

BANGLADESH ASIA

CBI Key Performance Indicators - Practical outsourcing insights

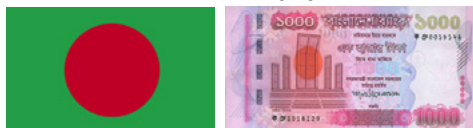


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Ministry of Foreign affairs of the Netherlands



Production centra Dhaka & Chittagong



National Flag & currency: Taka



Production centra Dhaka & Chittagong. Bangladesh is second in rank after China in exports to the world

1. BASE DATA COUNTRY

Capital: Dhaka 16 million inhabitants
Other cities: Chittagong 4.816 million, Khulna 1.636 million; Rajshahi 853,000
Language: Bengali, English
Government: People's Republic of Bangladesh
Business Hours: Monday-Thursday, Saturday, Sunday 8.00am-6.00pm; Friday free day
Currency, exchange rate: Taka, 10 Euro= 1057 taka (BDT)
Time: GMT+ 6
Population in millions: 164 million
Religion: Islamic- Muslim
Climate: Tropic, humid

2. GARMENT SECTOR PRODUCTION DATA

GSP/ FTA with EU: FTA with EU, GSP+
Import duties: 0%
Working days a year: 270 days/ year
Working days a week: 6 days
Working hours: 48 hours/ week, 8-10 hours day
Wages: 50 -80 US
Legal Minimum wage: 2008: rise from 1800 (25US) Taka to 3000 Taka
2010: new law: 3500 Taka (BDT) (48 US)
2013: new labour law in parliament (july 2013)

after Rana Plaza collapse

Factory shift: up to 3 per day
Overtime: 15- 40 BDT per hour
Interest rates: 18% and up (borrowing & lending)
Standard allowed minute cost: 0.05-0.06
Production cost index: 11, one of the lowest in 2013 industry
Political risk: High
Economic Risk: Low
Financial Risk: Low
Production type: RMG 100%
Production centra: Dhaka & Chittagong
Factory size: 300-3000/5000+
Product groups: knitted and woven; T shirts, pullovers, sweatshirts. Trousers, blouses & shirts, denim, jackets and outerwear
Main fabrics: cotton, cotton blends & viscose-lycra, MMF like acrylic in flat knitting, fleece
Sourcing partner countries: Pakistan, India, China
Local fabrics: cotton yarn mostly imported, vertical integration set up produce all kinds of circular and flat knitted fabrics and woven fabrics as well
Leadtime: 45-90 days depending on structure
Shipping: air or vessel- Chittagong port
Payment: LC at sight
Incoterms: FOB, CNF, CAD, LDP, DDP

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CLIENTS AND EXPORTS

Main EU importing nations:
Germany, UK, France, Italy, Spain, Netherlands
Key EU brands/ retailers i.e:
Zara, H&M, Carrefour, Auchan, Takko
Key US brands/ retailers i.e.:
Walmart, Tesco, JC Penny e.m.o

BUSINESS CONTACTS: TRADE & SECTOR ASSOCIATIONS

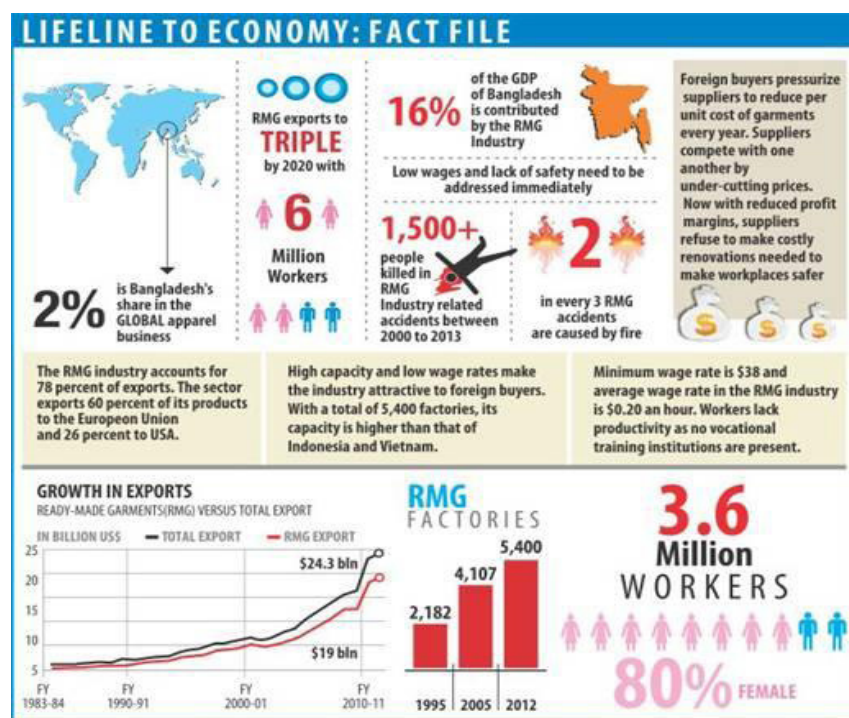
BGMEA Bangladeshi Garment Manufacturers export association
BKMEA Bangladeshi Knitwear Manufacturers export association

3. MAIN APPAREL IMPORTS INTO THE EUROPEAN UNION (EU15)

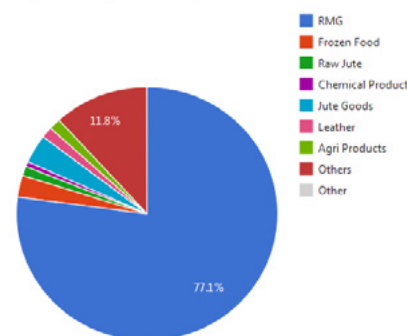
HS CODE	KNITTED	61	61
NL	Bangladesh	January - June 2012 € 196.621.814	January - June 2013 € 211.674.370
EU (27)	Bangladesh	€ 2.430.443.871	€ 2.489.168.693
HS CODE	WOVEN (Not knitted)	62	62
NL	Bangladesh	January - June 2012 € 96.927.424	January - June 2013 € 127.676.667
EU (27)	Bangladesh	€ 1.659.063.974	€ 1.823.556.489

The garments industry (RMG) is the backbone of Bangladesh's economy, earning about \$12bn a year - nearly 80% of the country's total exports. (Source: Modint)

4. SECTOR DEVELOPMENTS & TRENDS 2013



Major Products exports from Bangladesh of 2009-10



Source: Fibre2fashion.com



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24TH APRIL 2013: COLLAPSE RANA PLAZA; OVER 1100 PEOPLE KILLED

24TH NOVEMBER 2012: TAZREEN FIRE; HUNDREDS ARE KILLED

With recent tragedies taking place in the Bangladeshi RMG sector the worlds call for safety in production environments has reached a new level. Not only is the integrity of the garment industry and its global buyers strongly questioned, fear of GSP cancellation by the EU made the business mood gloomy and has caused anxiety.

What are the prospects and scopes of improvement?

The industry generates a total of \$19 billion in exports and employs 3.6 million workers dispersed among 5,400 factories. Currently the sector accounts for 78 percent of exports and contributes 16 percent to the gross domestic product.

Expectations of rapid industrialisation in future years invariably indicate further growth of the garment sector. This is also because China, the largest exporter of manufactured garments in the world, is losing its appeal in the apparel realm due to labour shortages and higher wages.

A 2013 McKinsey report suggests that 86 percent of the chief purchasing officers (CFO's of international brands and fashion buying houses) in their survey wanted to move out of China, and Bangladesh is their next preferred destination. The country is expected to gain much of China's share. Expectation of annual growth mount to 15% per annum.

The current average wage rate in the sector is one of the lowest in the world. Cheap labour is abundant, capacity is another primary advantage.

Though industrial accidents are a recurring phenomenon, the trend is not exclusive to Bangladesh. Sector development hampered: a background on garment buying. Due to the EU economical crises retail marges are under fierce pressure. Foreign buyers squeeze the suppliers to sliver the cost per unit of garments. Garment manufacturers, on the other hand, compete with each other by under-cutting one another's prices; consequently price declines further.

With a lower profit margin, manufacturers refuse to undertake costly renovations and discover different means of maximising profit. With export volume going up but value going down Bengali exporters are faced with profit margins declining to break even – or less.

One way to reduce cost is done by subcontracting their production to smaller non-complaint factories. Sometimes this is carried out without the knowledge of the foreign buyers and that is why a lot of global clothing brands deny their authorisations in the factories.

	BANGLADESH	INDONESIA	MYANMAR	VIETNAM	CAMBODIA
Capacity Number of factories	5.400	2.450	---	2.000	260
Political risk	High	Medium	Very High	Medium	Low
Economic Risk	Low	Low	High	High	Low
Financial Risk	Low	Low	Low	Low	--
Production cost index	11	17	41	12	13
Standard allowed minute cost	0.04-0.05	0.08	0.19	0.06	0.10-0.12
Working days	270	292	238	288	251
Working hours	48	48	40	48	40
Population in million	164	327	47	86	1.330

Regional comparison



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SECTOR GROWTH FACED WITH COUNTRY SPECIFIC BOTTLENECKS

- Since vocational training does not exist, the majority of workers receive training on the job or in regional basic sewing schools, illiteracy rate is over 48%
 - Many of the garment industry workers are “single skilled” meaning they master one single operation, this makes them easy replaceable but limits their value for value – added complex products
 - The ongoing labour unrest in the country is restraining suppliers from planning production.
 - Pressure is build suppliers in Bangladesh to improve work conditions and push for constitution of democratic labour committees that can negotiate with factory workers on wages and working conditions.
 - Bangladesh should divers into other products such as high value garment and services sector.
 - These points below continue to hinder exports from Bangladesh.
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- Infrastructure deficit
 - Lack of appropriate skills
 - Lack of compliance
 - Price pressure global markets
 - Capacity issue- subcontracting
 - New factory development
 - Weak regulatory environment
 - Bad energy
 - Strikes





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5. FORECASTS 2014 ONWARDS USP & SWOT

Despite the tragic incidents the forecasts for Bangladesh are positive. Far from marking the beginning of the end of the industry the changes underway have set the industry on a course to become a world class player.

Bangladesh as the catalyst for changes in the supply chain

Instead of a widespread blacklisting by customers and a shift in orders away to f.i. Pakistan, recent figures show garment exports continue to soar.

Till June 2013 the RMG industry reported a 13% rise in garment exports to US. With the launch of the Accord on Fire and Building Safety (EU) combined with the North American Alliance for Bangladesh Worker Safety: The Safety Initiative the level of seriousness from the suppliers, buyers and the government is amazing to work together in solving the industry issues. (see appendix 1 for enrolled companies that signed The Accord)

Factory inspection plans

This massive shake-up is being driven by retailers and brands in Europe and North America - including Wal-Mart, Gap, VF Corp, H&M, Inditex (the owner of Zara) and Marks & Spencer - who are moving forward with two separate plans to inspect all their supplier factories in the country.

The companies part of the Accord on Fire and Building Safety in Bangladesh intend to examine around 1,500 factories. They will also offer funds and assistance with remedial action - including the relocation and rebuilding of unsafe factories - where necessary.

Bangladeshi government on the other hand has announced the National Tripartite Action Plan on Building and Fire Safety, which has committed to assessing the structural building safety and fire safety of all active export-oriented

ready-made garment factories in Bangladesh, including hiring and training at least 800 inspectors.

Compliance casualties

Part of the challenge also relates to the industry's current structure, and its rapid and unregulated growth – in just a few years from 400 or so called top-class facilities at one end to around 2,500 small-scale “cottage” producers with anything from two to six lines at the other at current stage. It are mostly these small to medium sized facilities that are most vulnerable, lacking the funds to invest in fire and building safety or to cover the cost of relocation from unsafe urban premises to newly-built rural ones.

CBI Intervention program 2013-2018 Best Practice Bangladesh.

In order to assist the sector with its needed transformation to a higher compliance rate (now 17% only) and to improve working conditions but also to focus on product diversification, the CBI has announced a new Integral Export program running from 2013-2018.

Main focus of this program will be:

- To improve CSR compliance
- To improve labour standards in close collaboration with partners like ILO- Better Work- BGMEA- BKMEA- DCCI- GIZ
- To make sure workers developed from single skilled to multi skilled in order to trade up to higher market segments in the global garment market
- To not only include front runner companies but appoint them as mentors for the so called “bottom feeders” the 2nd and 3rd tier suppliers that cause most compliance casualties.

Source : Nash international



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6. VALUE CHAIN AND MARKET CHANNELS

Although the Bangladesh RMG sector is still known for catering to the low- and even to the discount segment of the apparel market due to its low labour cost and large capacity, the options to supply to other market segments are a strong focus for future business. This is in line with the international aim to improve compliancy rate and labour conditions, feeding as well to the global dialogue to normalise the minimum price of a garment that is considered fair and acceptable.

	PRODUCT CRITERIA	BRAND NAMES	FASHION CRITERIA
High price luxury segment Market share 5%	Limited collections, made with special care; sometimes hand-made, high quality materials Designer / brand name stands for exclusivity and fashionable clothes	Future segments to explore with adapted value added products.	High fashionable collections Exclusively designed materials and artworks Trend-setting in fashion
Upper middle price segment Market share 15%	Collections are produced after pre-sale; extra attention to fitting and accessories Brand-name goods, good quality materials, broad range of design	Future segments to explore with adapted value added products.	Large variety of styles and materials Styles and fitting are vitally important "Style lab" products in line with the latest fashion trends; experimental like Raw denim-coated denim ect..
Middle price segment Market share 30%	Trend-following and large variety in assortment; brand-name goods Branding vitally important	Future segments to explore with adapted value added products.	Fashion feel and Good fitting is important. Recognizable by brand-name, visible on outside
Low to middle price segment Market share 40%	Produced in larger quantities to lower the price; fancy fashion styles, less changes to patterns,	C&A, WE, HEMA, Etam, Hennes & Mauritz, Zara, Mango, Topshop, River Island, Vero Moda, Villa, Jack & Jones, Shoeby	Collections with a view to the current fashions High fashionable, close to trends
Discount segment Market share 10%	Large quantities- fashion following standardised fitting.	Primark (fashion), Zeeman, Aldi (low end designs)Wibra, Jomo	Fashion following- close to trends only at cheap cost; price is the argument

Source: Nash International



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7. BUSINESS CONTACTS & REFERENCES

Trade & sector associations

BGMEA Bangladeshi Garment Manufacturers export association

www.bgmea.com.bd

BKMEA Bangladeshi Knitwear Manufacturers export association

www.bkmea.com

DCCI: Dhaka Chamber of Commerce & Industry

www.dhakachamber.com

ILO- Better Work Country Office

www.betterwork.org

Build: Business Initiative Leading Development

www.buildbd.org

GIZ: Deutsche Gesellschaft für Internationale Zusammenarbeit

www.giz.de/bangladesh



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Appendix 1

A total of 82 companies have now signed the new Accord on Fire and Building Safety in Bangladesh following the collapse of the Rana Plaza factory building in April, which killed more than 1,100 people.

The legally-binding five-year agreement will see independent safety inspections with public reports on all Bangladeshi suppliers used by the signatory companies, mandatory repairs and renovations, the obligation by brands to underwrite the costs of safety upgrades, and repercussions for suppliers that refuse to improve conditions including the termination of business.

Company	Global headquarters
Abercrombie & Fitch	US
Aldi	Germany
American Eagle Outfitters	US
Auchan	France
Belotex *	Bulgaria
Benetton	Italy
Bestseller	Denmark
Bonmarche	UK
C&A	Germany
Camaieu	France
Carrefour	France
Charles Vögele	Switzerland
Chicca *	Japan
Comtex *	Germany
COOP Denmark	Denmark
Cotton On	Australia
Dansk Supermarked	Denmark
Daytex *	Germany
Debenhams	UK
Distra *	Germany
DK Company	Denmark
El Corte Inglés	Spain
Ernstings's Family	Germany
Esprit	Hong Kong
Fast Retailing	Japan
Fat Face	UK
Forever New	Australia
G-Star	Netherlands
Hennes & Mauritz (H&M)	Sweden
Helly Hansen	Norway
Hema	Denmark
Hemtex AB *	Sweden
Herding Heimtextil *	Germany
Hess Natur	Germany
Horizonte *	Brazil
IC Companys	Denmark
Inditex	Spain
JCB	Belgium
Jogilo *	Belgium
John Lewis	UK
Juritex	Netherlands

Company	Global headquarters
Karstadt *	Germany
KappAhl	Sweden
KiK	Germany
Kmart Australia	Australia
LC Waikiki	Turkey
Leclerc *	France
Lidl	Germany
Loblaw	Canada
Mango	Spain
Marks & Spencer (M&S)	UK
Metro Group	Germany
Mothercare	UK
Multiline *	Bangladesh
N Brown Group	UK
New Look	UK
Next	UK
Otto Group	Germany
Primark	UK
Puma	Germany
PVH	US
PWT Group	Denmark
Rewe	Germany
S Oliver	Germany
Sainsbury's	UK
Schmidt Group *	Hong Kong
Scoop NYC	US
Sean John	US
Shop Direct	UK
Stockmann	Finland
Switcher *	Switzerland
Target Australia	Australia
Tchibo	Germany
Tesco	UK
Texman	Denmark
Topgrade International *	Hong Kong
V&D	Netherlands
Van der Erve NV*	Belgium
Varner Group *	Norway
Voice Norge AS*	Norway
We Europe	Netherlands
Zeeman	Netherlands

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