

An analysis of areas of cost reduction in the Small Scale Garment Industries in India with special reference to Bangalore Small Scale Garment Industries

Mrs. Smitha Andrews,

*Research Scholar, St. Joseph's Institute of Management,
Affiliated to Bharathidasan University, Trichy*

Dr.J. Felicita,

*Associate Professor, St. Joseph's Institute of Management,
Affiliated to Bharathidasan University, Trichy*

Abstract: Garment Industry plays a vital role in the Indian economy. India is the second largest manufacturer of garments after China. The textile industry endures to be the second largest employment generating sector in India. It offers direct employment to over 45 million in the country. India is known for its high quality garments for men. Most of the garment manufacturers in India are in the small and medium scale industries. Due to liberalization and removal of garment sector from the reservation list, Small scale garments are facing threats from the large scale and multinational companies. One of the major threats to Small scale garment Industries is the high cost of production. In Garment Industry major elements of cost are direct material cost, direct labour cost, direct expenses, Indirect material cost, Indirect labour cost, factory overheads, administration overheads, selling and distribution overheads and other miscellaneous expenses. This study is undertaken to know the costing methods and practices of small scale garment industries in the study region and also to identify the areas where cost can be reduced particularly in small scale garment industry. Some of the areas of cost reduction in Small Scale Garment Industries identified here are Material cost control -organised procurement, inventory management, transport cost reduction, Labour cost control, overhead cost control, organise work flow by rearranging production layout, minimising wastage, standardized working hours. Small scale garment industries can undertake their business in a successful manner by identifying the areas of cost reduction and implementing suitable techniques of cost reduction. This article analyses the elements of cost, costing practices and the areas of cost reduction in garment industries in the Small Scale sectors in Bangalore.

Keywords: Costing practices, Elements of cost, Contribution of textile industry, Cost Reduction, Garment Industry, Labour cost control, Material cost control, Small Scale Garment Industry.

1. Introduction:

Every business organization aims at earning profit. Profit is essential for the survival and growth of the business. Profit is the result of interaction of two factors such as sales revenue and total cost. Hence it is indispensable for an organization to increase its sale revenue and reduce the overall cost. An organization can increase its profit by undertaking any of these ways by increasing the selling price of the products or by reducing the selling price to enter the market and then increase the turnover or by increasing the demand for the products through advertising and sales promotion methods or by reducing the cost of production for a given output of products or by increasing the production for the same cost. Even though profit can be maximized by one of these methods, it is better to adopt the last method. Under the last method cost control and cost reduction is adopted to increase the profit. Thus cost reduction is an essential criterion in every organization to earn profit and also to withstand competition.

The study is conducted to know the present costing practices followed in small scale garment industries and also to identify the major elements of cost and areas of cost reduction in the small scale garment industries. Garment Industry plays a vital role in the Indian economy. Indian is the second largest manufacturer of garments after China. The textile industry endures to be the second largest employment generating sector in India. It offers direct employment to over 45 million in the country. India is known for its high quality garments for men and most of the garment manufacturers are in the Small and Medium scale industry. Due to liberalization and removal of garment sector from the reservation list, Small scale garments are facing threats from the large scale industries and multinational companies. One of the major threats to Small scale garment Industry is its high cost of production. Small Scale industries do not have expertise cost accounts and proper Research and Development departments to initiate cost reduction. This may be due to limited financial resources and lack of skilled and experienced persons. Furthermore it is difficult for them to set-up separate cost reduction department that identifies the areas of cost reduction.

2. Conceptual Frame work:

2.1 Cost Control and Cost Reduction: Cost accounting is regarded as the process of collecting, analysing, summarizing and evaluating various alternative courses of action involving costs and advising the management on the most appropriate course of action based on the cost efficiency and capability of the management

Cost control is the process or an activity of controlling costs associated with an activity, process, or company whereas cost reduction is a continuous process of critical cost examination, analysis and challenging of standards. Cost reduction tries to bring in the permanent reduction in the cost of production without sacrificing the quality of the products manufactured.

2.2 Contribution of Textile & Garment Industry to Indian Economy: Indian garment has an ancient history. Indian is the second largest manufacturer of garments after China. The textile industry endures to be the second largest employment generating sector in India after agriculture. It offers direct employment to over 45 million and indirect employment to 60 million in the country. India is known for its high quality garments for men. The annual report of ministry of Textiles shows the contribution of textile and garment industry to Indian Economy.

Table 1: Contribution of Indian textile and garment industry to Indian Economy as per 2018-2019:

Basis	Contribution
Employment	Second largest employment provider
Direct Employment	45 Million
Indirect Employment	60 million
Contribution to GDP	2%
Contribution to Industrial Output	7%
Contribution to manufacturing Production	10%
Current size of Textile & Garments Industry	US \$108 billion
Contribution to County's Export earnings	15%

Geographical Distribution	All Major cities in India
Apparel & Garment production	36 million tonnes
Contribution of Apparel industry to Indian textile exports	47%
India's share of Global trade in textiles & apparel	5%

Source: Ministry of Textiles – Annual Report 2018-2019

3. Review of Literature:

- Prashant Sarkar (2016)** according to him when setting up a small scale garments, it is better to follow piece rate production system of wage payment. Under this system tailors will be paid based on the quantity they produce. Hence there will be less wastage resulting in reduced cost of production. The reduction in overhead cost by not hiring unnecessary manpower will also results in low cost of production of garments.
- Arora M. N (2014)** CIMA defines cost reduction as “the achievement of real and permanent reduction in the unit cost of goods manufactured or services rendered without imparting their suitability for use intended”. The cost reduction is said to be achieved in an organization only when there is a real reduction in the cost and that reduction should be permanent. The cost reduction should not be achieved at the sacrifice of the quality and feature of the product or service.
- H S Hanumantha Naik, D Sargunamani and S Ramatal, (2011)** mentioned that cost reduction can be done in the cutting section of the apparel industry by eliminating Non-Value Added (NVA) activities in cutting section of the apparel industry. As a result of this time as well as cost can be saved besides improving internal quantity time. Cost is an important factor in any industry as most of the industries focus on more profit. Though, there are different costs involved cost reduction internally spent by an industry by finding wastage, preventing and correcting defective work would result in huge savings. Value added (VA) activities focus on any activity that customer is willing to pay for and on the other hand Non-Value added (NVA) activities can be described as those activities that the customer does not consider as adding value to his product. One of the ways to reduce wastages is by reducing or eliminating Non-Value Added activities that can result in reduction in time, cost and lead time. As it is

known that time is money, and if more time is required in a product or service more money is involved. By reacting quicker to make a product as per customer demand the company can invest less money and more savings.

- **Subodh (2010)** Following are the key area where you can implement cost reduction methods with significant results. Raw material procurement, Logistics- Inbound and Outbound, Warehouse and Stores, Manufacturing Process (Production), Energy, fuel & Water, Information Management, Finance, human Resources, Sales & marketing
- **According to Penfield (2007)** Cost reduction can be done at the material purchase stage. He stated that depending on the industry much of the supply chain costs can be contained in material purchases. Hence, most companies focus their cost reduction efforts on the materials they purchase.
- **Sudhakar, P and Gopi, N (2006)** the production cost is defined as the cost involved in producing a unit of garment, including activities such as designing, laying, cutting and labor wages. In a garment industry there should be proper planning of what is to be done and when with the available equipment and workers in order for production to continue and be completed in time. Garment companies should also espouse engineered methods to yield maximum level of productivity at the sewing department. Garment cost and profit are directly related to waste reduction. If the designing department is fully computerized, the time required for designing, patterning and grading will be reduced, that in turn results in overall cost reduction.
- **ICAI (2002)**, Cost reduction involves threefold results- there is a saving in unit cost, such saving is of permanent nature, the utility and quality of goods and services remain unaffected, if not improved.

4. Objectives of the study:

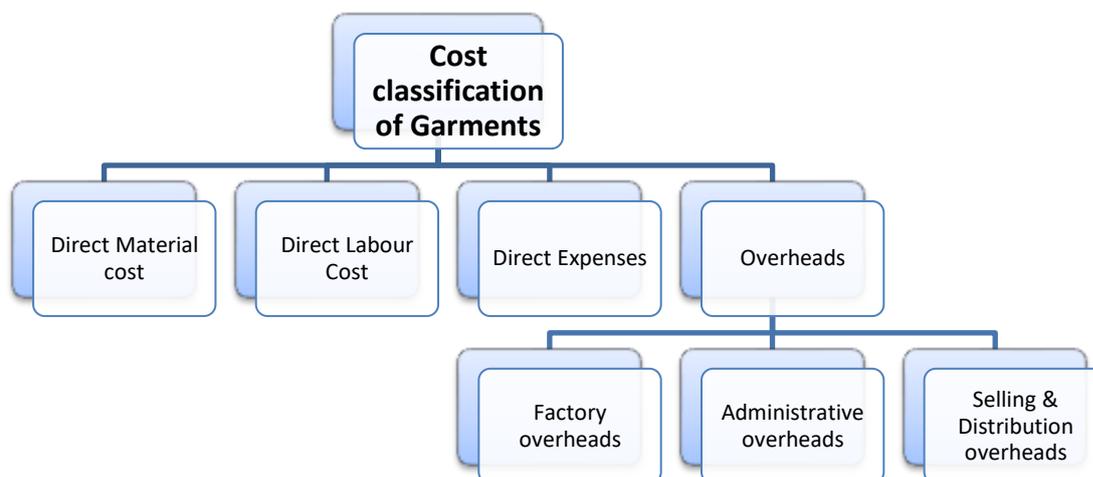
- To know the elements of cost of production in small scale garment industries.
- To identify the areas where reduction in cost can be implemented in small scale garment industry.
- To analyze the ways to reduce cost in Small Scale Garment Industries.

5. Methodology:

The study is based on both primary and secondary data. Primary data required for the study has been collected from Bommanahalli Industrial area, Bangalore. Data collected from small scale garment Industry proprietors, partners, accountants, cutting masters and supervisors through interview schedule method and through observation method. Here ten samples were collected from the study region based on random sampling method. Main criteria for the selection of sample are number of years in the business, size of the business and investments and area of garments manufactured. The secondary data for the study has been collected from the published materials includes text books, journals, magazines, annual reports of ministry of textiles and online publications.

6. Costing practices in Garment Industry:

The cost of every item attributable to the production of a unit of garment is arrived under garment costing. The cost of garment includes the costs like direct material cost, direct labour cost, direct expenses, Indirect material cost, Indirect labour cost, factory overheads, administration overheads, selling and distribution overheads and other miscellaneous expenses as shown in the Figure 1:



Cost classification of Garment Industries

7. Major Elements of Cost of Production in small scale garment industries:

SSGI do not follow an organised method of costing. They have records of cost maintained as per the dates. They mainly record the details of workers, their attendance, units manufactured by each one on a daily basis. They also record the monthly expenses such as rent, electricity, transport cost, taxes paid, commission, unskilled labour cost, insurance and warehouse. They also record the details of orders received and the rate at which the orders are placed.

Small scale garment industries in the study region is mainly focusing on the job work where manufacturing of garments is done mainly on the clients requirement and most of the cases clients provides materials required. Hence there is no major direct material cost than the cost of buttons and threads. Here labour cost forms the major cost of production and other expenses like rent and electricity also contributes to a large share in the cost of production per unit of garment.

The other expenses like warehouse does not form part of the cost of production as most companies after production garments are immediately sent to the clients.

Table 2: Major elements of cost in Small Scale Garment Industries in the study region as per their ranking:

Sl. No.	Elements of Cost	Ranking
1	Direct Material Cost*	8
2	Direct Labour Cost	1
3	Direct Expenses	6
4	Indirect Material Cost	7
5	Semi & Unskilled labour cost/ Managerial staff	2
6	Rent	3
7	Taxes	9
8	Insurance	10
9	Warehouse	11
10	Electricity	4
11	Transport	5
12	Middlemen Charges	12
13	Others/ Miscellaneous Expenses	13

The above table shows the ranking of element of cost in small scale garment industry in the study region. Ten companies were considered for ranking elements of cost of production. Here the direct labour cost forms the major cost of production, hence it is ranked at the top. Key indirect labour cost consists of salaries of managers and supervisors and also the wages paid to helpers and semi-skilled workers. This forms the second major element of cost in small scale garment manufacturers.

The *direct material cost is ranked at number eight as in the study region small scale industries undertake production as per the requirement of the clients and materials are also supplied by the clients. Hence the direct material cost is very less usually the cost of thread, buttons, machine oils are incurred.

Rent and electricity is ranked at third and fourth place, as the area in which companies are situated are highly commercial and business area. Electricity charges include lighting and electricity used for running the tailoring machine.

Transportation cost also forms one of the elements of cost and is ranked at five. Usually materials are supplied by the clients to the production unit and finished products are transported to the client's location by the manufacturer. Most cases both these costs are incurred by the clients and do not form part of cost of the manufacturer. Here transportation cost included are transportation cost of employees from their residence to the manufacturing unit and back, transport of semi-finished goods for outsourcing activities, chemical wash and packing.

Taxes form a small portion as most of its activities are job work. Insurance do not form a major cost of production. Warehouse facility is not undertaken by small industries unless there are too many orders at the same time. Once goods are ready it is immediately delivered to the clients without any delay. Thus warehousing cost is maintained at the minimum. Middlemen are not encouraged much in the study region, other than labour contractors.

8. Wage Payment method in small scale garment Industry in the study region:

There are different methods of wage payments followed in garment industry such as Piece rate system, Daily wages, weekly or monthly fixed salary, piece rate plus

incentives, Time rate plus incentive and so on. Most of the SSGI follow piece rate system and a few others follow fixed salary on weekly or monthly basis. In case of piece rate system wages are paid based on the number of units produced. Usually wages are calculated and paid weekly or monthly.

Table 3: The below table shows the wage payment method followed by companies in the study region:

Sl. No.	Wage Payment Method	No. of companies	Percentage
1	Piece Rate	7	70%
2	Daily wages	0	0
3	Time Rate	1	10%
4	Piece Rate + incentives	2	20%
5	Time Rate + incentives	0	0
	Total	10	100%

Figure 2 shows the wage payment mode followed by small scale garment industries in the study region:

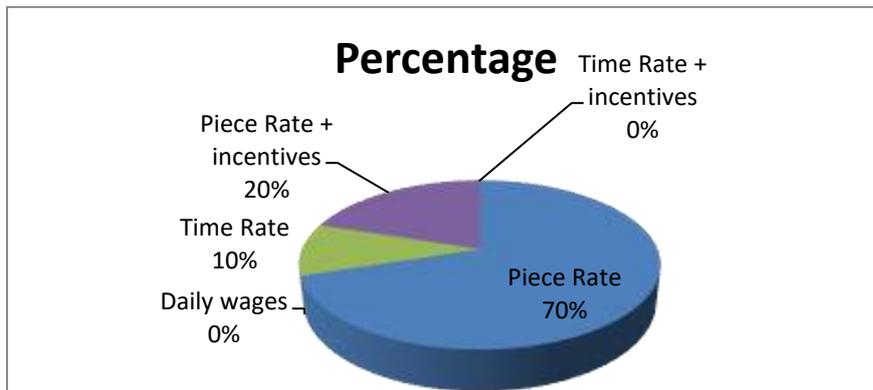


Table 3 shows piece rate system of wage payment in the study region. 70% of small scale garment industries follow piece rate system, 20% follows Piece rate system plus incentives scheme and 10% follows Time rate system of wage payment. Thus most of the industries in the study region have adopted Piece rate system of wage payment.

9. Areas of Cost Reduction:

In a small scale garment industry cost of production is usually high. The reduction in the cost of production is essential for the survival and growth of the industry. It is important for a garment industry to identify the major factors that result in the high

production cost. Here an attempt is made to identify different areas of cost in a small scale garment industry where cost can be reduced.

Cost reduction can be achieved in small scale industries in the below mentioned areas.

- 1) **Material Cost Reduction:** Material cost forms the major area of cost of production in any manufacturing Industry. In garment Industry the cost of material forms the key element of cost. Cost reduction is possible in **material purchases and transportation of materials**. But this is possible only when small scale garment manufactures produces their **own brand**. In some cases clients provide the Fabric, in such case material cost reduction cannot be achieved to a great extent. Some of the areas of materials cost reduction are:
 - a. **Procurement or Purchase of materials:** Savings or cost reduction can be achieved during procurement process by undertaking:
 - **Buying in Bulk:** Small Scale industries can buy goods on bulk than buying in small quantities to meet individual orders. This can result in economies of large as well as get huge discounts on big purchases and better bargaining power. One more advantage of bulk purchases is low cost per unit of transport of materials.
 - **By adopting opportunity buying:** Some products have seasonal prices. Such products can be ordered in large quantity when the prices fall then during peak season.
 - **Buying from local suppliers:** when materials are purchased from local suppliers the cost reduces as a result of low transport cost, low cost of holding inventory and no stoppage of production due to delay in bringing materials.
 - **Online purchases:** Certain materials are available at low cost on internet. Industries can request tenders from various vendors for E- procurement of materials.
 - **Purchase materials from tax exempted areas:** Buying materials from those areas which comes under tax holiday helps the industry to reduce its cost of materials.
 - **Find alternative materials:** Replace the costly materials with alternative materials if available without scarifying the quality of the product.
 - b. **Transport cost reduction:** Merge with the transport company for transit instead of owing their own transportation.

- c. **Inventory Management:** Inventory decision is an important decision in every business unit. Inventory involves huge investment and at the same time shortage of inventory can result in stoppage of production and huge loss to the company. Hence need to be cautious in taking inventory decision. It is better to have vendor managed inventory as they take care of level of inventory as well as cost of inventory. This can reduce the overall cost to a great degree.
- 2) **Labour Cost Reduction:** Labour cost forms the second major element of cost in garment industry. The success of an organisation depends upon the talented and satisfied workforce. Labour cost reduction is not an easy task, as it is not possible to reduce the wages or salary of employees to bring down the labour cost. By increasing the quantity and quality of output of garments, Labour cost per garment manufactured can be reduced, and can achieve labour cost reduction. Since labours wages are calculated on the basis of piece rate system in most Small scale garment industry, Cost reduction can be achieved by setting standardized piece rate. The statistics shows that the labour cost of garment industry is very nominal in India compared to other developed and developing country.

Table 4: Garments manufacturing labour costs (US\$/hour) by Countries

Asian Competitors		US Regional Suppliers	
	Labour cost (US \$)	Mexico	2.54
Bangladesh	0.22	Honduras	1.72-1.82
Cambodia	0.33	Dominican Republic	1.55-1.95
Pakistan	0.37	Nicaragua	0.97-1.03
Viet Nam	0.38	Haiti	0.49-0.55
Sri Lanka	0.43	EU Regional Suppliers	
Indonesia	0.44	Turkey	2.44
India	0.51	Morocco	2.24
China(remote/inland areas)	0.55- 0.80	Russia	1.97
China (other coastal/core areas)	0.86- 0.94	Tunisia	1.68
China (Prime coastal areas)	1.08	Bulgaria	1.53

Malaysia	1.18	Jorden	1.01
Thailand	1.29- 1.36	Egypt	0.83

Source: ILO Report, 2011 & NCM-April, 2013

- 3) Overhead Cost Reduction:** Overheads such as electricity, rent, commission to middlemen, contractors charges taxes, insurance, transportation, Interest on loan, administration charges, selling and distribution expenses also contributes to the cost of production of garments.

Use of natural lights and led bulbs helps in reducing electricity bill. Setting up of garments factory in the government sheds and in rural areas will help in the cost reduction. Tax exemption can be enjoyed by industries by starting its business in free economic zone and by availing the benefits of tax holidays.

4) Other Areas of Cost Reduction:

- a. **Work flow:** Most Small scale garment industries do not have a proper and organized work flow. There is no scientific method of movement of workers and the production. Through an organized work flow unnecessary movements of material & labour can be eliminated. This enables the reduction in the number of helpers required and also less time required to manufacture a garment. Thus results in low cost of production of garments.
- b. **Reduction in the wastage and defective units:** One more area of cost reduction in the small scale garment industry is to identify the reasons for wastage and defective units. Wastage may be due to faulty design and inexperienced tailors. Cost reduction can be achieved by minimizing wastages and by reducing the percentage of defective garment production.
- c. **Fixation of working hours:** One of the disadvantages of piece rate system of wage payment is that the workers comes very late and leaves organization late in the evening. Though this does not have any direct effect on the wages, but it increases the indirect expenses like electricity, maintenance. By fixing working hours, organization can reduce other expenses like use of power for running machine and lights even after working hours.
- d. **Online marketing to reduce selling expenses:** Small scale garment industries which market their own brands can sell their products directly through digital

marketing. This will help in reducing the cost of salesmanship, cost of setting up showrooms and advertisements.

- e. **Improved factory organization:** Through proper organizing in the factory in terms of well-defined authority and responsibility, proper channels of communication, efficient utilization of equipment and resources.

10. Conclusion:

Cost is a major element in every business organization. The success of an organisation depends upon its ability to reduce cost and increase profit. Hence cost reduction is an essential phenomenon for business organisations irrespective of its size and earnings. One of the crucial problems of small scale garment industries in India is the high cost of production. Small scale garment industries can reduce their cost by identifying the major areas of cost and elements of cost. Then reduce the cost in those areas through various techniques and methods of cost reduction.

Small scale garment industry can achieve cost reduction through proper planning and organising manufacturing of garments. Major areas of cost reduction in garment industries identified here are material cost reduction, labour cost reduction and overhead cost reduction. In addition to these other areas where cost reduction can be implemented are material procurement, proper inventory management, planned production layout and work flow, reducing labour unrest, ensuring quality products by reducing wastages and defective products, standardized working hours so as to bring down factory overheads, use of natural illumination and ventilation, using vendors warehousing and transport facilities, online sale of garments. By implementing the cost reduction techniques in the above mentioned areas overall reduction in the cost of garment industries can be achieved.

References:

1. Cost accounting, The Institute of chartered Accountants of India, New Delhi, (2002), 414 - 415
2. Choudhary, Anshu singh, Cost Analysis in Garment Industry, Research gate, Retrieved from https://www.researchgate.net/publication/282604549_Cost_Analysis_in_Garment_Industry , Retrieved on May 15, 2020.
3. Drury Colin, Management and Cost Accounting (6th Ed.), Bangalore, Thomson Learning, (2004), 968 & 969

4. Ministry of Textiles (2018-2019), Annual Report, Retrieved from <http://texmin.nic.in/sites/default/files/Textiles-AnnualReport2018-2019>, retrieved on May 12, 2020.
5. M.N Arora (2014), Cost Management, Delhi, Himalaya Publishing House, 1.3 & 1.4
6. Nail H S Hanumantha, Sargunamani D & Ramatal S, *Cost savings in cutting section of apparel industry*, *Indian Textile Journal*, retrieved from <https://indiantextilejournal.com/articles>, (2011, October), retrieved on May 14, 2020.
7. Prashant Sarkar, How to Minimize Production cost, (2016, January), retrieved from <https://www.onlineclothingstudy.com/2016/01/how-to-minimize-production-cost-in.html>, retrieved on June 10, 2020
8. P. Sudhakar & N. Gopi, How to reduce garment production cost, *Textile Magazine*, (2006, January), 47(3), 29
9. Saha, Chandan, Labour Cost (US \$/hour) in Readymade Garment Industry across the Globe, *Onlineclothingstudy*, (2013, July), Retrieved from <http://www.onlineclothingstudy.com/2013/07/labour-cost-us-hour-in-readymade.html> Retrieved on May 10, 2020