

VALUE ADDED SERVICES

by

Malcolm Newbery, November 2018

The supplier's offer

This in-depth article follows on from a previous one on the subject of Sourcing Decision Making. But it does so from the perspective of the supplier. It considers what they the suppliers want, and how they get it from their customers' sourcing managers during negotiations.

If you are an apparel manufacturer anywhere in the world, you will know one basic fact. Just turning up at the buyer's office and saying "here I am; what do you want me to make?" invites the reply "nothing, thank you; just go away". You have to turn up and say "here I am; this is what I can offer you"

So what should clothing manufacturers be offering in today's sophisticated and competitive fashion industry? Certainly not just low cost, although it still matters.

My suggestion is that every potential apparel supplier should look at themselves, and be sure they can offer the following added value services, as well as just being a manufacturer

- ❖ I can organise and buy the fabric to your specification
- ❖ I can source trims (accessories)
- ❖ I can organise shipping from my end

but in addition

- ❖ I have a work in progress (WIP) system that can report exactly the status of your order
- ❖ My designers can adapt your ideas for manufacture
- ❖ I have CAD/CAM systems for pattern making as well as cutting
- ❖ I can manage quality control (QC) to your instruction requirements
- ❖ I have the systems for emails, textile labelling, barcoding etc.
- ❖ I have sophisticated packaging management skills

In total, today's supplier is saying "trust me; I can take these problems off your hands"

The value added curve

I have used the added value curve reproduced here as Figure 1, to discuss with manufacturing clients

- ❖ How to add value to their manufacturing offer
- ❖ How much extra value this might add (challenging them to cost and quantify the potential benefits of each additional value added service)

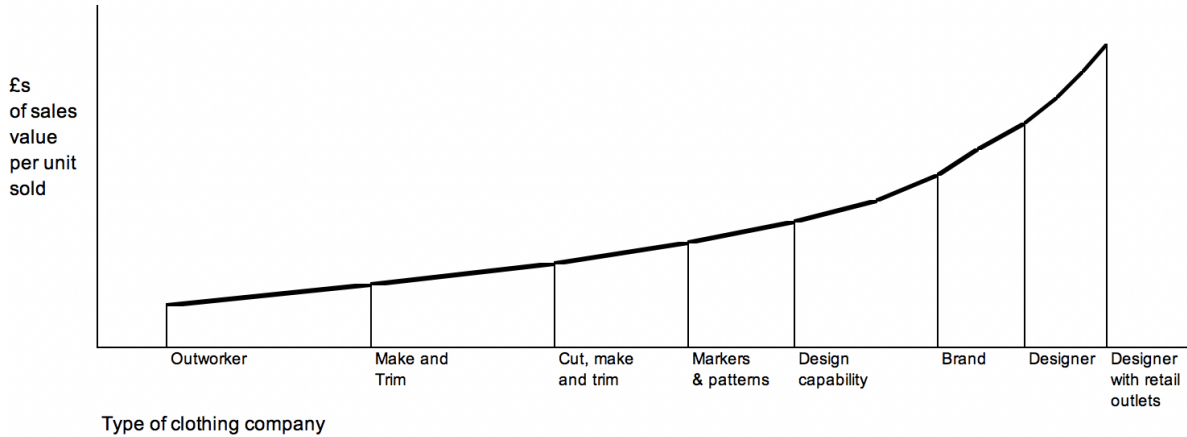
The curve has eight types of supplier on it. They are

1. Outworker. An individual with a sewing machine, potentially working from home, in a small communal incubator facility, or from a designer's atelier. They merely sew the garment from cut parts. They probably do not even press them. Cut parts are brought to them, and garments are collected, by whoever they are working for. This is the most primitive manufacturing business in the industry
2. Make and trim. A factory with no cutting room. It receives cut parts and sews and finishes the garment, probably to pressing stage but usually without any end of line activities like bagging, barcoding etc. The customer has to deal with fabric, patterns and cutting
3. Cut, make and trim (CMT). Like number 2, but with the addition of a cutting room, but no pattern capability. Still found frequently in low cost countries.
4. Markers and patterns capability. As for number 3, but with the addition of pattern creation and marker making for each cut. These skills can be either by hand (traditional) or using modern computer systems
5. Design capability. Able to take a customer's artwork, and turn it into samples that can be manufactured using mass production methods. This service obviates the need for the customer to make samples themselves
6. Brand. The supplier has the skills required to support its own brand. These can be used (sold) for the benefit of customers. The customers for this service are usually own label retailers, who wish to avoid doing the tasks themselves
7. Designer. A brand which has added the status of designer to the way it is perceived. Burberry was once a brand, specialising in trench coats. Most people today would see them as a designer brand
8. Designer with retail outlets. The final step. Forwards integration into being a retailer, and hence selling at retail, not at wholesale or manufacturer prices. Brands (number 6) can do this as well. The curve is not as simple as I have make it look

Eight types of business in the clothing value added chain

ADDED VALUE IN THE CLOTHING INDUSTRY

Eight types of business in the clothing added value chain



Source: Malcolm Newbery Consulting Ltd.

The importance of extra sourcing manufacturing skills

Many companies from low cost countries are now realising and accepting that just being cheap is no guarantee that the buyer will want to work with you. The most obvious example is the world's largest sourcing organisation Li and Fung. Headquartered in Hong Kong, but with international sourcing capability, it recognised a considerable number of years ago, that added value services were the way to tie in the retail or brand buyer.

Li and Fung is, quite simply, the largest sourcing and logistics operation in the world (even though it has recently spun off logistics into a different company). It has

- ❖ 80 offices worldwide and operates in 40 economies
- ❖ Over 12,000 active suppliers that it manages
- ❖ 20 million square feet of warehouse space
- ❖ Processing around 100 million units per day

In addition, its omni-channel services include

- ❖ Inventory control
- ❖ Purchase order management
- ❖ Online integration
- ❖ Marketing and customer traffic generation

Obviously, within this raft of services are all of the added value skills mentioned in the write-up prior to the above chart.

Another less well-known organisation selling added value services is GIA of Pakistan. Founded by a Pakistani mechanical engineer, who was schooled and worked in Germany, it was early to offer extra services it could provide to its client companies. In GIA's case, these include

- ❖ Quality control tests of raw materials
- ❖ Colour fastness tests of fabrics
- ❖ Computerised pattern making and marker facilities
- ❖ In-house design facilities

as well as the recognised and now expected work in progress (WIP) process controls, quality control of sewing, logistics and shipping services. The company has invested in an ERP system to automate the monitoring of the supply chain process in its 20 odd supplier partner factories, all local to Karachi for easy management control.

Discussion of the monetary value of providing extra supplier services

Earlier in this article, I argued that if, as a supplier, you do not provide these extra services, you will not be a supplier for very long. But I also suggested that, as a consultant, I challenge my manufacturing clients to quantify the cost and benefits of each of them. So I need to provide you with a framework for doing this for yourselves (although I would be very happy to help you!)

In the table below, I have taken a theoretical garment, and given indicative targets for the added value for each of the eight business types. It can only be indicative because every business situation is unique. The garment chosen is a ladies blouse

- ❖ Long sleeved
- ❖ V-point collar
- ❖ Centre placket buttons
- ❖ Slightly shaped
- ❖ Some stitch detail

The garment is priced in US\$, will be made in a low cost country (China is an option, Bangladesh is not because of the added value skills required) and has

- ❖ Sewing time of 20 standard minutes
- ❖ Three different fabric costs depending on whether it is for the budget, mass or designer end of the market

The estimates of the added value obtainable by offering extra services are my own, from my own experience. The extra value added services are

- ❖ Fabric management, which is a percentage of the fabric cost. This applies to business types 4-7. The presumption is that for business types 1-3, the customer (brand or own label retailer) will organise the fabric and "give" it to the manufacturer, as that is the basis of a CMT manufacturing quote
- ❖ Cutting cost, which is a percentage of sew. This applies to business types 3-7. The presumption is that for business types 1-2, the customer (brand or own label retailer) will organise cutting and "give" the cut parts to the manufacturer, as that is the basis of an outworker or MT (make and trim) manufacturing quote
- ❖ Finishing cost, which is a percentage of sew. This applies to business types 2-7. The presumption is that for business type 1, the customer (brand or own label retailer) will finish the garment
- ❖ Markers and pattern cost, which is a percentage of sew. This applies to business types 4-7. The presumption is that for business types 1-3, the customer (brand or own label retailer) has to provide this service in exchange for an outworker, MT, or CMT manufacturing quote
- ❖ Design, which is a percentage of sew. This applies to business types 5-7. The supplier has the skills to take the customer's artwork or garment idea, and turn it into a mass production manufacturing sample
- ❖ Other services cost, which is a percentage of sew. This applies to business types 4-7. The presumption is that for business types 1-3, the manufacturer does not have these skills
- ❖ Shipping, which is a percentage of sew. This also applies to business types 4-7, who can offer CIF (cost, insurance and freight). The presumption is that for business types 1-3, the manufacturer does not have these skills, and hence the customer (brand or own label retailer) has to organise FOB (free on board) shipping itself
- ❖ Business type 8, the designer with retail stores does not appear on the table below. Their value added (the fact that they are selling at retail not wholesale prices) is needed to pay for the overhead cost of the shops, and for a retailers head office, warehouse, IT etc.

The table has been split into two, for ease of reading

- ❖ Table 1.1 has the explanations, the assumptions, and business types 1-3
- ❖ Table 1.2 has the explanations, the assumptions, and business types 4-7

Value Added Services [Table 1.1]

Explanation	Assumption	Out worker	Make + trim	Cut, make + trim
Sewing work content	20 minutes			
Sewing cost per SM, US\$		\$0.025	\$0.030	\$0.035
Sewing cost, US\$		\$0.50	\$0.60	\$0.70
Fabric utilisation, metres	1.5 linear metres			
Fabric cost, low	US\$4	\$6.00	\$6.00	\$6.00
Fabric management, % of fabric cost	3%			
Cutting cost, % of sew	8%			\$0.056
Finishing cost, % of sew	7%		\$0.042	\$0.049
Markers & patterns, % of sew	10%			
Design, % of sew	12%			
Other services, % of sew	10%			
Shipping CIF, % of sew	8%			
Added value chargeable US%			\$0.042	\$0.105
Sew plus added value US\$		\$0.50	\$0.64	\$0.81
Profit % of manufacturing cost	10%	\$0.05	\$0.06	\$0.08
Effective added value per estimated standard hour sewing		\$33.00	\$42.37	\$55.13
Selling price of garment excluding factory overheads		\$6.55	\$6.71	\$6.89

Source: Malcolm Newbery Consulting Ltd.

Value Added Services [Table 1.2]

Explanation	Assumption	With patterns and markers	With design capability	Brand	Designer
Sewing work content	20 minutes				
Sewing cost per SM, US\$		\$0.040	\$0.045	\$0.045	\$0.050
Sewing cost, US\$					
Fabric utilisation, metres	1.5 linear metres				
Fabric cost, medium	US\$7	\$10.50	\$10.50	\$10.50	
Fabric cost, high	US\$15				\$22.50
Fabric management, % of fabric cost	3%	\$0.315	\$0.315	\$0.315	\$0.675
Cutting cost, % of sew	8%	\$0.064	\$0.072	\$0.072	\$0.080
Finishing cost, % of sew	7%	\$0.056	\$0.063	\$0.063	\$0.070
Markers & patterns, % of sew	10%	\$0.080	\$0.090	\$0.090	\$0.100
Design, % of sew	12%		\$0.108	\$0.108	\$0.120
Other services, % of sew	10%	\$0.080	\$0.090	\$0.090	\$0.100
Shipping CIF, % of sew	8%	\$0.064	\$0.072	\$0.072	\$0.080
Added value chargeable US%		\$0.659	\$0.810	\$0.810	\$1.225
Sew plus added value US\$		\$1.46	\$1.71	\$1.71	\$2.23
Profit % of manufacturing cost	10%	\$0.15	\$0.17	\$0.17	\$0.22
Effective added value per estimated standard hour sewing		\$96.29	\$112.86	\$112.86	\$146.85
Selling price of garment, excluding factory overheads		\$12.10	\$12.38	\$12.38	\$24.95

Source: Malcolm Newbery Consulting Ltd.

Within this rather complex set of theoretical calculations in the table above, a few key points deserve making

- ❖ The final selling price excluding factory overheads is intensely influenced by the value of the fabric
- ❖ But whereas the out worker sells for US\$6.55, the designer manufacturer sells for US\$24.95, nearly four times as much
- ❖ The added value created by the extra services ranges for nothing for the out worker (who is purely selling labour) to US\$1.225 for the designer manufacturer (who is getting more than 100% of the sewing labour cost for delivering all of the extra services)
- ❖ In a low cost country (and I have used a current China direct labour cost estimate), adding value leverages the sewing labour enormously
- ❖ And as sewing labour determines the capacity of the factory, this can be very profitable
- ❖ But all those skills and services cost money and that adds to the overheads

It is a fascinating exercise that the manufacturer must do, but it is also necessary, as brand and own label customer try continuously to lower their costs, and push cost backwards up the supply chain to the supplier.