

Analysis of manufacturing in bangladesh

Business



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Analysis of manufacturing in Bangladesh BY catgut_723 Stardust Report
Analysis of Manufacturing in Bangladesh The Purpose of the Report Thank you for your confidence and trust in me regarding your current concerns about Stardust's manufacturing options for the future. I understand you are looking for a way for Stardust to gain and sustain success in the fashion clothing market. I also understand you are considering outsourcing production overseas to Bangladesh, but you want to make sure to satisfy your Joint priorities of making the enterprise both competitive and ethical.

As a participant in extensive market research projects in the past, many focusing on the Asian business landscape, I can help you with your concerns and provide you with some solid recommendations. In the following report, I will provide background information and discuss the ethical issues of outsourcing to Bangladesh as well as provide a breakdown of cost issues. I will outline the positive and negative aspects of each alternative.

After considering the alternatives, I found that a solution of fair trade will suit your organization and will lead to long-term success, keeping in mind the challenges involved in following that strategy.

Manufacture Offshore or Not? Ethical Issues in Bangladesh Since 2005, Bangladesh has had catastrophes in which some garment factories caught fire or collapsed and caused the deaths of at least 1800 workers (Accord, 2014). Working conditions in the factories are very poor, and workers are constantly afraid of disasters and abuses while they are working. Moreover, the factory owners pay workers very low wages with long working hours and no overtime rates. Western companies used to manufacture in China, but

they prefer Bangladesh now because it has the lowest costs (Saunders, 2013).

Although those companies are criticized cause they ignore the ethics and safety issues in Bangladesh, Bangladesh wants to improve its domestic economy and living standards through exporting manufactured goods.

Like the situation in the chocolate and coffee industries in different areas of the world, child labor is one of the abuses. In West Africa, Ivory Coast alone supplies 40 percent of chocolate in the world, but the chocolate industry there uses many child workers who were trafficked from neighboring countries and sold into slave labor for little or no wages.

To try to change this, non-profit organizations are creating list of fair trade chocolate companies with the “ slave free” label to satisfy consumers’ ethical concerns and thus gain a competitive advantage (Theresa, 2014).

Fair trade is a way to set up environmental and social standards and create a sustainable economic development and international trading system. It protects producers and benefits everyone involved (Fair Trade Vancouver, n.

D.). I think this concept could also be used in the garment industry in Bangladesh. Manufacture Offshore or Not?

Financial Costs in Bangladesh Despite the incidents in Bangladesh, the value of merchandise exports increased by 7. Percent in January 2014, which leads Bangladesh to become the second largest apparel exporter after China (Accord, 2014).

The Bangladesh labor cost is only 23 cents per hour whereas in India, Pakistan and China the labor costs are 41, 43, and 89 cents per hour respectively (Susan, 2010). That is the main reason why so many Western companies choose Bangladesh for their offshore manufacturing. However, transportation and logistics costs are very high in terms of both time and money, since most of the shipping is by ocean freight.

Furthermore, time and culture differences raise communications challenges (Larkin, 2008). When calculating realistic product costs, assessing the availability of local materials and suppliers, tax regulations, import duties and local manufacturing competence are very important for companies considering offshore outsourcing.

Specific know-how is required to judge whether the local suppliers and materials can meet the business's quality targets and how much time it will take to put in place local material and component suppliers (Gross, 2006).

A study of outsourcing strategies for apparel manufacture shows that outsourcing could represent up to 26 percent increase in profits after other costs, such as shipping, are included. However, the lead-time is very significant; for this reason, outsourcing is not a good solution for meeting short-term demands (Kumar, 2008). Since Stardust is a start-up company and therefore does not have much experience in the industry, it is critical to do extensive market research to find out the better manufacturers and have a relatively accurate estimate of the lead-time for product replenishment which could ensure less stock-out situations.

In consequence, Stardust would spend extra amount of money and effort for that comparing with large companies. Finally, statistics show that many small and midsized U.

S. Companies fail in offshore outsourcing for various reasons: lack of a clear strategy, do not understand business culture in Asia, do not have enough bargaining power to influence contract manufacturers, and have no control over day-to-day operations (Larkin, 2008). These are also potential risks related to manufacturing offshore which may cause real financial costs if the business does not take them seriously.

Financial Costs in Canada Comparing to Bangladesh, a high-end knitwear company which produces Partakers sweaters, gloves and berets chooses to manufacture in Canada. However, today it has cut half of the staff in order to complement the falling revenue from \$30 million over the past decade to \$20 million in 2013.

The founder estimates that he could increase at least 30 percent profit margin if he manufactures offshore. On one side, the quality and speed to market are two main reasons producing in North America, but on the other side, the hourly labor costs are 50 times greater than Bangladesh.

The minimum wage in Canada is \$10.25. Adding in other pensions and benefits, the wages are likely to be as much as \$20, which is not comparable with 23 cents per hour in Bangladesh (Strauss, 2013). Ethical Costs in Bangladesh In order to evaluate the ethical costs in Bangladesh, we need to figure out what and how much are the negative impacts on our business regarding those issues.

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First of all, we have to think from consumers' perspective because if they care much about unethical production and boycott our products, we would lose profits.

A research study shows that in 2010 about 58 percent Canadian consider themselves to be ethical consumers and women represent 64 percent of them. Moreover, according to Figure 1, three in ten consumers claim that they would spend \$15 more for a \$100 reduce if it was made ethically. Among all, on average woman and millennial (aged 18-29) would be willing to spend the most. Since Stardust targeting segment is fashion as'

N. Y teens and pre-teens, and the actual potential buyers for Stardust are their mothers, mostly in the early stage of their middle age.

They tend to show more concerns of ethics and would like to teach their children to become ethical people in the future, therefore, being an ethical clothing retailer will put us in a better position in the completion.

108521510795 Figure 1 Source: Adapted from Abacus Data and the Corporate and Community Social Responsibility Conference, " Ethical Consumerism and Canadians," Part 2 of the Corporate and Community Social Responsibility Research Series, December 2010. P.

8. [Http://abacuses.ca/WAP-content/uploads/2011101 /SCARS-Ethical-Consumerism- Final. Deflowered](http://abacuses.ca/WAP-content/uploads/2011101/SCARS-Ethical-Consumerism-Final.pdf), according to Figure 2, the research also illustrates that conditional ethical consumers with 60 percent represent the largest segment in Canada. Conditional ethical consumers are people who do not have a strong self-identity as an ethical consumer and their purchasing behavior is easy to change.

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For this reason, even we can charge some price premiums, we have to be careful how price sensitive are our consumers. 130429043815Figure 2 Corporate and Community Social Responsibility Research Series, December 2010. P. 10. [Http://abacuses.com](http://abacuses.com).

[A/WAP-content/uploads/2011/10/1/SCARS-Ethical-Consumerism-Final.pdf](http://www.wap-content/uploads/2011/10/1/SCARS-Ethical-Consumerism-Final.pdf).

Epithetical Costs in Canada Canada is a well-developed country, and workers are protected by law. The workplace standard is very high in order to ensure worker's rights. As well as having a minimum wage, workers receive many benefits such as vacation pay and sick pay, and are often represented by strong trade unions. In addition, companies are obliged by law to pay overtime rates. The employer also contributes to the costs of health care and worker health and life insurance.

Therefore, the ethical standards in the Canadian workplace are much higher than Bangladesh. Manufacture Offshore with Fair Trade According to the financial and ethical costs discussed above, I think manufacturing offshore is important for Stardust because it has to remain in the market in the first place. However, adopting offshore outsourcing business strategy also requires detailed considerations of any potential risks for each step. In order to avoid the ethical aspects of manufacturing in Bangladesh, Fair Trade would reduce the negative perception that Stardust might get from consumers.

The goal of Fair Trade is achieved through long term international business partnerships and making a reasonable profits using ethical ways (Grime, 2005).

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There are also some challenges associated with Fair Trade, for example, how partnerships operate internationally, where balance of responsibilities, accountability, clear boundaries and transparency have been stressed as necessary conditions for successful partnerships (Tailored, 2000). According to Figure 3, The Fair Trade Chain demonstrates how it works. Producers are workers in Bangladesh, small producer agency, and contract production.

Traders involve with manufacturer, processor, exporter, and importer. The most important role in Fair Trade is Licensee who is responsible for packaging, investigating and labeling products with Fair Trade Mark.

Distributors are in charge of selling the Fair Trade labeled products to the end consumers.

In 2008, there are about 827 Fair Trade certified producer organization in 58 producing countries, which represents over 1.2 million farmers and workers. Fair Trade International predicts that six million people directly benefit from Fair Trade (Hues, Sad & Rain, 2012).

Taking 'Swallows' as an example, 'Swallows' is a Fair Trade producer group in Thanks which is a distant rural village in the north-west of Bangladesh. As a supplier to People Tree, it shows that Fair Trade garment production could be done sustainable because women there are happy and independent, more importantly, they work in good conditions.