WWD

BUSINESS / BUSINESS FEATURES

CEO Talks: Spencer Fung on the Remaking of a Stalwart

The head of Li & Fung goes into detail about creating a speed-oriented, data rich supply chain.

By Tiffany Ap on May 30, 2018
@Tiffany Ap

Spencer Fung
George Chinsee

HONG KONG — Zippy, experimental, digitally dynamic. Not the usual adjectives to describe a company over a century old. But Spencer Fung, the head of the 111-year old trading and sourcing firm is hell-bent on self-disruption.

It is dramatic, but that's what he reasons is needed for the situation that faces his firm, Li & Fung, whose many retail customers are feeling squeezed by upheaval in the sector. And so the fourth generation of the Fung family is overseeing a reinvention of the business with a far-reaching impact over its global network of 8,000 retailers and 15,000 suppliers.

That has meant, in recent years, shedding substantial chunks: its brand distribution and management division Global Brands Group, the Asian consumer distribution arm, and most recently sweater and furniture product verticals.

Speaking from the company headquarters in Lai Chi Kok, in an industrial part of town, Fung told WWD in a wide-ranging interview why he's adopted a more focused approach, how the future of supply chains rests on speed and not trimming costs, and the ambitions to one day function as a Bloomberg terminal of the sourcing industry.

WWD: Li & Fung's current three-year plan hinges on the creation of the "supply chain of the future," which is built for speed versus being organized to save costs. What will that look like?

Spencer Fung: The average supply chain of our customers is about 40 to 50 weeks from concept to store. It's pretty long. Imagine today. If I have to decide what people want to buy in a year, it's almost impossible. In the old days, it was. People followed the catwalks, the high-end brands and it translated down to the mass market. Now, if I see something on Instagram I want it next week. One month or two months from now, I've lost interest.

If you have a 40- to 50-week supply chain, you'll buy the wrong thing, you'll be left with inventory, markdowns and so on. One of the biggest pain points is design. Product development takes about three months at least. By using digital sampling, you can cut it down to hours or days.

The fastest supply chain we see today is a few days long. That means I could decide what you're going to buy next week and make it immediately. This is how fast supply chains are getting to, but most of our customers are not there.

I call them turtles and rabbits. Most of us today, including ourselves and our customers, are really turtles because we come from the old economy where things happened in 40 to 50 week cycles. Even the fast-fashion guys, I would say they are the fast turtles. But the new types of companies with the few days supply chain, these are the rabbits. Eventually you have to compete with them to win because consumers ourselves we have become rabbits.

We are looking at Instagram, we are being influenced every minute, every hour, by new trends. We change our minds all the time. All the consumers you see are new rabbits.

It's not on a large scale yet. Right now, the superfast supply chain are small batches. If you need a few billion dollars of goods in that order, it's not possible today because the factories aren't really set up for that for the most part but it's going to rise.

WWD: How receptive are your customers to this shift?

S.F.: Everything is like a normal distribution curve. We have customers that are very forward-thinking. We have customers that probably won't change in the next two years, and there's a huge blob in the middle. At the ceo level, most people realize that change has to be made. I don't think that I've spoken to too many ceo's that don't realize that. They feel the burning platform. They feel the disruption. Now, feeling that versus actually being able to change is very different. Those who are really able to change their entire company are pretty hard to come by.

Even for those who cannot change the entire company, we have a second approach, basically saying you realize that something is wrong, but your organization has inertia that won't change. I say, "Don't worry, give me one division. Give me one little brand. Give me a young person in your team and let me work with that team and let's effect change there fast — but it has to be fast."

If that doesn't work, then we say, "Forget about a brand, give me five styles. Give me 10 styles."

When we convince people to go from physical sample that you see on a mannequin to digital sampling, they like it, but they can't get used to it. They still want to feel it five to 10 times before they make an order.

We say, "That's fine too. Give us 10 styles. There's no risk for you." A company who is doing a couple hundred million, 10 styles don't make a dent. We'll do that for you and do a test.

There are people who even resist that — we have yet another option. Guess what? We're going to give you some free digital samples. If you don't want it, delete it. We don't care. What that does — they get the digital sample immediately the physical sample takes another week or two to arrive. They would've made some initial decisions and by the time the physical sample arrives, it's kind of old already. They realize, wow, using a digital sample I can make some quick decisions.

Now those people may still want a final sample to be made physically so we do that. We do the first few iterations digitally and save weeks, sometimes a month or two, and the final sample before production we give them a physical sample. They get the satisfaction, I've touched it, I've felt it. I'm OK with it.

Some companies we're working with, the start-ups, they don't even want to see a sample. They just need it fast.

WWD: How does the willingness to embrace change compare between mass to high-end brands?

S.F.: It's hard to generalize. It's more down to the ceo. Now [for] people underneath, there is a generalization of types of organization, how fast they move, but the ceo is really the key from what we've seen.

WWD: You took over in 2014 and recently completed your first three-year term as group ceo. What kind of report card would you give yourself, and what have been the biggest learning curves?

S.F.: July 7th [I took over the company]. I remember, it was my sister's birthday. Hard to forget. The way I describe it to my friends is like getting to the black belt of karate. You think you've gotten to the top but there is actually black belt level two, three, all the black belt level 20. When I got to the ceo level, I got to the back belt but then I quickly realized there are many nuances to have to learn and I'm still learning.

I think the learning curve has been very steep, to say the least. To inherit the company that was 107 years old at that time with a very long-standing culture, I'm very proud as the fourth generation and only the ninth ceo after 111 years. It's a pretty long-term company. But at the same time, the timing of that ceo shift was also probably one of the toughest because that was major disruption time for the entire retail and supply chain industry.

My toughest job as a ceo and what I've learned the most is really the cultural change, mind-set change. We have an industry and people who have been around for ages, they do a very good job from what they know but they don't know what they don't know, especially in the tech space.

It took a while to change people's mind-set and it's still happening, I'm not finished yet. My first job was to change the top management team's mind-set, and I think, touch wood, I've been successful in doing that.

I think the turning point came in April 2016. This was after many rounds of introducing new elements, outside speakers, start-ups and things into the management team. Finally in April, we went through a course called Singularity University and they really did the job for us to switch the mind-set of our management team. Today, our management team doesn't argue anymore about the new economy. Many old economy companies still argue and debate and doubt about the new economy, we don't have that anymore.

So now, what I'm working on is speed. As an organization, our speed of change is not fast enough. That's why in our three-year plan — speed, innovation, digitization — speed is number one. Speed for supply chain for our customers, speed for our internal organization.

Let's say I'm at black belt 0.5 now and I need to go to level one, two, three and so on.

WWD: What are some of the challenges you've come up against in starting this new digitization process?

S.F.: In a time of transformation, especially digital transformation, you can end up disrupting your own business, but we think it is pivotal. If you don't self-disrupt, somebody else will disrupt you. You might as well do it yourself and find out what it's going to be like.

Let me take one minute [to give an] example. In the 3-D design phase, we didn't know what would happen if we went from an analogue design to a 3-D design. Disruption comes in a few forms. Usually when something goes from analogue to digital, a few things could occur. When you digitize an analogue process, sometimes the value of that process goes down to zero because it is being automated. Sometimes it goes down to zero because a new platform on top of it cuts in and captures its value. Sometimes its moves upstream or downstream to another player.

What has collapsed down to zero is, for example, in the past the factory has to send a sample via courier to us, we courier it to the customer. There's no courier now in that step. The value for DHL for sample sending collapses to zero and it goes to the data provider. Now you're clicking, sending an e-mail and they get that value.

The value of the technician, the sewing person in the factory, is no longer there in the sample area. Every factory used to have a sample area of 10, 20, 50 people. They will do a lot less sampling in the future. The value diminishes in that area.

They would have a mannequin, a model and take a photo. Now it's done by computer so the value of that studio is going to decrease, the value of that model's job is going to decrease, there's less photo taking.

What surprised us is some value came to us, the value of creating a sample like that. When you do a digital sample, it is the construction and DNA of the product. It used to be done by the factory, now it's held by us now. That would counter some of the disruption we've seen in the past few years where factories go direct.

It shifts up and down and back and forth. It's just one part of many things we're digitizing.

My point is, if you don't do it yourself, somebody else will. They will find out and you will have no time to react. That's why I think the best thing in today's world is to self-disrupt. If you find out what will happen, at least you can plan the business accordingly. As we go through different parts of the supply chain, we will find out things we will like, and find out things we won't like. But at least we will be the first to find out.

WWD: You've talked about taking the product design step digital. What other parts of the supply chain are set to go digital?

S.F.: Everything. We have no doubt that everything will be digitized in the future. We just don't know which is going to come first. It seems we are the only company at scale that is trying to do this. The sewing is going to be automated. We're talking to a few companies who are automating production.

Once you digitize different processes along the value chain, you can string all the data together, that's the exciting part for us. Doing this is a means to an end; the end is really a data game. There is nobody digitizing this process and even fewer people thinking about stringing the data end-to-end in the supply chain. It will come. It's already happened to other industries: automobile, aerospace, electronics.

When you have that, you can manage every single button, zipper and fabric to arrive at the exact same time. You get rid of a lot of inefficiency once you use analytics to drive decisions in the supply chain.

The analogy that I use is the Bloomberg terminal. What you see are modules interacting with it. What you don't see is underneath that, Bloomberg probably has a few thousand sources of data interacting to help you get the information that you need.

In the future, as we digitize various processes, we will probably not have thousands, but dozens if not hundreds of data sources that link up together, that will allow us to create something like the Bloomberg of the supply chain.

If you are anybody in the supply chain, whether you are a manufacturer, a wholesaler, retailer, or designer, you can come in to, let's say, some kind of terminal or software that we construct that basically digitally pools different data sources to make your decisions faster and better. This is what we're envisioning.

WWD: There is a good amount of chatter about the implication of blockchain and traceability in products. Is this an area the company is actively exploring?

S.F.: Blockchain is still early but today, even without blockchain, you can have traceability. Blockchain is just a new technology that enables the same thing. You can use a bar code, RFID, so you can do that today. Blockchain might be more efficient but right now, I don't think there is any conclusion.

There are many different competing standards, many experiments being done. There's nobody doing this on a massive scale in our field. I have no crystal ball. We're going to keep doing experiments, but we like what we see so far. I don't think you're going to see anything within the next 12 months.

Multiple people will have to adopt similar standards along the supply chain. There are private blockchains, public blockchains. What we can do is control our environment where we have 15,000 suppliers. It could be a private blockchain that just interfaces with our suppliers but the goal would be to have one end-to-end from the source to the consumer. But then you have to have many people negotiating a similar standard and link it all up together. It's going to take a while.

WWD: Overall, you've shrunk a lot of the business. What prompted the divestments?

S.F.: When I took over the business, I inherited a pretty large company, at that time it was about $20 billion. It was quite complex. We had 20 years of straight growth, 23 percent a year, we'd acquired 100 companies. We'd acquired everything.

I asked, "What are we best at?" The answer I got back was not very satisfactory to myself. The answer that I got back was "We're pretty good in everything." It wasn't good enough for me and the way I think. I like to be the best at a few things rather than very good at many things. Obviously, being good at many things was not working, as you can see from our results in the last few years.

I got inspired by Luxottica. It's a company that does one thing, eyewear. From our industry to be able to do one thing and be worth five times as much as a company like Li & Fung when you do a third of the turnover was inspiring. How do you just one thing and be focused and be worth so much more? I do think the market rewards pure plays rather than conglomerates that do everything. I think that's something the financial market knows about.

I set myself up on a path to be more focused, and to be focused you have to do less. Global Brands Group was the first spin-off, Asia distribution, product verticals. Each of these businesses was not a bad business. I ran a big part of GBG before and I was emotionally attached to it. These were tough choices. Global Brands was 15 percent of our business but 50 percent of the complexity. Asia distribution business was a good business, grown on the back of Asian consumer growth. Verticals same thing. I actually created the verticals myself so I'm pretty emotionally tied to the verticals too but it's basically making choices, strategic choices of what to focus on.

In this three-year plan, what we're attempting to do is completely different to what we do today. As a result, if I want to have a chance to succeed — to really create the supply chain of the future, we need to execute fast. Because there are other people looking at this trying to copy this as well. If we don't do this fast, we're not going to be able to have an advantage. In order to do this fast, we need to be more focused. If I have an extra minute in my day, I spend it on the supply chain of the future.

WWD: Are you interested in shedding more business divisions?

S.F.: I will never say never. I think we're OK for the rest of the three-year plan. We may make acquisitions, we may have more divestments. We live in a world now where things change so fast. We are fine-tuning our strategy on a quarterly basis. In the past, every three years you fine-tune your strategy, that was fine. Every few months, we find something that is hugely disruptive that comes out of the woodwork, and we have to rethink our strategy.

We believe that all business models are up for change. You see that even the innovative companies, the Googles of this world, are constantly reinventing their business model. We are prone to disruption as well.

In the past, we would offer a menu of services to the customers and say this is it. If the customer doesn't like it, we'd say, "Let's talk next time." Now the conversation is very different. We say, "This is our menu services and we're morphing that," and we may ask them the next question, "What else do you want?"

For smaller companies and start-ups, we are using a lot of new business models. They are young companies, no baggage. They don't care how we worked for the last 40 years. They say, "I want it this way, can you give it to me?" A few years ago, we were not open. We said, "You know what? We don't do that. We know supply chain, we've been doing it for 100 years, do it this way." Now we say if you have a new idea, we can try it.

WWD: Sustainability in the supply chain is something that is discussed constantly but it doesn't seem to have moved forward much. What do you think people get wrong about that conversation?

S.F.: I don't think there's anything wrong with the conversation but I think the reality is the last decade consumers have had a tough time after the financial crisis. There isn't a lot of money in the consumers' pockets. The sustainability topic, actually, on the surface increases the cost of the product whether it is organic cotton or factories that are compliant. It puts more costs into the product and as a result, the selling price may increase or the margin of the retailer may decrease and a lot of retailers have been under a lot of stress.

While it is usually a board-level topic, the implementation and execution has been a bit difficult. I don't think it will ever go away, the trend is toward a fully transparent supply chain. The speed of execution has not been as fast as it could be. Just economics, right?. If you want made in America, if you want sustainable cotton, it will cost you more.

It might pick up, the economy is generally improving. Retail seems pretty strong. U.S. tax cuts will help. I don't want to directly link this to sustainability but it's always been top of mind for corporations at the board level but the reality sets in. Many customers have gone bankrupt and sustainability is not the top of their agenda.

WWD: Does becoming more sustainable slow down the speed of the supply chain?

S.F.: No, not at all. What we learned in the last few years is if you are not sustainable and want to switch it to a sustainable supply chain, it costs you more money. But if you set it up from scratch as a sustainable supply chain, it doesn't cost that much more. The costs are in the fixing of the old to another state.

WWD: What personally motivates you in this role?

S.F.: What excites me today is the opportunity to change an entire industry because I have no doubt that someday, someone, some company will change the industry. It's happening on the fringes. But on the supply chain side there isn't anybody especially in our type of product: apparel, footwear, accessories. I am super excited to even have a chance to do something like that.

If you look at anybody's career spanning over 40 years, you don't always have this chance. The timing is ripe. I've had 20 years experience, I became a ceo, we're in an analogue industry and I have some digital experience. I have a great team that is starting to buy into a digital world and I have no doubt we will get to a digital world anyway. If we can get there fast and be a catalyst of change, we reach 8,000 retailers. If we can change ourselves and affect even half of them, I would be very happy. And we reach 15,000 suppliers. The opportunity to affect change to hundreds of millions of people is hugely exciting for us.

This is the hardest I've ever worked but I've never been this excited before in my career. The feeling I get now, personally, is similar to what I had in Silicon Valley. We were a bunch of 20 year olds, dinky little office, very little money. We built our own chairs. We bought it from Costco so we had to use screwdrivers to build our own chairs one-by-one. We worked nine to midnight seven days a week, but nobody was tired, nobody felt down because it was so exciting. I'm getting some of that feeling, if not even more by being in this situation, having a chance to disrupt the industry and to improve the lives of a billion people. That's what gets me up every day.