

Productivity leads to profitability

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The garment industry has done well, but can it do better? Bigstock

Our factories need to reduce waste and increase efficiency

The Bangladesh garment industry has delivered a winning performance during the last two decades. The industry here is second to China, and aspires to reach the Numero Uno position in the future.

In fact, during 2018, Bangladeshi denim garment exports to Europe have been greater than that of China -- a stellar performance.

In the last five years, the industry has also been able to make significant progress in the areas of structural and fire safety with the collective efforts of the Bangladesh government, international brands, factories, and the civil society.

While there is promising growth in exports, when one interacts with the garment exporting community, the mood is not as optimistic. The increase in the minimum wage has made a large section of the industry nervous.

The garment factory owners have been demanding that the international buyers compensate for the increase in the minimum wage.

While buyers agree that they will need to share some of the cost increase, and some have increased the prices marginally, the buyers are also saying that factory owners need to focus on productivity improvement and strengthen overall cost competitiveness.

Their argument is that the manufacturers no longer can continue to pass on their inefficiencies to the buyers and in turn the end customer.

The garment industry has indeed been growing rapidly in Bangladesh, but it is also true that the industry faces several challenges. The overall financial health of garment factories is not the best.

As per several manufacturers, the profitability is very low, and many are suffering from cash flow issues. The investments that the factories had to make in building and fire safety have created an additional strain.

Some industry watchers blame fellow garment exporters for the woes of the industry. They argue that the tendency of price-cutting among exporters for securing orders, even at breakeven points, needs to be contained.

In this background, it is imperative for the factories to improve overall manufacturing efficiency. An average garment factory in South Asia can almost double its labour productivity.

The key factors affecting productivity and quality are mainly related to people and systems, and not investment in technology.

To achieve the improvement potential indicated, efforts by the factory teams are required for about two to three years.

Phase One

Initiate supervisor and manager training

Strengthen work measurement and methods improvement

Set up operator selection and training procedures

Introduce a productivity measurement system

Phase Two

Strengthen quality system

Improve worker involvement and working condition

Strategic technology upgrade

Strengthen production planning and scheduling

Introduce incentive scheme

Introduce information system for productivity improvement

The current efficiency levels of the majority of the garment factories in Bangladesh, barring exceptions, are relatively low at 45-55%, compared to the global benchmark of 75-85%.

The consulting and training experience of Rajesh Bheda Consulting with over 150 garment factories in Bangladesh shows that labour productivity improvement of 15% to 30% can easily be achieved in six to 12 months' time.

At the same time, the overall quality-related rejection rate (cut to ship loss) can be brought down by 30-50% through strengthening the quality management system.

To illustrate the point further and get evidence on factory improvement from Bangladesh, one can look at "Benefits for Business and Workers" -- a project supported under the TGVCI Fund of UK Aid.

It was implemented in 88 factories in the years 2014-2016. We experienced resultant productivity improvement of 16% in the pilot lines. The factories also benefitted by improving their cut to ship ratio by 1%.

This resulted in cumulative annual savings of \$8.77 million across all participating factories. The project resulted in a 37% reduction in absenteeism and worker migration reduced by 49% across factories.

The project also resulted in improving worker earnings per hour by about 9% and improvement in their satisfaction rate. Similar results were also achieved during the BBW project supported under the RAGS Challenge Fund of UK Aid during the years 2010-2013.

It is true that several progressive factories have benefitted from various projects and have improved productivity, but we must not forget that the industry is large, with more than 4,000 manufacturing units.

Unless the productivity level of the majority of the factories improves, the average productivity of the sector will have little upward movement.

Unless the garment factories substantially improve their operational efficiencies, they will not be able to compensate their employees appropriately and enjoy the kind of profits they rightfully deserve.

The recent wage increase makes it imperative for the factories to initiate concerted improvement actions to drive out waste and improve efficiencies.

This will not only improve the profitability of the business, but also ensure improved worker satisfaction rates and help the factories forge long-term partnerships with the customers for sustainable growth.

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