

**Merchandising Issues
Associated with
Product Pricing in JMS
Design**



Inspiring Excellence

INTERSHIP REPORT

ON

Merchandising Issues Associated with Product Pricing in JMS Design

Submitted to

Mr. N.M. Baki Billah
Lecturer
BRAC Business School
BRAC University

Submitted by

Nahiduzzaman
ID # 15104163

Course code: BUS400

Date of Submission: 30th April, 2019

Letter of Transmittal

30th April 2019

N.M. Baki Billah

Lecturer

BRAC Business School

BRAC University

Subject: Submission of internship report

Dear Sir,

I am pleased to prepare my internship report and submit to you on “Merchandising Issues Associated with Product Pricing in JMS Design”. It was an incredible opportunity for me to complete my internship from JMS Design. It is my pleasure to carry out the internship report under your supervision.

For my internship report, I basically focused on the workflow of a merchandiser, tried to understand their costing system, how they set the price for individual products and how to keep a good relationship with different business parties. I hope this internship report will be of great value to you.

Thank you,

Sincerely

Nahiduzzaman

ID# 15104163

BRAC Business School,

BRAC UNIVERSITY

Acknowledgement

At first, I want to thank our creator Almighty Allah. I would like to express my sincere gratitude and cordial thank to my academic supervisor Mr. N.M. Baki Billah for his steady supervision, moral help, important guidance and accommodating counsel in planning of the report. His direction extraordinarily helped me to carry on the thesis and give it a last shape.

I additionally express my warm gratitude and heartfelt thanks to all the personnel of JMS Design. Especially, to Miss. Lina Khatun (Senior Merchandiser), who gave essential data and phenomenal direction to set up this internship report.

I would also like to give thanks to Md. Hridoy Hossain (Assistant Merchandiser), Md. Sajjad Kabir (Assistant Merchandiser) for their hearty co-operation in the merchandising department of JMS Design.

Finally, I would like to convey my appreciation to all of my teachers and friends who have helped in setting up this report.

Executive Summary

The ready-made garments (RMG) sector of Bangladesh has got a greater success than any other sector in terms of growth and foreign exchange earnings. Bangladesh is currently leading the second position in world's apparel industry. The merchandising department is the most important part of an export oriented readymade garments. The merchandiser has the ultimate responsibility to deal with buyers and suppliers. His job starts before taking an order and it lasts until the order is completed. Through this project work I have tried to show the workflow of a merchandiser and illustrate his responsibilities towards different parties such as buyers, suppliers and internal departments. Setting the product price and negotiating with buyers is one of the most important jobs of a merchandiser. Therefore, he needs to face many challenges because too high price may prevent buyers from ordering whereas lower demand can be a loss project for the company. Here, in JMS Design, they followed the traditional costing method to set the price and allocate the overheads. But during reviewing few related literatures, I get to know that the companies those who deal with multiple product lines, should follow the activity-based costing. Otherwise, small batches production will underestimate the per unit overhead cost and large batches production will show the overestimated one. I have proved this statement with an example math. This research work also focuses on the cost volume profit analysis where I have calculated the breakeven point for JMS Design. At the end of this project work, I have tried to find out the factors those are responsible for attracting foreign buyers. Rather than having cheap labor price Bangladesh is blessed with other resources such as raw materials, skilled labor force, duty free entry access, technology adoption etc. In short, I can say this report will provide an overall knowledge regarding the merchandising works and also their costing methods.

Table of Contents

Organizational Overview	1
Mission:	1
Vision:	1
Company information:	2
Renowned buyer's list:	2
Supplier's list:	2
Company address:	2
Job Part	2
Chapter 1: Introduction to the Report	3
Rationale of the study:	3
Scope and limitations of the study:	3
Objectives of the reports:	3
Chapter 2: Review of Related Literature	4
Chapter 3: Methodology of the Study	5
Sources of data collection:	5
Chapter 4: Analysis	6
4.1 Who is a Merchandiser	6
4.2 Jobs Hierarchy in Merchandising Department	6
4.3 Workflow of a Merchandiser	7
4.4 Factors Related with Price Formation	11
4.5 Product Costing Method	14
4.6 Challenges for Product Pricing Process	14
Chapter 5: Findings	17
5.1 Traditional vs Activity Based Costing Methods	17
5.2 Factors that Attract Buyers for Choosing Bangladesh	20
5.3 Customer Relationship Management in RMG Sector	22
Chapter 6: Recommendation	23
Chapter 7: Conclusion	24
Chapter 8: References	25

Organizational Overview

JMS Design started its journey in 2006 with only 25 employees and now in 2019 around 3500 people are working in different sections within this company. They are mainly focused in delivering the best services and keeping good relationship with their buyers, partners, suppliers, employees. They always try to provide something better than its customer's expectations and that is why they are considered as a trusted supplier of readymade garments. This company is working with renowned brands such as H&M, Okaidi, Celio, Gap, Kindah, C&A etc.

By establishing a very small company in 2006 and growing it to a bigger one is not that much easier. Especially when you are surrounded with high number of competitors. They must have given a huge dedication to bring this company in today's position. Administration officers of JMS Design is very expertise at maintaining good relationship with different parties. That is why they have a very good percentage for customer and employee retention. They are doing both knit and woven products by separating different lines.

Product Lines	
Polo Shirts	Sportswear
Trousers	Sweep shirt
Denim Pants	Jacket
Romper	Jogger

Mission:

With the tagline "100% export oriented readymade garments manufacturer", JMS Design's mission is, "To maximize the profit through adding the best values for our customers while developing a good relationship with all parties for the mutual benefits"

Vision:

The vision statement of JMS Design is, "To take the market leadership by diversifying our business model through investing in other sectors".

Company information:

Company Name	JMS Design
Established year	2006
Contact no	+88-02-9026726
Product lines	Knit and Woven
Office space	6000 square feet
Factory space	37000 square feet
Current employee	3500 people
Daily production capacity	18000 Units

Renowned buyer's list:



Supplier's list:



Company address:

Head Office

House # 28, Road # 4
Block# F, Kalwalapara,
Mirpur# 01, Dhaka# 1216

Factory # 1

House # 28 & 30, Road # 4
Block# F, Kalwalapara,
Mirpur# 01, Dhaka# 1216

Factory # 2

Plot no # 51 & 52, Block # H,
Kajiphuri, Gudaraghat,
Mirpur # 01, Dhaka # 1216

Job Part

In JMS Design, I have worked as a trainee merchandiser where my main job was to prepare the trim card, when a new order is placed. A trim card is actually used to show all the approved garments trims and accessories by attaching them on a piece of paper. In the production floor

supervisors and store keepers are used to follow the trim card as a guide for identifying the right trims. So, after making a trim card I need the authorization of my senior. Then I need to send one copy to the production supervisor and another copy to the store keeper.

Sometimes, I have also got the opportunity to stay when senior and assistant merchandisers were meeting with the buyers and suppliers. I have learned a lot from them such as how to manage a good relationship with different business parties, how to negotiate with the price, what are the strategies that a merchandiser should follow etc.

Chapter 1: Introduction to the Report

Rationale of the study:

As I did my internship in the merchandising department of a ready-made garments, my motive was to understand the working process of a merchandiser and to understand how they deal with the buyers and what strategies they follow to set a favorable price for both parties. In RMG sector the importance of a merchandiser is very high. He works like a bridge between the company and buyer. Through my project work, I have tried to find out what methods they follow to set a price how the calculate the breakeven point etc.

Scope and limitations of the study:

As a trainee merchandiser I have got so many helps from my seniors. They were very cooperative and helpful. I interviewed both the assistant and the senior merchandisers where I have got very elaborated in details answer from them. I am so happy to be a part of this team. But there were some limitations also for confidential purpose I could not manage to show some realistic pricing data. However, I have showed how they calculate the cost volume profit analysis, the pricing procedure and costing methods.

Objectives of the reports:

My objectives for writing this report was to understand the merchandising process, how they set the price when they are working with multiple product lines, understand their costing methods, how they are maintaining a good relationship with different business parties.

Chapter 2: Review of Related Literature

The ready-made garments (RMG) sector of Bangladesh has got a greater success than any other sector in terms of growth and foreign exchange earnings. It makes a significant contribution to the national economy by creating huge number of employment opportunities and reducing the poverty through socioeconomic development. According to a research on “Ready-Made Garments Sector of Bangladesh: Its Contribution and Challenges”, by Adnan (2016), around 4 million people are directly involved in this sector and earning their livelihood. It has also contributed tremendously through empowering women as almost 70 percent of its labor force is female which ranked the highest in Southeast Asia. In terms of core economic consideration RMG sector holds almost 14.07 percent of the GDP of Bangladesh as well as the 81 percent of the total export earnings.

In another research by Hyman, Jeffrey A. (2001), regarding the merchandiser’s responsibility and risks, it has been suggested that “the pricing decision is one of the most important and most difficult decision that a merchandiser have to take. High price may prevent customers from buying and low demand may result in the company not to covering fix cost and therefore a loss will result.”

Through this project work, I have found out that still many RMG companies in Bangladesh only follow the traditional costing system to allocate the overhead cost. That is why to compare traditional with activity-based costing I have gone through some research works. Garrison, Ray H. (2014) and Vladimir (2013) both stated in their research that “In terms of producing multiple products, traditional costing system may underestimate the small batches production cost per unit and overestimate the large production cost per unit whereas if a company follow the activity based costing they will get more accurate data” So, from this statement we can understand that using traditional costing system may not show the accurate cost allocation specially when a company deals with multiple products. So, RMG companies should keep activity-based records also with the traditional one.

Chapter 3: Methodology of the Study

This report is based on both the primary data and secondary data. during my internship period I have interviewed the senior merchandiser and assistant merchandiser. From those interviews, I have tried to understand the workflow of a merchandiser, how to maintain a good relationship with their buyers, how to set the price etc.

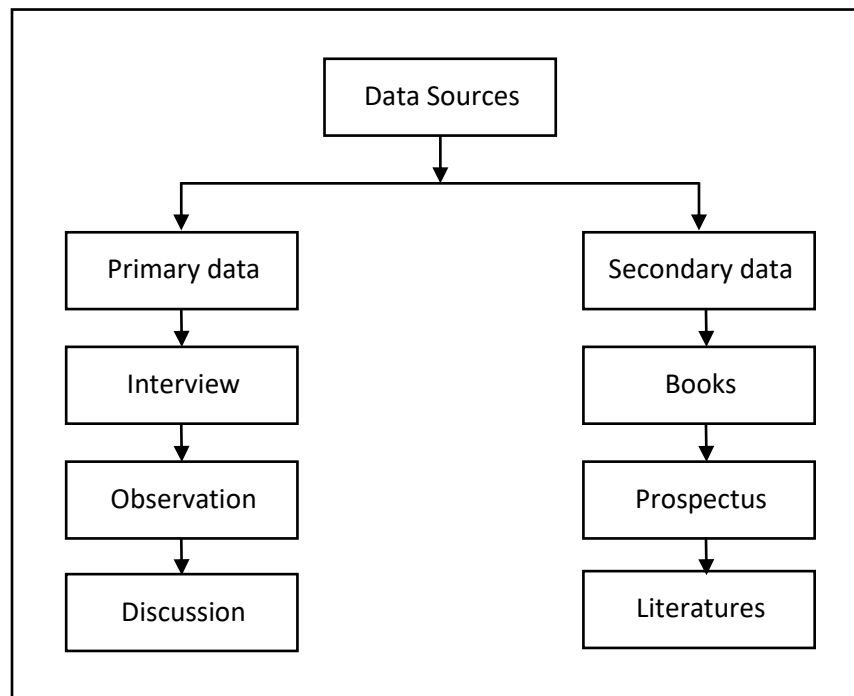
Sources of data collection:

Primary data:

- Interviewing the senior and assistant merchandisers
- Data from my work experience
- Observation method during my internship period
- Discussion with some of the buyers and suppliers

Secondary data:

- Managerial accounting book
- Company prospectus
- Reviewing the related literatures



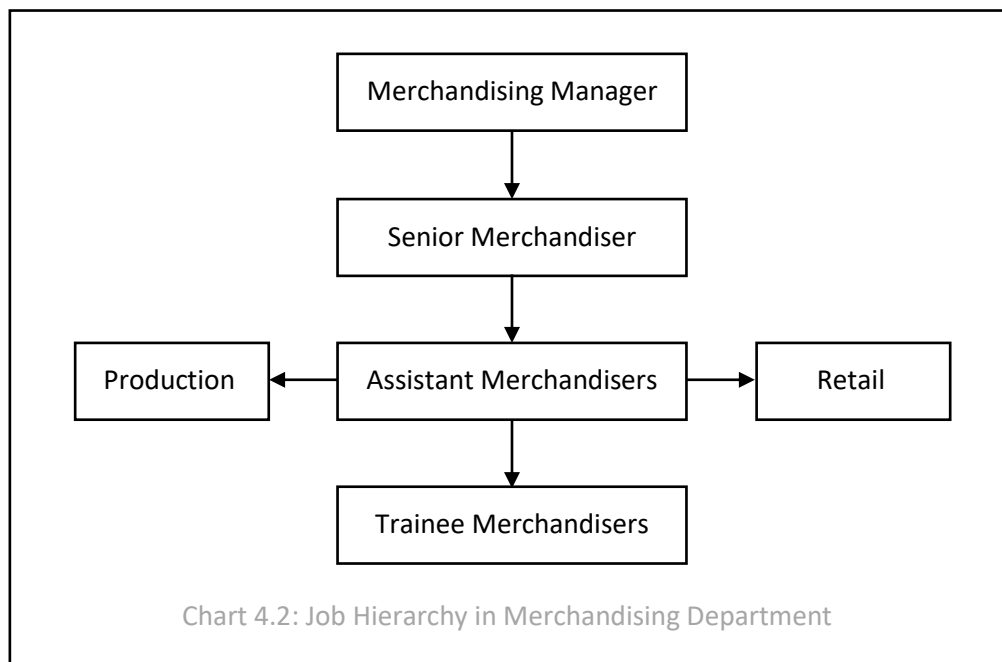
Chapter 4: Analysis

4.1 Who is a Merchandiser

In RMG sector a merchandiser works like a bridge between the buyer and company. His job starts with finding a new order and it continues until delivering the order to its buyer. As he works in between the company and the buyers, he must ensure a good customer relationship. Otherwise, company may lose orders. Moreover, He needs to finalize the costing through proper negotiation with buyers. His job also includes preparing order sheets, placing raw material purchase order, preparing back to back LC, inspecting during the production period and lots more. In short, he has the ultimate responsibility until the completion of the order.

4.2 Jobs Hierarchy in Merchandising Department

The merchandising department of JMS Design has a team of seven highly experienced and skilled merchandisers who work relentlessly for achieving higher customer's satisfactions. Let's see the job hierarchy and responsibilities of each merchandiser:



Merchandising manager: He is the head of the department. Every merchandiser needs to report to him regarding any issues. He has the ultimate right to work as a representative of the company. But before taking any new order, he needs the authorization of company's managing director. His main job is to set different strategies for setting competitive price, searching new buyers, retaining existing buyers etc.

Senior merchandiser: On behalf of the merchandising manager he deals with the buyers and suppliers. He can negotiate with buyers and suppliers regarding the price and his job also includes forecasting the profits, preparing proforma operating budget, maintaining good customer relationship etc.

Assistant merchandiser: JMS Design has two assistant merchandisers. One is the production merchandiser and other one is the retail merchandiser. The job of a production merchandiser is to monitor the production and sampling units whereas the retail merchandiser keeps all the data regarding inventories and contacts with the suppliers.

Trainee merchandiser: This is actually the entry level post in the merchandising department. Trainee merchandisers are not allowed to deal with buyers or suppliers. Their main job is to learn the working process from the seniors and also, they complete small tasks such as creating order sheets, proforma invoices, sending documents to other departments etc.

4.3 Workflow of a Merchandiser

A merchandiser needs to play different roles within the organization. His job starts before taking a new order and it ends when the order gets shipped to the buyer. During this time period he needs to understand the buyer's demand, show him a proper sample work, get approval from the buyer, negotiate to set a reasonable price, send a proforma invoice (PI), manage the L/C, contact with suppliers, monitor the production site and lots more. These are actually the day to day activities of an apparel merchandiser. Therefore, after a fruitful discussion with my on-site supervisor, I have prepared a step by step workflow of a merchandiser in RMG sector. This is actually a continuous process. After the completion of one order, another begins with the repetition of this process.

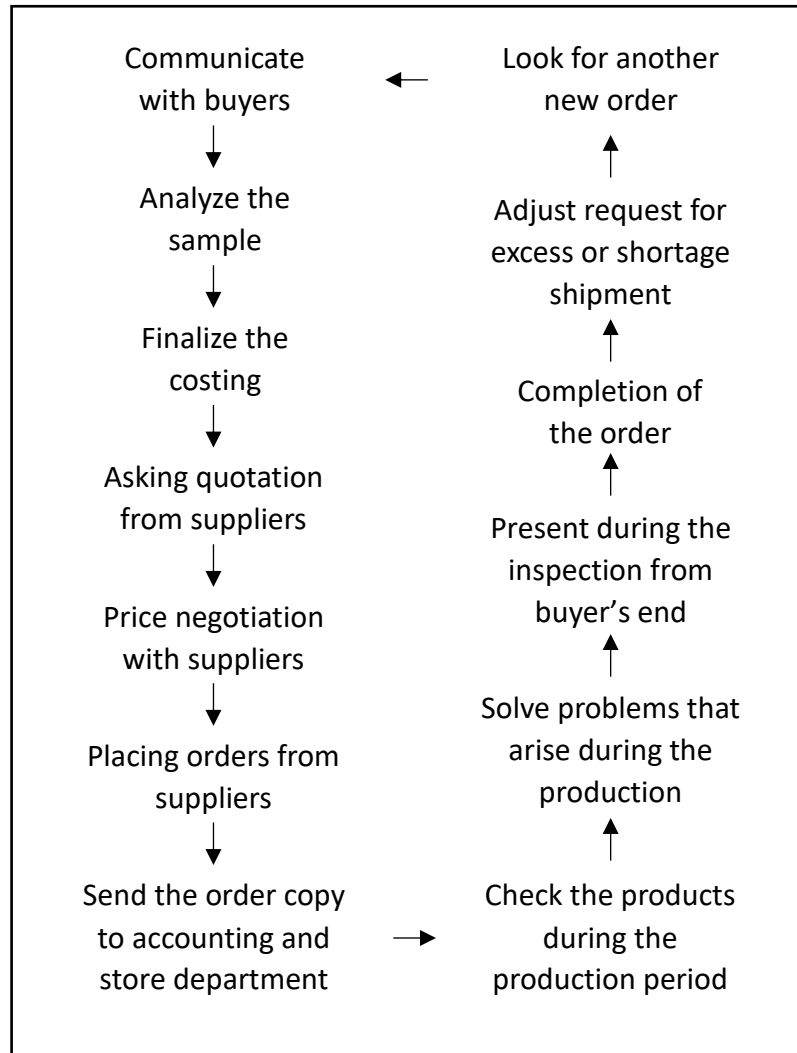


Chart 4.3: Workflow of a merchandiser

This step by step workflow gives us an overall idea that what are the responsibilities and duties merchandisers have. From this workflow chart, I will divide a merchandiser’s responsibilities into few different parts so that I can show few more in depth workflow illustrations such as what are the tasks he performs with buyers and suppliers and also how he coordinates all the internal departments. So, these are the four most important tasks:

- ✓ Managing Buyers
- ✓ Managing Suppliers
- ✓ Internal Support
- ✓ After Sale Services

Managing buyers: Buyers are the most important asset for any company. In RMG sector, merchandisers are responsible one to maintain good customer relationship with its buyers. Otherwise, they will start losing orders. Before taking any new order at first the merchandiser needs to understand the buyers demands and conditions. According to those he prepares a sample for buyer’s approval. If the buyer is satisfied, he will place the order. Then the merchandiser needs to generate and send a proforma invoice (PI) to the buyer. As soon as the buyer receives the PI, he will ask his bank to open a new L/C.

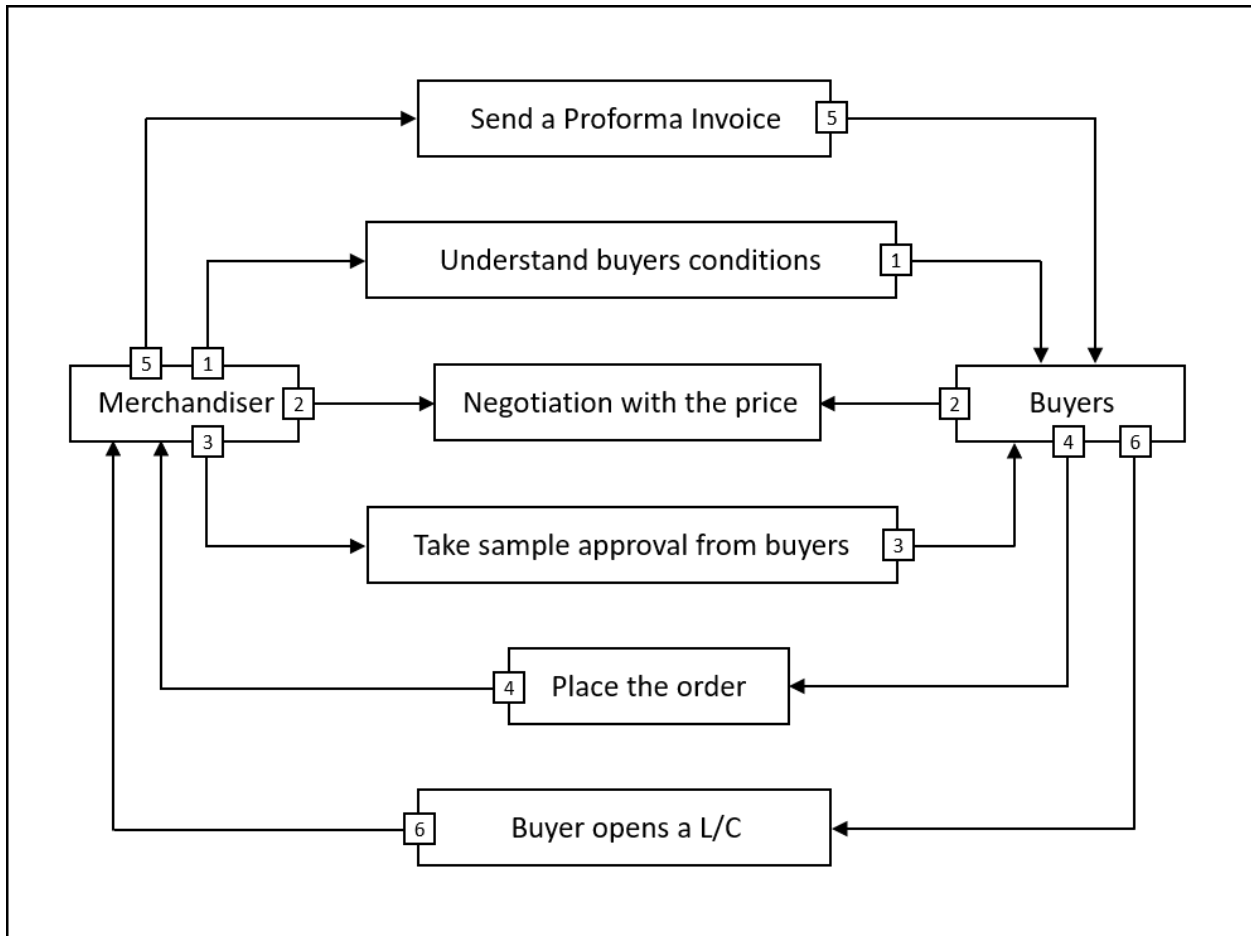


Chart 4.3.1: Merchandiser’s workflow with buyers

Managing suppliers: After getting a new order, merchandiser needs to make a list of items those are needed to complete the order. Following that list, the retail merchandiser contacts with their suppliers and ask for quotation with samples. When the suppliers deliver samples and quotation, the senior merchandiser takes a closer look and approve with the authorization of merchandising

manager. After they get the delivery from the supplier's end, the merchandiser issues a back to back L/C for each supplier.

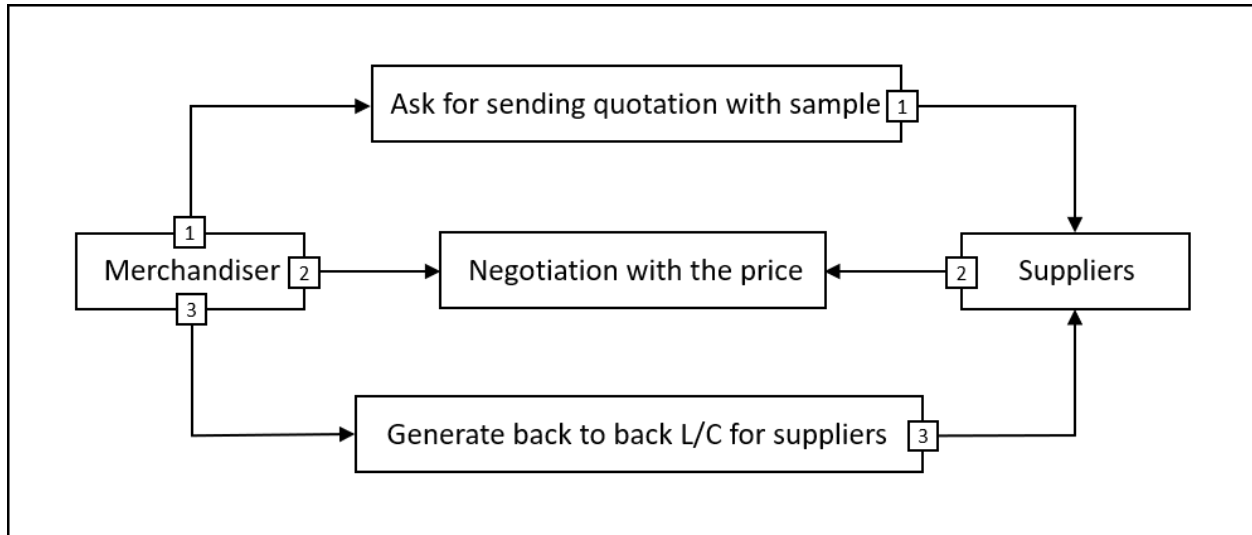


Chart 4.3.2: Merchandiser's workflow with suppliers

Internal support: The job of a merchandiser is not only contacting with externals but also, he provides proper guidance for most of the departments. For example, during the production period, he needs to monitor and gives suggestions, if it is needed. Moreover, he must give regular updates to the director and also notify accounting and store departments regarding inventories, sales, estimated profits etc.

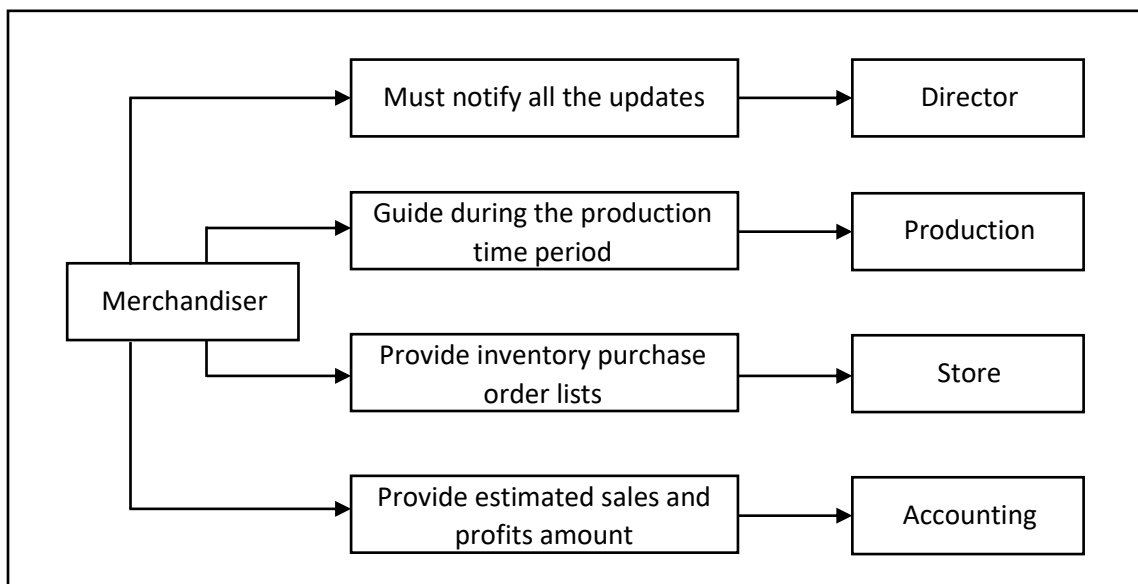


Chart 4.3.3: Merchandiser's workflow with internal departments

After sale services: After the completion of the order, a merchandiser still has some tasks to do with buyers. He needs to send an invoice after adjusting the excess or shortage shipment. Whenever the goods reach to the buyer, the merchandiser ask for the L/C clearance and to get more frequent orders he must keep a very good relationship with all the buyers.

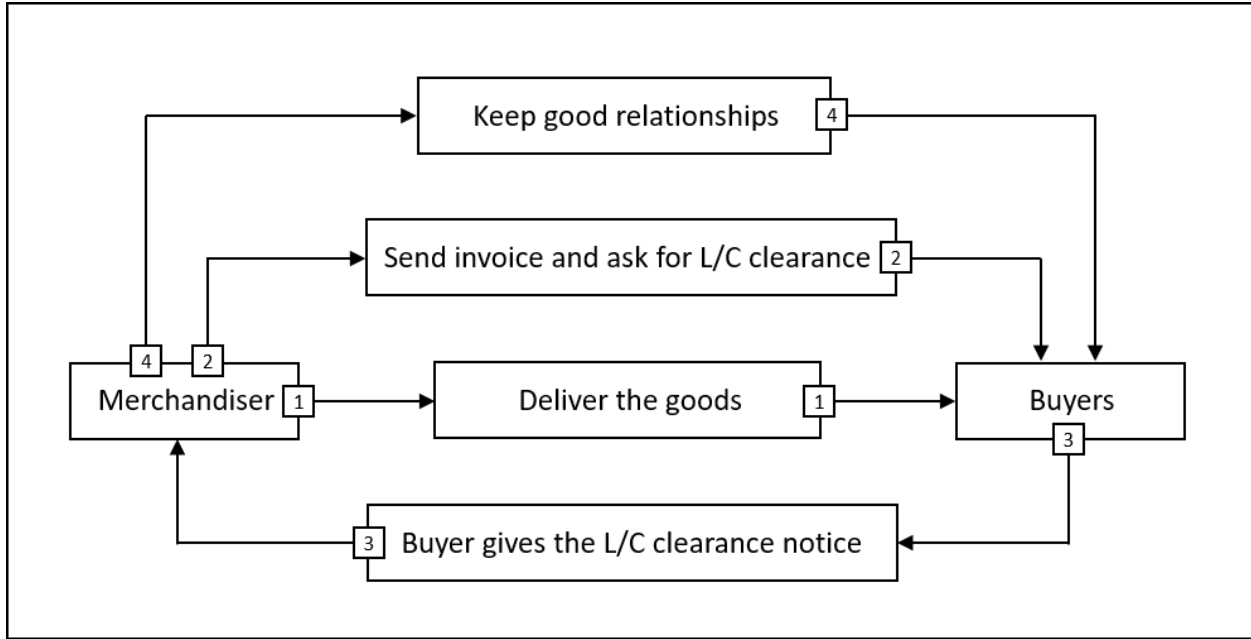


Chart 4.3.4: Merchandiser’s workflow after completing orders

4.4 Factors Related with Price Formation

JMS Design mostly takes FOB (freight on board) orders from their foreign buyers. In FOB, the company or the seller is responsible for collecting all the necessary raw materials, gathering the factors of production and also paying for transportation of the goods to the port. Then the buyer has the responsibility for paying marine freight cost, insurance and etc. Now, if we want to know that how the company or seller is setting the price for per unit product, we need to consider all the costs that are associated with making the product and also the profit margin.

Factors related with product’s price formation:

Raw materials: In FOB seller is responsible for collecting all the raw materials such as fabric, zipper, buttons, sewing thread, label, elastic etc. So, the associated costs of collecting raw materials have the bigger portion in a product price. Here, I am providing the list of raw materials

needed for making a product and also mentioning the suppliers of JMS Design with the estimated current market price:

Fabrics		
Type	Suppliers	Cost
Woven	Pacific Denim Limited	\$1.69 to \$2.90 Per yard
	One Denim Limited	
	Mab Denim Limited	
Knit	H&H Textile	\$1.45 to \$2.41 Per lbs.

All the knit and woven type of fabrics are being supplied by the local cloth manufacturing companies. JMS Design purchases their fabrics from the above-mentioned list of suppliers.

Sewing Threads			
Type	Size	Suppliers	Cost
Thread for woven	20/4 (Thicker)	Fabian Thread LTD. Well Thread LTD.	\$0.50 to \$0.60 Per cones
	20/2 (Medium)		
	40/2 (Thin)		
Thread for knit	50/2		

For woven products three different types of sewing threads are needed (20/4, 20/2, 40/2) whereas for knit products only one type of thread (50/2) is enough.

Accessories		
Products	Suppliers	Costs per pieces
Label & Hang tag	M.J. Enterprise	\$0.03 to \$0.05
Zipper	Rafiq Enterprise	\$0.08 to \$0.18
Metal Buttons	Salama Trading	\$0.04 to \$0.08
Poly	Mehran Accessories	\$0.02 to \$0.05

These accessories costs are also considered as direct cost and the prices may vary for different quality and sizes.

Other activities		
Type	Suppliers	Costs per pieces
Print	Apparel designers, Crystal Design	
Embroidery	RN Embroidery, Gloria, MBM	
Washing	Latest Wash, Color design	\$0.20 to \$0.60

Most of the time a product may need any special print or embroidery on it. So, the cost of these other activities is also considered for setting the price.

Cost of making (CM): Labors those who are involved in cutting, sewing, finishing the products are considered as direct labor. Their current minimum wage in JMS Design is 6500 BDT. Here, the merchandiser uses a different CM rate for each type of products. And adds the rate with other direct costs.

$$\text{Cost of making (CM)} = \frac{\text{Total costs (Fixed + Variable)}}{\text{Monthly total output units}}$$

Chart 4.4: Formula for calculating CM

Overheads: There are two types of overheads. They are, administrative overheads and selling overheads. Administrative overheads include expenses such as rent, utility, depreciation on fixed assets, salary of administrative people etc. Whereas selling overheads include transportation cost of the products to the port. In JMS Design, they use traditional costing system where they allocate the overhead costs on the basis of a predetermined rate. In 4.5 and 5.1, I have made more analysis regarding their costing methods.

Profit margin: Though company never wants to share their actual profit margin with outsiders, I got a hint that in RMG sector on an average they keep 10 to 15 percent profit margin on the production cost for FOB orders. That means after adding all the direct and indirect cost, they just add 10 to 15 percent as their profit and that is the FOB price per unit.

4.5 Product Costing Method

In 4.4, I have already mentioned that JMS Design follows the traditional costing method where the merchandiser calculates a predetermined overhead rate for any types of product.

Predetermined overhead rate	=	$\frac{\text{Estimated total manufacturing overhead cost}}{\text{Estimated total direct labor hours}}$
--------------------------------	---	--

Chart 4.5.1: Formula for calculating overheads (Traditional System)

Raw materials		=	####
Cost of making			####
Overhead rate			####
Production cost	=		####
Profit margin (#### x 10%)	=		####
Final FOB Price	=		####

Chart 4.5.2: Final FOB price calculation (Traditional System)

4.6 Challenges for Product Pricing Process

Setting a proper price for the product is really a tough job for the company. A merchandiser perform this task as a representative of the company. The merchandising team needs to consider all the current factors and also the future changes that may arise. After making an overall consideration they can negotiate with buyers and suppliers. But they must keep in mind that the negotiation process should be in favor of both parties. Otherwise, the buyer may feel dissatisfied. So, we can easily understand that a merchandiser has to face so many challenges in performing his or her day to day tasks. Here, I am stating some challenges with detail information:

Price negotiation: The job of a merchandiser is to negotiate the price with both buyers and suppliers. This is the toughest job for the merchandiser because many things such as profit or loss, buyer's satisfaction etc. are involved with this negotiation process. A merchandiser must have a very good negotiation skill and he needs to follow some techniques so that the buyer agree with the price that they have provided. Most of the time buyer will ask for reducing the price from different sides. So, the merchandiser have to preprepare the statement in a way so that they can reduce some price for buyer's satisfaction.

Labor law: Recently, Bangladesh Government has set a minimum wage rate of 8000 BDT for RMG sector where previously it was 5300 BDT. This sudden increase is a great challenge for many companies. Before setting price a merchandiser also needs to see the unseen scenarios like this so that they can handle any situation.

Safety issue: After the tradegy of Rana Plaza and Tazreen Fashion, both foreign buyers and our Government have beome strict regarding the safety issues. So, the company must fullfill every requirements to ontinue it's operation. Though it is increasing the cost, the representitives of JMS Design is considering this as a good sign. From 2015, safety platforms such as Accord, Alliance and National Initiative, were initiated by global brands, the Government and ILO to ensure safety of the RMG sector. More than 4000 export-oriented garment factories have been inspected for building, fire and electrical safety and recommended safety repairs where necessary. And also, company arranges a training session once a year for its employee. So, before setting a price merchandiser must consider these costs and allocate over the product.

Securing profit: Maintaining the expected profit margin is also a great challenge for the company. After allocating all the expenses they must secure the profits. Otherwise, they will not be able to continue their operations. For securing profits merchandiser can make a cost volume profit analysis to see how much products they need to sell so that they can reach to the breakeven point. Here, I am using an example math to show and relate the process:

Cost volume profit analysis:

Details	Polo Shirts	Denim Pants	Rompers	Total
Units sold	350000	120000	80000	550000
Selling price (BDT)	320	500	580	
Variable cost (BDT)	275	430	485	
Fixed cost = BDT 33,200,000				

Calculating sales mix:

Details	Polo Shirts	Denim Pants	Rompers	Total
Units sold	120000	350000	80000	550000
Selling mix	22%	64%	14%	100%

Calculating weighted average contribution margin:

Details	Polo Shirts	Denim Pants	Rompers	Total
Selling price	320	500	580	
(less) Variable cost	275	430	485	
Contribution margin	45	70	95	
Sales mix	0.22	0.64	0.14	
CM x Sales mix	9.9	44.8	13.3	
Weighted avg CM	9.9 + 44.8 + 13.3			68

$$\text{Breakeven point} = \frac{\text{Fixed Costs}}{\text{Weighted Average Contribution margin}}$$

$$\begin{aligned} \text{Breakeven point} &= \frac{33,200,000}{68} \\ &= 488236 \text{ Units} \end{aligned}$$

So, here we can see that JMS Design needs to sell 488236 units to reach the breakeven point whereas they are selling 550000 units per month. That means they are making profits.

Chapter 5: Findings

5.1 Traditional vs Activity Based Costing Methods

Both traditional and activity-based costing are being used to allocate all the indirect costs or manufacturing overheads into the products. These two have some identical differences which we must need to consider in terms of allocating overheads.

Traditional costing method:

In traditional costing system we assign costs to the products based on an average overhead rate where the rate is calculated by taking one most appropriate cost driver. It is the easier way to allocate overheads but, in some cases, it may not be fully accurate.

Activity-based costing method:

Activity-based costing is the updated version of the traditional one. As we need to use different cost drivers before assigning the overheads, this method shows more accurate data. Specially, when company deals with multiple products, this method can be very useful.

Comparison between these two methods:

Though both the costing systems have some pros and cons, today's modern business world highly recommends to keep the activity-based costing system at least for the internal purpose. It will help companies to track their indirect costs and to allocate accurately. Vladimir (2013) stated in his research that "In terms of producing multiple products, traditional costing system may underestimate the small batches production cost per unit and overestimate the large production cost per unit" So, from this statement we can say that using traditional costing system may not show the accurate cost allocation specially when a company deals with multiple products.

In RMG sector, companies often deal with multiple product lines. I have already mentioned that JMS Design has both knit and woven items in its own product line and they are following the traditional method to allocate the costs. After interviewing one of the senior merchandisers of

JMS Design, I got to know that still in Bangladesh most of the RMG companies follow the traditional one.

Therefore, through my project work I will not only compare these two costing systems but also I will use an example math related with RMG product lines to prove the statement (when a company deals with multiple products, traditional costing system may underestimate the small batches cost per unit and overestimate the larger one) of Vladimir (2013).

Let's prove this statement with an example math:

Description	Products	
	Polo Shirts	Denim Pants
Estimated annual production	15000 Units	20000 Units
Direct labor hours needed per unit	1.0 DLH/Unit	1.5 DLH/Unit

Estimated total manufacturing overheads	\$50000
Estimated total direct labor hours	45000 DLHs

Cost Pools				
Activities & Measure	Estimated Overhead Costs	Estimated Activities		Total
		Polo Shirts	Denim Pants	
Supporting direct labor (Number of direct labor hours)	\$10000	15000	30000	45000
Special processing (Number of machine hours)	\$10000	8000	12000	20000
Utility consumption (Number of kilowatt hours)	\$30000	1000000	2000000	3000000
Total manufacturing overhead costs	<u>\$50000</u>			

Here I have set an example math to compare the accuracy level between traditional costing and activity-based costing. By using these data, I will calculate the per unit manufacturing overhead cost in both methods (traditional and activity-based) for these two different products (polo shirts and denim pants).

Using traditional costing method:

Predetermined overhead rate:

Predetermined overhead rate = $\frac{\$50000}{45000 \text{ Hours}}$ = \$1.11/DLHs
--

Products	(DLHs needed per unit) x (Overhead rate per DLHs)	Total overheads per unit
Polo Shirts	1 DLHs per unit x \$1.11	\$1.11
Denim Pants	1.5 DLHs per unit x \$1.11	\$1.67

After using the traditional costing method, I have got the per unit overhead costs for polo shirts and denim pants accordingly \$1.11 and \$1.67.

Using activity-based costing method:

Activities	Estimated activity overhead cost/Total activity measure	Overhead rate per unit
Supporting direct labor	\$10000/45000 DLHs	\$0.22
Special processing	\$10000/20000 MHs	\$0.50
Utility consumption	\$30000/3000000 KWH	\$0.01

Products	Activities			Total overheads per unit [(a+b+c)/total units]
	Supporting direct labor (a)	Special processing (b)	Utility consumption (c)	
Polo Shirts	\$3333 (15000 x 0.22)	\$4000 (8000 x 0.50)	\$10000 (1000000 x 0.01)	\$1.16 (\$17333/15000)
Denim Pants	\$6667 (30000 x 0.22)	\$6000 (12000 x 0.50)	\$20000 (2000000 x 0.01)	\$1.63 (\$32667/20000)

When I do the same math using activity-based costing, I got slightly different per unit overhead costs which are \$1.16 for polo shirts and \$1.63 for denim pants.

Now, let's compare these two methods. For polo shirts I have taken 15000 units and after doing the math in traditional way I have got the per unit overhead costs \$1.11 whereas in activity-based costing I have got \$1.16. On the other hand, for denim pants I have taken 20000 units and after doing the math in traditional way I have got \$1.67 whereas in activity-based costing it is showing \$1.63.

Therefore, this calculation is proving the statement of Vladimir (2013) and we can see in the traditional costing system for small batches production it underestimates the per unit overhead cost. On the other hand, for large batches it overestimates the per unit cost. Though traditional system is not wrong, it is not 100% accurate. To achieve higher accuracy level for setting a good competitive price, RMG companies should consider the activity-based costing as well.

5.2 Factors that Attract Buyers for Choosing Bangladesh

Bangladesh is the second largest shareholding country in world's apparel industry. Top class buyers such as Nike, Gap, Puma, Okaidi, Adidas and many more are coming to Bangladesh for completing their orders. I know in our country the labor cost is very low but this is not the only factor for us to get success in this industry.

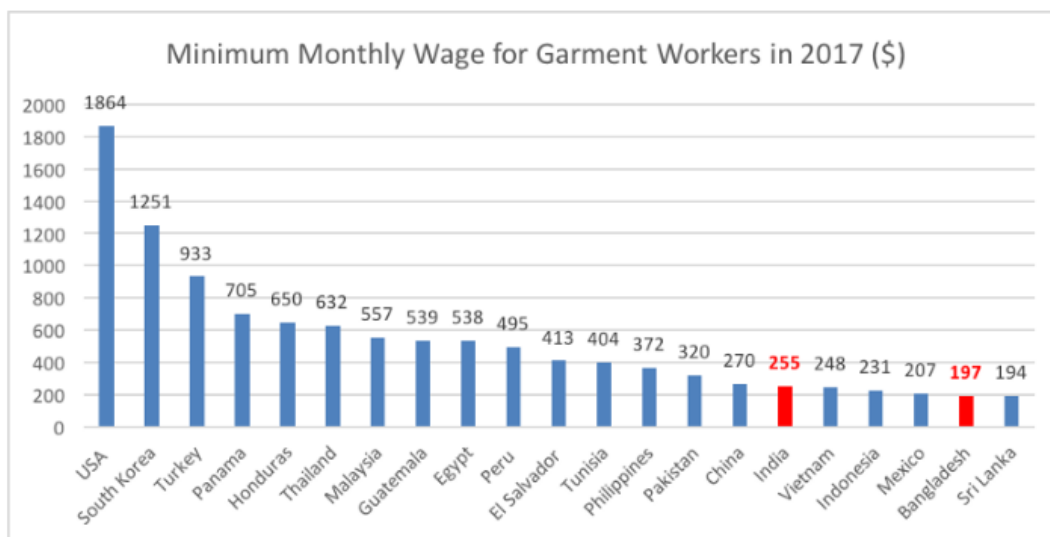


Chart 5.2.1: Minimum monthly wage for garments workers (Source: Medium.com)

If we have a close look in the above chart (5.2.1), we may see that other countries such as Sri Lanka, Mexico, Indonesia they have almost the same minimum wage rate like Bangladesh has for RMG sector. So, why do not we see those countries name in the top ten list of apparel industry! It proves that only having cheap labor cost will not make any difference. So, there are some other factors which are responsible for the success of Bangladesh in RMG sector.

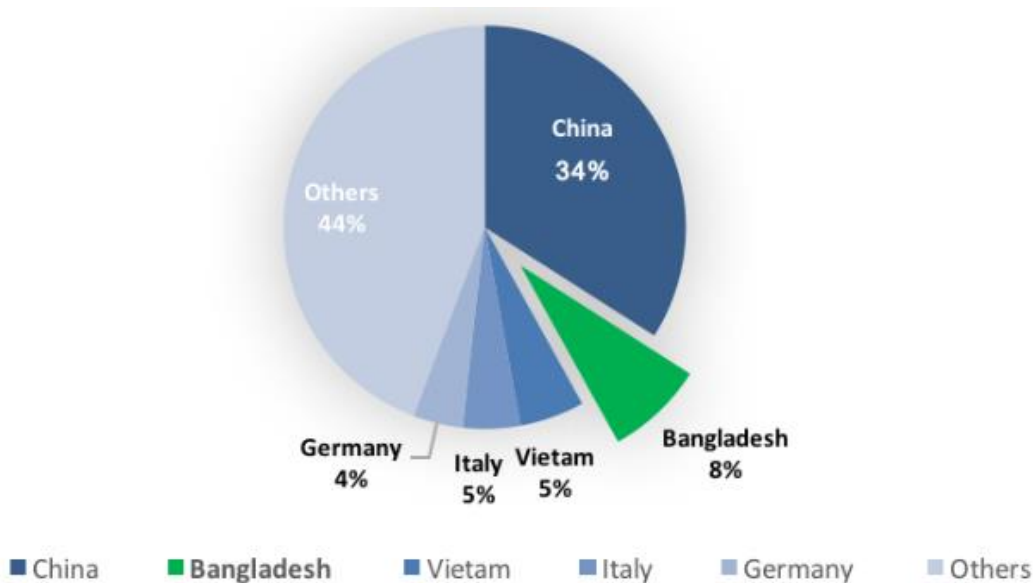


Chart 5.2.1: Share of global apparel exporters in 2018 (Source: Comtrade)

In the above pie chart, we can see that Bangladesh is leading the second position where China is in the top. But from recent few years, China has started to lose its shares in apparel industry due to their production cost increase. And that is why Bangladesh is getting an advantage for that. Now, let me discuss the factors those are pushing Bangladesh in the second position rather than having cheap labor cost:

Available resources: For RMG sector, raw materials such as fabrics, sewing threads, zippers, button, label, hang tag, poly etc. are highly available in our country. We have many big companies who manufacture these raw materials not only for our own purpose but also, they export those in different countries.

Skilled labor: Bangladesh is blessed with highly skilled labor force for RMG sector. Both male and female share their skill equally. Even, the percentage of female worker is higher than the male

worker. In a survey conducted by CPD (Centre for Policy Dialogue) in 2018 shows that around 3.5 million people are working in RMG sector where 60.8% is female and 39.2% is male.

Duty free advantage: Bangladesh has the Least Developed Country (LDC) status which allows us duty free market access or reduced tariff facilities to many developed and developing nations. According to medium (2017) Bangladesh has 52 countries such as Australia, South Korea, Japan, Switzerland, New Zealand, Norway, Turkey, Thailand, Malaysia etc. where we are getting duty free access into their market. Moreover, our government has also signed few important trade agreements such as SAARC preferential trade agreement, Asia-Pacific trade agreement, South Asia free trade area etc.

Technology adoption: Bangladesh has attracted many of its global brands through adding the modern technologies in the RMG sector which has also increased the quality and production efficiency to a large extent.

5.3 Customer Relationship Management in RMG Sector

During my internship period, I got a chance to have a short conversation with one of the potential and loyal buyers of JMS Design. He is from Kenya. I asked him, what are facts that he considered in choosing JMS Design. He replied, "Trust is the best thing that one can serve in a business. We are coming to Bangladesh to find someone whom we can trust regarding the quality of work and time management". In short, after this effective conversation and also by interviewing one of the Merchandiser of JMS Design, I sort out few points those are being followed by the company to maintain a good customer relationship.

Quality of works: Quality is the ultimate thing that a buyer demands. Without providing quality company can never expect to retain its customers.

Delivery time: Another important issue is to maintain the delivery time. When the order is placed by the buyer, merchandiser provides a PI (proforma invoice) with the delivery date. So, if the company fails to deliver in time, the buyer may face some losses which is bad for business.

Reasonable price: As the buyer has the ultimate power to switch to another alternatives, company needs to convince the buyer with a reasonable and competitive price.

Good communication: Company (seller) must have to maintain good communication with their buyers. They must inform every single detail regarding the order and should not hide anything from the buyer. This increases the customer satisfaction.

Chapter 6: Recommendation

Merchandising field covers a large number of duties and responsibilities. Here, a merchandiser needs to be very careful during performing any tasks. Otherwise, company will lose its money. For an example, during the price negotiation, if he can not manage to set a favorable price by satisfying the buyer, company will not be able to make profit from that particular project.

After doing my project report, I have found few things that JMS Design may consider as a recommendation for them. Though the company is performing very well, they can do a lot better by focusing on their customer retention rate, wastage management and activity-based overhead costs allocation.

In 4.5, I have mentioned that JMS Design is following the traditional costing method which is actually a backdated one where company uses a predetermined overhead rate for all the product lines. Though this method is not wrong, they can get more accurate data by using activity-based costing system. In 5.1, I have showed an example math where I have proved the statement that when a company works with multiple product lines, traditional costing system can underestimate the small batch production per unit cost and overestimate the larger batch. As JMS Design works with different types of knit and woven products, it would be perfect to use activity-based costing at least for the internal use. It may help them to set a competitive price also.

During my internship period I have experienced another issue which is regarding the wastage management policy. After taking an order, merchandiser makes a list of all the necessary raw materials with their quantity and takes step to purchase those from their suppliers. The order should be completed with those purchased items. But in many cases, I have seen there is a shortage for the raw materials. When I research on this issue, I get to know that from the merchandiser's end there is no problem but during the production period there is no strict waste management policy so that they can reduce the number of wastages. For example, in cutting

section, if they cut fabrics with well planning, they can reduce the wastage of fabrics. So, I would like to recommend to have a strict waste management policy. Otherwise, it will lower the company's current profit.

Chapter 7: Conclusion

Bangladesh is blessed with so many factors and resources which has made us the second largest apparel export country. We have gained the trust of foreign buyers. But there goes a proverb that it can be easy to gain something but hard to maintain. In RMG sector, we have a future ahead. So, we need to be innovative and very strategic to attract more buyers by adding values and take as much as orders we can by increasing our efficiency level.

From this report we can understand that the job of a merchandiser is very important as he maintains good relationship with buyers and suppliers and also, he needs to set a favorable price for both parties so that company gets profit by securing its customer's satisfaction. Therefore, we need very skilled and well experienced merchandisers in RMG sector.

It is a matter of concern that recently in our country many RMG companies are getting shut down. Workers protest or strike for different issues have become a frequent scenario which is obviously not good for this industry. Both the workers and the owners must understand the value and importance of this sector for our country's economy. Otherwise, we may lose something which has given us an identity and that is "Made in Bangladesh". So, the company owners, the workers and the government must work together to keep a healthy environment for this sector.

Chapter 8: References

- Garrison, Ray H. (2014). Managerial Accounting. Thirteen Edition. Chapter 8.
- Vladimir, Zakich. (2013). Application of Activity-Based Costing. Economic literature, 7-9.
- Adnan, Atm. (2016). Readymade Garments Sector of Bangladesh: Its Contribution and Challenges towards Development.
- Hyman, Jeffrey A. (2001). The Merchandiser's Responsibilities and Risks.
- Imam, Mahmuda. (2013). Focus on Safety and Security of Garment Workers. The Daily Stars.