



'The Democratization of Fashion': William Fung and Vera Wang on the Implications of Going Global

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Vera Wang built a brand creating wedding-day fantasy gowns for celebrities and socialites. She became a household name even to the average shopper, although her creations were often too expensive to hang in their closets.

Most of those same shoppers have likely never heard of William Fung. But chances are, they own some of his work -- and may even be wearing it right now. The century-old Hong Kong-based trading company -- founded by Fung's family during the Qing Dynasty -- sources and coordinates the supply chains for about 30% of the brands found in the average American shopping mall.

As the world grows more interconnected, businesses are learning to adapt to new realities. To compete in a numbers game, Wang is trying to turn her business into one that is widely known *and* widely worn, expanding into a more moderately priced line for Kohl's. And as retailers face greater pressure to keep up with rapidly changing trends, expand into new markets and streamline production, Li & Fung is managing new complexity in the production process.

"There's a democratization of design, not just fashion, and it is a challenge for designers to constantly be creative but also worry about the reality of that creativity," Wang said during a recent Penn Fashion Week keynote discussion with Fung, managing director of Li & Fung, and Wharton marketing professor [Jerry Wind](#), who acted as moderator. "The next step is that, pretty soon, I'm sure Vera Wang designs will be global," Fung noted. "In the old days, communication was not as effective. Today, when the Internet connects so many people, fashion information and styling information go around the world in a matter of days." Added Wang: "in seconds."

Both agreed that the fashion business is dramatically different from the world each entered when they were starting out in the industry. For Wang, an introduction to that world began with a feeling of disappointment. "I tried to be an Olympic figure skating champion and failed miserably at it," said Wang, who would later design figure skating costumes for Olympians Nancy Kerrigan and Evan Lysacek. "That led me to Paris -- not because of fashion, but because I had a French figure skating boyfriend."

Wang spent her time in France studying art history at the Sorbonne and taking in the atmosphere of the City of Light. "There are two things in Paris that you can't miss -- fashion and food." She fell in love with the former. "When I got back to the U.S., I decided I wanted a career in fashion; that's not easy to do because I had never been to design school or fashion school or any of those places that qualify you."

While working as a sales girl at the Yves Saint Laurent store on Madison Avenue in New York, Wang had a chance encounter with the fashion director of *Vogue*. The connection led to a job, and Wang spent 17 years moving up the magazine's ranks. Her experiences fueled a desire to become a designer, and she eventually landed a job at Ralph Lauren. "When I got engaged, I was working for Ralph. I didn't want him to make my wedding dress because what if I didn't like it?" she said. "So I ended up realizing what seemed to be a business opportunity. I wasn't a bridal designer; I was a very, very experienced fashion professional."

Wang and Fung are family friends; their parents knew each other, and both families left China to escape the Communist Revolution in the late 1940s. Fung noted that, although he was recently honored by the



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Parsons School of Design in New York City, "I can't even draw." Good design, he added, "doesn't have to be expensive. Good design can be an everyday article of clothing; it doesn't have to be couture. Li & Fung is the side that makes it not expensive; we're the production side."

Li & Fung was founded by Fung's grandfather in 1906 in the Chinese city of Canton, now known as Guangzhou. At the time, the company focused on direct exports and meeting demand from Western customers for items such as porcelain and silk. When the Communist regime took control in China, the family and the business left for Hong Kong, which was then under British control. The company later expanded into exporting clothing, toys electronics and plastic flowers, and ultimately transitioned into a focus on sourcing, supply chain management and logistics. Fung's brother Victor is the firm's chairman.

"The biggest challenge faced by us now is to service any market.... We have to know what the trends are, not just in fashion but culture -- what people are wearing when they go to coffee shops, or the discos, and how to deal with a problem like when your customer is in the Western market and the manufacturer is somewhere thousands of miles away in Asia," Fung noted." Then there is the whole creative process and the practicality of making those designs come to fruition. It all has to be interconnected. What my company does is bring the two sides together."

High Fashion at Any Price

While Wang entered the bridal market because she saw a business opportunity, it didn't take long to realize that it was a prospect with a limited payoff. The designer's wedding gowns have been worn by Chelsea Clinton, Alicia Keys and Jennifer Garner, but "the thing about bridal at the upper end is you make dresses one at a time; that's very costly. [The dress is] custom ordered. It's great for press when you get a movie star, or you get someone very famous, to wear one. It generates a tremendous brand reality," Wang said. "On the other hand, you hope you don't get too many repeat customers. Second, when you make the dress by itself, you can't get very wealthy doing that."

When Wang entered the fashion industry 22 years ago, "the top was the only place you could start." The trick that many high-end design houses struggle with is how to translate high-end name recognition into sales that will sustain the business. That problem has been compounded by the fact that celebrities are no longer simply wearing designer fashions. "A lot of us real designers are fighting celebrity culture," Wang noted. "I'm competing against my friend Gwen Stefani in fragrances; a clothing line by Jennifer Lopez is going to be at Kohl's with me. The whole world has changed in terms of brand identity, in terms of what constitutes a designer and how to keep your name hot."

In decades past, only those who made it to the tents at Bryant Park during New York Fashion Week got a firsthand peek at the next season's trends. Today, seeing a show is as easy as visiting YouTube, and knockoffs of clothing from the runway can be quickly put into production. "The reality was, if I stayed in bridal there wasn't going to be much of a future for me," Wang said. "I've been doing ready-to-wear for eight years. We do not make money on that; we lose a great deal of money. We, in many ways, have climbed that hill to be among the most important American houses during Fashion Week when we show, along with Marc Jacobs and Michael Kors.... That allowed me to take my knowledge of sportswear and translate it to Kohl's."

Once Wang decided to create a diffusion line, the question became how to translate the style and design aesthetics of a \$10,000 dress to a \$24 top. "I have tried to provide value at every price point. If you are buying a \$10,000 wedding gown from me, it's handmade in Akron, Ohio, by three women who hand piece lace for two days," Wang noted. "On the other hand, if you're doing a printed T-shirt for Kohl's ... we do whatever we have to do to make that T-shirt at that price in the best quality possible.... If that's a \$19 shirt, I want someone to think they're getting a \$90 shirt in terms of design and thought and care and attitude." In addition to the Kohl's line, Wang has expanded into selling her own lines of fragrances, jewelry, eyewear, shoes and home goods. She has also launched a more reasonably priced line of wedding gowns to be sold at David's Bridal.

No matter how vocal consumers are about their tastes -- online and off -- the choices they make can still surprise. At every design meeting for the Kohl's line, Wang and her team try to choose the 12 to 20 pieces that will form a collection. "You're only allowed one skirt or one blouse, so which is the right skirt? Which is the right blouse? You may be allowed five sweaters, but you're not allowed 30. You not only

have to design, but you have to pick a winner and do it 12 times a year." Getting the regular reports of the best and worst-selling garments is "my worst day, because sometimes I think things should have sold really well and they didn't," Wang added. "Other things I thought would never sell and they did. You sit with 30 executives and none of us can pick them. We're always saying, 'Was that sweater too heavy for Alabama? Or was it too light for San Francisco?'"

As India, China and other developing countries emerge to be major consumer markets, both Wang and Fung predict that those conversations soon won't be limited to what styles will work in major U.S. cities or in Europe. The growing middle and upper classes in India, China and elsewhere will begin to seek out luxury goods -- and the top labels will look to them as a potential new customer base. "The ad campaigns coming out of the biggest houses -- Prada, Louis Vuitton, Chanel -- are all using Asian models. It is astonishing for an Italian house like Prada" to do that, Wang pointed out. "The world is going to be a smaller place, and all of these differences are becoming less and less [noticeable]. That is going to be another big challenge for all of us."

'Virtual Integration'

The fact that Wang and her team must meet so many times a year to ready a new collection is itself evidence of how the fashion world has changed. "In the old days, there were only two seasons," Fung noted. "If you picked the wrong skirt, boy, were you out of luck. Now there are more deliveries -- every two months. Your mistakes are mitigated."

But quicker turnaround times complicate the process of determining the source of materials for a particular garment, where the different components will be made and assembled, and the path a shipment will take before the product appears on retail store shelves. Li & Fung manages this process for its customers using an IT network that coordinates efforts between more than 60 management offices and 15,000 independently owned factories around the world.

"You really go wherever in the world to whichever factory can fit your customers requirements," Fung said. "Last year, we did about \$16 billion U.S. dollars [in revenue]. We would never be able to do that amount as a factory. Some of the largest manufacturers in our arena make around \$400 million. If we owned our own factories, we would have about two million workers working for us -- that's impossible [to manage]. So we orchestrate the supply chains; we call it 'virtual integration.'"

The steps in a supply chain are governed chiefly by lead time and value, according to Fung. "If you give me enough time to make a shirt, maybe we'll take the fabric from China and move it to Bangladesh, sew the shirt in Bangladesh and then ship it to America. If you tell me it needs to ship in two months, then let's take Chinese fabric and make it in China. If you tell me three weeks, maybe I'll make it in Turkey -- that's how customized we are." A savvier customer base, however, means other factors are increasingly becoming a larger part of the equation. "In the old days, a customer would be looking at [an item] with only two things in mind: First of all, is the price okay, and second, is the quality okay. Consumers nowadays want to know how it is made. Is it made using a sweatshop? Is it made with a process that pollutes the environment?"

Li & Fung's global reach grew out of the necessity to enter markets with the cheapest labor costs. The firm moved from doing business with manufacturers in Hong Kong to working with factories in Taiwan, Korea, the Philippines, Indonesia and Thailand. When economic reforms in the late 1970s opened the Chinese labor market to the world, "everyone threw up their hands and said, 'How can we compete with China?'" Fung noted. "A few months ago in China, someone said to me, 'It's so hard competing with the Bangladeshis and Pakistanis.' The barriers to entry are very low; a lot of the businesses we support are at the first rung of the development ladder." A factory may start out producing items for Wal-Mart, but as the country's economy develops and the workforce becomes more skilled and higher paid, that factory moves on to more expensive products for Kohl's or Macy's.

'Inflation Is Something We Have to Relearn'

Fung predicts that the era of cheap goods from Asia is over. The turning point was the 2010 suicides of 14 workers at the Foxconn electronics manufacturing plant in China, which produces components for Dell, Hewlett-Packard and Apple, among others. The company responded to the deaths by promising to

offer higher wages, but Fung said the incidents also marked a change in direction for Chinese leaders.

"[The Chinese government] is planning a 13% increase in wages each year for five years. That means Chinese wages will almost double. It marks a turning point ... and I expect a huge increase in consumer prices," Fung notes. "People say China is only one country, but it's a big country in terms of production. China was keeping a lid on [labor costs] in other parts of the world, like India and Cambodia. As prices in China rise, prices in other production countries will rise" as well.

The end of the "China effect" on the world's prices is amplified by increases in the prices of raw materials. "In the old days, we said that when cotton prices got to a dollar a pound we would be out of business. Today, cotton prices are two dollars a pound," Fung said. "It's has to do with many things; the fact that China and India are now consuming more really lifts world demand for a lot of raw materials. Most raw materials are denominated in the U.S. dollar. With QE2 [the second round of quantitative easing, which the Federal Reserve initiated last fall in an effort to stimulate the economy], the U.S. dollar has been devalued."

If companies are to avoid alienating consumers by passing on the full brunt of an increase in the cost of doing business, "the best antidote is to make supply chains more efficient," Fung stated. "Taking the fat out of supply chains is going to be a big thing, including making logistics more efficient and making goods 'shop ready' so they don't have to be handled three or four times in an American distribution center with high labor costs."

Noting that the Gap jeans that cost \$28 when Li & Fung began working with the retailer in the mid 1970s still sell for around the same price, Fung cautioned, "You're going to face a period of inflation in consumer prices, rather than the deflation that has been the norm the last few years. How to deal with inflation is something we have to relearn."

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