

# Impacts of Compliance Issue on the Cost of Making and FOB Price of Bangladeshi Knit Products

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**Abstract:** *The readymade garment (RMG) sector plays a vital role in the economy of Bangladesh. This sector is considered very important for its highest export growth, which greatly contributes to the economy of Bangladesh. One of single biggest threats for Bangladeshi Readymade garment (RMG) sector is the non-complying of standards of its manufacturing plants. There are number of buyers who avoid Bangladesh from their outsourcing destination because of the poor compliance records of the RMG sector. To improve the compliance record it is imperative to study on compliant and non-compliant RMG factories of Bangladesh. Therefore, the aim of this study was to divulge the differences in price for same type of knit product (tee shirt) of a compliant and non-compliant factory. Ten orders from ten different buyers of a compliant factory and same number of orders of different buyers on same product of a non compliant factory were scrutinized to find out differences in cost of making (CM) charge and free on board (FOB) price. Compliance could be a strong opportunity for Bangladeshi RMG sector as this study revealed that the compliant factory receives considerably higher price from the buyers than a non compliant factory for the same type of product. By complying with the international standards and following local rules, RMG sector of Bangladesh could add more value on its products and thus gain the capability to sustain in the global market.*

**Index Terms:** *Compliance, COC, CM, FOB and RMG.*

## I. INTRODUCTION

The readymade garment (RMG) industry started its expedition in behind 1970s in Bangladesh and has knowledgeable an exceptional growth in last pair of decades. The readymade garments (RMG) sector acts as the backbone of Bangladesh economy and is considered as a catalyst for the development of the country. Even though having impressive growth of the RMG sector, and its intense prospects, there are also many challenges [1]. In FY 2014-2015, Bangladesh was able to earn US \$ 25.49 Billion from RMG export which was 81.71% of total export of the country [2]. This sector also becomes imperative for creating 4.2 million jobs in Bangladesh and women empowerment. The readymade garment industry (RMG) started rising in Bangladesh mainly as an export-oriented industry, but now global market for RMG industries has been growing fast due to raise in individual disposable income as well as change in life style [3]. International brands are now practicing 'best buy' instead of 'cheap buy'. Best buy considers the compliance of the factory as well as price and quality of the products. Compliance of the manufacturers are now the major concern for the importers as their brand reputation may be at stake if someone outsources their product from a non-compliant factory. Compliance means conform to certain standards.

Compliance in RMG industries is related to the issues regarding human rights, labor standards and environment. The burning compliance issues of readymade garment industries are health and safety of workers, child labor, harassment, working hours, compensation and benefits, environment, etc. Compliance of RMG factories is key requirement for most of the reputed global garments buyers. Actually compliance ensures all labor rights and facilities according to the buyer's code of conduct. Though Bangladesh is experienced with RMG from late 1970s, but it is recognizable with compliance issues from last few years. Now-a-days, Compliance is more important factor to achieve a garments export order than the product quality [4]. Therefore, compliance was not a very familiar word for Bangladeshi RMG industries before 1990s and because of absence of global compliance standards in 1990s, garment importers demanded compliance with their own and individual 'Code of Conduct (COC)' before placing any garment order. During the last few years, the Bangladesh Government and the private sector together have enhanced industry compliance noticeably in respect of labor laws. However, stakeholders in Bangladesh are confused what to change or how to go about it. As a result, RMG factories' social performance is still less than optimal [5]. Cost of Making (CM) is the term used by the apparel manufacturers which include all types of costs excluding raw materials of the product. It generally includes the cost of labor and all kinds of indirect costs including depreciation of machineries. On the other hand, FOB means freight on board or free on board. It is an International Commercial terminology. If terms of delivery of a transaction is on FOB, the cost of manufacturing of that goods and the cost of movement of goods on board of airlines or on board of ship in the mentioned port is borne by the seller. Rest of all expenses to arrive the goods at buyer's premise has to be met by the buyer. One work has been conducted in this arena to represent a comparative study among the compliant & non-compliant RMG factories in Bangladesh. From the study it is obvious that compliance factories are earning additional profit as compare to non complaint ones. So, every RMG factory must be complaint not only for more profit but also for protection of the human rights by maintaining compliance code of conduct [4]. Another work is conducted and published in Bangladesh based on descriptive and inferential research. The paper suggests the improvement of factory activities through compliances and makes a correlation between compliance and productivity [6]. However, this type of study on the compliance is conducted in very little extent during the last few years in Bangladesh and further works are essential to underscore this issue all over the sector. Since it is becoming the vital requirement of the global clients, more research in this field to be conducted. This research paper will be imperative for the RMG factory owners to know the benefits of compliance in financial and social aspects.

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II. METHODOLOGY

In this research work, 10 orders of 10 different buyers of a compliant factory and same number of orders of different buyers of a non-compliant factory have been randomly taken as data source. In both cases, fabric type and style of the garments (tee shirt) were same and measurement of the garments was almost same for all the orders. Name of the

factories and buyers are kept back anonymous due to confidential issue. Buyers of the compliant and non-compliant factory were not the same. Aims of this investigation was to find out the financial benefits of being compliant as a RMG manufacturer, to calculate the exact percentage of the higher price that a compliant factory receives over a non-compliant factory and to make the differences in cost of making (CM) received by a compliant over a non-compliant factory.

III. RESULTS & FINDINGS

Table 1: CM and FOB price for a dozen of Basic tee shirt of a compliance and non-compliance factory for different buyers.

Type of Factory	Buyers	Item Description	Order Quantity (pcs)	Average Order Quantity (pcs)	CM/Dozen	Avg. CM/Dozen	Difference in CM/Dozen	FOB/Dozen	Avg. FOB/Dozen	Differences in FOB/Dozen
Compliant	Buyer 1	160 GSM S/J Basic Tee Shirt	30000	23150	\$ 6.00	\$ 6.20	\$ 3.08 (49.68% of Compliant factory)	\$ 24.60	\$ 28.60	\$ 9.58 (33.50 % of Compliant factory)
	Buyer 2	160 GSM S/J Basic Tee Shirt	50000		\$ 6.00			\$ 29.40		
	Buyer 3	160 GSM S/J Basic Tee Shirt	6000		\$ 6.50			\$ 29.40		
	Buyer 4	160 GSM S/J Basic Tee Shirt	7000		\$ 6.00			\$ 29.40		
	Buyer 5	160 GSM S/J Basic Tee Shirt	25000		\$ 6.00			\$ 27.60		
	Buyer 6	160 GSM S/J Basic Tee Shirt	30000		\$ 6.00			\$ 28.56		
	Buyer 7	160 GSM S/J Basic Tee Shirt	40000		\$ 6.00			\$ 24.00		
	Buyer 8	160 GSM S/J Basic Tee Shirt	4500		\$ 6.50			\$ 32.40		
	Buyer 9	160 GSM S/J Basic Tee Shirt	4000		\$ 6.50			\$ 31.80		
	Buyer 10	160 GSM S/J Basic Tee Shirt	35000		\$ 6.50			\$ 28.80		
Non-compliant	Buyer 1	160 GSM S/J Basic Tee Shirt	25000	21500	\$ 4.20	\$ 3.12	\$ 3.08 (98.71 % Non-compliant factory)	\$ 21.00	\$ 19.02	\$ 9.58 (50.37 % of Non-compliant factory)
	Buyer 2	160 GSM S/J Basic Tee Shirt	10000		\$ 3.00			\$ 19.20		
	Buyer 3	160 GSM S/J Basic Tee Shirt	40000		\$ 3.50			\$ 18.60		
	Buyer 4	160 GSM S/J Basic Tee Shirt	20000		\$ 3.00			\$ 18.00		
	Buyer 5	160 GSM S/J Basic Tee Shirt	20000		\$ 3.00			\$ 19.80		
	Buyer 6	160 GSM S/J Basic Tee Shirt	15000		\$ 3.00			\$ 18.00		
	Buyer 7	160 GSM S/J Basic Tee Shirt	20000		\$ 3.00			\$ 18.60		
	Buyer 8	160 GSM S/J Basic Tee Shirt	25000		\$ 2.50			\$ 18.00		
	Buyer 9	160 GSM S/J Basic Tee Shirt	25000		\$ 3.00			\$ 21.00		
	Buyer 10	160 GSM S/J Basic Tee Shirt	15000		\$ 3.00			\$ 18.00		

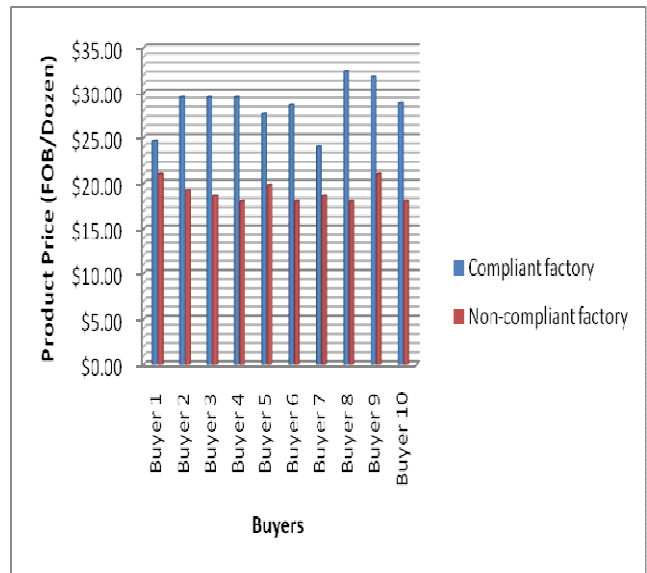
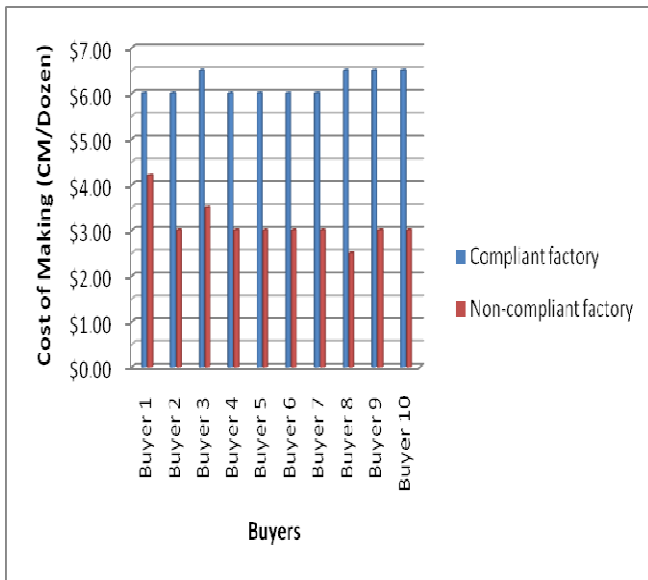


Fig.1: Bar diagram represents CM/Dozen and FOB/Dozen of basic tee shirt of a compliant and non-compliant factory for different buyers.

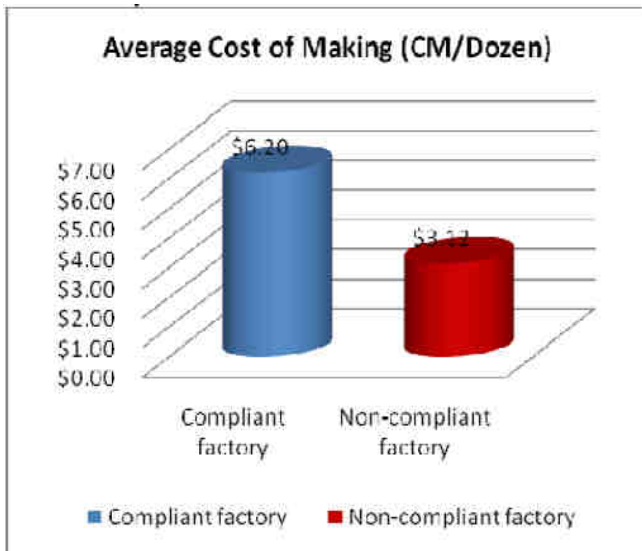


Fig.1 and Fig.2 shows that the average CM charge per dozen of compliant factory is much more (US \$6.20) higher than that of a non compliant factory (US \$3.12). The differences of CM are 49.68% on the basis of the charge of compliant factory and almost double (98.71%) on the basis of the price of non-compliant factory. On the other hand, the highest FOB price of a compliant factory is US \$31.80 whereas the highest FOB price of non-compliant factory is US \$21.00. The lowest FOB price of a compliant factory is US \$24.00 whereas the lowest FOB price of non compliant factory is US \$18.00. Besides, average FOB price for per dozen garment of compliant factory is significantly (US \$28.60) higher than that of the non-compliant factory (US \$19.02). The percentage of differences of FOB price is 33.50% on the basis of price of compliant factory and 50.37% on the basis of the price of non-compliant factory.



Fig. 2: Bar diagram represents average CM/Dozen and FOB/Dozen for a basic tee shirt of a compliant and non-compliant factory.

#### IV. CONCLUSION

From the findings it is obvious that the compliant factory charges higher CM and subsequently receives higher FOB price. Compliance is now considered as one of the greatest challenges for Bangladeshi RMG industries. If Bangladeshi RMG sector wants to sustain in the competitive global market, then there is nothing to wait and compliance must be practiced to all RMG industries of this sector to avail its benefits in financial, social and environmental means. The investment on compliance is justified as its return is much more than the prediction and there are no alternatives of compliance at this moment for a sustainable RMG sector.

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