

# Strategic Procurement in Textile and Apparel Sourcing Companies in Hong Kong: A Practitioner's Perspective

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**Abstract:** This research study would critically identify elements of strategic procurement and their association with the company performance. The textile and apparel sourcing companies in Hong Kong were chosen as the context of the research study since these companies are facing the challenges of turbulent market and intensive competition. Qualitative research method was used and several interviews with industrial practitioners were conducted. The research result identified that top management commitment to the strategic procurement, long-term orientation with suppliers, information sharing with suppliers, supplier capability auditing, development of key supplier and supply base optimization are the most critical elements of strategic procurement and can affect the company performance of the textile and apparel sourcing companies in Hong Kong. The study is sound and can help practitioners develop corporate procurement and sourcing strategy and achieve competitive advantage for their companies.

**Key words:** strategic procurement; textile and apparel sourcing companies; company performance

**JEL codes:** L10, L67

## 1. Introduction

### 1.1 Textile and Apparel Industry in Hong Kong

The textile and apparel industry was traditionally a labour-intensive industry in Hong Kong. Shifts in the economic structure of Hong Kong over the last few decades have caused the industry to undergo tremendous changes.

In 1960s to 1980s, the textile and apparel industry in Hong Kong experienced rapid growth as a result of the abundant supply of low-wage labor. Entering into 1990s, along with high wages and short of labor force as well as continuous increasing of land cost, Hong Kong became an increasingly expensive and less competitive place for manufacturing. Most textile and apparel manufacturers therefore decided to outsource all manufacturing and transformed their companies into sourcing companies. The textile and apparel industry structure in Hong Kong was changed from a manufacture-based one to a service-based one.

Nowadays, textile and apparel sourcing companies in Hong Kong act as middlemen in the global supply chain. They have established and managed strong international business links with upstream manufacturers in

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Asian countries and downstream customers in US and Europe, thereby maintaining their competitiveness in the apparel industry. This has transformed Hong Kong into a trading economy that is dominated by business services of exports and re-exports of high-quality and time-sensitive consumer products (Hong Kong Trade Development Council, 2006; 2010).

Propelled by the globalization force, the textile and apparel industry is facing high demanding customers. Consumers nowadays demand products to be produced at competitive price with the fastest turnaround time possible. The textile and apparel sourcing companies therefore have to be nimble enough to make prompt responses to these changing consumer preferences, along with value added activities.

Supply chain management (SCM) has become a key driver of competitiveness in the textile and apparel industry while purchasing and procurement management is playing a vital role in SCM. Purchasing and procurement has been undergone continuous change, from a transactional approach to a partnership sourcing, then shifted to a lean enterprise and nowadays moves toward a world-class network sourcing (Burt, Dobler, & Starling, 2003). Efficient procurement is crucial in the textile and apparel industry since the demand for and price of a garment product are largely time-dependent.

### **1.2 Objectives of the Study**

Procurement has been evolved from being an “arm length” service to the integrated strategically important part of a global supply chain. The emphasis of this study will be as followings:

- (1) Layout the changing role of procurement.
- (2) Identify the role of procurement in the textile and apparel industry.
- (3) Identify and evaluate the critical elements of strategic procurement management in the textile and apparel sourcing companies in Hong Kong.
- (4) Develop framework of research.
- (5) Provide recommendations and suggestions to the textile and apparel sourcing companies in Hong Kong.

## **2. Literature Review**

### **2.1 Evolution of Procurement**

Traditionally, purchasing and procurement took a supportive and clerical role, and the way of working is focused on price reductions and arm's-length relationship with suppliers (Ukalkar, 2000). It however does not create the desired competitive advantage in the turbulent market scenario and becomes ineffective in the competitive world. As a result, development and application of new concepts, techniques and instruments are necessary for improving procurement performances. World-class companies focus their attention on studying and understanding the importance of procurement function and developing new strategies needed to gain commercial success, improve product quality and sales, and develop innovative products (Garcia-Alonso & Levine, 2008; Ukalkar, 2000).

Ukalkar (2000) claimed that the environmental changes which led to the evolution of procurement are as below:

- (1) Procurement has become global in scope. Products and services are sourced globally. Components, sub-assemblies, modular assemblies, and OEMs can come from any part of the world. The reasons may be low-cost manufacturing and tariffs, trade agreement between trade-bloc countries, counter-trade policies,

environmental laws, or core competence of the particular company or nation.

(2) Increasing customer demands. Demanding customers have led to proliferation of products to target more diverse tastes by mass-customized production. In addition, increased product and market complexity, greater service content, wide choice, and demand for quality products at low cost have influenced much of strategy formulation.

(3) Increased awareness among customers. Customers are becoming much more sophisticated about the products they buy. In addition to meeting customer's requirement, quality is a competitive search for customer's delight and value addition that is yet to be expressed. Quality has to be combined with other features like speed, price, delivery, etc. Companies will not only have to produce quality goods and services at competitive price but they must also continuously improve their existing products, and introduce new products and services to hope for survival.

(4) The proliferation of standards. Mandatory compliance under a variety of environment, health, safety, and customer right protection laws, the emergence of regional trade blocs, international standards like ISO-9000, and company standards like QS-9000 system and procedures have posed a tough challenge to procurement managers to reshape procurement strategy.

The movement towards global sourcing, rapid changes in technology, increased competition and facing more demanding customers require purchasing to assume more responsibility in planning and implementation of strategies to support corporate strategy.

To cope with the environmental changes, procurement professionals have to be well trained and to develop new skills to take the new responsibilities. Ukalkar (2000) defined the new roles and responsibilities of the procurement professionals when they are working with top/middle management, cross-functional team members, next customers and suppliers.

Purchasing task that adds value is integrated into systemic process, and the dynamic interrelationship among purchasing decisions and customer satisfaction are understood. The function of procurement thus is transformed. Reck and Long (1988) conducted case studies of 15 firms, addressing the issue of contribution of purchasing to the competitive strategy of the firm. The article proposed that a typical purchasing organization moves through four development stages—passive, independent, supportive and integrative. The model offers an exciting insight about how the purchasing role in organization can become “a competitive weapon in the battle of the market”.

Monczka, Trent, and Handfield (2005) concluded that the evolution of procurement in new era includes three phases: first, the reshaping of purchasing's role in the modern economy is underway in response to the challenges presented by worldwide competition and rapidly changing technology and customer expectations; second, the overall importance of purchasing function is increasing, particularly for firms that compete in industries characterized by worldwide competition and rapid change; third, purchasing must continue to become more integrated with customer requirements, as well as with operations, logistics, human resources, finance, accounting, marketing, and information systems. This evolution will take time to occur fully, but the integration is inevitable (Monczka et al., 2005).

## **2.2 Strategic Procurement: An Importance**

“Strategic procurement is a collective pattern of coordinated decisions that act upon the formulation, reformation and deployment of procurement resources to provide support to the overall strategic initiative directed towards achieving vision” (Ukalkar, 2000).

Steele and Court (1996) defined that “strategic purchasing is the development of ways of approaching and

interacting with the supply-market, taking account of not only the present situation but also how it might develop in the future". It is based on belief that the buyers can determine and change the supply market within which they function.

Carr and Smeltzer (1997) and Garcia-Alonso and Levine (2008) pointed out that when linking purchasing to the strategic planning process, it is described as strategic purchasing. They further explained that the evolving nature of the supply market along with the increasing level of competition among firms have fostered a re-evaluation of the nature and characteristics of the purchasing function by top management. Realizing the importance and contribution purchasing could provide to the business, top management started to commit resources to the development of the purchasing area of their firms.

Thus, a shift of purchasing function from cost-cutting focus to profit-generating focus with greater emphasis on product quality, shorten time to market, research and negotiations, and moving to more cooperative relationships with suppliers.

Pearson and Gritzmacher (1990) summarized seven key characteristics which can determine the sophistication level of a purchasing function and indicate its extent of integration into the organizational strategic management decision making process (as stated in Table 1).

**Table 1 Purchasing as a Strategic Function**

Characteristics	Operational approach	Strategic approach
Organization structure	Low visibility, lengthy reporting chain to top management	High visibility, direct reporting to top management
Organization perception	Isolated ineffective paper pushers	Active, effective strategic material supply managers
Information access	Limited exposure to critical reports and meetings	Access to a library of internally and externally generated information
Information technology	Inundated by non-computerized data	Paperless computer integrated information system
Decision issues	Clerical function that makes decision based on price	Provides expert analysis of forecasting, sourcing, delivery and supplier information
Supplier network and relationships	Works with many suppliers. Adversarial relationships	Works with fewer suppliers. Cooperative family relationships
Strategic management	Non-existent input to the strategic management decision making process	Chief strategist of material price, availability and supplier issues. Provides critical information to strategic management

Source: Pearson and Gritzmacher (1990).

As competition increased and global sourcing evolved, the supply environment became more volatile. The status and professional orientation of purchasing increased, the importance of purchasing's impact and relevance to other functions of the firm became apparent (Pearson & Gritzmacher, 1990). Purchasing function is therefore transformed from cost cutting to profit generation and operating the function as a profit centre.

Ukalkar (2000) emphasized that strategic procurement is the process by which a procurement manager can gain a different perspective of internal and external environment causing change in his present working and enabling him to think out-of-box. Such perspective should be future-oriented. It allows the procurement manager to develop skills of both looking forward and backward, while knowing where his procurement strategy is now and what strategy should be developed to achieve the company's vision without repeating the mistakes of the past. Ukalkar (2000) reinforced that it allows the buyer to create a high level of awareness of the changes in the external environment and work on weak signals and improve the strength, and that the view of procurement in future will be a result of the interaction between different functions, supplier network, and creating a partnership approach to deal with procurement problems.

### **2.3 Strategic Procurement Management in the Textile and Apparel Sourcing Companies in Hong Kong**

Hong Kong is widely recognized as a global sourcing center for textiles and clothing (Gunasekaran & Ngai, 2008; Hong Kong Trade Development Council, 2010). Its textile and clothing producers supply products that are manufactured in China, Indonesia, Thailand, Malaysia and India for the world market (Hong Kong Government Industry Department, 1995). The adoption of a proper production sourcing strategy is regarded as a strategic approach that firms can use to maintain their comparative and competitive advantages. Firms are finding that they can no longer compete effectively in isolation of their suppliers in the supply chain and are realizing the benefits of collaborative relationships within and beyond their own organizations (Cox, Blackstone, & Spencer, 1995).

Tam, Moon, Ng, and Hui (2005) conducted a study of sourcing performance satisfaction with 104 respondents involved in the trading and manufacturing sectors of the Hong Kong clothing industry, including owners, CEOs, general managers, departmental managers, designers and merchandisers. They concluded that the most significant success factors of production sourcing are the sustaining of long-term relationships with production providers and choosing production providers carefully. The keys to customer satisfactions are on-time delivery and better quality.

The textile and apparel sourcing companies in Hong Kong focus their efforts on supplier development as these companies realized that what they ultimately can deliver to their customers will in fact come from their suppliers who provided them with high-quality products and services.

In the textile and apparel industry, companies are requested to meet customer needs on a timely basis, with high-quality products produced and delivered in a cost effective manner. Responding to customer needs with products and services, at a quality, price and time acceptable to them, is regarded as the key to competitiveness (Gunasekaran & Ngai, 2008; Leung, 2000). Speed sourcing and replenishment are two key factors for Hong Kong to succeed in global supply chain management (Gunasekaran & Ngai, 2008). Therefore, selecting and auditing of appropriate suppliers are especially critical here.

### **2.4 Research Framework of Strategic Procurement Management**

The current business environment is shaped by intense global competition, increasingly demanding customers and shorten product life cycle. Strategic procurement management is one aspect of supply chain management that assures better cost control and utilization of resources. Given the challenges of reducing cost while improving service level significantly, we are beginning to witness the positive and strategic contribution the purchasing and sourcing process can make to company's performance.

Based on the literature review, the critical elements of strategic procurement management are listed below:

(1) Supply base optimization: It can generate buying leverage and obtain cost, quality, delivery, supplier capacity and technology dedication advantages. It enables effective and efficient management of supply base, as well as facilitates more sophisticated purchasing practice. The authors group supply base optimization together with limited number of suppliers as great similarity exists in these factors (Cooper & Ellram, 1993; Das & Narasimhan, 2000; Dyer & Ouchi, 1993; Lynette & Beth, 2006; Sako & Helper, 1998).

(2) Information sharing with suppliers: It fosters firms to manage strategic alliance effectively, have better understanding of customer's requirement and expedite customer responsiveness, thus increase cost saving. The authors group information sharing with suppliers together with communication because these factors have similarities (Carr & Pearson, 1999; Chen, Paulraj, & Lado, 2004; Cox, 1996; Kraljic, 1983; Lynette & Beth, 2006; Tunbull, Oliver, & Wilkinson, 1992; Zollo, Reuer, & Singh, 2002).

(3) Long-term orientation with suppliers: It encourages firms to develop trust and openness with suppliers,

get better understanding of supplier performance. It helps to get better understanding of each other and well managing conflicts in the relationship. This can reduce transaction cost and yield a more cooperative relationship for the benefit of both firms. The authors group long-term orientation with suppliers together with buyer-supplier relation development since these factors describe the same function (Bhote, 1989; Chen et al., 2004; Das & Narasimhan, 2000; Freeman & Cavinato, 1990; Ganesan, 1994; Morgan & Hunt, 1994; Reck & Long, 1988).

(4) Purchasing integration: It aligns strategic purchasing with firm's competitive priorities, enabling purchasing fully participate in business strategy formulation and implication. This can enhance ability of firm and improve company performance. The authors group purchasing integration together with status of the purchasing function as these factors reflect the same dimension (Das & Narasimhan, 2000; Kocabasoglu & Suresh, 2006).

(5) Supplier capability auditing: It is critical because firms rely on suppliers for product development which increases need for supplier performance evaluation. Suppliers capability in engineering, design, manufacturing, testing and responsive to product modification and delivery schedule change enable firms to achieve good company performance and thus sustain competitive advantage (Bals, Hartmann, & Ritter, 2009; Das & Narasimhan, 2000; Fitzpatrick, 1996; Hahn, Watts, & Kim, 1990).

(6) Development of key supplier: It fosters firms in building effective relationship with suppliers, thus enables firms to respond to market uncertainty and environmental change, as well as be responsive to customer needs (Bals et al., 2009; Kocabasoglu & Suresh, 2006; Krause, 1999; Pint & Baldwin, 1997; Williamson, 1989).

(7) Internal coordination: It fosters cross-functional communication within the company, thus enables firm to improve customer satisfaction and supply chain responsiveness (Eng, 2005; Kocabasoglu & Suresh, 2006; Reck & Long, 1988).

As mentioned in the above paragraphs, the seven critical elements of strategic procurement management are all geared towards company performance. The primary objectives of an organization are to maximize its productivity and efficiency, and generate profit through planning and goal setting. In an industrial buying organization, a key measure of productivity is cost rationalization (Dobler, Burt, & Lee, 1990; Vaidyanathan & Devaraj, 2011). Ellram (1992) reinforced that it is important for purchasing to be involved in cost saving projects. Tan, Kannan, and Handfield (1998) and Vaidyanathan and Devaraj (2011) measured firm performance by overall customer service level and overall product quality.

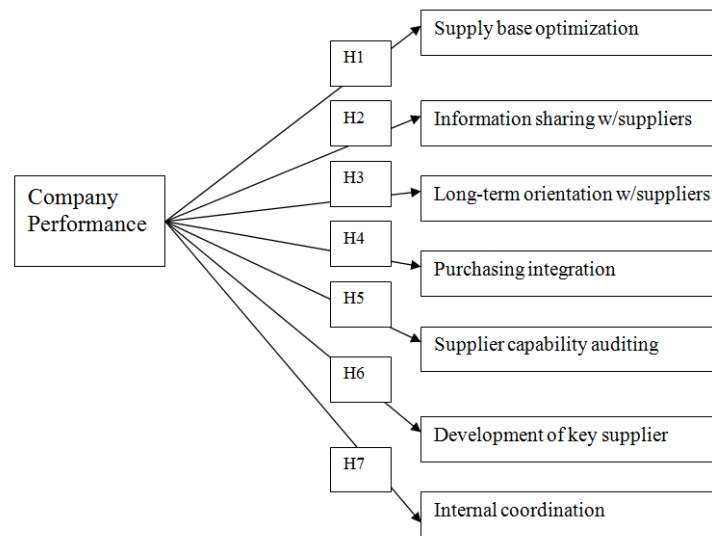
In the textile and apparel sourcing companies, a good company performance can be determined by performing a series of high value-added activities which in turn can benefit the ultimate customers in terms of rapid confirmation to customer requirement, great product variety, higher product quality, speed-up delivery, competitive cost, flexibility to changes and customer responsiveness, thus generate profit for the company.

Consequently, this study hypothesized that the critical elements of strategic procurement management have positive effect on company performance of the textile and apparel sourcing companies in Hong Kong. A research hypothesis is set up as listed in Table 2.

**Table 2 Research Hypothesis of the Study**

Hypothesis 1	Supply base optimization will have a positive effect on company performance
Hypothesis 2	Information sharing with suppliers will have a positive effect on company performance
Hypothesis 3	Long-term orientation with suppliers will have a positive effect on company performance
Hypothesis 4	Purchasing integration will have a positive effect on company performance
Hypothesis 5	Supplier capability auditing will have a positive effect on company performance
Hypothesis 6	Development of key supplier will have a positive effect on company performance
Hypothesis 7	Internal coordination will have a positive effect on company performance

An initial research framework is therefore developed to explore the critical elements of strategic procurement management which contribute to the company performance (shown in Figure 1).



**Figure 1 Research Framework of the Study**

### 3. Methodology

Qualitative research method is adopted for the study. Personal interviews with two senior managers were conducted. They are being selected because top management play a critical role in a company's operation and give overall company directions, which will affect the procurement practice. They are the ones who justify the contribution of strategic procurement management in the textile and apparel sourcing companies. The interviews were designed to evaluate the critical elements of strategic procurement management in the textile and apparel sourcing companies.

### 4. Discussion and Analysis

Personal interviews with top management were conducted. Top management is playing a vital role in the corporate strategy planning. They are in the best position to justify the critical elements of strategic procurement management and its contribution to the textile and apparel sourcing companies.

#### 4.1 Interview with Sourcing Director

Mr. Peter Deng is a sourcing director coming from a global sourcing office of a European sportswear brand. He got a MSc in Textile and has been in the position for 8 years. The sourcing office has been set up for 30 years in Hong Kong, with total employees around 80 and annual turnover of USD130 million approximately. Mr. Deng supervises the sourcing team of 30 staffs.

According to Mr. Deng, procurement is playing a strategic role in his company because the procurement team is involved in integrating long-run purchasing and material planning into the overall short- and long-term strategic plans of the company. In addition, procurement professionals play the leading role in supplier management and product development and are involved in the development and implementation of corporate strategic plan. Mr. Deng explained that the main role of procurement in his company is to source, select and evaluate the appropriate

suppliers which can make high-quality and cost-competitive products to meet customer needs.

Mr. Deng strongly agreed that long-term orientation with suppliers is the most critical element in strategic procurement management. His company formed alliance with key suppliers for long run and he believed in building trust and openness with suppliers. He personally will visit suppliers on a regular basis. Mr. Deng rated supplier capability auditing as a critical element as well. "Supplier's performance has critical impact on our responsiveness to customers", said Mr. Deng, "We have regular supplier evaluations to make sure they are reliable in providing high-quality products to our customers in a timely manner." Mr. Deng further explained that under global competition and turbulent market, having reliable suppliers is the key to sustain his firm's competitive position in the apparel market. Mr. Deng also pointed out that the other factors such as top management commitment to the strategic procurement, supply base optimization, information sharing with suppliers and development of key supplier are important as well.

Lastly, Mr. Deng confirmed that those critical elements of strategic procurement management will definitely bring positive result to company performance, especially in global competition, where customers are more demanding. Mr. Deng emphasized that strategic procurement can ensure high quality product supply as well as reliable supply base. It contributes to the competitive advantage of the company.

#### **4.2 Interview with General Manager—Merchandising**

Ms. Margaret Lam, the General Manager—Merchandising, is coming from a US apparel sourcing agent. She got a BSc in Textile and has been in the position for 10 years. Her company has been set up for more than 50 years and managing apparel global sourcing with a sourcing center in Hong Kong and regional sourcing offices in Far East Asia. Annual turnover of the Hong Kong office is USD330 million approximately and the company has local employees of around 400. Ms. Lam supervises one of the merchandise sourcing teams of 40 staffs.

According to Ms. Lam, procurement is playing a strategic role in her company because her company's core competence is global sourcing. The company devotes all of its resources to this end while procurement provides this expertise to clients effectively. Ms. Lam explained that her company is a pure service company. Her company links clients with suppliers globally, transparently and with no hidden cost. And procurement is playing a leading role in sourcing best products at best possible prices on behalf of its clients.

Ms. Lam strongly agreed that supply base optimization is the most critical elements in strategic procurement management. Her company has narrowed down its supplier base from 200 to 80 by the end of 2005. The company retains only high-quality suppliers in the matrix and maintains close relationship with them to ensure high-quality products and competitive price. In addition, Ms. Lam pointed out that long-term orientation with suppliers is critical as well. Her company is eager to pursue deeper channel partnerships that focus on continuous improvement on product development, product and service quality, better cost, and higher flexibility to meet customer's needs. Ms. Lam further explained that supplier capability auditing, sharing information with suppliers, top management commitment to the strategic procurement and development of key supplier are essential as well.

Lastly, Ms. Lam confirmed that the critical elements of strategic procurement management will definitely bring positive result to company performance. Ms. Lam emphasized that as her company is a pure service provider, qualified suppliers and reliable supply base are the keys to customer satisfaction, as well as enhance the service and value to customer. This ultimately contributes to company performance.

#### **4.3 Discussion of Interview Result**

This is a study of critical elements of strategic procurement management in the textile and apparel sourcing companies. The apparel market has become more competitive and volatile. The apparel sourcing companies have



been facing global competition and high demanding customers. Mr. Deng and Ms. Lam are in the senior management level of apparel sourcing companies. Both of them have positive recognition on the strategic procurement management and its contribution to the company performance.

The interviews highlighted that long-term orientation with suppliers, supplier capability auditing and supply base optimization are the most critical elements of strategic procurement management. The other elements such as top management commitment to the strategic procurement, information sharing with suppliers and development of key supplier are important as well. The high quality product supply as well as reliable supply base will enable the company to provide the best quality and the most cost-competitive product to their customers and in a timely manner. This will definitely increase customer satisfaction and ensure the competitive position of the company.

To conclude, the study result fully identified the critical elements of strategic procurement management and showed that they are playing a leading role in the textile and apparel sourcing companies. Managing the supplier relationship is key domain to obtain cost reduction, quality improvement and on-time delivery. This is the key in creating customer satisfaction in apparel market. This fosters the improvement of company performance and contributes to the competitive advantage of the company.

## 5. Conclusion

The objective of this study is to identify and evaluate the critical elements of strategic procurement management in the textile and apparel sourcing companies in Hong Kong. The preliminary model of study framework was developed from extensive literature review. The critical elements were drawn from literature review. They are supply base optimization, information sharing with suppliers, long-term orientation with suppliers, purchasing integration, supplier capability auditing, development of key supplier and internal coordination.

Qualitative research method is adopted for the study and personal interviews with two senior managers were conducted to identify the critical elements of strategic procurement management and their effects on the company performance of textile and apparel sourcing companies in Hong Kong.

Based on the research findings and analysis, the study identified that building trust and relationship with reliable suppliers in long run is vital to the company success. Reliable suppliers are the ones who provide high quality of product in competitive price and in timely manner. They are essential for the textile and apparel sourcing companies to create customer satisfaction.

In the turbulent market environment nowadays, especially the textile and apparel industry, on-time delivery is a must. Off-season products due to late delivery will lead to discount, over inventory and loss of sales. Well communication with suppliers concerning product, quality, cost and delivery requirements as well as the market trend can shorten the delivery lead-time and enhance customer responsiveness. For sure top management commitment to the strategic procurement is essential to confirm the strategic role of procurement professional, thus can foster company to establish alliance with suppliers.

Moreover, to meet the ever changing needs of customers, the textile and apparel sourcing companies in Hong Kong have to develop on-going relationships with limited number of high-quality suppliers to ensure reliable supply of the high-quality products. This is true in apparel industry, an industry in which having ability to offer innovative products and great variety of products is the key to meet customer needs.

Customization of product is explicit. Companies may need to source and develop a number of suppliers with

specific skills as well as with multi skills in order to provide large product variety to customers to meet their needs. In addition, suppliers will have to be more proactive in upgrading their ability and technology to achieve outstanding performance and continuous quality improvement.

The limitation of this research is that it only focuses on qualitative research. Empirical research, i.e. survey with a larger sample size, can be conducted in future so that the result obtained can be generalized to all companies in the industry. In general, the study is sound for practitioners to develop corporate procurement and sourcing strategy and strive for competitive advantage for their companies.

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