chain Management from a Strategic Angle

A well-known US economist has once said, “The very nature of business competition is changing, from business against business to supply chain against supply chain.” Our MSC consultants do reckon that ERP, together with RFID, can be an effective tool in supply-chain competition. Therefore, there is another genuine competition – management system vs. management system – as well.

Supply chain is a networking structure which comprises all upstream and downstream enterprises engaging in providing products and services to end-users through some manufacturing and related processes. The management of supply chain refers to the planning, organization, coordination and control of the trade flows, product flows, information flows and capital flows in the supply chain via different computer network technologies. In other words, it is about how to deliver the products from the start of the manufacturing process to the end-users – which may include the acquisition of all kinds of raw material, logistic value adding and distribution of products. These are some functions which link together as a chain which runs through different planning, control and coordination activities using some modern information technologies. This way, the entire supply-chain system will be enhanced while an efficient information exchange can be facilitated, so that costs can be minimized and service qualities can be maximized. The essence of a one-stop supply-chain management is “the realization of informationalization”. Further cost-savings can be achieved after the whole manufacturing process has been informationalized and standardized (through Enterprise Resources Planning and RFID System).

Due to the globalization of economies and the rise of big cross-border corporations, the manufacturing of fashion products not only is based on a “Vertical” basis but also a “Horizontal” one. Based on one or more products from a core enterprise (no matter if it is a manufacturer or trading company), there exists a strategic alliance formed by those upstream and downstream enterprises. The relationship further extends to those concerning suppliers, manufacturers and distributors, both locally and overseas. Inside these enterprises, trade flows, product flows, information flows and capital flows actually work together and this is what the basic supply-chain theories are based upon – something the MSC consultants have been suggesting.



To establish a supply-chain system while also enhancing the management of it, we should better view it as a strategic question, so that we can better understand and hence run it as a whole. To all the Hong Kong enterprises as a whole, this is a question of a closer contact with

the rest of world and a better integration into the world economy. An environment with some better software and hardware is created and this is a great opportunity for them to make use of their advantage of having China as the world's manufacturing base. To a Hong Kong-based enterprise, this has therefore created an even better environment which will allow it easier access to the rest of the world, in a midst of a current global economic trend, while equipping it with better software and hardware. All these will make it better for all these enterprises to make use of their advantage of having China as the world's manufacturing base. As we can all see, China's economy is now being transformed from an "extensive" one to an "intensive" one. The transformation has been smooth and a new-style industrialized and modernized economic entity has therefore been formed, giving rise to a higher degree of market economy. To an enterprise in general, this is in fact something to do with a change in its operating model. A strategic alliance therefore has to be formed, so that transaction costs will be lowered, leading to the competitiveness of the products. A better supply-chain management is what we see as a global trend nowadays. However, it does not mean that the whole supply-chain system is a one-for-all cure to all enterprise failures. In fact, there are a lot of successful corporate stories in the world but at the same time, there are also a lot of fruitless ones. The whole supply-chain structure, which consists of all upstream and downstream enterprises, has to react quickly to all kinds of change in the market. Thus, an effective choice of operating tools (ERP and RFID systems) and a stable strategic alliance are required.

### **A Need for Fast, JIT and Real-Time Management in the Future Fashion Industry**

Fashion industry has long been an important pillar to the Hong Kong economy. Over half of the city's local exports are textiles and footwear products. Hong Kong's fashion brands and designers are also commonly seen at those overseas and mainland merchandising centres, producing an improved mix of eastern and western cultures. Any information of these kinds can in fact help Hong Kong to live up to its name as being a premier fashion centre in the global stage. Meanwhile, the fact that all kinds of fashion brand can freely flow in and out of Hong Kong also gives a great help to the city. As the Internet and some other effective ERP systems are becoming more and more popular while there is also a better workplace management technology – thanks to RFID, the – transmission, tracing, storage and retrieval of information have hence become much smoother (and the whole process more transparent). Transaction costs have been lowered whereas its transmission can be quick, Just-in-Time and Real-Time. All these have also contributed to the globalization while transforming the world into a "factory".

The operating idea of globalizing the production processes is not a totally new one. In fact, in a lot of market-economy relationships bound by contracts, there have long been many outsourcing and synergy-based operations. Nevertheless, in the current digitalized era, breakthroughs in the limited geographical and time spaces have made many products and services become possible – which otherwise have been impractical before. The things have become even more unique as those products and services have recently become more "internalized" due to the existence of outsourcing and synergies.

Now, the internal communication costs of the enterprise have come down, as the management can now handle the costs of manufacture and sales better and more accurately. At the same time, the communication amongst enterprises is also smoothened. As a result, each item in the supply chain will be more well-defined, creating more out-sourcing and synergy opportunities. Also, different businesses can focus on doing what they are best at. In fact, a successful global operation relies very much on a standardized (computerized) production process. A standardized platform should be shared, with better quality of communication as well as long-term trust and relationship. At an international scene, enterprises can reap the biggest-possible benefits only if they know what their core competitive advantages are.



Let's take those US footwear and apparel brand names as examples. These large global enterprises do have their own core competitive advantages, which are their abilities in designing and distributing their products. This is a good way for them to maintain their core competitive advantages. The MSC consultants reckon that the whole Hong Kong fashion industry has to follow suit this way as well, so that they can connect to the large global enterprises at the upstream side while also being able to find out what their own core competitive advantages are. Thus, they will be better off in competing with the rest of the world, as they will be concentrating on doing what they are best at. Their businesses will become parts of the whole industry's supply chain and for all the enterprises, this should be the way out.

For the local businesses to become part of the supply chain, in hands with all those world-class brands, they should aim for low-cost manufacturing costs. At the same time, they also need more advanced management of their operation model. Globalization is now taking place on a faster pace but when the enterprises are facing the challenges of a bigger market scope and more fierce competitors around the world, they do need to fine-tune their ways of consuming the global resources as well as better integrating themselves into the supply chain. These are all effective means to expanding the enterprises' operating scopes and assets. But when there are more and more competitors in the marketplace, there are also more and more pressures for the whole industry. They may face uneven shares of the world market, in terms of both sales and the acquisition of resources. Also, the time allowed for delivering their products is being squeezed but on the other hand, much more is being demanded, in terms of flexibility in delivering their products and services. At the end, gross margins will go down whereas there is a call for better ability in controlling the costs. Let's call these the "three main challenges": integration, speed and cost. Now, with the help of ERP and RFID workplace management technologies, a perfect seamless integration system is in place. This will be good for competing in the international marketplace. Therefore, an integrated value chain is deemed most critical for the current fashion industry to connect to the international marketplace.

It does not matter if it is a textiles/garment or footwear business, there are indeed so many different management layers. Before, these kinds of business were run in a situation which lacks of integration and therefore, there have been a lot of repetitive works done, with a low efficiency rate and high inventory levels. These are all examples of resources wastage – thus problems in managing the enterprises. The costs of keeping the inventory – or even the costs of mistakes – will rise and thus post threats for the enterprises' advances. For many garment or footwear factories, there are currently a lot of problems regarding competitiveness:

1. The problem of lead time : The time for delivering the products will keep on shortening while the time for developing new products will become shorter and shorter as well. The



factories do need to satisfy customer needs in a limited time but how can they speed everything up?

2. The problem of cost: The factories do need to cut costs every year. In fact, the businesses which have their own brands do need to monitor their costs more closely. Apart from those tangible costs (like material inventory), there are something else which the factories need to look at – the intangible costs. How do they do that?
3. The problem of flexibility: Market demand changes rapidly. In order to lower their own business risks, the enterprises' orders should be on a "variety but low quantity" basis. Also, they would also frequently change and modify their orders or even put through more urgent orders. All factories should be able to maintain the greatest flexibility to satisfy customer needs. How can they enhance their ability to react?
4. The problem of service: What the clients look for is that each garment/footwear factory can be run in a full 24-hour mode – just like the "7-11" convenient stores. They hope that this will bring them – those who have their own brand names – the quickest and the most accurate information. More real-time and richer information will then be in place for decision making. In fact, there will be more appropriate partners in the future for these brand names to work with. While the prices and characteristics of what they are offering are becoming more or less the same, they should be thinking of another question – how to remain competitive by providing better and quicker services.
5. The problem of integration: In the past, the garment/footwear factories were doing quite well in "informationalizing" their internal integration processes. However, most of the works were only done on the development of individual systems, without specific emphasis given to that of the whole enterprise. That way, the benefits have been limited. In addition, most of the factories are now re-built somewhere else instead while there is usually not only one factory being maintained by any single manufacturer. For example, we could only see those who wanted to export their products to Europe set up their factories in Vietnam, whereas those exporting products to the US set up theirs in mainland China. Their exports markets could well be just like that but the real problem is – how to integrate all the information of different departments, in order to make more accurate and quicker decisions possible? Meanwhile, there is yet another concern – external integration. As a matter of fact, most foreign brand names can now utilize the information network in a better and quicker means. They have requested the networks of their suppliers to be connected to theirs. This will allow cost-savings in integrating the systems at both ends while also facilitating the overall process. A full 24-hour service mode is therefore also possible. Now, if a supplier does not have a system which is "integratable" with the systems of others, all of its orders will then be gone – to those who do have this kind of systems in place.

## **The ERP Revolution & The RFID – Their Impact to the Economy**

"Globalization" has led to the latest ERP and RFID revolutionary trends, refreshing the global economic entities. Those countries with long history – such as mainland China, India and Russia – are all participating in this game at the end of the 20<sup>th</sup> century as rookies, furthering extending the boundaries of the globalization map. However, this has also created even more vigorous competition. Hong Kong – as one of the world's most influential entrepôts and metropolitans – does have a complementary role to play with mainland China. In fact, the burgeoning growth of the mainland's textiles industry also attributes to this. Amidst the vigorous global competition, any enterprise which lacks the ability to utilize effective and professional management systems in a flexible way is deemed to fail.

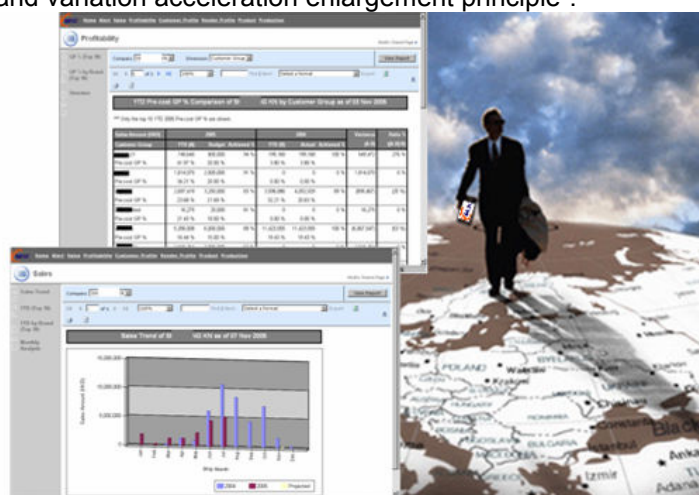
An analysis on the facts and economic data of the US and some East Asian economic entities reveals that the implementation of supply-chain operation and ERP does have some real impacts on the global economy. They are as follows:

- The importance of creating a bigger enterprise and participating in the larger markets is enhanced. Increasing the market share may not guarantee ultimate success. However, if a big enterprise has to succeed, it needs to take up its market share.
- The life cycle of manufacturing a product has been shortened. Although it creates an opportunity for some to launch new products and thus win market share, it will also increase market competition.
- Benefits to those large enterprises or market leaders which are innovative are more obvious. Individual enterprises do have more choices now but at the same time, the fluctuations in the industry will occur more frequently. This is especially true when these enterprises are launching new products or re-allocating the supply chain.
- Only through more closely-formed strategic alliances can the enterprises avoid shortened product cycles and the negative impact of industry fluctuations.

Lately, MSC has utilized the advanced RFID technology for workplace management. The progress made has completely revived the traditional industry. But looking back at the previous development of the mainland and Hong Kong textiles industries, we can easily see that the competitive advantages mainly relied on low costs and economy of scale. Nowadays, market focus has been shifted to new technologies and the speed of their transmission. With an improved mode of synergy, more people are concerned on how to improve the operation, instead of competing on product qualities and costs. Textiles products have recently become a combination of technology and culture, one that mixes modern life and traditional culture. The centre of attention in the industry has swifited and this has given the traditionally-competitive countries some brand-new challenges. Meanwhile, financial turmoil and high oil prices have made the situation worse.

## **A Few Main Points for Better Supply-Chain Management**

Supply-chain management is a well-integrated process and it should not be a stand-alone task for individuals. What supply-chain management looks at are the speed and accuracy of information and there should not be any false information in place. What supply-chain management requires is quick thinking and one should not be reacting too slowly. What supply-chain management requires is to enhance the combination of different resources and infrastructure facilities should not be overly supplied (or overlapped). What supply-chain management requires is effective cost-control and the costs should not fluctuate too much. All in all, the customers are the god while they would like to consume in a better, quicker, cheaper and more-individual manner – which is a current global trend but also a pressure for most enterprises. However, this is what drives one's ambition for better supply-chain management. Supply-chain management is not one-for-all. It needs to be consistently monitored. For example, if there is an information imbalance between supply and demand, resulting in "Demand variation acceleration enlargement principle".



An international supply-chain expert has come up with a few points for an improved supply-chain management:

- **To strategize and enhance the supply-chain network:** This includes identifying the lowest-cost outsourcing strategy, implementing a lowest-cost strategy which decides the quantity at the point of manufacture, calculating the lowest-cost overall outsourcing costs, resolving the location of network inventory and determining the combination of new infrastructure facilities. Finally, a service mode for a specific group of clients can be formulated.
- **To realize the best functions:** This includes the efficiencies of procurement, production and transportation, as well as the yield of sales, etc.
- **To integrate supply and demand:** Supply/demand planning software can be used, so that the sales/operating planning flow can be enhanced.
- **To integrate a system platform for different technologies:** This links up their own ERP and RFID systems with their clients and suppliers' systems. As a result, an end-to-end supply-chain window can be established.
- **To organize and test on the efficiency of the supply chain:** First, one has to work on the supply chain and then standardize the work flows in a cross-department manner. Finally, the qualities of staff and structure have to be enhanced, with special emphasis to be given to assessment and benchmark comparisons.
- **To obtain different skills in a flexible way:** This mainly refers to the ability of the whole supply chain. It can be enhanced from the internal part of the enterprise but mainly, it should be done by obtaining resources from outside.
- **To extend the supply chain:** First, the traditional supply chain should be enhanced, including cooperation within the industry, with special focus given to the different parts of the chain. Attention should be given to issues like cooperation, synergy planning and supply-chain synchronization. Further extension can be on those areas previously overlooked, including the development of supply-chain infrastructure, the setup of a logistics supplier alliance, the integration of an electronic procurement market, the implementation of horizontal one-stop services, etc. These are some previous experience which can be shared.

Hong Kong's fashion industry relies very much on China, as the latter stands as its manufacturing base. However, China's textiles industry does have its own problems. The vice chairman of China Chamber of Commerce for Import & Export of Textiles, Cao Xinyu, has pointed out that China currently has four have's and four have-not's: They have the quantity but they do not have the efficiency. They have the scopes but they do not have brands. They have the technology but they do not have the innovation. They have a diversified market but they do not have a diversified manufacturing base. Now, this can be solved by implementing ERP and RFID workplace management systems. Ex-interim president of Hong Kong Productivity Council, Dr Keung Wing-ching has once said, "After more than ten years of development, ERP has already become one of the most efficient business workflows management tools for the industrial and commercial corporate. It helps the textiles industry cope with the problems of "low quantity but more varieties", low unit prices and tight delivery schedule. ERP is most effective in saving costs, shortening product lead time, enhancing customer satisfaction and hence coming up with a quick feedback. These all will help the textiles/garment industry tackle the issues in a constantly-changing macro environment.

**Facing some vigorous challenges in the fashion industry, future trades have to be based on a mutual relationship. The industry is now trying to build up an intact supply-chain network, through a shared platform for allocating different data. This way, the systems of different factories in upstream and downstream as well as foreign brands can then be linked together. Furthermore, this will improve the ability of the fashion professionals to react in an electronically-efficient way while enhancing the competitiveness of the professionals to place themselves in a good strategic position for global production and global delivery. The professionals and factories will then be able to stay alive in the international brand-name supply-chain system, while synergy relationships amongst all overseas players can be enhanced. Eventually, Hong Kong will further strengthen its status as the world's centre for the sales and logistics of textiles products, breaking through all those limitations on the trade/economic fronts... This is the mission of the fashion industry.**