

**EFFECTIVE COST MANAGEMENT MEASURES IN SRI LANKA MEDIUM
SCALE APPAREL INDUSTRY**

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Abstract

The textile and apparel sector in Sri Lanka had shown a steady growth since 70s and during 80s and since then it became the leading industry replacing the traditional rubber and tea business. As such, Sri Lanka is one of the most significant and dynamic country in the global apparel market. Garment industry in Sri Lanka retains a dominant position contribution to 40% of its industrial production. Export revenue generation of this sector comprises to be 49% of the total revenue generated.

It is very clear that the industry contributed to the national economy by a large scale and due to many other reasons, today it is gradually declining. From 2004 to 2008 nearly 400 garment factories were closed, resulting loosing lakhs of peoples without employment. In market point of view, USA (53%), UK (27%) Italy (3.3%) Germany (2.4%) Belgium (2.3%) etc would take the major contribution.

In operation point of view, mainly Sri Lankan Apparel industry has a special feature of operating on the basis of CMP. CMP mean, most of the factors are operating on the basis of **Cutting Making and Packing only** (That mean only conversion cost) as the materials are provided by the foreign buyers. Before 2005, Sri Lanka had a chance of Quota System and it was cancelled in 2005 with many worries to the industry to loose the market as the production cost is not competitive to compete with the rest of the other apparel producing countries. Any way Sri Lanka had a chance of high competitive advantage due to low cost of production before 90's and it was changed thereafter.

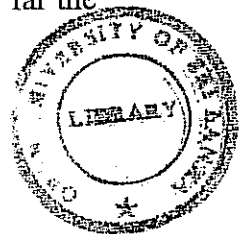
Industry faces the general challenges or problems such as; Lack of innovation, Poor technological set-backs, Global economic recession, High competition, Health and safety issues, Environmental issues, Quality issues, Eco-labeling, Formation of economic and trade groups, Currency fluctuation, Abolition of Quota System, and High production cost and etc of which affect the industry in short run and long run most negatively.

Most researchers have viewed regarding production cost and its linking variables such **Man** (Labour resources component), **Material** (Fabric and other accessories), **Machine** (Technological supports), **Measurement** (Information system and Capacity in inbound and outbound (Transit period) ex. Lead time), **Method** (Skills in Production approach) **Money** (Strength in overhead management), **Market** (Potential customer base Management (Management skills).

But based on the different views of the literates, researcher would like to see how far the increase in cost of production of the industry due to;

- Labour turnover (**Man**)
- Lack of indigenous fabric base (**Material**)
- Long lead time (**Measurement**)

Now based on the literate views and the general understanding, researcher would explain how to conceptualize the research problems as shown below which has been recognized according to the literate views.



- Labor turn over (**Man**) cause to high production cost
- Lack of indigenous material base (**Material**) reason for over production cost.
- Long lead time (**Measurement**) influence to high production cost

Three hypothesis have been built as under, based on the research problem of "What are the factors and their degree of influence on over production cost in apparel industry in Sri Lanka"

- H1=> Labur turnover directly influence to production cost
- H2=> Indigenous material base has a significant effect on production cost.
- H3=> Long lead time positively influence to high production cost

Cost of production has been recognized as macro variable or dependent variable, micro variable is comprised of labour turnover, lack of indigenous fabric base and long lead time as independent variable and finally competitive advantage was recognized as out come.

A sample of 43 garment factories was elected out of total factory population of 459 and as techniques, questionnaire, deep interview, open discussion and observation were used as primary source to collect the data. As secondary sources; Management journal, Economic journal, Joint apparel association forum, news bulletins and magazine, Textiles and apparel periodical, Internet based information, Sri Lanka Open University library, Post Graduate Institute of Management library were used.

In the data analyses part pointed out most important clues of the areas in which need further attention severely and it clearly shows where the real problem lies on. It would be summarized as below.

Lack of Indigenous Material Base

During the data analysis, regarding lack of material fabric the following aspects of the problems were critically analyzed. Those are; Sourcing of Fabric/material requirements, Sourcing of Fabric/material requirements by whom, Number of importing Countries, Names of importing Regions, Terms of Import, Preferred mode of transport, Usual mode of transport, Reasons to import the material, Positive aspects of imports, Sales growth during last 03 years (2006, 2007 and 2008), Material cost as a % of total cost during last 03 years, Recent trend in selling price change during last 03 years, Recent trend in material price change during last 03 years, Freight and Clearing expenses as % of material cost, No of imports purchases per month, Whether order quantity exceeds MOQ, Causal expenses as % of material cost and Treatment for such casual expenses,

Long Lead Time

The problem of long lead time was described under the facet of the problems such as; Fabric/material requirements is sourced by means import/local purchase, Negative aspects of imports , No of days in Lead time, Method of payment to foreign supplier Time of payment to foreign supplier, Duration for the material turn into finished good, Debtor's

period, Materials status (quality, defectfulness), Average number of days to fulfill customer's orders, How to fulfill customers order under time limitation, Air freight charges as a % of material cost, Samples with costing successful rate as a % of samples given in last 3 years and Reasons to fail the samples

Labour Turnover

In case of labour turnover, the sub-variables such as following were deeply examined. Those are; Factors Affecting to Leave, Number of Existing Employees – Direct, Number of Existing Employees – Indirect, Employee Recruitment per month, Employee Leaving per month. Average Labor mixture, Production change during the years 2006, 2007 and 2008, Salary cost change during last 03 years (2006, 2007 and 2008), Gross pay / Revenue during last 03 years (2006, 2007 and 2008), Gross pay / Total cost during last 03 years (2006, 2007 and 2008), Average Efficiency of Labor mixture, Employee Average Service, Employee Average Probationary period, Service period of Employee Leaving, Productive period of Employees, Recruitment and Training Expenses as a % of total gross pay, Employee carder in terms of service period, % of rate of rejects , Status of Rework and Idle time

Concluding, lack of indigenous fabric base, long lead time and labor turnover has a sensible impact upon production cost to increase and its degree of influence has a considerable effect to increase the production cost to go up and finally to reduce the competitive advantage as actually has happened now to the industry