Amalgamation and Justifying the SCP in RMG Sector of Bangladesh

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Abstract

The Apparel or Garments industries endow with the solitary source of profitable enlargement in Bangladesh's rapidly developing economy. Exports of textiles and garments are the principal source of foreign exchange earnings. By 2002 exports of textiles, clothing, and ready-made garments accounted for 77% of Bangladesh’s total merchandise exports. By 2013, about 4 million people, mostly women, worked in Bangladesh's $19 billion-a-year industry, export-oriented ready-made garment industry. Bangladesh is second only to China, the world's second-largest apparel exporter of western brands. Sixty percent of the export contracts of western brands are with European buyers and about forty percent with American buyers. Only 5% of textile factories are owned by foreign investors, with most of the production being controlled by local investors. This study shows the Supply Chain Progression in RMG Sector of Bangladesh with the amalgamation and exploration.

Key Words: SCP, RMG, Apparel, Garments, Clothing, Bangladesh and Progression.

1. Introduction

Modern management has transferred itself from a production to a sales orientation and finally to marketing oriented view of business. The Marketing Concept is a philosophy and like any philosophy it cannot be defined with precision. It is in fact an attitude governing the whole management approach. To the firm’s Operations from step to step one of the recent slogans of today’s economist is ‘either export or be ruined’. They are not willing to show any other path ‘between this. The present export pattern of Bangladesh has changed. According to the above slogan, now eight commodities have taken the position of 93% of the export earnings and ready made garments is one of those. Major products of Bangladesh Ready-made Garments industry for export Marketing are knit T-shirt, Polo shirt, trouser, woven shirts, trousers, Jackets J-shirt, short Briefs and major Buyers of Bangladesh Garments are the USA, EEC, Canada and other European Countries. The export earnings from garment sector increased steadily from a meager amount of US$ 3.24 million in 1980-81 to US$ 1064.00 million in 1991-92 and to US$ 1240.48 million during the fiscal year ended June in. 1991-92 and US$ 1310 million in 1992-93 fiscal year. The contribution of this sector to the total national export earnings increased from 0.40% in 1980-81 to 69.41% in the year 1992-2007.

1.1 Background of the Study

The study on SCP has a great value when it has practical application in the real RMG industries. Only a lot of theoretical knowledge will be little important unless it is applicable in the practical life. So we need proper application of our knowledge to get some benefit from our theoretical knowledge to make it more fruitful. When we engage ourselves in such field to make proper use of our knowledge in our practical life only then we come to know about the benefit of the theoretical knowledge. SCP is one of the greatest linkages nowadays to prosper the RMG sector at once.

1.2 Objective of the Study

The purpose of the study is to identify the SCP’s amalgamation of Bangladesh RMG Sector. Study tries to find out the SCP analysis. Another objective of this study was to find out the opportunities and threat of this industry under SCP. This study also includes the behavior, expectation and feelings of foreign customers. The general objective of this study is to determine the present activities of buying houses and the significance of their role for smooth, efficient and effective marketing process of garment products overseas.

The specific objectives of the study are describing as follows:

# To find out the buying and buyer communication strategy in SCP
# To identify the merchandising division’s work concerning SCP
# To find out the opportunities and threats under SCP
# To find out the existing problems for evolving SCP
# To examine the efficiency and effectiveness of SCP in RMG Sector
1.3 Literature Review

Under Hyman, Jeffrey A.; Homan, Molly E, January 1, 2001 diminishing SCP (Retail liability for injuries caused by merchandise falling from shelves). SCP knows falling merchandise presents dangerous risks to unwary customers, and courts are holding them accountable. Posch, Robert November1, 1994 Direct Marketing Substituted or unordered merchandise (Inventory management) Managing your inventory requires that you perform a delicate balancing act. Too little inventory makes for unhappy customers and lost sales/good will. Too much inventory incurs high financing and storage costs. Information technology makes the process more flexible, but the tension of a just-in-time ordering mindset grappling with a customer accustomed to superior service remains a primary administrative and legal problem of the database marketing manager. Business Wire–October 2, 1997–o determine the resources required to bring its 6,000 custom-designed legacy software programs into compliance with the Year 2000 century date change requirement, Service Merchandise Company has selected CA-Impact/2000, a key component of Computer Associates’ Discovery 2000 solution. America’s largest jewelry retailer, Service Merchandise operates 357 stores in 37 states.

2. Methodology

Methodology is defined as a particular procedure or set of procedures, refers to the rationale and the philosophical assumptions that underlie a particular study. However, this study is a ‘Non-intervention Study’, a type in which the researcher just observes and analyses researchable objects or situations but does not intervene. Study has closely observed all departments’ work procedures and tried to analyze them from my own point of view and from company’s personnel’s point of view by interviewed them. All necessary and relevant information and data have been collected thorough following ways:

2.1 Sources of Information

To carry out the proposed study, data have been collected from two sources: Primary and secondary sources.

2.1.1 Primary Source

Primary sources include interacting with employees and face-to-face interviews with the personnel through an open-ended questionnaire.

2.1.2 Secondary Source

Secondary sources are company website, brochure, outlets, other research reports, literatures/magazines and the internet.

2.2 Data Collection

Two types of data collection techniques have been used as follows:

2.2.1 Observation Technique

Participant observation approach has been used where study has been took part in daily work routine of the organization.

2.2.2 Interview Technique

Study has followed the ‘Researcher Administered Interview’. Open ended questionnaire has been used for interview where all respondents used their own words to describe particular work process and problems.

2.3 Sampling Plan of the Study

Sample for the interview has been taken as three employees from each department randomly. Thus total sample size is 15 out of total 110 employees.
3. Industry Overview: Ready-Made Garments (RMG) Sector under SCP

The sector of RMG in Bangladesh can be broadly subdivided into two product categories, namely woven and knitted garments. Since the industry accounts for approximately 80% of overall exports of Bangladesh and generates a significant amount of foreign exchange its activities form a vital part of the national economy. Geographically, most of the garment enterprises are clustered around the urban areas of Bangladesh.

Both external and internal factors contributed to the phenomenal growth of RMG sector. One external factor was the application of the GATT-approved Multi Fiber Arrangement (MFA), which accelerated international relocation of garment production. Under MFA, large importers of RMG like USA and Canada imposed quota restrictions, which limited export of apparels from countries like Hong Kong, South Korea, Singapore, Sri Lanka and India. On the other hand, application of MFA worked as a blessing for Bangladesh. As a least developed country, Bangladesh received preferential treatment from the USA and European Union (EU). Thus by 1985, Bangladesh emerged as a powerful competitor for traditional suppliers in the US, Canadian and European markets along with the government initiated pragmatic steps to streamline export-import formalities.

[Source: Export Promotion Bureau].

Table-1: Macro Contribution of RMG Sector:

<table>
<thead>
<tr>
<th>RMG Earnings</th>
<th>Amount (billion US$)</th>
<th>As Percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total RMG Exports</td>
<td>4.5</td>
<td>9.5</td>
</tr>
<tr>
<td>Local Value Retention</td>
<td>2.1</td>
<td>4.4</td>
</tr>
<tr>
<td>Direct Value-Addition by RMG</td>
<td>1.2</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Source: Export Promotion Bureau

3.1 Emergence of Knit-RMG under SCP

The growth dynamics of the sector over the last decade evince two clearly discernible phases: during the initial period it was the woven-RMG which dominated the structure of apparel exports, whilst in recent years which could be termed as a second phase, it is the knit-RMG which emerged as no less of an important segment in the RMG sector with its share growing up steadily and local value retention fast approaching the level of woven RMG. During the July-November period of fiscal Year 2007-08 woven export fell by 3.17 per cent while knitwear exports increased by 6.19 per cent. The past few years have witnessed an expansion of Bangladesh garment export to the world market. In 1998, the total value of garment export from Bangladesh was about US$3.8 billion, it increased to US$4.2 billion in 2001 and settled at US$3.6 billion in 2003. This Information is obtained from the United Nations Comtrade Database according to the reporting of the Bangladesh government. Figure 1 presents the breakdown of the aggregate export of the Bangladesh garment sector by destinations, in
1998, 2001 and 2003. In both 1998 and 2001, the share of EU in Bangladesh garment export was about 50 percent, closely followed by the US at 45 percent, while other countries, noticeably Canada, made up the remaining 5 percent of aggregate garment export. In 2003, the importance of EU further increased to 58 percent, while the share of the US dropped to 37 percent.

**Figure 1: Breakdown of Garment Export**

The surprising fall in the garment export to the US could be due to transshipment or misclassification of goods. Based on US custom data from the US International Trade Commission (USITC), garment export to US from Bangladesh in fact has been steadily climbing from US$1.5 billion in 1998 to US$1.8 billion in 2003. In 2004, the value of garment export from Bangladesh further increased to US$1.9 billion, which makes Bangladesh the 10th largest garment supplier for the US market. Figure 2 presents the values of garment imports of US from 1998 to 2004 by major exporting countries. In 2004, the top ten garment exporting countries to the US market and their market shares are China (16%), Mexico (10%), Hong Kong (5.8%), Honduras (4.1%), Vietnam (3.7%), Indonesia (3.6%), India (3.4%), Dominican Republic (3.1%), Guatemala (2.9%) and Bangladesh (2.8%).

We further use a firm level export data set obtained from the Textile Unit of the Export Promotion Board (EPB) of Bangladesh to analyze the export performance of the Bangladesh garment sector. This information is compiled from those firms that applied for Country of Origin Certificates in 2004. This certificate is often requested by the importing countries to verify the origins of the imported goods in order to grant trade preferences. In this firm level data set there are 2387 garment firms exporting in 2004. The total value of garment export is US$5.7 billion, with more than 400 million dozens of garment exported. Overall 57 percent of garment export headed to the EU, 20 percent for the US and the remaining 23 percent went to the other countries such as Canada and Australia. Table 1 presents the breakdown of garment export volume by destinations.

Firm level survey was conducted from the period of November 2004 to April 2005, which covers a stratified random sample of 350 firms, which is about 10% of the total population of the garment firms currently operating in Bangladesh. After cleaning up the data to exclude outliers and firms with incomplete information, there are a total of 231 firms in the unbalanced final panel data set of 1026, from 1999 to 2003. In this unbalanced panel data set, the composition of sub-industries of knitwear, sweaters and woven is 24%, 8% and 68% respectively. Among the sampled firms, 13% have positive foreign equity, while the remaining 87% are purely domestic owned. Moreover, 15% of the sampled firms are in the Dhaka and Chittagong EPZs, 63% in Dhaka and 15% in Chittagong.
Figure 2: Breakdown of Major Garment Exporters in the US Market

In terms of the distribution of firms across different markets in 2004, there are 1967 firms exporting under GSP, mainly to the European market, 1039 firms exporting to the US, of which 709 export under quota allocations, and 1231 firms exporting to other countries. Figure 3 presents the distribution of firms by export destinations. Among these firms, 46 percent only supply to one market, 34 percent supply to two markets, 14 percent to three markets, and 5 percent to all four markets. This is clearly presented in Figure 4.

Table: Garment Export by Destination, 2004

<table>
<thead>
<tr>
<th>Description</th>
<th>Quantity (Dozen)</th>
<th>Value (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU under GSP</td>
<td>319,718,411</td>
<td>3,244,562,889</td>
</tr>
<tr>
<td>Others</td>
<td>32,044,542</td>
<td>1,306,109,811</td>
</tr>
<tr>
<td>USA with Quota</td>
<td>42,196,576</td>
<td>976,267,029</td>
</tr>
<tr>
<td>USA without Quota</td>
<td>19,785,482</td>
<td>159,150,271</td>
</tr>
<tr>
<td>Total</td>
<td>413,745,011</td>
<td>5,686,090,000</td>
</tr>
</tbody>
</table>
Figure 5 presents the choice of export markets of Bangladesh garment exporters according to the number of export market the firms supply. It is very clear that EU is the most popular destination, especially among firms that have only one export market. Among the 1109 firms that only supply one market, nearly 850 firms concentrate on EU which is about 76 percent. The US market appears to be toughest to break in among this group of firms, less than 8 percent only export to the US with and without quota. For firms that supply two markets, both the EU and the others are the favorites. Together, they account for 80 percent of the markets among the 1640 firms that export to two markets. The US in quota market is popular for firms that export to more than 2 markets.

Tables 2-4 and Figures 7-9 present the sample means of the key variables of the sub-industries of knitwear, sweaters and woven, by foreign versus domestic firms. It is clear that FDI firms are in general larger in sales, in exports, they purchase more material inputs, including imported materials, they hire more employees, including production workers. FDI firms also have larger capital stock and investment. All these suggest that FDI firms
are larger in scale and presumably more profitable and productive. To formally study the productivity superiority of FDI firms, and the possible productivity spillover to domestic firms, we will need to first estimate firm level productivity for the firm sample. The estimated firm productivity is then related to the ownership of the firms, and the relationship between productivity of domestic and FDI firms in the same sub-industries will be statistically examined.

Figure 5: Market Choice by Firms with Different Markets

In addition, according to Eaton, Kortum and Kramarz (AER, 2004) who study the export performance of French firms, the number of markets a firm supplies reflects the productivity and competitiveness of the firm in the world market. The above distribution of firms implies that more than 35 percent of Bangladesh garment exporters participate in world markets widely with at least 3 export destinations, and are thus very competitive. This is quite evident in Figure 6, when we plot the unit value of garment export (left axis) and total export value (right axis) against the number of export destinations. Firms that export to more destinations tend to have higher average unit values and larger in size, with the former reflecting better quality and the latter indicating greater scale economies, both signal higher productivity of the firms. The differences in unit values and total size among firms with different number of markets are statistically significant.
Interpretation to Justify and for Amalgamation of SCP:

The criteria of the reasons of dissatisfaction are selected, as the satisfaction of the buyers is the important for the survival of the Industry. Among the criteria, high bargaining tendency in exchange is one of most selected criterion among all the other criteria. This criterion is chosen to investigate whether foreign buyers show the bargaining tendency and how much that is in this industry. With the highest response it is revealed that the tendency prevails and it dissatisfies the respondent buying houses. The second criterion is chosen for the questionnaire to look into whether the foreign buyers are patience to different undesired contingencies in our country. The respondents with another highest response has shown that they face strong impatience due to this type of contingencies. The third criterion is chosen to investigate whether buyers undesirably reject garment products and how the buying house views it. Here it is revealed that buying houses are strongly against the product rejection by the foreign buyers. However, sometimes they are victims of such situation. The fourth criterion is chosen to investigate the existence of fleeting tendency of foreign buyers. This criterion reveal that a portion of buyers do not value the long-term relationship with buying houses rather for trifling reasons they break their relationship with existing buyers. The fifth criterion is chosen to see the existence of cultural ethnocentrism among the buyers. We have seen that the buying houses hardly face this problem preparation for that period. And this preparation should be started with the removing our inefficiency and ineffectiveness in the export marketing process of RMG products. In this question, where the buying houses' efficiency is implied, the highest efficient buying house responded with 4% percentage rejection. On the other hand the buying house which has the highest rejection was 17%.

Findings concerning the Problems of the Study:

The displeasure in RMG Sector towards the buyers mainly based on the buyers’ uncompromising attitude in the direction of the failure of commitment and due to contingencies under missing of SCP. From the study I have seen that obstacles to garment exports can be separated into two parts: major obstacles and minor obstacles. Among the major obstacles causalities such as natural calamities, strike, hartal or political instability are affecting the export marketing of garment products severely. Among the minor obstacles inefficiency of production process supervision by the buying house is most noteworthy. Again from the study I have seen that problems of buying houses can be separated into two parts: major problems and minor problems. Suppliers’ poor product quality attacks most severely as major problems of buying houses and as the minor problem shortage of
backward linkage industry disturbs buying houses drastically. The employees of this industry are ‘lacking required communication and technical skills. There are no effective institutional programs in public or private universities to teach the required skills to the employees of this industry. Unproductive employees will hamper the efficiency of export marketing process after 2005. Garment manufacturers will be heavily dependent on the buying houses after 2005 for managing buyers for them, as it will be more difficult to convince buyer at that time.

**SW Analysis for this Study**

Full meaning of SWOT is Strength, Weakness, Opportunity and Threats. Strengths and weaknesses are influenced by organizations internal environment and opportunities and threats are influenced by organizations external environment. SWOT analysis provides an opinion and judgment whether an organization’s business condition is healthy or unhealthy. Strength determines how well the company would be able to perform in the light of prevailing resources and competitive condition weaknesses determines lacking or different competitive capabilities in the key functional areas of the company. Opportunity of the company determines company’s important avenues for profitable growth potential utility to sustain in the competitive advantage. Threats determine barriers to companies’ profitability and competitive well being.

**Strengths:**

The management is solely directed to maintain a culture for the betterment of the quality of the service. Employees are sharing good atmosphere in RMG Sector. that is why it will give them the inspiration to work efficiently. The top level management is very strong. They can take decision on time and manage all things in systematic way. The labor forces of the company are cheap and readily available.

**Weaknesses:**

RMG Sector does not have adequate SCP understanding. Employee turnover exists because of the dissatisfaction of job in buying house sectors. Difficult to handle with always upgraded new technology.

**References**

12. ISLANDIA, N.Y.–(BUSINESS WIRE)–October 2, 1997
### Questionnaire Data Collection through SCP Model

<table>
<thead>
<tr>
<th>Division</th>
<th>In Dhaka</th>
<th>Other Place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Floor Space</td>
<td>100000-400000 Square Feet</td>
<td>400001-500000 Square Feet</td>
</tr>
<tr>
<td>Production Capacity</td>
<td>10,000-30,000 Pieces/day</td>
<td>30,000-50,000 Pcs/day</td>
</tr>
<tr>
<td>Types of Customers:</td>
<td>Europe</td>
<td>America</td>
</tr>
<tr>
<td>Category Mix</td>
<td>Mans/ladies</td>
<td>Children/Kids</td>
</tr>
<tr>
<td>Training Facility</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Transport Facilities</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Workers Violence</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Workers Union</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
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