

A STUDY ON BANGLADESH JUTE INDUSTRY
AND
TRANSOCEAN FIBERS PROCESSORS LTD

By

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A thesis submitted to the Department of Business Administration in partial fulfillment of the requirements for the degree of Masters of Business Administration

BRAC Business School
Brac University
January, 2020.

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Declaration

It is hereby declared that

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2. The thesis does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The thesis does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
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Ethics Statement

Executive Summary

Jute the golden fiber of our country played a vital role in our economic sector by providing positions to our people who were making sure both raw jute and processed jute are earning enough money to dominate the jute market worldwide. Transocean Fibers Processors ltd. was one of the companies, which benefited for some time because of jute's high quality market condition. The annual production and export earning has increased significantly over last decade however companies like Transocean Fibers Processors ltd is struggling to survive in the new business environment. In short, lack of working capital, lack of modern manufacturing equipment, bank loan, raw material price fluctuation, international politics and newer competitions are the main cause of their struggles.

Keywords: Jute Industry; Bangladesh Export; Industry Condition; Business administration.

Acknowledgement

At the very outset, I would like to praise our gracious and beneficent Almighty due to provide us enough strength, patience, courage and ability to work on for this report.

After that, I would like to show the biggest gratitude to our honorable faculty member, Md. Shamim Ahmed, Lecturer of BRAC Business School, BRAC University for his constant supervision throughout the semester and guidance to sort out all the problems that I faced to prepare this report. I am thankful to him for how he guided me with his extreme consistency in every aspect to make the report.

Furthermore, I would like to thank whom I have interviewed and asked opinion for the project. I am also indebted to all of the officers and employees of Transocean Fibers Processors ltd who extended their wholehearted cooperation to me despite their huge workload during my Practical Orientation.

Eventually, I must mention the excellent working environment company that has enabled me a lot of deal to do and observe corporate activities during my internship period of three months.

Finally, I convey my sincere thanks to my friends who inspire in different ways to complete the report and the course as well.

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Chapter 1

Introduction

Jute, The golden fiber of Bangladesh used to be one of the biggest export oriented industry back in the days. We have an agricultural based economy and jute is one of the vital part of that agricultural sector. As there is high quality raw jute available in the local market, the producers can produce high quality products to export in the foreign market where the production depends on the export order. The contribution of jute sector to economy of this country is huge. Jute sector has been generating job opportunity to a large part of total population of the Bangladesh, directly and indirectly over the years. Bangladesh mainly exports Hesian , Shacking , CBC, GO Jute and Jute Yarn in the foreign market. The foreign market is like RMG, on average Bangladesh produces 1.06 million Ton of raw jute every year of which some 6.6 million bales are used in the existing 205 jute mills. The country exports 5.3 million bales of jute. Some 1, 56,549 employees of the country are directly employed in different factories.

Transocean Fibers Processors ltd. started its life as a spinning mill in 1985. In the earlier stage because of the good market condition, it was generating sufficient amount of revenue to be above the breakeven point. However, as the industry environment changed over the company went into the decline stage. In this report, I would be going through the history of this industry, the current market condition and how the company has suffered because of the change of industry environment.

Chapter 2

Methodology

As jute industry is a big sector in terms of foreign earning of Bangladesh, many researches have done primary survey on the sector over time. This report is based on secondary research on Jute industry of Bangladesh based on the primary serves done previously. The statistical data was taken from Bangladesh Bank, Bangladesh Jute Mills Association, Bangladesh Jute spinners Association and Bangladesh Jute Mills Corporation. I have conducted primary survey on Transocean Fibers Processors Ltd to understand its current state and the reason behind it. As the research tool, I have used qualitative method and used interview as my research tool. I have interviewed 30 people to understand the current company condition. In my sample size, there were management member, executive employee, supervisor, factory worker and so on. The sample was mainly consists male dominance as the company is not gender diverse in the corporate office.

Chapter 3

Previous study

There are many reports on Jute industry and Jute product manufacturers as Jute is a big part of manufacturing industry in Bangladesh. Bangladesh Bank does surveys on all the export oriented industries to understand their progress and based on that they make different policies. In their jute industry survey, they have shown how much the industry have exported and how much this sector has earned since 1989. In the BJME report, they have stated how many people are working in this sector and the contribution of private and public sectors in this industry. Many study was done about supply chain management and cost management on different jute and spinning mills but not on as a whole company. Author Mohammad Jamal Uddin, Jahangir Hossain and Md. Anamul Hoque in their article Present Condition of Jute Sector in Bangladesh Present Condition of Jute Sector in Bangladesh where they discuss about the new policy in 2007 taken by Bangladesh government and how it was shaping the industry. Jute Manufacturing Sector of Bangladesh Challenges, Opportunities and Policy Options was written by Khondaker Golam Moazzem, Md. Tariqur Rahman and Abdus Sobhan as a CPD report on jute industry where they discuss about the opportunities that can occur in the future in the industry and where its heading in the long run. They provided elaborative feedback on the performances of BJMEA, BJSa, BJA and BJMC.

Chapter 4

Limitation of the Study

As I was not a permanent employee of the company, so Transocean Fibers Processors ltd follows a policy of not unveiling, all the information needed to prepare my report for obvious reason. The export data of the company was not available to me so I could not calculate the revenue stream over years. Along with that, I also could not get my hands into the financial statements of the company. The report is purely based on my level of understanding.

I was with the company for only three months, which this is a short time to understand the environmental challenges the company is going through and the dynamic of the industry. The information of rival companies was also not widely available as only three companies were listed in the Stock exchange. Because of the lack of information, I had to make some assumptions that may cause few errors in the report.

Chapter 5

Overview of Transocean Fibers Processors ltd.

Transocean Fibers Processors ltd. was established in 1985, Transocean Fibers remains as a fully export oriented organization. Current product range of Transocean Fibers consists of high-grade jute yarn ranging from grist count 8 lbs to 28 lbs of 8,000 M. tones per annum, with a vision to attain a production level of 10000 M. tones per annum in jute yarn only by the year 2020.

The company ran smoothly until the world financial crisis in 2007-2008. Before that, the global demand was sufficient to survive in the international market. Nevertheless, after the recession the global environment changed. The demand of the goods produced in Transocean Fibers fell down. High quality more refined goods demand rose up and the company struggled to survive in that condition. The factory was closed down from 2010 until 2017 because it could not enough working capital to run above breakeven point. Currently the company is barely surviving because of many reasons. The core reason is the lack of working capital and because of it many other obstacle has forbidding the company to move forward.

Chapter 6

Bangladesh Jute Industry:

6.1 History

Jute Industry performed a crucial position in the economic improvement of Bengal. Twentieth century, Bengal could boast of only one industrial sector and that is jute. It employed approximately a half of the completely industrial group of workers of Bengal. In 1900-1, the export value of jute manufactures accounted for nearly a 3rd of the entire export change of Bengal. The industry become dominated at the beginning because of Europeans and then by Marwari. During most of its history, three-quarters of the labors in jute factories used to be non-Bengalis. Bengalis commonly occupied best the intermediate position within the enterprise. The raw jute for the enterprise used to come from Eastern Bengal. Prior to the establishment of the primary jute mill in 1855, handloom weavers used jute fiber to make twines, ropes, coarse fabric for the poor, and additionally for fishing and for mooring vessels. Towards the end of the eighteenth century, jute attracted the attention of the British East India Company, which dispatched a consignment of jute samples to England in 1791 that were successfully spun by flax machinery. The British also discovered a way to melt the tough and brittle nature of jute fiber by including oil and water. This made the fiber greater pliable and effortlessly separable, and resulted in the production of a usable thread.

Around 1838, the Dutch authority's specified luggage fabricated from jute instead of flax for carrying coffee from the East Indies. At that, time flax became imported from Russia. However, the Crimean War of 1854-1856 led to the stoppage of deliver of flax from Russia and forced Dundee, the famous jute-production center of UK, to search for substitutes. In Dundee, the flax generators were transformed into jute turbines.

The American Civil War (1861-65), on the opposite hand, gave in addition impetus to the jute trade, as components of American cotton had been tons restricted. Since then, the enterprise did no longer return to flax or cotton. The main motive for this everlasting shift had been its comparative cost advantage.

The jute enterprise grew unexpectedly and jute turbines were hooked up in lots of countries, including USA, Germany, France, Belgium, Austria, Italy, Holland, Spain, Russia, Brazil and Bengal. This brought about a rapid growth inside the call for jute. The Bengali peasants responded quickly to meet the sector demand by increasing the area below jute cultivation.

The outbreak of the First World War led to a rapid increase inside the call for uncooked jute, since it was used to fabricate sandbags to guard squaddies in trenches and to supply gunny bags for wearing meals grain for the army. Inevitably, the fee of jute also rose sharply.

Although Bengal, particularly Eastern Bengal, was the main producer of great-uncooked jute, the first jute mill was established at Risraw near Calcutta on the financial institution of the Hugli most effective in 1855, after two decades of mechanical spinning of jute in Dundee. The delay was because of the non-availability of technical hands and power to pressure machines. In 1854, coalmines were opened at Raniganj.

Attracted by way of the smooth availability of power, George Auckland, an Englishman mounted the primary jute mill. But he could not make reasonable income and left the business. In 1859, the Bornee Company founded the second one mill with spinning and weaving facilities. Unlike the Aucland mill, it started out prospering after its establishment. Within 5 years, it doubled its plant size.

By 1866, three new mills had been established. Between 1868 and 1873, these generators made big profits. Five new groups commenced in 1874 and 8 more in 1875. Thus, Bengal experienced a real boom in jute industry closer to the cease of the nineteenth century.

With the established order of jute mills, Bengal became a chief exporter of sacking bags. Calcutta regarded to be a strong competitor of Dundee and correctly penetrated into Dundee's hessian marketplace in many components of the world, which includes America, primarily due to the fact Calcutta had the cost advantage in producing jute goods.

Secondly, it was situated in near proximity to the jute developing districts of Eastern Bengal and Assam. Thirdly, it had reasonably priced labor. Fourthly, the turbines ran for 15 to 16 hours, and occasionally even for 22 hours daily. This caused a clear gain of Calcutta producers in financial terms.

Moreover, they could provide a finer quality of jute. In sixty years between 1880 and 1940, the variety of mills increased through five times, that of looms with the aid of approximately 14 times, of spindles by 19 times, and of people employed through eleven times (see Table). The growth of the industry was substantial at some point of the twenty years between 1900 and 1920. During the Great Depression of 1929-33, the jute industry was severely hit for the reason that call for jute goods declined drastically in the course of the world.

Before it turned into positioned to industrial use, jute became used in general for domestic purposes. With the conversion of the Dundee flax turbines into jute processing turbines, the call for jute multiplied manifold in the world. Bengali peasants were enormously skilled in jute cultivation and will respond quickly to meeting this elevated call for.

In 1872, when commercial use of jute had begun, it turned into specially grown inside the districts of Pabna, Bogra, Darjeeling, Dinajpur, Rangpur and Hughli (West Bengal). The ratio of land underneath jute cultivation to overall cropped land in those districts in 1872 changed into 14%, 11%, 9%, 7%, 6% and 5% respectively. Subsequently, jute cultivation spread to different districts. Rangpur (28 %,) Bogra (25%), Tippera (comilla, 24%), Pabna (21%), Dhaka (18%), Faridpur (16%), Hughli (West Bengal, 13%), Rajshahi (11%), Jessore (10%), Nadia (10%), and Dinajpur (7%) was the main districts in terms of above ratio in the year 1914.

After the end of the First World War in 1918, the sector demand for raw jute decreased. This had a negative effect at the area beneath jute cultivation. The situation worsened for jute cultivation at some stage in the Great Depression of 1929-33. The expenses sank so low that jute growing became unprofitable. As a result, peasants substantially decreased their area underneath jute cultivation. By 1939, economic healing took place. The breaking out of the Second World War precipitated a growth inside the demand for jute and between 1939 and 1945; peasants put more areas beneath jute cultivation.

After the Partition of Bengal in 1947, it became found that all jute generators of the vicinity were in West Bengal, which became a part of India and all principal jute-developing districts became part of East Bengal, a province of Pakistan. As it had no jute turbines, East Bengal faced problems in advertising and marketing of uncooked jute. The trouble turned into, however, fast overcome by setting up jute mills in East Bengal.

The jute industry within the public sector, by distinctive feature of its location in East Pakistan, became the belongings of Bangladesh after independence in 1971. Pakistani mill owners (about 68% of the overall loom strength) left the country, leaving the industry in disarray. Abandoned jute mills have been problem to heavy looting. The new government of Bangladesh needed to soak up the responsibility of rebuilding the industry. By a Presidential order, approximately 85% of industries, including all jute mills, had been nationalized.

Bangladesh Jute Mills Corporation (BJMC) changed into shaped to manipulate and appearance after all the 73 jute turbines having 23,836 looms at that time. At one stage, the number of jute generators under the jurisdiction of BJMC went as much as 78. BJMC had to to bring back the industry from a turoiled position. Immediately after liberation, it have become very hard to solve trouble of economic difficulty of the jute enterprise because financial institutions were now not working well. The quick delivery of spares, labor unrest, wastage in production etc. Shook the enterprise severely.

For jute enterprise of Bangladesh, the first years after liberation changed into the period of reorganization. The authorities offered coins subsidy to the enterprise, which amounted to Tk 200 million annually. The annual coins subsidy turned into reduced to a hundred million since 1976-77. Thanks to this coverage and periodic devaluation of currency, Bangladesh could preserve its function of a prime exporter of jute items in the dollar areas of export. The industry earned profit in 1979-80, when the subsidy became withdrawn.

By December 1979, BJMC had seventy-seven jute generators, two carpet backing mills, and two spare elements producing units. In 1980, six twine generators had been disinvested to the private sector. In June 1981, BJMC had seventy-four generators beneath its administration. These generators had approximately 165,000 employees, 27,000 managerial, and office staff.

Denationalization of jute turbines started out in July 1982. The government ordered BJMC to complete the manner through 16 December 1982, but most effective 10 turbines might be exceeded over to Bangladeshi owners by way of that time. The valuation technique and agreement of other organizational matters referring to handing over of the generators took a long time. Among the jute mills owned by way of BJMC, forty six had satisfactory economic overall performance in

1982-83, while their profit before contribution to countrywide exchequer was approximately 240 million taka.-

The same generators incurred total losses of approximately 430 million taka inside the previous year. Jute turbines incurred losses regularly over years and outside donor agencies pressed difficult for denationalization. More and more generators had been put into the denationalization list. In 1999, BJMC had 33 turbines. The World Bank persevered to work intently with the government to restructure the jute sector, in particular through denationalization, merger, dissolution, closure and putting up of recent units.

The earnings from exporting Jute and Jute goods affect Bangladesh Economy directly. Over three million small household depends on the jute cultivation as their main source of income. It is also one the largest industry in the country. Jute industry produces about one-third of manufacturing output of the country. Jute is also the biggest agricultural export commodity in Bangladesh. 25 million people almost a fifth of our total population is depending on jute and related activities in agriculture, domestic marketing, manufacturing and trade.

Jute is renewable natural fiber as well as a bio- degradable and environmentally friendly. It is one of the few crops, which may be grown in the monsoon season. It can also be circled with rice to restore the soil fertility and structure. The leaves of jute flowers increase the fertility of the soil for sustained agriculture, and have true nutrition fee as vegetables. Use of jute sticks as gasoline and fencing material as alternative for wooden prevents deforestation. Therefore, the improved global challenge for the environment, the destiny possibilities for jute stays high.

Lest we forget, the jute industry changed into the existence blood of our economy for numerous decades and keeps to be one of the mainstays of our rural economy even today. Almost 1.5 crore farmers are involved in developing this golden crop and many more of our population, perhaps an equal number, are involved in its processing, transportation, conversion, and other related activities. In order to apprehend the current kingdom of affairs in the enterprise, one ought to check out the history of the jute enterprise and the occasions that came about over the past numerous a long time.

6.2 Current Industry Condition

1.	Average land area under jute cultivation	12.35 Lac acres
2.	Average production of jute carryover	58 Lac bales (1.04 Million Ton.) 3 “ (0.05 Million Ton.) 61 Lac bales (1.09 Million Ton)
3.	Average internal consumption of jute	38 Lac bales (0.68 Million Ton)
4.	Average Export of raw jute with value	Quantity Value 21.00 Lac bales (0.37 Million Ton 1000 Cr. Tk.
5.	Number of jute Mills:	Under BJSA 81 Under BJMA 97 Under BJMC 27 TOTAL : 205 UNITS
6.	Number of workers employed in Jute Mills (Approx.)	BJSA Mills 55,868 BJMA Mills 39,000 BJMC Mills 61,681 TOTAL: 1,56,549
7.	Average production of Jute goods	BJSA Mills 3,60,500 M. Tons BJMA Mills 1,56,500 M. Tons BJMC Mills 1,46,000 M. Tons TOTAL : 6,63,000 M. TONS

8.	Average internal consumption of Jute goods	BJSA Mills 20,000 M. Tons (yarn/twine) BJMA Mills 48,000 M. Tons (sacking/hessain) BJMC Mills 21,000 M. Tons (sacking/hessain) TOTAL : 89,000 M. TONS															
9.	Average Export of jute goods with quantity, value	<table border="1"> <thead> <tr> <th></th> <th>Quantity</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>BJSA Mills</td> <td>3,42,195</td> <td>2014</td> </tr> <tr> <td>BJMA Mills</td> <td>97,160</td> <td>58</td> </tr> <tr> <td>BJMC Mills</td> <td>96,523</td> <td>537</td> </tr> <tr> <td>TOTAL :</td> <td>5,35,878</td> <td>3139</td> </tr> </tbody> </table>		Quantity	Value	BJSA Mills	3,42,195	2014	BJMA Mills	97,160	58	BJMC Mills	96,523	537	TOTAL :	5,35,878	3139
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BJMC Mills	96,523	537															
TOTAL :	5,35,878	3139															
10.	Spindles in Jute Spinning Mills	1,75,114 Installed 1,47,124 Operated															
11.	Installed Looms in Jute Mills (As on 30 th June 2010)																
	BJMC: Installed																
	Operated	<table border="1"> <thead> <tr> <th>Hessian</th> <th>Sacking</th> <th>CBC</th> <th>Others</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>3790</td> <td>2930</td> <td>579</td> <td>21</td> <td>7320</td> </tr> <tr> <td>2341</td> <td>2930</td> <td>513</td> <td>21</td> <td>5805</td> </tr> </tbody> </table>	Hessian	Sacking	CBC	Others	Total	3790	2930	579	21	7320	2341	2930	513	21	5805
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Table 1: Bangladesh Jute Industry Summery

6.2 Industry Production and Earning

The production of this sector is rising with time. The public sector of this industry is falling but on the other hand, private sector is blooming. In 2008-2009, the sector went into decline but eventually recovered and became stronger than before. Currently its production is more than 800,000 where it used to be around 400,000 in 16 years ago. The sector has doubled its production capacity over last decade.

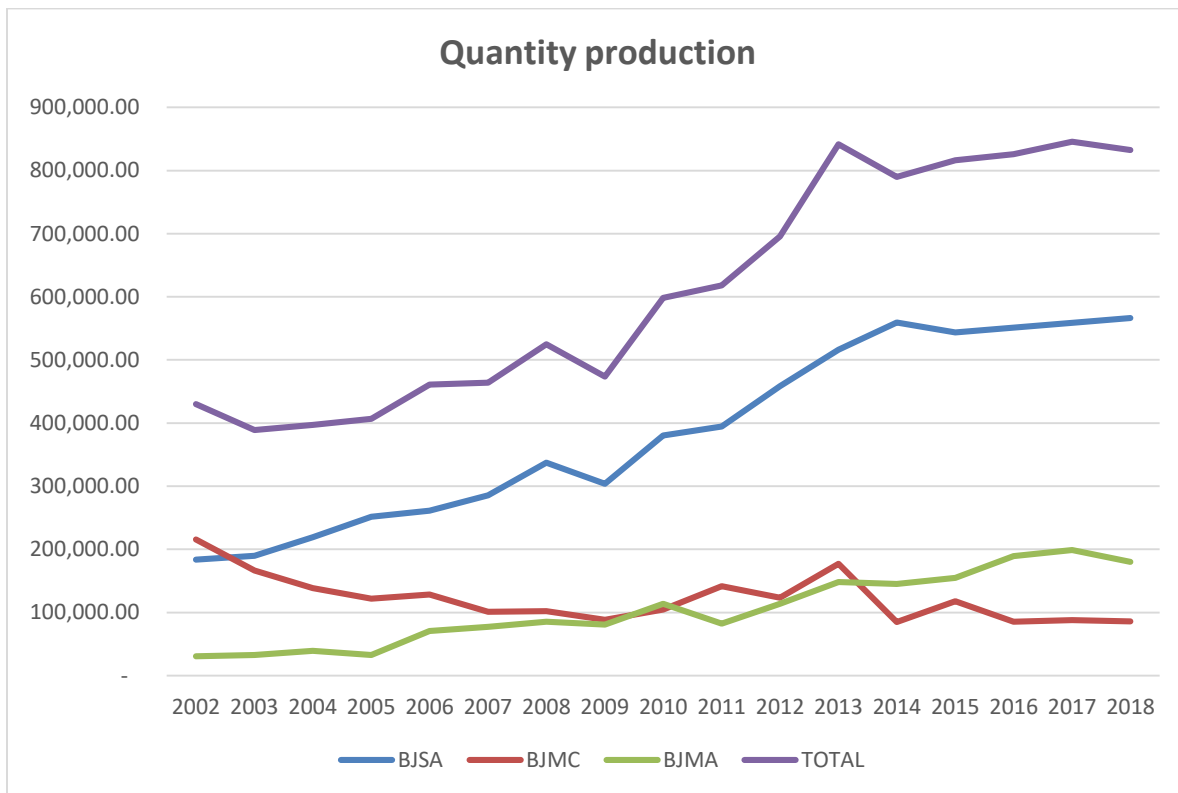


Table 2: Quantity of Jute Production 2002-2019

From the graph, we can see the performance of the Spinners manufacturers are impressive compared to others. Currently their production is 566,358, which is more, then half of the total quantity produced. Compared to spinning mills, Jute mills are not on the rising state. Their production is on the decline stage.



Table 3: Jute Export Earnings from 2002-2019

The earning from export is over 8000 Cr in 2018, which used to be less than 2000 Cr around 2002. Just like the quantity of jute goods production, BJSJ earns more than half of the total earnings of the industry. From the earnings data, we can also see that the jute mills are in the decline stage where as the spinning industry is in the rising stage.

Chapter 7

Struggles of Transocean Fibers

1. Working capital:

The company was sold to its current owner in 1995 and at that time, the company was already bank defaulter. Since then the company ran on its own income without any financial help from outside source. The company was not generating enough revenue to do payment against the loan and interest. As a result, until now the company remains as a bank defaulter does. In 2007 because of the world, financial crisis the demand of Jute goods fell down and the company suffered a devastating blow because of it. The company could not turn towards the bank as it was already a defaulter and as a result, it had to shut down in 2010. The company managed new working capital and reopened in 2017 but in the meantime, the global demand has shifted towards more refined and high quality product. The company needed to install updated, modern machinery to compete with other compotators but because they could not manage to gather sufficient fund it was not possible. This is the main reason why the company is struggling even though the industry is rising. Because of the financial burden, the company cannot expand to the next stage and compete with other players of the industry.

2. Raw Material Price :

The price of raw Jute fluctuates depending on the season. The production cost depends on the cost or raw materials. During off-season, the raw jute price doubles compared to on-season. The profit margin depends on the amount of raw jute one can store during the on season to reduce overall production cost. As the company is low on working capital, it cannot stock enough raw material until the next season. As a result, the overall production cost increases and profit decreases.

3. Equipment and Infrastructure condition :

The manufacturing plant is around 25 years old and so is all the equipment's. Though the production line was initially had capacity to produce 10,000 MT goods but currently it cannot do more than 8,000 MT. Initially the production line could produce grade 8 product but currently it cannot do above grade 10 whereas the newer and updated machine can do grade 4. The factory building is also out of shape and needs a rebuilt as it has become very old. The factory building is not equipped with the modern fire protection equipment's and water supply system. So this may cause dangerous fire outbreak anytime.

4. Ever Changing International market:

As this is an export-oriented company, it has heavily depended on the international market. Over time, the demand of the product that the factory can produce has decreased and more refined, thin and smoother goods demand has increased. Jute fiber clothing is currently very popular in the international market and big companies who could update their equipment over time has captured that market. Transocean Fibers Processors ltd can only make medium to low quality spinners that can be used to make carpets and bags.

5. International Politics:

The goods produced in Transocean Fibers is mainly used to produce carpet and bags. The main carpet manufacturing industry is in Middle East where the politician climate is not stable. Company's main business was with Iranian buyers and after their conflict with USA the business had to stop and so is with Qatar. Iraq, Syria is in unstable condition and so is their manufacturing market. Another main buyer is India but to save their local market the Indian government puts tariff on our jute product depending on their market condition. So business with India is not stable.

6. Competition :

As the industry is very profitable and there is huge demand in the international market, many new investors have invested money into building jute-processing factories. The number of companies has doubled since last decade and as a result, the concentration level of rival has gone up. Big conglomerates have invested heavily into building factories with high production capacity with modern machineries. Compared to the old producers, they can produce refined and high quality products, which is very demandable among buyers. Their production capacity is also very high and that acts as an authentic and attractive feature to the foreign buyers. Buyers now have a huge list of producers to choose from and that gave them higher bargaining power over the price of the product. Compare to before the profit margin has gone down in per product sale. The companies with larger capacity can compensate the price with quantity but on the other hand companies as Transocean Fibers is struggling to survive.

Chapter 7

Conclusion

The jute industry of Bangladesh have crossed a long and struggling path in the international market and now they are the major shareholder in terms of production. Our production capacity has doubled in last sixteen years. In 2002 Bangladesh used to earned 1685.97 Cr BDT, and in 2019 we earned 832,227.90 Cr BDT from exporting Jute goods. The difference is 6632.43 Cr BDT in from 2002 to 2019 data. This has been possible because of the contribution from both public and private sector. The government policy was friendly for the investors and as a result, many new investors came into this field and took the industry to the place its now in. On the contrary, companies like Transocean Fibers is still struggling to survive even though the industry is blooming. The main reason behind that is lack of net working capital. Because of insufficient fund, they cannot buy enough raw material in season for the whole year and therefore their production cost is high. Companies like this is struggling to manage enough capital to update their equipment and be in the same level as their new rivals. The demand of international market has shifted towards more refined and high quality goods, which can only be produced in newer equipment's. The bargaining power has shifted towards buyers as the concentration of manufacturer in this industry has increased over last decade and that has put companies like Transocean Fibers in a tough position as per unit price has went down compared to before. In a nutshell the company has to find new investors and update their machineries to come out from this position and to compete with the competitors.

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