MANAGING

The interview: Managing in Asia

Behind a garment maker's textbook supply chain

TAL Apparel's efficiency on inventory, production helps insulate it from risk

In 24 years at the helm of Hong Kong-based **TAL Apparel** Ltd., Harry Lee has made the closely held garment maker a textbook example of a sophisticated supply chain. TAL-made garments are distributed in the U.S. and Europe under brands such as J.C. Penney Co., Banana Republic, Brooks Brothers, L.L. Bean, Calvin Klein, Nike, Polo Ralph Lauren and others. The company says it now produces one in seven dress shirts sold in the U.S.

Mr. Lee, who earned a doctorate in electrical engineering from Brown University in the U.S., took a meandering path to the top of the garment industry. He started out in research at Bell Labs, the former AT&T unit that helped spawn the information age, and Exxon Corp.—now Exxon Mobil Corp.—but in 1973 joined Textile Alliance Ltd., the Hong Kong company founded by his uncle, C.C. Lee. After the company was restructured in 1983, Mr. Lee was appointed head of the renamed TAL Apparel. Five years later, Mr. Lee took over a failing partner, U.S.-based wholesaler Damon Holdings Inc.

That was a mistake, leading to losses that at one point hit US$2 million in one month. Mr. Lee says the move forced TAL to focus on what is now the company's mainstay: ruthlessly limiting inventory. Mr. Lee also has gained a reputation for standardizing manufacturing practices at company facilities in nine markets, where a total of 25,000 people are employed. TAL's apparel factories are in China and Thailand—its two largest production bases—plus Hong Kong, Taiwan, Malaysia, Indonesia, Vietnam and Mexico. The company also operates a spinning-and-weaving mill in the U.S. state of North Carolina.

Nowadays, the 64-year-old TAL managing director is overseeing a transition to the next generation of leaders at the company, which had revenue of $696 million in the fiscal year ended March 31 and boasts annual production capacity of more than 55 million pieces of apparel. The company doesn't disclose profit.

Jonathan Cheng spoke with Mr. Lee at TAL's Hong Kong headquarters in Kowloon.

WSJ: *What was your first job, and what did you learn?*

Mr. Lee: It was in research. I was working for Bell Labs, the research arm of AT&T at the time. It was a rude awakening—I was still very naive. When you get out there, it's very competitive, and people try to put you down to get ahead. They gave me a project nobody wanted because they knew it wasn't going to get you anywhere.

WSJ: *Your company is constantly at the mercy of global trade disputes over exports and tariffs. How do you factor this into your long-term planning?*

Mr. Lee: We are behind the scenes helping the governments to negotiate, especially in Hong Kong. Each country faces different challenges, but because we're so diversified in so many countries, we were not too much affected by the quota restrictions.

China still has a quota. But if we are given a quota, we use up what we're given. Then we do what we call an OPA—outward processing arrangement—doing whatever is necessary in Hong Kong to qualify it as "Made in Hong Kong," according to country-of-origin rules.

WSJ: *Why are you so intent on standardizing the manufacturing process?*

Mr. Lee: We are trying to find the best way of getting things done, and once we've found the best way, we try to standardize it until the next best way comes up. We don't try to prevent people from coming up with new ideas, but once a new idea is established and proven to be more efficient or better than what we had before, we will use that as the standard.

By standardizing, we give a certainty to our customers. Most customers say you can only produce in X country or Y country, X factory or Y factory. For us, they don't really care what factory or where it's produced, because they know they're going to get the same product.

Harry Lee

WSJ: *How do you balance the need to be cost-efficient with the need to be responsive to your clients' needs?*

Mr. Lee: People have this perception that to be able to supply a customer quickly, you need a lot of inventory on your side. No. We shorten our production lead time so we can react to the demand rather than moving our customer's inventory to our warehouse and taking the risk. We shorten the lead time so there's no risk involved. There is an increase in cost, in the sense that we have to build up our total infrastructure, but it makes us more efficient.

WSJ: *What was the biggest mistake you've made in business, and what did you learn from the experience?*

Mr. Lee: At one time we basically wanted to do our own branding and wholesaling, so we bought the company. We really had to dig in and find out what was wrong with it. That really helped us to understand the business that we're in. We paid a lot of money to learn the business, and the thing we learned is that inventory will make you or break you. You can predict or forecast or do whatever you want, but in the end it's really how you control the inventory that's the key.

WSJ: *How do you keep a competitive advantage when other companies are trying to emulate your strategy?*

Mr. Lee: What we've done has been in the textbooks for years. If you look at supply-chain books, they will tell you exactly what we're doing. To get to what we're doing looks very simple on the surface. But there are lots of other little things in the background that we need to do to provide those services to our customers. And people really are the most key. We have a really tight core. Our turnover in top management is almost zero. Even entry-level turnover is very low.

The biggest challenge is how to stay on top. Up-and-coming countries like India and Bangladesh are very innovative. They see what's been written about us, and they try to emulate us. We really have to be three steps ahead of them.

WSJ: *Have arrangements been made for a successor?*

Mr. Lee: For a long while, I did not believe in having Lees take over. I tried to discourage my son, who wanted to join the business after he graduated. We were trying to hire professional managers. One of the disadvantages we have is that we're a private company, so we can't offer share options to attract people. It's also difficult for us to hire professional managers, because we aren't a razzle-dazzle business. For a number of years, we had headhunters helping me to find a successor, but we weren't successful.

So I turned my thinking around 180 degrees, and we have three Lees as successors. My son [Roger] is one of them, and two nephews [Delman and Eugene]. These three aren't going to run the whole business. We have a team, and we constantly have internal meetings identifying star performers, to push them up and nurture them. I hope when they retire, we won't be looking for more Lees to run the business.