Logistics key to post-quota life

Hong Kong garment makers are perfecting their value-added services to ensure their survival

MANUFACTURING
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TAL will maintain a broad base, with factories in Hong Kong, Thailand, Malaysia, Taiwan, Indonesia, the mainland, Vietnam and Mexico. Photo: SCMP

What to do when an army of ultra cheap competitors has the shackles of managed competition removed and are intent on eating your lunch?

Two of Hong Kong's biggest garment makers – Luen Thai Holdings and the TAL Group – are betting that their rapid response capabilities can fend off cheaper mainland rivals who are expected to flood foreign export markets once textile quotas end next year.

"It is the logistics capability of apparel manufacturers that makes the critical difference. Compared to small-to-mid size garment makers, large apparel manufacturers have the resources and volume of production to justify the high investment in logistics," Charles Law of DBS Vickers Securities wrote in a report.

Luen Thai and TAL are big-league players each earning annual revenues approaching US$600 million. Both hold a commanding presence in the United States market with privately held TAL producing one in seven of all dress shirts worn by American males. Its client list includes Brooks Brothers and LL Bean, while publicly-listed Luen Thai produces for the likes of Polo Ralph Lauren and Dillard's.

"It's not just products. It's product and services. By providing services other competitors can't provide, we hope to keep our business against mainland competitors and grow our sales," said TAL director Yip Soon Nam.

TAL director David Chu Tak-hung said: "Customers don't look at price alone, but the total service, including product development, quality and shipping. Even if I lowered my prices, mainland companies can match it immediately. So there is no bottom to how low prices can go."

The bet among analysts is that the end of quotas will lead to garment prices sold in the US declining by between 10 and 30 per cent. However, the big boys are betting that quality and customer service will differentiate them in a crowded marketplace that is finely attuned to changes in taste and fashion.

"The turnaround time is important. We always want to cut down the lead time," said Mr Chu.

In the 1980s, we quoted customers a lead time of six months. Now it is three months or less," said TAL marketing manager Yvonne Chow.

This emphasis on timeliness has led the firm to keep factories open in high-cost countries, apparently debunking notions that all production must move to China. TAL has 33,000 workers spread across factories in Hong Kong, Thailand, Malaysia, Taiwan, Indonesia, the mainland, Vietnam, Mexico and a garment factory in Macau due to open next month, plus a textile plant in the US.

TAL kept a factory in Taiwan because it was faster to ship from Taiwan to the west coast of the US than from Hong Kong, Mr Chu said.

For similar reasons, the firm is not planning to shift its mainland production further inland as is the talk among many labour-intensive industries facing labour shortages and rising wage claims in booming coastal areas.

"We have to stay in Dongguan to be close to Hong Kong. When we choose a place to build a factory, we put a high priority on whether it is convenient for export," Mr Chu said.

TAL probably would not shut down manufacturing in any country for three years at least, Mr Yip said. "We don't put all our eggs in one basket, which will lower risks for our customers. If any problem happens in one country, we can guarantee our customers delivery."

TAL manages inventory for 10 large US customers including JC Penney, the US retail chain to whom TAL sells US$35 million of garments every year. TAL did third-party logistics for JC Penney in Thailand and would extend that service for JC Penney to Pakistan and India in a few months, said Mr Chu. "It improves our relationships with customers."

Luen Thai also managed inventory for some customers and performed "scan and pack" services, where Luen Thai packs garments in boxes designated for certain warehouses in the US, so customers need not repack the boxes when they arrived in the US, said Luen Thai chief executive Henry Tan.

Luen Thai's parent company provides the garment maker with airline and shipping arms.

"When there is an emergency, like the strike on the west coast of the US last year, my planes flew goods to the US," Mr Tan said.

Mark Po Ka-kit, an analyst with Kim Eng Securities said: "Once the market is open, mainland companies can learn quite fast, there will be serious competition later on. The reason some Hong Kong companies can be big is mainland companies weren't allowed to be big under quota."