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DEPARTMENT OF TEXTILE TECHNOLOGY

MODULE CONTENT

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50 TT E 25 APPAREL MARKETING AND MERCHANDISING

K.S.RANGASAMY COLLEGE OF TECHNOLOGY

DEPARTMENT OF TEXTILE TECHNOLOGY

B.TECH TEXTILE TECHNOLOGY

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50 TT E 25 APPAREL MARKETING AND MERCHANDISING

UNIT 1

SYLLABUS

Apparel Marketing

Apparel Marketing - definition, responsibilities of a marketing division, marketing objectives and strategi Marketing research - types of marketing research; Retails and wholesale marketing strategies; Domestic international markets; Advertising - types of advertising, different media in apparel marketing; Brand loyalty identity: Labelling and licensing.

Apparel Marketing

"Apparel Marketing" is the management process, responsible for identifying and satisfying the needs of the customers, profitably. It involves identifying the needs, requirements of the customers and delighting them effectively with the right marketing mix.

Marketing:

Marketing is defined as "an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationship in ways that benefit the organization and its stakeholders".

Market is the place where the products are exchanged for money.

Marketing can be described as any activity that is carried on with the specific purpose of conveying information about the use, quality and value of a product or service in order to promote or sell the product or service.

Marketing is the way to announce the availability of a commodity, service, idea or a brand to the world in such a way that people are interested in it and wish to acquire it and use it.

It serves the purpose of plugging the gap between the public's requirement and the products that are available.

The Importance of Marketing Department:

The Marketing Department is the key to good marketing and sales. It promotes and establishes a business in its niche, based on the products or services the business is offering. It identifies the areas in which the product fits and where the business should focus its marketing strategy and, therefore, spend its budget for the maximum coverage and results. The marketing department helps a business to do the following:

Build relationship with the audience:

Creates awareness of the business and its products as well as provide inputs that create interest for the audience. It brings in new customers and creates new business opportunities for the enterprise.

Involve the customer:

It engages existing customers, tries to understand them and hear what they have to say. It monitors the competition, creates new ideas, identifies outlets, plans the strategy to involve customers and retain them.

Generate income:

Finally, the aim of the marketing department is to generate revenue. All its activities are aimed at broadening the customer base and finding opportunities that would create more revenue for the enterprise.

RESPONSIBILITIES OF A MARKETING DEPARTMENT

The marketing department has overall responsibility for growing revenue, increasing market share and contributing to company growth and profitability. It needs to do this by creating awareness, engaging customers, researching competitors and their product, preparing promotional activities and materials and a whole host of other responsibilities. The marketing department is like the jack of all trades in any organization. Anything that other departments do not handle is given to the marketing department to deal with. When we look in-depth at the responsibilities of the marketing department, it becomes very clear why it is the key department of any organization, without which it would be very difficult for the business to exist profitably. The marketing department responsibilities are

- Applying customer-centric approach
- Keeping up with the competition
- Branding
- Finding the Right Partners
- Budgeting
- Managing Strategy
- Managing Research & Events

Applying customer-centric approach

The Marketing Department needs to have a relationship with the customer so that they can understand what the customers' demand from the business and thus aim to meet those demands. Customer feedback is an important part of marketing and companies need to conduct surveys to get the feedback from customers and prospects. There are two ways to understand the customer needs and focus the business activities to reflect the customer's demands; these are through internal channels by taking feedback from the sales department and the customer service department regarding customer preferences and their feedback. This can be done via data analysis as well as conducting surveys within the company. The other way to collect information is via external channels, through interaction with social media and internet. In the end, the focus should be to provide the customer with a valuable and pleasant experience when interacting with the company.

Keeping up with the competition

The marketing department is also responsible for researching the competition and keeping up with them to know what they are doing, which products they are launching, what are the weaknesses of the competitors and how to avoid making the same mistakes as the competitors. It is also essential to know how the company is placed in relation to its competitors, why the customers prefer the other companies, what customers the competitors target and the relationship they have with their customers. Once all this information is available then the marketing department can analyze it and create a better marketing and customer relation strategy for the company.

Branding

A brand is the identity of a company. It is the practice of creating a name, design or symbol that denotes a particular product or business and makes it stand apart from other similar products or businesses. Branding helps to enhance the image of a business and make it more credible, elicit an emotionally positive response from the audience, motivates the audience to buy and creates loyalty for the brand and its products. It is the duty of the marketing department to create and promote a brand through images, words, ideas, and promises of benefits to the customer. The message needs to be delivered to the audience by all the members of the enterprise consistently and frequently.

Finding the Right Partners

The marketing department of all organizations cannot be extensive enough to handle all the marketing needs of the organization. In order to bring the full range of marketing tools and expertise to a business, it is often essential to hire specific expertise and people from outside the organization. It is essential to find the right partners who understand the philosophy and needs of the organization. It is the work of the marketing department to identify, hire and oversee these partners to bring best value to the business. These strategic partners could be advertising agencies to create and manage advertising campaigns, social media experts to manage the social media marketing side of the business, web designers, data analysts, copywriters, and other such people.

Being creative and innovative

The marketing department needs to be on its toes at all times. It is the responsibility of the marketing department to come up with creative ideas, whether it is for promotional purposes or to create a new product. Feedback and ideas from the marketing team are responsible for policy decisions regarding products, such as whether to create new products or improve the old one. It also needs to come up with creative ways to position the brand and the product to create additional revenue for the company. In order to fulfill all its responsibilities, the marketing department often takes the help of outside partners.

Communicating with other departments

One of the key responsibilities of the marketing department is to create a channel of communication with all the other departments within an organization. It has to familiarize all the employees with the marketing ethics, company's philosophy, and customer relationship. It can do so by conducting workshops, training sess ions and talks or presentation regarding customer handling and brand awareness.

Budgeting

Marketing departments work on budgets. They are given a certain amount of money to spend upon creating a presence for the company or product in the market. It is the responsibility of the marketing department to estimate the cost of all the marketing activities it intends to carry out and prepare a budget that would use the allocated amount of money most efficiently. It is essential that the marketing personnel stick to the budget.

Managing Strategy

Managing the key activities of a business to work together is another responsibility of the marketing department. It is the duty of the marketing department to create and implement strategies that would enhance the business activities of the enterprise.

Managing Research

Managing research for the company is also the duty of the marketing department. This includes research about the products, marketing strategies, strengths and customers of the competitors in comparison to that of the organization. The Marketing Department also provides inputs regarding the pricing of a product.

Managing Events

Managing events also comes within the scope of responsibilities of the marketing department. This including promotional events, exhibitions, seminars, training sessions, trade meetings, conventions, etc.

We can thus see that the marketing department is essential not only for positioning and promoting a product but also for providing vital information to the organization about all aspects of the business. It is the key department of any organization and cannot be dispensed with. Even in tough times, a business cannot do away with the marketing department. On the other hand, marketing department becomes the key player to pull a business out of troubles and set it back on the path of profitability.

Market Study

Market concerned with the investigation and measurement market demand. By market study we can study the present and future customers. It includes the study of following

- Size of market
- Customer"s needs and motive
- Degree of competition
- Selling activities
- Details of the customers as to their income and
- Dealers preference

MARKETING STRATEGY

Marketing strategy involves understanding the firm"s target customer, its products, the competition, and developing profitable business strategies to operate in its market.

Strategic planning can be

- Long range periods(5 years or more), or
- Short range period (For aseason, or for a maximum of 1 year).

A Strategic Plan provides a focus and continuity for decision making in all of the firm"s divisions.

A **Strategic Plan**" involves the following stages:

- Defining a firm"s purpose
- Establishing the priority for budgets
- Providing a basis for the development of strategies by the firm"s functional divisions.

Definition of Firm"s purpose

It includes a statement of mission, description of the target customer, and description of the product line. The "Mission Statement" identifies the purpose of the firm relative to service, organization and profit. A Mission statement reflects a purpose directed toward satisfying customers" needs.

The focus may be on timely service to consumers in terms of quality, styling, and value.

In order to market products successfully, firms should identify certain groups of customers as Target Markets" for their products. A target market is the select population to whom a group of product and their marketing program are directed. In order to serve customers" needs, the firm must have a thorough understanding of the likes, wants, and needs of the target market, or the „Core Customers". It is the responsibility of the marketing division to provide the necessary data.

Market Segmentation" refers to the classification of customers under various categories, based on Demography, Psychography, Economy, Sociology, etc.

Market segment selected, can be broadly or narrowly selected. If a firm decides to select broad customers, they are called as **"Mass Markets"**, which includes all class of people - namely - upper, middle and lower income groups. Narrowly defined market segments are called "Niche Markets" - where the market may be segmented by gender, price, size and lifestyle.

Product Line in an apparel manufacturing unit, can include any of the following

Separates – Ex: Tops alone - like blouses, shirts, etc, or Bottoms alone - like pants, skirts, etc being manufactured.

Coordinates – Ex: Both Tops and bottoms are manufactured - but are separately sold.

Multipiece Style – Ex: Tops and bottoms as a single style (like Romper for kids), or Separates sold as „single set". Here consumers do not have the option to select separate pieces.

Related separates – Here, the products are sold as Separates, but coordination potential exists because of color palettes and materials. Thus developing the mission statement, identifying the market segments, and describing the product line, completes the definition of business.

Establishing the priority for budgets

Budgets are comprehensive financial plans that establish the allocation of resources for achieving the financial and operational goals of a firm. They are based on Sales goals, Cost containment goals, and Profit objectives. Involving every department in budget preparation helps ensure support for the goals formulated.

Based on goals, and budgets, setting Marketing objectives and implementing Marketing strategies are enabled.

Marketing strategy is the part of the strategic plan that gives consideration to

- Analysis of competition - understanding the strengths of competing firms, pattern of competitive behaviour, etc
- Positioning and differentiation

Positioning is the act of designing the company"s product mix (also called product assortment or product range), and marketing mix (Product, Price, Place and Promotion), to fit a given place in the consumer"s mind". Positioning can be based on:

- specific product features
- benefits, problem solution or needs
- specific usage occasions
- for particular user category or target market
- against another product, etc

Product Differentiation means that a firm"s products and services must be distinctive and identifiable from the rest of the products in the market.

Marketing Strategies for Apparel Merchandising and Marketing:

Market Penetration Strategy

When a firm focuses on selling its current products to existing customers, it is pursuing a market penetration strategy. The marketing activities that will dominate in this type of marketing plan are those that emphasize increasing the loyalty of existing customers so that they are not vulnerable to loss to competitors, attracting competitors' customers, increasing the frequency of product use, and converting nonusers into users.

Increasing awareness through marketing communications and increasing availability through expanded distribution are common marketing activities in this type of plan. Identifying new use occasions and new uses for a product may increase usage frequency or convert current nonusers into users. For example, the advertising campaign for orange juice that has the tagline "It's not just for breakfast anymore" was an effort to expand usage. Price promotions might be used to encourage competitors' customers to try the firm's product if there is reason to believe that such a trial will result in repeat purchases. Loyalty programs can be very effective in retaining existing customers. This strategy reduces risk by relying on what the firm already knows well–its existing products and existing customers. It is also a strategy where investments in marketing should pay back more quickly because the firm is building on an existing foundation of customer relationships and product knowledge.

Market Development Strategy

The efforts to expand sales by selling current products in new markets are referred to as a market development strategy. Such efforts may involve entering new geographic markets, such as international markets. Creating product awareness and developing distribution channels are key marketing activities. Some product modification may be required to better match the needs of the local market. For example, as fast food restaurants have moved into international markets, they have often changed their menus to better match the food preferences of customers in local markets. Expanding into a new market with an existing product carries some risk because the new market is not well known to the firm and the firm and its products are not well known in the market. The return on marketing investments in such a strategy is likely to be longer than for a market penetration strategy because of the time required to build awareness, distribution, and product trial.

Product Development Strategy

Creating new products to sell to existing customers, a product development strategy, is a common marketing strategy among firms that can leverage their relationships with existing customers. For example, American Express has been able to leverage its relationships with its credit card customers to also sell travel-related services. Similarly, cable television companies have expanded their offerings into Internet and telephone services. Research and development activities play a dominant role in this strategy. The time required to develop and test new products may be long, but once a product is developed, creating awareness, interest, and availability should be relatively rapid because the firm already has a relationship with customers. A product development strategy is also riskier than a market penetration strategy because the necessary product may not be possible to develop, at least at a cost acceptable to customers, or the product developed does not match the needs of customers.

Diversification Strategy

A diversification strategy involves taking new products into new markets. This is really the creation of a completely new business. This is the riskiest of strategies and the strategy likely to require the most patience in waiting for a return on investment.

MARKET RESEARCH

Marketing research" is the systematic design of, collection, analysis, and reporting of data findings relevant to a specific marketing situation facing the company.

Collection of data can be done by the firm themselves, or through marketing research firms. Data can be collected through Observation, Surveys and Experimentation. The collected data is statistically analyzed, and the research findings are presented.

Market research is defined as "The systematic gathering recording and analyzing of data about problems relating to the marketing of goods and services under essentially non-recurring conditions".

Market research is broader in scope and examines all aspects of a business environment. It ask questions about competitors, market structure, government regulations, economical rends, technological advances and numerous other factors that make up the business environment.

Objectives of Marketing Research

- To understand the economic factors affecting the sales volume andtheir opportunities
- To understand the competitive position of rival products.
- To evaluate the reactions of consumers and customers
- To study the price trends

Marketing Research Procedure:

The following is the procedure generally followed in handling marketing problems through marketing research

Define objectives and identifying problems:

In order to carry out the research programme, the researcher should know the basic problem. After identifying the problem, the researcher formulates a plan, and starts to analyze the problem. He analyzes the company, its market, its competition etc.

Determine information needed:

The researcher must consider the information and decide which is relevant and which is irrelevant to the study. In determining the kind of information needed, the objectives of the research must be borne in mind. The information should be necessary and relevant. If the available data are insufficient, fresh data have to be collected.

Determine the source of information:

The source of information may be classified into primary source and secondary source. When the information is obtained directly, especially for the problem, it is known as primary data. When the information is already collected by someone for some other purpose and at the same time is helpful to the problem on hand, it is known as secondary data.

Decide the research method:

When secondary data are insufficient, the researcher has to be satisfied with the primary source of data. The sources may be by experimental method, observation method, focus group method, behavioral method and survey method.

Tabulating & interpreting:

After the collection of data, they are to be classified and tabulated into statistical summarization. They may be in percentage, average, ratios etc., so as to give the greatest value in the interpretation work.

Preparation of report:

Draw conclusions from the tabulated summaries. Conclusions, recommendations and suggestions supported by detailed analysis of findings must be in a written form- report of the researcher. The language should be clear and properly paragraphed. Generally, a report may be in the following form:

- Title of research
- The name of the organization
- The objectives of the research
- The methodology used
- Organization and the planning of the report
- A table of contents, along with charts and diagrams followed in the report.
- The main report
- Conclusions drawn and recommendations suggested.
- Appendices.

Follow-up recommendation:

Follow up will ensure the implementation of recommendations made by the marketing researchers.

Market Research Techniques

- Test marketing
- Concept testing
- Store audit
- Demand estimation
- Commercial eye tracking research
- Sales forecasting
- Customer satisfaction studies
- Distribution channel audits
- Price elasticity testing
- Consumer decision process research
- Positioning research
- Brand name testing
- Advertising and promotion research

Data Sources for marketing research of an apparel industry:

Apparel market research is made up of two sources of information, referred to as primary and secondary research. By using both primary and secondary sources of information, the apparel industry can easily determine the several key factors about the target apparel market and its various segments. The most valuable sources of primary information for fashion market research are:

- Online survey tools about existing or prospective customers, i.e., those in your target market that have not yet bought from you.
- Phone, in-person, and mall intercept interviews
- Focus groups:

In contrast to one-on-one interviews, a focus group allows for moderated discussion among participants. This provides the opportunity for the group to share ideas and discuss a topic or trend, which is particularly useful when conducting fashion market

- Field research:
  This gives marketers an opportunity to observe and understand how customers behave in a natural setting. When it comes to fashion market research, field research provides valuable information about how customers browse and shop, both in-store (through natural observation) and online (via session replay tools).
- User testing:
  Often used to test out new design concepts, user testing gauges customer interest and reception. It is also used to test out in-store shopping experiences and changes to fashion websites.
- Consumer research panels

Good sources of secondary information for the fashion industry include:

- Market and industry research reports and white papers
- Fashion industry websites
- SEO, keyword, and trends research
- Governments statistics
- Your competitors' websites and other digital properties such as apps, mobile sites, ads, etc.

RETAIL AND WHOLESALE MARKET

Retailing is the link between the manufacturer and the consumer. Retailers buy fashion merchandise from vendors, their suppliers, all over the world and bring it to their stores for convenient selling to consumers. Nearly million-retail establishments do business throughout the United States. About 117,000 of these retailers specialize in fashion apparel and accessories. True success in the fashion business is finally achieved at theretail level by consumer acceptance measured in purchases.

Many factors go in to the making of a successful retail store: skillful management, well- executed logistics, a convenient location, a pleasant atmosphere, efficient sourcing, exciting and appropriate stock, buyers with an understanding of customer needs, helpful salespeople, and customer service. Too often, success also lies more in sheer scale than in superior merchandising vision or innovation.

The first half of this chapter examines the current retail situation, global retailing, types of fashion retail stores, non-store retailing, and the organization of single and multiple unit stores and corporation.

Retail marketing

There are six areas in which Retailers must focus. They are

1. Value-directed retailing (Customers want value for their money, and so Price has to be less with high Value)
2. Service-directed retailing (Customer needs have to be identified, and Customer expectations must be exceeded)
3. Unique Merchandising (Retailers must offer unique styling with private label merchandise. That is specialized product lines, ex : same brand for target customers)
4. Entertainment (To add excitement to retail experience, „Visual merchandising" must be taken care of . ex: live music, video display, computer games, dance, neon lamps, spotlights)
5. Revitalization of downtown and main street retailing (Retail shops must be located away from main streets, and must have pleasant walk ways, speciality stores, refurbished stores, restaurants, etc)
6. Global expansion (Retailers must offer International brands).

The various types of Retailers are

1. Specialty Stores: which cater to a particular target customer and provide a narrow focus of merchandise at the same price range. Here again, there are four types:

Single-line (which carry just one category of merchandise - only accessories, or athletic shoes, or ties or socks),

Single-Brand (which carry only private label or branded merchandise),

Limited-line (which stock related categories of merchandise, ex: apparel and accessories for women, etc.),

Multiple-line (which offer many categories, ex: Women"s, Men"s and Children"s apparel).

2. Department Stores: which present different kinds of merchandise each in separate departments (Ex : Apparel, Household goods, , toys, etc)

3. Mass Merchants: who provide standard basics at low prices with limited service. They buy in volume, and mass sell it. They also offer discounts, as they buy in bulk. There are various types in this. They are:

Discounters (who offers merchandise at very low prices by buying in large quantities). They manage this by cutting down cost on reducing fewer salespeople etc,

Off-Price retailers (who sell Off-season goods, Off-colours, Over-produced goods at less price),

Outlet stores (who are just like Off-price retailers, only difference being that they are owned by Manufacturers themselves),

Warehouse clubs (who charge small membership fees and offer consumers deep discounts, who buy in bulk),

Promotional stores (who occasionally offer discounts, for clearance sales, end of season sales, etc)

Wholesale Marketing

Large firms, which want to go in for **"Mass marketing"**, distribute their merchandise through Wholesale markets. Whole sale markets can be located at different geographic territories, catering to the needs of the retail shops of that particular region. The firm can employ sales representatives who travel to different territories for marketing their product.

Roles of Manufacturers and Retailers

Manufactures and Retailers influence fashion by providing an unending series of new styles, from which consumers choose those that best expresses their lifestyle and personality. The timing of introduction is important.

Manufacturer"s role

Manufacturers can be classified into 3 groups, namely - a. High fashion & Innovative apparel manufacturers, b. Manufacturers who adapt styles which have survived Introduction stage, and c. Manufacturers who mass produce for the Budget market, and who do not produce any new style.

Manufacturers must have the ability to anticipate the public"s response to styles and must act immediately. In the fashion industry, the survival of the fittest means, the survival of those who contribute the most to the birth and growth of fashions that consumers buy. Quick response to fashion is very essential.

The Retailer"s role

Retailers do not create fashion, but encourage or retard the selling process. Retailers are again classified into three types - a. Fashion Leaders, who introduce new styles which are expensive, b. Traditional retailers, who feature those designs that are in the rise (this category of retailers are in large nos), and c. Mass Merchants, who feature only widely accepted fashions, which are in the Culmination stage. They deal with mass produced garments and those which are cheap.

Some retailers are so intuitive or creative that they go a step ahead of their suppliers in anticipating the styles their customers will accept. Such retailers accelerate the introduction and progress of new fashions. Product development is becoming more and more important for major retailers.

Instead of simply selecting what the producers are offering, retailers must carefully shop the market, selecting styles they feel will be of interest to the customers. When customers are ready to buy, they must have the products in stock. No amount of retail effort can make customers buy styles in which they have lost interest. The retailer must understand his or her customer" fashion preferences, and offer assortments in it.

DOMESTIC AND INTERNATIONAL MARKETS

Domestic Market

When goods are marketed within National boundary, it is called as „Domestic Marketing". Domestic market weeks and trade shows in New York, California and other regional centers are important wholesale markets for U.S. retail buyers. Trade shows are conducted five times a year, and coincide with manufacturers" line release. The periods are: January - summer merchandise, March - Early fall, April - Late fall, August - Holiday merchandise, and November - spring merchandise.

Market - is a location where buyers and sellers meet for the purpose of trading goods.

Market centre - is a geographic center for the creation, production and sales of fashion merchandise.

Mart - is a building or complex, housing a showroom.

International Markets

Marketing activities across national boundaries are termed as "International Marketing". International marketing", is the performance of business activities that direct the flow of goods and services to consumers or users in more than one nation.

Factors influencing Domestic and International Markets

Marketing can be conceived as an integral part of two processes, i.e., technical and social.

So far as technical aspect is concerned, international and domestic marketing are identical. Technical aspect includes non- human factors in marketing such as product, price, brand, packaging, warehousing, costs, etc. and the basic principles regarding these variables have universal applicability.

The social aspect, on the other hand, is unique in any given stratum as it involved human elements, namely, the behavioral pattern of the consumers and the characteristics of the society such as customs, attitudes, values etc.

Thus, international marketing is identical to the domestic marketing as far as technical aspect is concerned but international marketing, to the extent, it is visualized as a social process, differs from domestic marketing.

Similarities

- In both the markets, satisfying the basic needs of the consumers is of prime importance.
- Creation of goodwill is necessary in both the markets. For this, liberal guarantees and after sales service and quality are very essential.
- Research and development is important, as product needs to be continuously improved.
- The techniques of marketing - product, price, cost, etc are similar to both the markets.

Differences

- Sovereign political entities - In order to safeguard their national interests, each country will impose restrictions for imports and exports - like imposition of tariffs and customs duty, quantitative restrictions, exchange control, local taxes, etc.
- Different official systems
- Different financial systems
- Mobility of factors of production
- Differences in market characteristics - demand pattern, channels of distribution, methods of promotion, etc are different.
- Procedures and documentation will be different.

ADVERTISING

Advertising is a non-personal form of communication conducted through paid media under clear sponsorship - designed to attract customer"s attention – mainly to the target customers.

Advertising uses shock, controversies, elegance, celebrities, and other creative approaches to get attention.

"Advertising" is also one of the means to communicate with Consumers, and various Medias are used for this purpose.

Advertising is designed to reach specific target customers or potential customers.

Factors to be considered before advertising

- The characteristics of the product and its demand.
- Fund available for advertising.
- Nature of the market.
- The nature extent of competition prevailing.
- Medium to be adopted.
- Coverage of the medium.
- The production nature.
- The position of the product in the market.
- Size of the advertisement.
- The probable cost of advertisement.

Methods of advertising

- Image advertising (Done to boost up Goodwill, Image)
- Item advertising (Intended to sell merchandise)
- Promotional advertising (Done to boost up sales, or do clearances or discounts - it is Price directed)

DIFFERENT MEDIA OF APPAREL MARKETING

There are various media in which apparel advertising/ marketing is done: Magazines, Newspapers, Newspaper inserts / supplements, Journals, Radios, Television, Outdoor displays (posters, signboards), Direct mail, Internet, Novelties (articles, calendars), etc.

The decision on the selection of the media of advertising mainly depends on four factors: Reach, Frequency, Impact, and Cost.

Magazines

Fashion magazines, Women‟s and Men‟s magazines serve as excellent media to increase the reach of customers. Reach and Impact is more, as it can be aimed at target customers.

News papers

They provide visual communication. Layouts, art and copy are relatively easy to produce, have low costs. In news papers and magazines, Space", Timing and Positioning" are important to increase the reach. The reach and frequency is more, as more people buy newspapers as it is cheap, and also it comes daily.

Inserts / supplements

It is a successful form of advertising for retailers.

Journals

It is a professional media for advertising.

Radio

The reach of this is more, but provides only audio form of advertising. Therefore impact is less.

Television & Internet

It provides both audio and video form of advertising, and is lively. The Timing of advertising is important to have good reach. It would have good impact, but the cost is high.

Direct Mail

Target customers can be informed of new product introductions.

Outdoor displays

Posters, signboards

Suitable for mass marketing

It reaches & impact depends on place of display & appeal.

Direct advertising

Direct advertising is done to create a direct contact with the customer. Ex. Catalogues & Folders

Promotional advertising

The object of promotional advertising is to increase the sales. This is also known as “display advertising”.

Window display

The products dealt in by the firm are placed at the front of the firm, trying to create an arousing interest in the minds of them. A good arranged system of window naturally increases the sales.

Exhibition

It is also known as trade shows. The idea behind the exhibition is to promote sales of the goods exhibited.

Sales Promotion

Sales promotion is essentially a direct and intermediate encouragement that adds an extra value to the product, so that it makes the dealers and final consumers to buy the product.

Sales promotion measures are temporary promotion methods. It is practiced as a catalyst and as supporting facility to advertising and private selling.

Sales promotion specialist to design sales incentive programs, and public relations firms to develop the corporate image. The company communicates with their consumers.

Need for Sales Promotion

- To introduce new product
- To overcome a unique competitive situation
- To exhaust accumulated inventory
- To get additional customers & retain existing customers
- To encourage the merchant to produce more
- To promote the customers to buy more
- To overcome the seasonal fall

Sales Promotion Techniques such as,

- Trail product
- Special coupons (Advt.)

- Premium or Bonus offers
- Point of purchase (demo at purchase time)
- Discounts
- Special gifts (product logo in gifts)
- Fairs & exhibition etc.

BRAND MARKETING

Labels enable product identification and differentiation of Brands,

Brand names and Trademarks: owned by big Corporate Manufacturers. Retail buyers and consumers develop brand loyalty, as they have confidence in the quality, performance and fashion the brand represents.

"Trade Marks" or **"Logos"** differentiate products from one manufacturer to the other, and are protected by registration with patent office.

Generic and No-name products: low priced commodities**.**

Private Labels – Private / Store / House brand all mean the same, and these products are sold primarily by stores owned by Individuals or Associations.

Individual labels: Are „Designer Labels", who sell Haute Couture garments under their label in Boutiques. Chain stores can also develop their own labels, and sell the merchandise in their stores located in different parts of the country, while the merchandise would have been sourced from various manufacturers.

Infringement" reproduction or use of a trademark to mislead the public into believing the items bearing the trademark are produced by the owner of the trademark. Infringement is susceptible for legal actions.

LABEL

Label is a part of garments which indicates the various instructions about the garments. Without any **label** a garment cannot be sold especially in export oriented garments. The essential data like size of the garments, fiber type, care data, country of origin, company name, and trade mark etc.

Types of label:

There are mainly two types of label as below:

- **Main label.**
- **Sub label.**
    - **Size label.**
    - **Care label.**
    - **Price label.**

- Composition label.

Main label:

Main label contains brand name of buyer, country name. Like J.C. Penn, Levis etc.

Sub label:

Sub label is of different types as below:

a) **Size label**: Size label indicates the size of the garments.

b) **Price label**: This label indicates the price of the garments.

c) **Composition label**: This label indicated the composition of the garments that means what type of fabric and what percentage is used to manufacture the garments. i.e.: 80% polyester, 20% cotton or 90% cotton, 10% spandex etc.

d) **Care label**: It is very important that the customers be given accurate information as to how to take care of their garments. SO that they can make informed purchase decision concerning the care characteristics of competing products and to enable consumers and cleaners to avoid product damage caused by the use of improper cleaning procedures.

Importance of clothing labels in the apparel industry:

Clothing labels offer important information about the product, information which might just be the difference between an item being purchased or put back on the rack. The following are the main importance of labeling,

- Clothing labels communicate the details of materials
- Care and Content labels
- Branding

Clothing labels communicate the details of materials

One of the most important aspects of clothing labels is the description of the materials the item is made from. Today's consumers are more environmentally conscious than they've ever been, and not all materials are made the same way. With so many materials made from plastic (lycra, polyester, nylon for example), consumers now have a real ethical choice about which clothes to buy.

Plastic-based material is bad for the environment for a number of reasons. These materials are created from non-renewable natural resources, require a lot of energy to manufacture, and are not biodegradable.

An astonishing 60% of new clothes will end up in a landfill within 12 months, while a third of all materials in the supply chain will end up as waste before a garment even reaches the clothing rack.

A good clothing label will have detailed information about the material used to make the garment, allowing the consumer to decide whether or not to buy.

Care and Content labels

Proper care for a garment is of course important. Without it, some clothes might rip, shrink, or the colours might run if the warning on the label isn't adhered to. Some fabrics shouldn't even be put into a washing machine and need special treatment like dry cleaning.

Some materials react adversely to heat, and care and content labels will explain the correct temperature to wash them in, or if they are unsuitable for a tumble dryer. Knowing how to properly care for clothing means they will last longer, reduce the need to buy more items, and decrease the need for companies to produce more.

Branding

Clothing labels may be a necessity, but they're also an opportunity for designers to promote their brand. Your clothing label doesn't just have to have technical information on it about materials and temperatures; it can be used as a platform for your brand identity.

A great, recognisable brand builds trust with customers, encouraging loyalty, and can make the difference between success and failure of a company.

Clothing labels can show your logo, slogan, or a promise to the buyer. They can convey a message about your company's commitment to sustainability or explain the eco-friendly manufacturing process of the garment.

Some brands use their clothing labels as a platform for humour, adding funny jokes or holiday wishes.

Importance of packaging in the apparel industry:

Protection

The primary purpose of packaging is to protect its contents from any damage that could happen during transport, handling and storage. Packaging retains the product intact throughout its logistics chain from manufacturer to the end user. It protects the product from humidity, light, heat and other external factors**.** This is the most important purpose of packaging. Because of that it is not unusual to end up with far more packaging than the actual product. Packaging's purpose is to protect, but there is a difference between an intelligent and well-designed packaging and a packaging with no fit-to-purpose design.

Safety:

Packaging has an important role in keeping its contents and consumers safe. Packaging should contain important information of the product and its safety. No harmful chemical or smell, should not transfer from packaging materials to the packed material. it must become clear from the packaging if it contains toxic substances. All these pieces of information add the product safety for the consumer.

Attractiveness:

Packaging counts an important part of the product brand and marketing**.** A unique packaging can increase the product **a**ttractiveness and thus affect to the willingness to buy the product. Packaging is as important as the product itself. Its purpose is to stand out from the shelf or website, enhance sales, provide relevant information on the product and augment interest. Two thirds of people say that the packaging has an effect on their buying decisions. It is a tool to communicate company's values and great benefits that the product brings to the consumer.

Usability:

Consumers are looking for fit-for-purpose packaging. They demand a functional, "life-saver" packaging that is incredibly user-friendly. The usability of the packaging is judged by the consumers only. A packaging which is simple to open and close, easy to fold and sort after usage, and which can be reused or recycled will satisfy some of the consumers' requirements. In addition, optimal design enhances usability.

Sustainability:

More and more consumers are paying attention to the packaging materials' carbon footprint, re-usability and recyclability before making their buying decision. In fact how sustainable packaging is perceived, the more positive impact it has to the sales numbers. The packaging design has a crucial role in defining how easy it is to separate the materials from each other and thus how easy the packaging is to reuse and recycle. Making more with less not only saves resources but also leaves less material for the consumer to handle properly.

Consumers are increasingly conscious about the environmental impacts of their actions. They evaluate the carbon footprint of the packaging before buying a product. The labeling on the packaging which gives clear information on the products and packaging's environmental impacts and recyclability, will definitely catch consumer's eye positively.

K.S.RANGASAMY COLLEGE OF TECHNOLOGY

DEPARTMENT OF TEXTILE TECHNOLOGY

B.TECH TEXTILE TECHNOLOGY

III YEAR / VI SEMESTER

50 TT E 25 APPAREL MARKETING AND MERCHANDISING

UNIT 2

SYLLABUS

Apparel Merchandising

Merchandising - definition, types of merchandising, functions of merchandising division-importance of lead time and implications of lead time, role and responsibilities of a merchandiser, quality of a merchandiser; Types of buyers ; Visual merchandising - definition, objectives, purpose of visual merchandising.

APPAREL MERCHANDISING

Merchandising denotes all the planned activities to execute and dispatch the merchandise on time, taking into consideration of the **Right Quantity, Right Quality, Right Cost and Right Time** to replenish the customer.

Functions of Apparel firms

Merchandising:

Planning, Product design & development, Sourcing, Production, & Presentation of Product line for target markets with regard to prices, assortments, styling, timing.

Marketing:

Build brand image, Sales promotion

Production:

Manufacturing the product

Operations / Finance: Includes all other functions

Merchandising refers to the planning, development, and presentation of product line for identified target markets with regard to prices, assortments, styling and timing. Merchandising divisions are central coordinating points for "line development, design, execution and delivery of product lines".

Apparel Merchandising is the process of the development, execution and delivery of an apparel production line based upon the customers need. It refers to the total process of stock planning, management and control. It is a coordinated managerial function covering all activities right from Product concept to Product delivery. Merchandising function, also includes analyzing the market and sales, sourcing products, and have production interface.

TYPES OF MERCHANDISING

- Fashion merchandising
- Buyer merchandising
- Vendor/ Wholesale merchandising
- Retail merchandising
- Visual merchandising

Fashion Merchandising

"Fashion Merchandising" refers to the study of factors influencing fashion, estimating demand, & planning, required to get the right "fashion oriented merchandise" to the target customers at the right time, right place, and right quantity at the right price with right sales promotion. While wholesale or retail merchandising includes planning to get the merchandise not necessarily new fashion oriented (which could include staple goods), at the right place and time.

Buyer Merchandising

It involves the process of coordinating with buyers and interface with the design & production departments. Activities range from product development, getting approval, sourcing of material, and order execution of a confirmed order.

Vendor/ Wholesale Merchandising

It involves the process of identifying, planning, executing and buying the products for entire distribution activity for a season or more, on behalf of a brand of apparel.

Retail Merchandising

It involves the process, by which individual or group of retail stores - plan, create, organize and offer the right product mix to the local customer needs and also work on rapid response process to effect change or replenish the product as the customers want.

Visual Merchandising

Visual Merchandising" refers to the art of visual presentation of merchandise at the Retail Store, with the ultimate aim of augmenting the selling process. It is a way to communicate store"s fashion, value, and quality to prospective customers. Effective positioning and product differentiation is needed.

Principles of Merchandising

The Principles of Fashion Merchandising includes two stages, such as

A. Estimating Demand
B. Product development

Estimating Demand

It includes study of target market through surveys. Information about age, sex, lifestyle, occupation, disposable income, personal choice etc. is collected. The fashion trends and their product life cycles, as well as the current sales promotional methods adopted are studied.

Some tools to estimate demands are,

- **Want Slips–** When customers ask for a certain garment which is not there, a Want slip - i.e, a request for requirement - is issued by the retailer, and the goods are immediately to be made available.
- **Through buying offices–** As they supply goods to more than one store, they get a feel of the demand.
- **Through trade publications–** As regular analysis of market are available to them, demand can also be known through them.
- **Past sales performance–** analysis of past sales would help us in projecting the demand for the coming season.
- **Comparison shopping–** many merchandisers keep track of the competitors - their product offer, sales, promotional methods, etc.
- **Other resources–** the demand can also be known through other sources like trade shows, catalogs, internet, etc.

Product development

It involves, Idea formulation, Screening, Business analysis, Development of a Prototype, Test marketing, and finally Commercialization.

- Idea formulation
- Evaluation / screening of ideas

Responsibilities of merchandisers:

The main responsibilities of merchandisers are

- Internal & external communication, ƒ
- Sampling, ƒ
- Labdips, ƒ
- Accessories & trims, ƒ
- Preparing internal order sheets, ƒ
- Preparing purchase orders, ƒ
- Advising and assisting production, ƒ
- Advising quality department about quality level, ƒ
- Mediating production and quality departments, ƒ
- Giving shipping instructions and following shipping, ƒ
- Helping documentation department, ƒ
- Taking responsibility for inspections and following shipment

Internal & External Communication

Internal communication is also very much valuable. As the other departments will follow the instructions given by the merchandising department, they have very high value. Other departments don't know the buyer's instructions; they know only the merchandising department's instructions. So it is the sole responsibility of merchandising department to instruct other departments the specifications and instructions of buyer's orders clearly. Even a small omission, mistake or deviation of instruction may create big problems. Sometimes, they may not be correctable. Hence all the instructions to be double checked before being informed to other departments. Prevention is better than cure.

Sampling

There may be a separate sampling department in a company. But as the merchandiser is the person who is interacting with the buyers regarding samples and other requirements, this sampling department will work under the supervision of merchandising department. Also as the samples are to be made according to the buyers' price ranges and quality levels, We have to send many samples to buyers. They are ƒ

- Salesmen samples or promotional samples ƒ
- Photo samples or fit samples ƒ
- Counter samples or reference samples or approval ƒ samples ƒ
- Wash test samples ƒ
- Photo samples ƒ
- Fashion show samples ƒ
- Pre-production samples ƒ
- Production samples ƒ
- Shipment samples
- Development samples or enquiry samples

When we work with some buyers continuously, we will have to keep on sending samples to them very often. Whenever they have enquiries, buyer may need samples. Buyers may like to see the garments in a new fabric. For one enquiry, they may need samples in different fabrics to choose from. If they want to develop new style in new fabric, then also we will have to send these samples. We may have to spend too much on these samples. But these samples are inevitably important to develop business. Sometimes, even the buyer is not so confident of some enquiries, if our samples are good and attractive at reasonable prices, they will bring orders to us. Also we will have to send samples to the newly contacted buyers to show our workmanship, product range, quality standards and price level. These samples should be sent so that they would attract the buyers. So it is better for a company to have a separate sampling department so that they can create new styles in new fabrics to impress the buyers.

Salesmen samples or promotional samples

Some buyer needs these samples for getting the orders from their customers. If the buyer is having 7 salesmen in his office, then the buyer will ask us to make 7 samples in each style. The salesmen will book the orders from their customers, by showing these samples. Buyer will place the order to us accumulating the quantities. If we have sent samples for 5 styles, some times, we may get orders for all 5 styles, 3 styles or 1 style. Sometimes, we may not get order for even a single style. Expected sales may not be possible, due to poor quality, unsuitable colours, improper measurements, unmatched prints or embroidery, etc of salesmen samples. Or it may be due to local business recession or competition or unsuitable prices. Any way, we have to make these salesmen samples perfectly with sincere interest to get orders. We might have spent more money, time, etc for making these samples. But as we don't get orders, we can not blame the buyer. He too can not help us in this regard. To avoid this embarrassing situation, it is better to discuss about the cost of these samples with the buyer before proceeding for sampling. Normally the sampling will cost us approximately 3 to 5 times of the garment price. We can not expect to get the full cost from the buyer. Of course these samples will help us for our business. Hence we can ask the buyer to accept 2 or 3 times of garment price as the sampling cost, for the styles which we don't get orders. Some genuine buyers will agree for this. All the buyers don't need these samples. Chain stores buyers will not ask for salesmen or promotional samples.

Photo samples or fit samples

These samples are to be made after getting the order sheets. These samples are needed to check the measurements, style and fit. So they can be made in available similar fabrics; but in the actual measurements and specifications. Based on these samples, buyers may do some changes in measurements, style and fit.

Counter samples or reference samples or approval samples

These samples are to be made in actual fabrics with actual trims. If the order is for 3 colours, buyer may need samples in anyone colour and swatches (fabric bits) in other colours. These samples should be strictly as per the specifications in the order sheets. We have to get the approval for these samples from the buyer before starting production. After getting the approval, the approved samples should be followed in production. We have to follow his comments carefully in production. Sometimes, buyer may comment on fabric, measurements, making, etc. Some buyer will mention that the order sheets subject to the approval of counter samples. So these samples are very important.

Wash test sample

Some buyers need these samples to test the shrinkage, color fastness, measurements, dimension stability and spirality of garments after washing. If these samples are sent before starting production and if we get some remarks or comments on these samples, we can correct them in production. But some buyers will need us to send these samples from production before shipment. In this case, these samples may be considered as 'shipment samples'. If these samples are rejected due to some complaints, then we will not have any excuse and we will be in real trouble.

Photo samples

Some buyers use to sell their garments by creating a catalogue furnishing all details like style, colours, sizes and important measurements of garments including photos. These buyers need these samples for taking photographs. (These buyers are called Catalogue buyers. They will accumulate the sales quantities, they will place orders repeatedly. Sometimes, for some styles, we may get many repeat orders continuously years together. But each order will get small quantity only. But we can get higher prices for these orders). Some buyers may need these samples if they want to print the photos of garments on photo inlays, packing box, hang tag, etc. These samples may be needed for local advertisement or buyer's promotional occasions. In any case, the samples will be worn by the highly paid models. The buyers will arrange the photo shoot session, by spending huge money to the advertising agencies. So the buyers will need these samples strictly on time. If they don't get samples on time, the buyers will have to pay more compensation to the advertising agencies and models. Buyers will ask us to make the photo samples according to the intended model's body fit. So it is important to strictly adhere to these measurements. Buyer may ask these samples to send either from production or before starting production. Fashion show samples Some chain stores buyers will need these samples. They will need these samples in all colours covering all sizes. Usually they need 2 or 3 samples in each size in each colour. These samples can be sent from production. The buyers will pay the cost of these samples.

Pre-production samples

These samples are almost like approval samples. They have to be made in actual production fabric with actual bulk trims. They will represent that the production will be like these samples. Production samples

These samples are to be sent before shipment to get the buyer's confirmation for shipment. Hence these samples are needed to be perfect in all manners. Buyer may check these samples for everything or anything. Some times, they may do wash test also. We should not get any remark or comment. We have to get only 'OK' from the buyer. Then only we can ship the goods and we can be sure of getting payment. So these samples are to be sent with more and more care. Shipment samples

These samples are to be sent after shipment. They should be sent in actual packing with all labels, tags, etc. (Generally these samples will not be tested by buyer for anything. And even if we get some comments from buyers, we can save ourselves by saying that these samples were sent from the left over garments after the shipment; hence there might be some mistakes. If we expect any comments in these samples, it is better to inform the buyer during sending these samples).

Lab dips

It is the merchandiser's responsibility to get the Lab dips from the processing mill and to get approval from buyer. There are different matching systems followed in Labs. They are

- Tube light matching. ƒ
- Sun light matching. ƒ
- Ultra Violet matching. ƒ
- Sodium light matching (show room).

Each of these above matching will give different results. For example, if a lab dip matches to the original in tube light, it will differ in sun light. So the lab dips are to be made according to the buyer's matching system. Different buyers follow different matching. Hence before proceeding lab dips, merchandiser should be aware of the buyer's matching system. Accordingly he should arrange to make lab dips. Also he must be sure of making the lab dips in the actual production fabrics. It is better to make lab dips in more than 3 closer shades. (Some times, the processing factory will make lab dips in 2 shades and will make them in to 4 bits. If we send the same to buyer and if buyer finds out this, he will think that he had been cheated purposely by the merchandiser. Our reliability will get questioned here). Before sending the lab dips to buyer, the merchandiser should verify whether they are closer to the required shade. And he should send them to buyer only if he is confident that they will get approved. If he sends them with a doubt and if they are not approved, he will have to make them again. By this way, at least 1 week time will be wasted; courier expenditure will be wasted unnecessarily. To adjust this wasted time, we will have to urge the production which may lead to quality problem. So if he is not satisfied with the lab dips, he should arrange for the revised lab dips from the processing mill immediately. When sending the lab dips to buyer, he has to take some extra care. The lab dip fabric bits are to be ironed and cut into a clean shape. They should be attached to the shade card in an attractive presentation. This will give a pleasant mood to buyer when he verifies the shades. (Here we should understand the psychological effect in this regard. If we see lab dips in the morning, we may think they are not suitable. If we see the same in the evening or the next day, we may think they are closer. Our presentation of lab dips will help to get quick approvals. This is not cheating; just a tip). While making lab dips, the lab in processing mill will have the recipes noted. They will give different reference numbers to different lab dips. Accordingly each lab dip will have different reference number. When sending lab dips to buyer, the merchandiser should keep one set of counter lab dips with reference numbers. He must be sure that the reference numbers mentioned to buyer's set are the same in his counter set also. It is advised to follow the same reference numbers by everybody - processing mill, merchandiser and buyer. This will help to avoid confusion when processing.

Accessories & trims

The merchandiser has to send the accessories and trims like buttons, zippers, labels, hang tags, polybags, inner boards, etc to buyer for approval. It is better to send in 2 or 3 types or qualities for getting approval. This will save a good time. Also as usual, the counter samples of each of these accessories & trims to be kept in our files for better follow ups. After getting the buyer's approvals, he should order them for bulk. It is advised to get the production samples of these accessories and trims from the suppliers to make sure of the quality. This should be followed for all the accessories and trims. The bar codes in the hang tags or stickers are to be checked thoroughly. If the bar codes are not clear, then it will be difficult for the bar code scanner to read in the buyers' stores.

Preparing internal order sheets

The merchandising department has to prepare internal order sheets based on the buyer's order sheets. From the merchandising department only, the other departments will get all the instructions and specifications. The merchandiser should be aware of the value of his job. So while preparing internal order sheets, he should prepare them by taking care of each and every detail. He may omit some information to other departments, like buyer's address, export price, delivery date, etc. The other departments may not need this information. But the other information like description, specifications, measurements, accessories, trims, packing and shipping to be clearly informed to the concerned departments.

Preparing purchase orders

Merchandiser has to prepare purchase orders. They should be advised to the purchase department. The description, quantity, quality standards, price or price target, delivery target and payment terms of the required raw materials, accessories and trims should be clearly mentioned in the purchase orders. The clear information will help everybody to understand the requirements clearly. Also the merchandiser has to discuss with the production department and patterning department for the requirement of fabrics. Accordingly he has to prepare fabric order sheets too. The fabric order sheets should contain the full details of fabric quality, colours, weight, diameter and width of required fabrics.

Advising and assisting production

As the merchandiser is the person who knows better about buyer's approvals, comments and instruction, for the better flawless production, he will have to advise and assist production. As he has to guarantee the quality to the buyer, though there is a separate production departments, the merchandiser should know about day to day affairs, status and problems of each stage of production. Also he should always anticipate problems in all stages and also he should be prepared for suitable alternates too. So he has to involve in production by advising and assisting the production staff closely.

Advising production and quality department about quality level

Each garment will have different acceptable quality level according to the buyer's specification and tolerance level. Though the production and quality departments are taking responsibility of quality, it is the merchandiser and the marketing manager who decide whether the quality is up to the acceptable level or not. So the merchandiser should advise and instruct the production and quality departments about the quality and tolerance levels of garment.

Co-ordination regarding shipping

It is one of the responsibilities of merchandiser to follow the shipping. He has to give the shipping instructions clearly to the production, quality, documents and shipping departments. It is not only enough to give the instructions to them, but also it is the merchandiser's duty to coordinate with these departments for smooth shipping and to follow them closely.

Helping documentation department

Though the documentation department takes care of all documents, it is preferable for the merchandiser to check the important things like the prices, quantity, description, Category, HS code, consignee's & consignor's addresses, payment terms, delivery terms, purchase order number, port discharge, etc.

Taking responsibility for inspections

If we work with buying offices or buying agents or buyer's liaison offices, there will be many inspections like pilot batch, initial, online, mid final and final. If we work with the buyers directly, the number of inspections will be limited. The buyer may like to see the inspection in the middle production or final inspection. Some times, the buyer may ask any third party (like SGS) to do the inspections. It is better for the merchandiser to take responsibility for these inspections too.

Following shipment

Finally the merchandiser has to make sure the vessel details, ETA, HO, shipping lines, B/L instructions, documents, vessel connections, freight & other charges are in accordance with the buyer's instructions and our suitability.

Line planning

Line planning is scheduling and allocating of orders to production lines according to product setting (product is being made in the line) and due dates of production completion. A line plan defines when a style is going to be loaded to the line, how many pieces to be expected (target) from the line and when an order to be completed. During booking orders or allocating orders to the production line, planners must check what is running on the line and how many days it will take to complete the running style.

The benefit of Line planning:

It helps the production manager as well as line supervisor with information such as what is the daily production target for a line. They set their line (machines and manpower) accordingly. Line plan also provides information such as how many days style would run, what is the next style going to be loaded?

Importance of Lead Time in Garment Industry

A lead time is the latency between the initiation and execution of a process. In apparel industry, lead time is the total amount of time required for completing a product beginning from the date of receiving the order to the shipment of the goods to customer. Time is a great issue in apparel trade as orders are based on weather, seasons and occasions. Lead time hence, carries huge importance when delivering the products to the respective outlets is concerned.

Line balancing in garment industry deals with allocating the resources such as workers and machinery to the assembly line so that the precedence relation are satisfied and the sum of task at any workstation does not exceed lead time. Simulation has been a preferred tool to evaluate the performance of garment production line as it has the ability to model dynamic and stochastic nature of production systems. It enables the researcher to gain a critical insight into the performance of a manufacturing company.

Importance of Lead Time in Apparel Industry Lead time, like in any other manufacturing fields, is undoubtedly one of the predominant issues in outsourcing and durable global marketing of apparel industry that largely depends on accomplishing an order within a certain elapsed time to meet the customer demands properly. There are three parameters cost, quality and lead time for apparel retailers are critical but one can't deny the importance of finishing a job as early as possible since it is perhaps some buyer's requirements.

Qualities of a Merchandiser

- Independent thinking (Analytical)
- Creativity
- Sensitiveness
- Confident ness
- Flexibility
- Leader & Team builder
- Good communicator
- Dedicated worker
- Disciplined worker

TYPES OF BUYERS

A buyer"s knowledge of merchandise stems from both education and experience. The ability to evaluate merchandise and judge whether it is suitable for a customer develops over years of examining all types of merchandise for quality, styling, and price. It is also very important for buyers to have store line experience. Buyers must constantly research the following influences on consumers:

- Demographics and Psychographics
- General economy
- Global influences on styling and sourcing
- Market and fashion trends
- Influence of the media and celebrities on fashion
- Competitors merchandise offerings

Buyer classification may be done by

- Type of buying
- Method of shopping of products
- Types of buying offices

Type of buying

Broad Assortment buying: Here, ideally, buyers would like to buy many styles, but only a few of each (shallow assortment). They do this at the beginning of a season, to test consumer reaction, and then, as certain styles emerge as best-sellers, increase stock in depth. If sales of certain styles are on the rise, then more of these looks may beordered.

Narrow and deep buying: If a category of merchandise is very poplar, or if the buyer feels strongly about a style, he or she may buy narrow (just a few styles) and deep (many garments in each size and colour).

Short– cycle buying: Here, buyers buy closer to the selling season to judge market conditions and trends and to respond quickly to the market. This is also called as Just-In- Time merchandising.

Method of shopping of products

Shopping: Some buyers may visit different market centers to shop for different needs

Sales Representatives: Some buyers buy merchandise from manufacturers, sales representatives who call on small stores for the convenience of owners, who may not be able to go shopping to markets.

Line buying: Also called as the „Matrix system", some retailers buy 80 to 90 percent of all merchandise from Core Vendors. Buyers are limited to a list of core vendors and are not permitted to buy from other manufacturers. This system cuts out small apparel manufacturers, thus limiting lack of choice for consumers.

Trend buying: In this type of shopping, manufactures come to the store to show their merchandise. New styles developed are introduced to the buyers.

Types of buying offices

The types of buying offices are,

Independent resident buying office– which is independently owned. They supply merchandise to retail stores, and charge fees for their market services.

Store-owned resident buying office– is jointly owned and operated by a group of stores. Member stores usually have similar sales volume, store policies and target customers, but in non-competing locations.

Corporate buying office– is owned and operated by a group of chain of stores.

International buying offices– Many large retail stores have their own buying offices abroad or use foreign commissionaires, agents to represent them. These offices handle import-export transactions, check quality and look after trade.

VISUAL MERCHANDISING

Visual merchandising is the art of presentation, which put the merchandise in focus. Visual merchandising is an art of displaying the things in an attractive way so that it could attract the attention of the customer and persuade them to buy the product.

- Every customer wants to see the product before they do purchase.

- A store has to display the products what it has for sales. And the display should be done in away so that it should attract the customer.
- Visual statements made in the store windows are the customer's first view with the store.
- Visual merchandising is the art of presentation, which put the merchandise in focus.
- It educates the customer and create desire to buy.
- Its a presentation of a store.
- The objective of a store sale promotion plan.

A team involved- the senior management, architects, merchandising managers, buyers, the visual merchandising director, industrial- designers, and staff is needed.

Importance of visual merchandising

- Increase Sales generation
- Profit
- Expansion of the store
- Corporate image
- Big share in market

Merchandiser Functions:

- Planning a merchandise themes,
- Making the seasonal calendar of VM display,
- Selection of merchandise for display,
- Decisions on where to display and number of VM displays,
- Arranging the VM display in concept with the supplier concepts,
- Procuring and arranging of VM elements,
- Evaluation of the VM effects foe future planning,

- Comparison study of VM display of competitors, Forecasting.

Visual Merchandising requires the following

- Skills
- Creativity
- Lighting
- Props
- Background
- Interiors
- Flooring

Elements or various aspects of Visual Merchandising Display

- **Color:-**
  - The different color suggest an identify different the theme and mood.
  - Color is one of the most powerful tools in the Visual Merchandising segment.
  - It attracts attention and pulls more customers into the store.

  Example:
  - A Halloween display would require black color in the display theme.
  - Valentines theme should be ruled by red color supplemented with pink and white.
  - A display of baby's accessories should reflect light shades of pink and blue colors.
  - A Christmas display should contain colors of rer, green, gold and silver.
- **Lighting:-**
  - Natural day light and light used at night reflect the merchandise appearance.
  - The same product looks different in different light .
  - Lighting is the most important part of display as it highlights features.
  - If the display require emphasis on certain product it can be done through light.
- **Merchandise:-**

- Product itself

- **Functional Block:-**
  - Mannequins, Dress forms, Hangers, All-pins.
- **Decorative props:-**
  - These are used to display the background or a theme for enhancing the merchandise put on display.
- **Structural props:-**
  - These props support functional props and decorative props. They are architectural and are used as per the shape of window
- **Background:-**
  - The back side of the wall in window display provide as the frame work on which the product are demonstrate.
- **Fixtures:-**
  - Shelves, tables, rods, counters, stands, easels, forms, and platforms on which merchandise is stocked and displayed for sale.
- **Store Layout:**
  - The interior arrangement of retail facilities.
- **Selling areas:**
  - Where merchandise is displayed and customers interact with sales personnel. (75-80% of the total space)
- **Sales support areas:**
  - Devoted to customer services, merchandise receiving and distribution, management offices and staff activities.
- **Floor Plan:**
  - A drawing showing arrangement of physical space, such as showing the positioning of merchandise groups and customer services for a retail store.
- **Grid Layout:**
  - A retail floor plan that has one of ore primary (main) aisles running through the store, with secondary (smaller) aisles intersecting with them at right angles.

- **Maze Layout**:
  - A free-flowing retail floor plan arrangement with informal balance.
- **Fixtures:**
  - Shelves, tables, rods, counters, stands, easels, forms, and platforms on which merchandise is stocked and displayed for sale.

Visual Merchandising Impact on consumer in apparel purchasing

- The participants' perceptions of the impact of visual merchandising displays on their buying behavior varied, as evidenced by their attention or lack of interest to visual merchandising displays when they first walked into a store.
- Consumer behavior is influenced by a limited extent as visual merchandising displays guide consumers in the direction of the products as well as in product choice.
- Consumer behavior will also be influenced by their personal preferences and the quality of the displays.
- What is noticed by the consumers, in terms of the visual merchandising displays, is mostly subliminal(below the threshold of consciousness) and it is influenced by personal preferences, contextual aspects, such as themes; type of store and brand or branding; gender, to some extent; quality of the visual merchandising display and sensory and cognitive aspects.
- It was noted in the focus groups that the consumers' attention is drawn to certain aspects (such as colour and breathing space in the store) of visual merchandising displays which creates a space where their shopping experience can be positive.
- The participants tended to be attracted to visual merchandising displays that are well designed and logical.
- This illustrates that visual merchandising displays influence buying behaviour.
- The research study suggests that women are more attentive to the complete retail experience which includes visual merchandising displays.
- In comparison, men search for signs in a store as to where to find what they are looking for.
- The focus groups also explained that they notice ill-fitting themes in apparel retail stores, in terms of whether the items displayed are actually available in store or whether it sends the correct message with the complement of the display.

K.S.RANGASAMY COLLEGE OF TECHNOLOGY

DEPARTMENT OF TEXTILE TECHNOLOGY

B.TECH TEXTILE TECHNOLOGY

III YEAR / VI SEMESTER

50 TT E 25 APPAREL MARKETING AND MERCHANDISING

UNIT III

SYLLABUS

Time Management in Merchandising

Production scheduling - route card format, time and action calendar: Process follow up - yarn, knitting, processing, sewing & labels; Practical check points; Computer applications in marketing and merchandising.

TIME MANAGEMENT IN MERCHANDISING

Time is a precious resource. It has to be utilized in an effective way by means of proper Planning, Organizing and Controlling. Merchandiser has to plan and organize his time for proper utilization, effectiveness and control. Effort without good result (outcome) is a waste of time. The time management begins from raw material sourcing to order completion.

- Sourcing of the raw materials woven fabric/knitted fabric in proper time
- Processing in proper time
- Sourcing of the accessories (ie) sewing threads, zippers, buttons, elastic, main label and wash care label, lace hangers, packing covers, carton box etc.,
- Completing the order on or before due date / shipment date.

The time management can be achieved through by proper planning and scheduling.

- ABC Analysis
- List of daily goals
- Prioritizing
- Do"s and Don"ts
- Do it now
- Flexibility
- Do it once
- Note down

- Plan and action
- Consistency
- Match between the required and existing awareness

ABC Analysis

The merchandiser has to study and plan his workload should be reduced by delegating some of his duties to his sub ordinates. He has to segment the activities into

- Essential activities to be done personally or to be done with the help of his sub ordinates, these activities get top priority
- Activities that are to be prioritized second (next priority).
- These are the activities that are basically non-essential. Doing these activities need more justification than not doing it.
- Daily goal setting will facilitate the merchandiser to utilize his time (on a day) effectively, so that the set goal will be attained.

List of daily goals

Daily goals are to be set by determining what is important, what are all the activities to be imparted and bestowed, top priority, setting goals will enable a merchandiser to concentrate on the set goal and to eliminate irrelevant activities that are non-essential attainment of daily set goals.

Prioritizing

ABC analysis will lead to the attainment of the most important goals in a planned manner. The merchandiser's time and effort could be invested effectively. Wastage of time and effort in non-essential activities is eliminated.

Do's and Don't's

The merchandiser has to list out the tasks and activities to be done to attain the high priority goals. He has to start with the most important activities not with the non- essential activities. He should note in his work done register or diary what are the do's and don'ts on a particular day. How long he works doesn't matter much. How effective he spends his time and effort is vital to an effective merchandising.

Do it now

Procrastinations (delay) are one of the time wasters; un-urgent may become urgent due to the changes in circumstances. The merchandiser should have to do it right now attitude.

Flexibility

Priorities have to be reviewed consistently due to the change in circumstance, priority get changed. The merchandiser should revise the priorities. Changes in priorities should be duly communicated to the concerned person or persons so that they could also be ready to handle the unexpected situation. The merchandiser has to plan to handle the unexpected changes.

Do it once

Avoid the temptation to stop and start. Handle each job once. Deal with the task and have done with it.

Note down

Note down the priorities, revised priorities, scheduled events, rescheduled events, deadlines etc., noting down will enhance the memory.

Plan and action

There should not be deviation between your plan and action. Identify the obstacles for proper execution. Find out solutions, distractions should be avoided.

Consistency

Consistency should be followed to attain the daily set goals. Goal should be qualitative. Till a particular activity is finished proper allocation of time and effort is a must.

Match between the required and existing awareness

The merchandiser has to develop himself (by enhancing his capabilities) and improves his performance level, so that there should be a match between the required awareness and existing awareness, required knowledge, experience and existing knowledge experience. He has to update his knowledge to be fit for consistent survival and development. Spare a little time for personal development.

PRODUCTION SCHEDULING

Merchandiser should be capable of scheduling, based on the planning the order is to be followed. If the scheduling is not done properly it will directly affect the delivery time of the order.

- Production planning is a very important task in production management in order to meet customer demands and ensure productivity of the factory. One of the most important things in production planning is to create daily production schedule.
- The production manager and line supervisors should be responsible for creating production schedules.

Production Planning Concept:

Production planning and control (or PPC) is defined as a work process which seeks to allocate human resources, raw materials, and equipment/machines in a way that optimizes efficiency. It enables efficiency, coordination, and the leveraging of production-related data to drive improvement.

The main concept of production planning and control (PPC) is to establish routes and schedules for the work that will ensure the optimum utilization of materials, workers, and machines and to provide the means for ensuring the operation of the plant in accordance with these plans.

ROUTE CARD FORMAT

For each and every order route card or production scheduling is to be done by the merchandisers. It facilitates the merchandiser to follow up the orders in a planned manner. The following details or aspects should be considered in route card format or production scheduling.

- Buyers acceptance level
- Quantity of an order
- Style or design
- Number of processes to be executed
- The complexity processes
- Number of sewing operations
- Type of stitches
- Production capacity of the particular unit
- Prioritizing
- Dispatch data
- Targeted dates for various processes or stages of merchandising
- Actual finishing date (to cross check the deviation between planned and actual performance of any stage or process).

Targeted dates for all the stages of manufacturing should be decided actual dates on which a particular process or operation is actually done should also be entered in production scheduling.

Updating the Route card

All the details in the route card should be entered in the computers for reference purpose. Route card should be taken to the units for collection the current status about an order. All the current details should be entered in the computer so that our superiors will know the current status of the orders at any time.

Sometimes buyers may require the merchandise prior to the delivery date. In such cases it is the duty of the merchandiser to re-schedule the merchandising activities. For re-scheduling needed to consider the following points.

- Total quantity to be finished
- Balance quantity to be finished
- Capacity of the particular section
- Daily production capacity
- Whether we have to increase the number of machineries, workers etc.,
- Deciding the alternative arrangements
- Number of hours required, number of days required

- Available time
- Lead time
- Supply time
- CSR - Critical Scheduling Ratio [depending upon the available - time the activities related to, various processes and other operations are to be accelerated so that we can finish the order as per the delivery date].

Sometimes the buyer will require partial quantity of an order. The merchandiser should make arrangement for the timely dispatch of the required quantity.

Route card or production job slip / Job card is used for planning the material flow for the production with step by step process and sequence required for the product, this planning sheet is used in all the manufacturing industry that basic requirement for the process sequence and interaction between all the processes and product requirements. Route card is information sheet for the order wise / customer wise product progress and route can be track and improvement can possible to monitor.

Route card having the all information that required to manufacturer the product as per customer requirement and also to consider the quality requirements for the product as per customer expecting, some basic following fields are used for the production route card:

- Customer Name
- Product ID and Product Name
- Quantity are manufacturing as per customer requested in purchase but here purchase order number are not mentioned due to mostly regular customers with same materials with different schedule can possible hence the material route and tracking are same, hence the required or possible quantity are taken in process.
- Generate date - this production route card generated date.
- Customer specific requirement - when the customer are place the order, generally all the technical details are attached along with purchase order, but mostly requirements are generic which is already in process are used as per previous experience, but the some customer specific requirement which is specially required with product sizes or something specific that need to mentioned in production route card.
- Special process / Characteristic - is the special process requirement that customer had requested to compliance of its application product or some special requirements, this process is extra process which is some special treatment or special characteristic base application product requirement can fulfill, hence this is very important for the production route card.
- Process sequences & production

- Process name
- Start and end date
- Production unit that is quantity
- Reason form reject if any
- Accepted unit

Route Card Format:

Route Card	Customer Specific Requirements					Special Process / Characteristics		
	Process	Start Date	End Date	Production Unit	Rejected Unit	Reason for Rejection	Accepted unit	Remarks
	Yarn procurement							
	Knitting							
	Dyeing							
	Printing							
Customer Name	Accessories Purchase							
	Fabric Inspection & Testing							
Product ID & Name	Laying							
	Marker							
Quantity (Unit)	Cutting							
	Ticketing							
Generate	Sewing							

Date								
	Labeling							
	Packing							
	Final Inspection							
	Shipment							

Significance of Route Card:

It enables the following in the production process

- Process Sequence
- Better Interaction
- Production Progress
- Easy Tracking.
- Customer Expectation
- Quality Requirements

TIME AND ACTION PLAN

T&A plan or T&A calendar, a popular tool used in apparel manufacturing industry is a technique for tracking and following up of important milestones in PP processes to ensure timely delivery within stipulated delivery date. Garment PP and merchandising functions are characterized by people in an organization doing multiple activities. While some of the activities are dependent and follow each other, a few others are independent. Every garment company takes enormous care during the planning of an order. Every little detail is interwoven into the planning system. Making a T&A calendar is not just entering activity names and duration in tabular forms; it is also about scientifically working out the activity duration, logically determining the preceding and succeeding activities. T&A calendar consists of short-term and long-term plans which are carefully laid out.

A T&A calendar is a most effective communication tool that proves it to be useful to this task. The chart consists of time frames listed for every action planned (major ones) and these actions need to be earned out on time. The purpose of T&A is to cross-check at frequent intervals, say, once a week, whether the planning is being executed satisfactorily. The more frequent the checks, the easier it is to correct deviations. T&A is especially useful when a buyer wants to know the status of execution of an order.

Normally, merchandisers prepare a plan of the order in a spreadsheet by listing down the key processes in first column and planned date of action for each process in the next column.

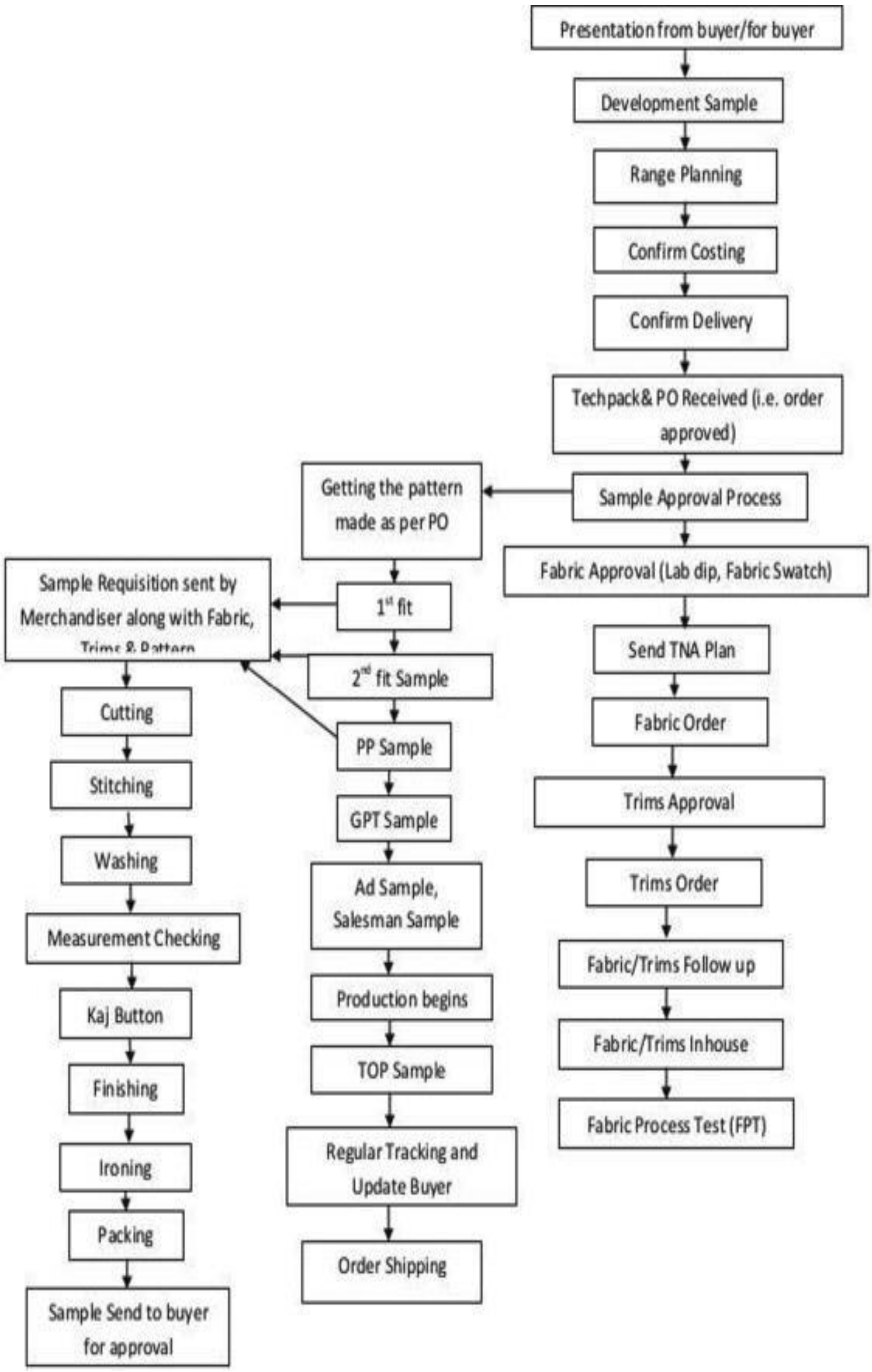
This planning sheet is popularly known as T&A calendar. Once T&A calendar is made, it can be easy for merchandiser to list down the daily 'to-do list' and taking it one by one. As per T&A schedule, processes can be executed on a timely basis to track whether an order is on track or it will get delayed.

Factors to be considered while making Time and actionplan

- Production capacity of plant
- Style type of merchandise
- Festivals of manufacturing country
- Holidays
- Shipment details
- Festivals of country from where raw material is imported
- Logistics facilities
- Lead time estimated by buyer
- Style complications
- Fabric and trims manufacturing complications
- Buffer required from each department
- Political stability of the country
- Flexibility of freight forwarder
- Response time from buyer at different stages
- Lead times of various activities like L/C payment, customclearance, etc.
- Cut-off dates for shipments

The importance of T&A can be summarized:

- It helps to streamline the PP activities
- Easy understanding of order processing
- Clear understanding of timelines given by buyer
- It gives the clear idea about the minor or sub activities that needs to be performed during order processing at different level.
- T&A gives the idea about the status of running order and talks about delay or deviation, if any
- T&A gives the dates at which raw material needs to be sourced; in a way, it helps to optimize the inventory.


Presentation from buyer/for buyer
Development Sample
Range Planning
Confirm Costing
Confirm Delivery
Techpack& PO Received (i.e. order approved)
Sample Approval Process
Getting the pattern made as per PO
Fabric Approval (Lab dip, Fabric Swatch)
Sample Requisition sent by Merchandiser along with Fabric, Trims & Pattern
1st fit
2nd fit Sample
Send TNA Plan
Fabric Order
Cutting
PP Sample
Stitching
Trims Approval
GPT Sample
Washing
Trims Order
Ad Sample, Salesman Sample
Measurement Checking
Fabric/Trims Follow up
Kaj Button
Production begins
Fabric/Trims Inhouse
Finishing
TOP Sample
Fabric Process Test (FPT)
Ironing
Regular Tracking and Update Buyer
Packing
Order Shipping
Sample Send to buyer for approval

T&A for formal dress manufacturing order

The T&A is derived by assuming the order of 20000 pieces of dress, made out of 100% cotton, plain woven solid dyed fabric, with embroidery logo and beading sequence on it. The style no 2021, delivery date 8 March 2021, shipment at Paris, France.

SK Clothing Company									
T&A Calendar				Season:					
	Buyer	Decathlon	Order Quantity.	20000		Ex-factory date (on purchase order [PO])			
	Style #	2021	Merchant	SK		Ex-factory date (as per plan)			8 March
	Style description	Dress	Received date	20 December		Lead time (days)			
	Key processes	Planned start	Planned end	Duration (days)	Actual start	Actual End	Duration (days)	Responsibility	Remarks
1	Order receipt (buyer PO)							Merchant	
2	Consumption calculation							Pattern master	
3	Bill of material generation							Merchant	
4	PO issue for fabric, trims							Store manager (fabric/trim)	
5	Size set submission							Merchant	
6	Size set comments							Merchant	
7	PP meeting							Merchant	
8	Production planning							Production	

	updates and circulation							manager	
9	Fabric in-house							Store manager (fabric/trim)	
10	Trims in-house							Store manager (fabric/trim)	
11	Pattern grading							Pattern master	
12	Khaka making								
13	Cutting							Cutting incharge	
14	Beading/sequence							Production manager	
15	Embroidery							Production manager	
16	Recutting/shaping							Cutting incharge	
17	Fabrication/ stitching							Production manager	
18	Finishing							Finishing incharge	
19	Packing							Finishing incharge	
20	Inspection							Quality control	
21	Dispatch							Finishing incharge	

Key activities in T&A

Sampling

It is the most crucial task and hence very careful planning in T&A is needed. Some sampling stages are very important so any deviation or delay in that will affect the whole T&A.

Size set sample:

This stage of sampling is most important; without size set approval, bulk fabric for production should not be cut in order to accommodate any changes by the buyer in the bulk production. Hence, any delay in size set sample will directly affect PCD and subsequently affect the shipment date. Size set sample needs to be submitted with actual bulk fabric; hence, for timely submission of size set sample, merchandiser should make sure that all bulk fabric should be in-house well in advance of size set submission date. To avoid the delay, as soon as bulk trims and fabrics are in-house within 3 days, size-set sample can be produced and submitted to buyer for approval.

Pre-production (PP) meeting

PP meeting is very necessary part of any export order processing; hence, merchandiser keeps 1 day only for conducting PP meeting in order to discuss the expected difficulties during production. Any delay in this meeting or if more obstacles are there to solve, the production will directly affect the PCD and ultimately results in shipment delay.

Fabric and trim sourcing

Fabric and trim sourcing is very time-consuming process which includes desk loom and lab dip approvals, trim and artwork approval and Fabric Package Test (FPT) approval. The fabric sourcing itself will take lead time of 10-60 days depending upon type of fabric. For yarn dyed fabric, it takes approximately 45 days, for piece dyed fabric, it take approximately 15-20 days and for fibre dyed fabric, it takes approximately 55-60 days. In sample T&A, it is assumed that fabric used is piece dyed; hence, 15 days lead time is considered while preparing the T&A, trims also takes approximately 10 days depending upon from where trims are getting sourced.

Production

The most crucial part of any T&A is actual production. While preparing the T&A for production, following activities need to be considered.

Planned cut date:

The most important date for both sourcing and merchandising department. Most of the time, T&A is prepared by keeping PCD in mind. To achieve the PCD on time, sourcing department plays an important role as lead time of trims and fabric production and availability for garment production is controlled by this department. While preparing the T&A, expected lead time and sufficient buffer should be kept for sourcing.

As there is embroidery included on cut panels, after cutting, the cut panels are needed to be sent for embroidery. Considering that embroidery is in-house, 6 working days after PCD to complete the embroidery is needed, this is to be considered in T&A. If embroidery is outsourced, then accordingly more number of days can be included in T&A.

In some merchandise, washing, printing is required; hence, merchandiser needs to take care of the lead time requirement for the same including necessary buffer.

Production start and end date:

These two dates purely depend on shipment date and production capacity. As soon as PCD is achieved, the production should start immediately after pilot run and approval of PP sample. Any deviation in this date will subsequently affect the Top of Production (TOP) sample submission date and shipment date. Number of days required for production is decided by capacity allocated to that particular merchandise or number of days of available for actual shipment. For mentioned sample T&A, following assumptions were made while calculating the number of days required for completing the production.

Assumptions

Number of pieces = 2000

Standard allowed time (SAM) of garment = 28.5 min Number of Machines (M/c) = 50

Efficiency = 55%

The calculation for production days can be shown as:

No. of days required for production at 100% efficiency = No. of pieces × SAM/actual minutes

= 10 000 × 28.5/480 × 50

= 11.875 days

If line works at 55% efficiency, then number of days for production is = 11.875 × 100/45 = 21 days.

Finishing and packing:

As finishing and packing is equally important, as soon as first lot comes out of production, finishing and packing get started. This can be started parallel with production. A buffer of 3 days is kept deliberately between production date and finishing packing completion date to avoid any consequences.

Apart from these main activities, following constraints merchandiser should keep in mind while preparing the T&A for production.

- Actual shipment date
- Efficiency of production line
- Style complications
- Operators skills
- Start-up loss

- Learning curve of line
- Finishing and packing capacity
- Availability of alternate operators for absenteeism

Any delay in production will directly lead to shipment delay; hence, for actual production, proper buffer should be allocated in T&A.

Challenges in Production Planning and Production Controlling in the apparel manufacturing:

Production planning and control department of a garment manufacturing unit is responsible for the timely shipment. Generally shipment is sent by sea as it is the cheapest mode of transport but if the shipment is delayed and can't be sent by sea, it is shipped by air at the expense of manufacturer .Though it is very costly and affects the profitability of the organization badly but has to be done to avoid the order cancellation. Re-occurrences of these incidents can lead to the loss of valuable clients. Any problem in the planning can lead to a chain of unpleasant events affecting the shipment schedule of subsequent orders. Thus production control should be seen as an inseparable function of production planning.

The challenges in Production Planning and Production Controlling in the apparel manufacturing are as follows

- Delay in Raw Material Sourcing and approval
- Delay in Sample Approval
- Production Delay
- Recording and communication wrong data
- Failing in Final QA inspection

Delay in Raw Material Sourcing and Approval

Raw material should be procured by the factory well in advance to accommodate the time taken in inspection and testing as directed by the buyer. A plan should consider the worst-case scenario when the procured raw material fails the test and the buyer is not willing to accept the anomaly. In such cases, there should be enough time to replace the raw material without effecting the subsequent operations.

Delay in Sample Approval

Importance of sample cannot be undermined as buyers strongly follow the process. Buyer would not accept the product if the sample at any stage has failed. Generally garment manufacturer starts the production after the approval of Gold Seal sample/sealer sample. If the sample approval is delayed it will lead to the delay in production. Factories set up a separate sampling department to effectively handle the sampling. Merchandiser is responsible for the timely approval of the sample. A production planner should keep a keen eye on the sample approval.

Production Delays

Production can be delayed due to many unforeseen circumstances

- Labor Strike
- Machine Breakdown
- Critical operation slowing down the efficiency
- Absenteeism
- Natural calamity
- Production being held due to quality problems

Production planner should keep some buffer to adjust the delay. In case the delay is very critical the planner should take swift action and make the necessary amendments to ensure that the production plan remains viable.

Recording and Communicating Wrong Data

With proper planning, a disaster can be averted. But a simple problem can play havoc if comes out of blue. Recording wrong production data for the sake of inflating the production figures to avoid the ire of management can lead to an even bigger disaster. A factory should device a production reporting system which is robust and can't be tinkered with as all the decisions will be based on the data only. Different factories follow different systems for recording the data both manually and electronically. Effective data recording will help in effective planning.

Failing of Final QA Inspection

Once a shipment is ready it is offered to the buyer QA for inspection. The inspection is carried out on the basis of AQL standards as prescribed by the buyer. If a shipment fails the inspection, it is subjected to rechecking and offered to buyer after rectifying the quality issues. The process will continue till the buyer approves the shipment. Re-screening the shipment is very tedious. Most of the time re-screening may involve opening packed pieces and refinishing the garments. Rework anywhere any time in the manufacturing leads to wastage which might be avoided by doing the right work first time. It may delay the shipment and can even lead to air shipment which most of the times is on the cost of the manufacturer.

A planner need to have a cut off time of 3-7 days to give go ahead for the production of the order if the production order (PO) has cleared all the necessary pre-production approvals and the raw material is in-house.

A process can be devised where the merchandiser has to give the PO production certificate verifying all the necessary approvals and material requirement to the planner so that he can schedule the production. Production Planner should have a good network of fabricators so that some orders can be outsourced to maintain the sanity of the production plan.

PRACTICAL CHECK POINTS

- ✓ Pilot run inspection
- ✓ In process inspection
- ✓ Production control
- ✓ Identifying shortages and make arrangements for the shortages

Pilot run inspection

Pilot run denotes the first production garments. Quality parameters are verified and preventive measures can be taken. The follow up team should do pilot run inspection to identify the various defects and it will be rectified in production.

In process inspection

In process inspection means inspecting the quality of product in between any process or sewing operation or any activities related to execution of an order. We can have procedures for frequency and adequacy. In case of major non-conformities we have to highlight. In process inspection means inspecting the quality of product in between any process or sewing operation or any activities related to execution of an order. We can have procedures for frequency and adequacy. In case of major non-conformities we have to the problems of quality at the right time to the right person without fail. Consistent follow up inspection is a must to confirm that all the requirement quality procedures are adopted by the concerned units and preventive actions are taken to enhance the performance.

Production control

Controlling should be right from the operation level also. Efforts should be taken to control the non-conformities during production. Consistent supervision is essential to control the non-conformances. Periodical quality check should be done after an hour.

Identifying shortages and make arrangements for the shortages

The merchandiser has to identify the shortage of any material that is yarn, fabric, and accessories etc.; right at the initial stages. After identifying the shortages steps are to be taken for the arrangement of required materials on time. In case of shortages also, the quality assurance procedure should be followed without fail. Quality of the material should not be compromised.

PROCESS FOLLOW UP

The task that a merchandiser finishes is mostly done by follow up process. Follow up is to monitor, control, and finding problems & work on solution. This process is mandatory for merchandiser to co-ordinate among the production unit. Proper follow up process helps to meet dead line & increase business.

To develop an effective lead follow-up process in merchandising, it is important to first understand what the primary obstacle that stands among the people. The aspect of the obstacle can be different and it requires to take measure them to overcome.

- Economic Aspect
- Technical Aspect
- Human Aspect

The above obstacles are mostly responsible for all kinds of delays. But merchandiser some time fails to understand them and works haphazardly. If people are not caring in the factory then no need to wait & then ask to change the team. In the same way other aspect can be taken to work as root cause of the problem.

The purpose of follow up process

- Reduction on travel distance of man and materials
- Avoid waiting time & unnecessary delays
- Reduce cycle time

General follow up process in merchandising

Effective follow up process in merchandising

- **Work measurement / time study:** This will help to understand the urgency.
- **Recurring reminders:** Repeatedly reminding will focus on quick response that task may not be stuck somewhere of the process.
- **E-mail attachment:** Merchandiser should be attached by mail otherwise there will be chances to have denials from the factory or supplier.
- **Calendar view & calendar feeds:** Time action calendar is to maintain dead line & continuing progress to keep.
- **Response detection:** Most of the time it was seen factory or supplier give late response by mail or phone. In all cases need to be sure that the responses are accurate & on time.
- **Zooming & going to bottom line:** Sometime the reality may not be same as assumed or improper information keep things to be hold. So merchandiser should work at bottom line as much as possible & always keep zooming of the problem to discover the reality.
- **Worst case scenario:** This can be technical problem or big disaster but merchandiser should keep the alternative at least two possible way. Suppose if sample got rejected after making it then to keep enough fabric for remaking the sample.
- **Keep things real:** To be honest with yourself as well as others.
- **Monitoring & control:** refers to the controlof any system, device, network or people through communication & managed by a control Merchandiser has to continuing this whatever situation arise.
- **Review:** This helps to reduce error or doing things again & again.

An **apparel merchandiser** must have to maintain the order in the following two ways if he/ to deliver his order in a timely. The first and most important matter is “Fabrics follow up” and the second one is “Order execution”.Follow up in garment merchandising majorly classified into two groups. They are

- Fabric follow Up
- Order Follow Up

Fabric follow up

- Fabric follows up contains the following issues:
- Yarn booking and requisition,
- Fabric booking,

- Lab dip develops,
- Local accessories booking,
- Knitting follow up,
- Lab dip approval,
- Fabrics dyeing follow up and in-house.

Yarn booking and requisition:

When the buyer forwards his sample with all the details instruction, in that time a merchandiser should be done yarn booking and requisition by following the buyer's instruction about the fabric GSM.

Fabric booking:

After completing the yarn booking and requisition, a merchandiser should take the necessary steps about the fabric booking. He/she has to do accurate fabric booking by following the order specification such as-Order quantity, types of fabric (Cotton single jersey, Stretch piquet, etc), types of color for each fabric (Blue, Black, Red, etc).

Lab dip development:

The third and very important one is lab dip development. A merchandiser should confirm the dyeing factory for developing the lab dip on an urgent basis. Here it must be noted that less time is required for the lab-dip easier to complete the rest of the process.

Local accessories booking:

After completing all the above three steps, a merchandiser should confirm the local accessories booking such as sewing thread, Button, Rivet, Twill tape, etc., and in-house these before completing fabric dyeing.

Knitting follows up:

In the meantime, a merchandiser should be followed the knitting procedure and completed all types of fabric knitting before approving lab dip by the buyer.

Lab dip approval:

After developing the lab dip it should be sent to the buyer for its approval.

Fabric dyeing follow up and in-house:

After approving the lab dip by the buyer, a merchandiser should send the approved lab dip to the dyeing factory and follow up the dyeing procedure. After completing the dyeing procedure, all the fabrics should be in-housed in a timely.

Order execution

The second and final important matter to ship in a timely is "Order execution"

Order execution contains the following features:

- Pattern making,
- Print and embroidery development,
- Fit sample making,
- Comments,
- Cutting the fabric,
- Print and embroidery,
- Sewing,
- Finishing and QC check,
- Shipment.

Pattern making:

After receiving all the details from the buyer, a merchandiser should pass urgently the entire reference sample with the buyer's details instruction to the pattern section for making the pattern.

Print and embroidery development:

If there are any print and embroidery, then it should be developed on an urgent basis by maintaining the buyer's instruction.

Fit sample making:

In the meantime, a merchandiser should make the fit sample by maintaining the buyer's instruction. Here one thing should be noted that, in the fit sample, the using fabric may b vary than buyer nominated fabric, color may vary than buyer nominated color, but measurement must be accurate as buyers providing measurement sheet.

Comments:

After making the fit sample it should send to the buyer for their comments. When the buyer comments on the fit sample, it must be noted and following their comments for the next steps.

Cutting the fabric:

When the comments are received from the buyer, a development merchandiser should cut the fabrics for the required quantity by following the buyer's comments.

Print and embroidery:

After cutting the fabric, the required cutting pieces should send to the print and embroidery section with the buyer's comments about the print and embroidery and completed on an urgent basis.

Sewing:

After completing the print and embroidery process, all the cutting pieces should be input in the **sewing section** with the buyer's comments about the sewing.

Finishing and QC check:

When the sewing process will complete then all the garments are sent to the finishing section. After finishing, all the garments are sent to the QC (Quality Controller) department.

Shipment:

When the QC department approved the quality then these are sent to the buyer by sea or air.

COMPUTER APPLICATIONS IN MARKETING AND MERCHANDISING

Marketing professionals use computer technology to plan, manage and monitor campaigns. By analyzing and manipulating data on computers, they can increase the precision of marketing campaigns, personalize customer and prospect communications, and improve customer relationship management. Computer technology also makes it easier for marketing professionals to collaborate with colleagues, agencies and suppliers.

Advantages of computer Application in Marketing

- Improve Marketing Precision
- Increase Campaign Capacity
- Automate Marketing Campaigns
- Open New Communication Channels
- Provide Efficient Sales Support
- Improve Collaboration

Improve Marketing Precision

With computers, marketing teams store, analyze and manage large volumes of data on prospects and customers. Understanding the demographics, purchasing histories and product preferences of different groups and individuals enables marketers to target products and campaigns with greater precision and to personalize communications.

Increase Campaign Capacity

With cloud resources, marketers can quickly increase computing capacity when they need it. By purchasing additional computing capacity from a cloud service provider, rather than investing in fixed systems, marketers can handle peaks in demand. Increasing website capacity to handle large numbers of campaign responses, for example, ensures that customers do not experience long waiting times. Marketers also use cloud computing to provide the additional capacity for test marketing and to manage large-scale email campaigns.

Automate Marketing Campaigns

Marketing automation is now an essential element in lead management, the process of converting sales leads to customers. Marketing automation identifies a prospect's level of interest or intent to buy based on the response to a series of emails. The team can then follow up with detailed information or a sales call, depending on the response.

Open New Communication Channels

Computer technology gives marketers the opportunity to build dialog and strengthen relationships with customers and prospects. Marketers must respond to consumers' growing use of the Internet and social media. By monitoring discussions on social networks and product review sites, marketers can gain insight into consumer attitudes and take the opportunity to respond and build dialog.

Provide Efficient Sales Support

Field sales teams and distributors require access to marketing support material, such as brochures, presentations, product data sheets, and advertising or email templates. By storing digital versions of campaign material in a secure Web portal and providing access to authorized users, marketers can simplify distribution of support material and increase control over its use.

Improve Collaboration

Using desktop video or Web-conferencing tools, marketers can collaborate with colleagues in sales and product development or account teams in advertising agencies and public relations consultancies. Collaboration tools can speed product development by making it easy for teams to meet and take decisions, rather than trying to arrange face-to-face meetings. Agency teams can discuss or review campaign proposals and changes to ensure they meet deadlines.

Advantages of computer Application in Merchandising

- Smarter online merchandising
- More effective retargeting
- Real-world product & content discovery
- Image-aware social listening
- Frictionless store experiences
- Retail analytics
- Image search
- Augmented reality
- Direct mail processing

Smarter online merchandising

Merchandising in ecommerce is traditionally all about tagging. Each product has numerous tags, which allows the customer to filter for particular attributes, but also allows recommendation algorithms to surface related products (these algorithms may also analyse behavioural and purchase data).

Online retailers can also override these algorithms if they want to surface a particularly important product – perhaps something new.

However, AI-based software such as Sentient Aware is now allowing for visual product discovery, which negates the need for most metadata and surfaces similar products based on their visual affinity. This means that as an alternative to using a standard filtering system, shoppers can select a product they like and be shown visually similar products.

The advantages of visual product discovery are many fold. It can surface a greater proportion of a product catalogue and find products in separate categories that a customer may not have otherwise encountered (e.g. a 'sports' shoe that looks similar to one from the 'lifestyle' category).

Where once online retailers had to decide between selling a focused/curated selection of products or a larger range, visual product discovery allows the best of both worlds.

More effective retargeting

The same technology used for merchandising can also be applied to retargeting.

Retargeting site visitors with display advertising for a single product is effective but can often be a blunt tactic.

Dynamic creative that features a range of visually similar products may have more success, especially as retailers may be unsure if a customer has already bought a specific product offline.

Real-world product & content discovery

This could be used to find a supplier of a piece of furniture you see, or a recipe for an exotic unknown vegetable. The social network has had a form of visual search functionality since 2015, allowing users to select part of an image and search for related items, but has expanded this further with Lens, as well as allowing brands to surface products found within photographs.

So, if a user is looking at a Pin of an interior which features a particular chair, for example, a retailer could potentially provide a link to purchase the chair.

Image-aware social listening

Brands chiefly monitor social media for mention of their products and services. But text forms only a part of what social media users post online - images and video are arguably just as important.

By providing social listening that can recognise the use of brand logos, helping community managers find good and bad feedback.

Frictionless store experiences

Customers enter the store via a turnstile which scans a barcode on their Amazon Go app.

Computer vision technology then tracks the customer around the store and sensors on the shelves detect when the customer selects an item.

Once you've got everything you need, you simply leave the store, with the Go app knowing what you have taken with you.

Retail analytics

Density is a startup that anonymously tracks the movement of people as they move around work spaces, using a small piece of hardware that can track movement through doorways.

There are many uses of this data, notably in safety, but they include tracking how busy a store is or tracking how long a queue / wait time is.

Of course, automated footfall counters have been available for a while, but advances in computer vision mean people tracking is sophisticated enough to be used in the optimization of merchandising.

Image search

It can be used to perform automated general tagging of images. This may eventually mean that manual and inconsistent tagging is not needed, making image organization on a large scale quicker and more accurate.

This has profound implications when querying large sets of images.

K.S.RANGASAMY COLLEGE OF TECHNOLOGY

DEPARTMENT OF TEXTILE TECHNOLOGY

B.TECH TEXTILE TECHNOLOGY

III YEAR / VI SEMESTER

50 TT E 25 APPAREL MARKETING AND MERCHANDISING

UNIT IV

SYLLABUS

Pricing and Sourcing

Pricing theory - factors affecting price structure in apparels, mark up and mark down.

Sourcing: Definition, need for sourcing, method of sourcing; Sourcing of accessories - linings, buttons, zippers, labels, etc.; Manufacturing resources planning (MRP); JIT - philosophy; Lean manufacturing - concepts and its application in garment industry.

PRICING THEORY

Price theory is concerned with explaining economic activity in terms of the creation and transfer of value, which includes the trade of goods and services between different economic agents.

Apparel Costing:

Costing of the apparel and textile product is a complex problem, it involves numerous numbers of activities associated with each product. The technique and methods to be used for ascertainment of cost vary from unit to unit depending upon the nature of the industry, type of the product, method of production and the meaning or the sense in which the term cost is used.

In apparel industry, the process of costing a product is very dynamic. Since, the fashion changes every season and sometimes very often, the product which the manufacturing company receives for manufacturing from the buyer also differs every season. Most of the time, the products are manufactured only once. This leads the manufacturing company to work on accurate costing on every product in order to run the business profitable.

The knowledge on the costing process is very essential for a merchandiser. Since, he or she is involved from the product development stage, the knowledge on costing is very essential. From medium size to small scale and sometimes in large scale industry also, the responsibility of costing a new product often comes under merchandiser's responsibility. He or she needs to develop the cost sheet from the product development stage, with all necessary components that go into the cost sheet.

The merchandiser should have a strong understanding about the different elements of cost and their influence on the products pricing. The major role of the merchandiser in the costing process is, after the costing process, he or she should monitor the variables that influence the cost of any product and to analyze it and to adjust it to maintain the profitability of a company.

Factors affecting Price Structure:

The final price for a product may be influenced by many factors which can be categorized into two main groups:

I. Internal Factors
II. External Factors

I. Internal Factors

When setting price, marketers must take into consideration several factors which are the result of company decisions and actions. To a large extent these factors are controllable by the company and, if necessary, can be altered. However, while the organization may have control over these factors making a quick change is not always realistic.

Cost:

While fixing the prices of a product, the firm should consider the cost involved in producing the product. This cost includes both the variable and fixed costs. Thus, while fixing the prices, the firm must be able to recover both the variable and fixed costs.

The predetermined objectives:

While fixing the prices of the product, the marketer should consider the objectives of the firm. For instance, if the objective of a firm is to increase return on investment, then it may charge a higher price, and if the objective is to capture a large market share, then it may charge a lower price.

Image of the firm:

The price of the product may also be determined on the basis of the image of the firm in the market. For instance, HUL and Procter & Gamble can demand a higher price for their brands, as they enjoy goodwill in the market.

Product life cycle:

The stage at which the product is in its product life cycle also affects its price. For instance, during the introductory stage the firm may charge lower price to attract the customers, and during the growth stage, a firm may increase the price.

Credit period offered:

The pricing of the product is also affected by the credit period offered by the company. Longer the credit period, higher may be the price, and shorter the credit period, lower may be the price of the product.

Promotional activity:

The promotional activity undertaken by the firm also determines the price. If the firm incurs heavy advertising and sales promotion costs, then the pricing of the product shall be kept high in order to recover the cost.

II. External Factors

There are a number of influencing factors which are not controlled by the company but will impact pricing decisions. Understanding these factors requires the marketer conduct research to monitor what is happening in each market the company serves since the effect of these factors can vary by market.

Competition:

While fixing the price of the product, the firm needs to study the degree of competition in the market. If there is high competition, the prices may be kept low to effectively face the competition, and if competition is low, the prices may be kept high.

Consumers:

The marketer should consider various consumer factors while fixing the prices. The consumer factors that must be considered includes the price sensitivity of the buyer, purchasing power, and so on.

Government control:

Government rules and regulation must be considered while fixing the prices. In certain products, government may announce administered prices, and therefore the marketer has to consider such regulation while fixing the prices.

Economic conditions:

The marketer may also have to consider the economic condition prevailing in the market while fixing the prices. At the time of recession, the consumer may have less money to spend, so the marketer may reduce the prices in order to influence the buying decision of the consumers.

Channel intermediaries:

The marketer must consider a number of channel intermediaries and their expectations.

The longer the chain of intermediaries, the higher would be the prices of the goods.

Factors affecting the Apparel Pricing:

An apparel product cost or price includes cost of various activities like fabric purchase, dyeing, cutting, sewing and packing, transportations and other overhead expenses. Hence, the cost of the product will always fluctuate time to time based on other factors.

The various components of an apparel cost are as follows:

- Type of fabric
- Trims type and numbers
- Cutting, making checking and packing charges
- Value added services-printing, embroidery, washing, appliqué
- Testing of the garment & Quality parameters expected
- Transportation and logistics cost
- Profit of the manufacturing organization.

Other than these factors, there are few other things which will affect the cost of an apparel product directly. They are described below.

Fabric cost

Fabric is generally the most significant factor in costing of garment. Fabric accounts for 60%-70% of the total cost of basic-styled garments. The cost of fabric depends upon the type of fabric that is going to be utilized in the garment.

Types of fabrics are:

- Woven/knitted fabric
- Power loom/automatic loom fabric
- Fibre/yarn/fabric dyed fabric
- Fibre content of fabric i.e. cotton, wool, polyester, silk, blended fabric,etc.

Type of dyeing and finish used

- GSM/Weight of fabricType of yarn used i.e. ring spun, open ended or carded/combed, etc.

Unit of Measurement (UoM)

- The important information which a merchandiser should be aware for different raw materials. Sometimes, the cost associated with the raw material depends upon the unit of availability.

Fabric Minimum Order Quantity (MOQ)

- This is the information about the minimum or smallest quantity of any raw material which can be bought from vendors.

The MOQ plays the important role while ordering the fabric as it directly affects the cost of garment. If the order of fabric is below the estimated MOQ then vendor charges more cost as compared to regular charges. Merchandisers need to keep the MOQ in mind while doing the costing of small quantity orders.

Order quantity

- The cost of the material majorly depends upon the quantity ordered. Higher the order quantity, lesser will be the cost of any material.

INCO terms (International commercial terms)

The type of agreement between the buyer and seller with respect to commercial aspects also a major criterion which decides the cost of the product.

For example, FOB pricing, FAS pricing, etc.

MARK UP and MARK DOWN

Mark Up

Markup refers to the difference between the selling price of a good or service and its cost. It is expressed as a percentage above the cost.

In other words, it is the premium over the total cost of the good or service that provides the seller with a profit.

Markup pricing or cost-plus pricing is a pricing strategy where the price of a product or service is calculated by adding together the cost of the products and a percentage of it as a markup. The percentage or markup is decided by the company usually fixed at the required rate of return. Markup is most often used in public utility pricing, product tailoring like designing jewelry, and in government contracts, which has received criticism for encouraging wasteful expenses.

Advantages of Markup Pricing

- Enables vendors to easily calculate profits.
- Requires little information as information on demand and costs might not always be available.
- Markup pricing provides the means by which fair prices can be easily found.
- Prices based on full cost are more morally defensible and allow for revision of final prices based on changes in price of raw materials etc.
- Markup pricing reduces the cost of decision-making.

Disadvantages of Markup Pricing

- Provides incentive for inefficiency
- Markup pricing Includes sunk costs rather than just using incremental costs

Mark Down

Markdowns are designed to increase sales, so they usually occur when a business cannot sell a product at its current price. By reducing the price, a markdown makes a good or service more desirable for customers. After a markdown, each unit has a lower profit margin, but overall sales revenues are higher because more units are sold. When setting a price for a particular good or service, it is important to value the product accurately. According to the theory of supply and demand, if the price of a commodity is too high, fewer units will sell. As such, if a business overestimates the market value of a product, it will struggle to make sales. On the other hand, if the price of product is too low, it could become unprofitable.

Markups and markdowns are used when businesses under- or overvalue a product. A markdown adjusts the price of a product to reflect the price consumers are actually willing to pay - it is therefore the devaluation of a product. If sales do not increase after the first markdown, it might be necessary to continue marking down the price of a product until it sells at a profitable rate. There should be enough time between markdowns to sufficiently test the impact of the new price.

Types of markdown

As well as misvaluing a product, there are a few reasons why a company might use a markdown:

Clearance markdowns:

if a retailer doesn’t plan on restocking an item, it could be more cost-efficient to sell the product at a reduced price than to pay for storage. By reducing the value of a product, clearance markdowns speed up sales and therefore get rid of excess inventory.

Damaged goods markdowns:

if a unit of a product is damaged, it is unlikely to sell for the same price as a non-damaged unit. It is therefore common to reduce the price of any spoiled or defective goods.

Competitive markdowns:

It is also known as price-matching, competitive markdowns occur when a business reduces the price of a product to match their competitors. If two companies sell the same product at different prices, the company with the higher price is likely to sell less

SOURCING

Sourcing is defined as the process of determining how and from where manufactured goods or components will be procured.'

The main motivational force to do sourcing of garments/fabrics is to give the highest level of satisfaction, at low production cost.

For garment export house fabric and trims are the raw material which needs to be outsourced. Sourcing is basically determining the most cost efficient vendor of materials, production, or finished goods at the specified quality and service level. It is closely associated and an important part of apparel merchandiser's responsibility. Materials basically include piece goods that will be cut and converted into the garments. Not only does the fabric have to be appropriate and suited to the garment design and end use but it must also be made availab le at the precise time when it is needed. Thus, lead times play an important role in the sourcing and placing orders for the materials required for the production.

Lead times required from a supplier can vary from as little as two weeks to as much as nine months. Trims are all the materials other than the piece goods that are required to make up a garment. Findings require the same careful planning as the piece goods. As soon as the fabric is in the stores, then only the sourcing of the threads start because the colour of the thread must match the buyer's requirements. The ordering of the threads must be complete by the time fabric is cut ready to be feeded to the sewing lines.

Sourcing can be done for Fabrics, Trims, accessories, labels, tickets, hangers, bags, boxes, etc

Some of the Accessories include - shoes, handbags, jewelry, gloves, millinery, neckwear, belts, leather goods, handkerchiefs, sunglasses, umbrellas, wicks, scarfs, cosmetics, and Trims includes - Buttons, Zippers, other closures

Normally in an Apparel firm, sourcing materials can account for 25-65% of the total cost of garments. Sourcing Industry is organized as

- Primary market - which comprises of Fiber, Yarn, Fabric, Accessory markets, and
- Secondary market - which comprises of the End product (Apparel, Home furnishings, Industrial textiles)

Types of sourcing:

Type fabric sourcing	Description
Local manufacturer	Fabric is manufactured locally, with local infrastructure.
Traditional export	Local fabric is exported to garment manufacturing countries.
International sourcing	Fabric is made locally, but raw i.e. yarn or fibre is sourced from other country.
Global sourcing	Fabrics are made with parts sourced from abroad as part of global sourcing strategy.
Off-shoring	Raw material is exported first i.e. yarn or fibre, then fabric is reimported to meet the demand
Global manufacturing	Fabric is manufactured in other country.

Domestic sourcing

In spite of the great increase in international sourcing over the past 20 years, domestic sourcing still has many advantages. Domestic sourcing is sometimes called 'speed sourcing' or 'quick response'

Priorities for domestic contractors

- Location
- Ability to work closely with the contractor
- Specialization in certain types of products
- Availability of equipment and skill of the workforce

International sourcing

Developed textile producing countries generally offer more reliable service, production skills and quality control than developing countries. They have also higher wages; when the price is the most critical criteria, one of the developing countries may be the best choice.

When sourcing internationally, textile firms may use agents. Agents are familiar with the trade laws, language, Culture, production capabilities of apparel/textile manufacturers and contractors in their country and the comparative abilities and performance records of the contractors in their country. Companies that source large quantities of goods in certain areas of the world often establish regional sourcing offices to work with sourcing agents.These strategies are used for procurement of fabric by the export houses; the most popularly used method is either local manufactured fabric is used to meet the demand. If cost of manufacturing is higher or adequate infrastructure is not available then off-shoring or global manufacturing is the popular practices for fabric procurement. For garment export house it is very important to decide the tactics of sourcing very carefully. Merchandiser along with fabric sourcing department plays key role in deciding this tactics. As the export order processing is the responsibility of production merchandiser, merchandiser is well aware of byer's requirements regarding fabric and lead time of the whole process.

Sourcing process in an apparel industry

The stages in sourcing process are very subjective and dynamic; they differ for each and every order based on specific requirements. Hence, the merchandiser cannot have pre-determined standard operating procedure. In the same way, the lead time for each process will also vary depending upon the raw material even though the vendor remains same.

The typical sourcing process of fabric / trims/ other raw material sourcing in an apparel industry can be described as:

Stage 1: Proto sample approval

Stage 2: Approval process for material

- Trim card - for trims
- Artwork - for prints and embroidery
- Lab dips - for dyed fabric
- Desk loom - for fabric
- Print strike-off - for print colour and quality.

Stage 3: Approval / rework / correction of material and results from buyer

Stage 4: Purchase order development

Stage 5: Sample fabric / trims / lab dips for testing as per requirements

Stage 6: Approval from the customer / buyer

Stage 7: Bulk production and in-house.

In this process, the material refers to fibre, yarn, fabric interlinings, buttons, zippers and other required items.

The main objective of the sourcing process is to search and identify the target material anywhere in the world, negotiate for product quality and price and source the material at required time and quantity. Strong and supportive relationship with the vendor is essential for the successful execution of any merchandising process. The development, selection and sourcing are the responsibility of the creative and technical designer of the factory along with the merchandiser. This material sourcing process must be initiated well ahead as per the forecasting and line development process.

In most of the cases, since the customer requires the samples in the original fabric, the fabric orders are the one which will be initiated very first in the line development process. Since the availability at the right time and right quantity is the vital factor in the case of fabric along with design and end use requirements, it is ordered at very initial stage. In the same way, the accessories and findings are also sourced little earlier in the production process, however, the risk associated with the product requirements remain same like, in terms of cost, quality requirements and also the matching and suitability.

Sourcing raw materials, accessories – linings, buttons, zippers, labels, etc

Raw materials

The Raw Materials for Garments, namely the fabrics, have to be approved based on "Fabric samples", and their Specifications.

Fabric Put-up (that is the way fabric is packed - rolled, folded, etc) is very important for a garment factory.

Other factors – Lead time, Price

Quality, Aesthetics and Performance are equally important. 4 and 10 point grading systems are used to assess quality of fabrics.

Some of the quality parameters of fabric are:

- fibre content
- yarn quality, count
- fabric weight,
- fabric construction
- fabric quality (shade variations, fabric defects, streak, inconsistent width, shrinkage and stretching, bow and skew, sew ability, wavy edge, colour fastness, etc)
- hand and drape ability
- colour & designs

Accessories

They contribute to the aesthetics and performance.

Interlinings – Materials sewn or fused to specific areas on inside of garment, to provide shape, support, stabilization, stabilization, reinforcement, hand, improved performance. They improve aesthetics and performance of garments.

General Quality parameters:

- Shrinkage, fiber content, orientation of fibers, weight, fabrication, method of application of glue, cost.
- Sew-in interlining
- Fusible interlining - Strike back (resin penetrates through interlining), Strike through (resin penetrates through fabric), differential shrinkage, delamination (loss of bond between interlining and fabric), colour change, bubbling (puckering after bonding), Boardiness (due to resin melting / stiffening)
- Linings - They support or enclose garment interior, covers poor fabric construction, gives more body. Types - full lining, part lining, component lining, no lining.

Quality parameters

Flexibility, softness, aesthetics, performance, comfort, thermal comfort Fiber content, weight, cost.

While sourcing Accessories, care should be taken to assess the quality parameters mentioned.

Zippers

Quality parameters:

Flexibility, withstanding ironing, shrinkage, colour fastness, stops, pull tables, chain, tape, slide - etc should work well.

Buttons

Quality parameters:

colour should match fabric, finish, & style, should withstand dyeing, washing and ironing - should not break, bleed or fade colour.

Labels

Can be made of Nonwoven, Woven, Knitted, or be printed

Types - Brand, Size, Wash care labels

Role of merchandiser in sourcing:

The sourcing and merchandising has the same goal to meet i.e. to get right fabric/trims at right place on right time and with right price. As merchandiser is key person in whole order processing hence sourcing is the integral part of merchandising activities.

The role of merchandiser in sourcing can be described as

- In small export house merchandiser bares the responsibility of sourcing
- In large export houses sourcing team coordinates merchandiser to source the fabric and trims.
- Merchandiser is responsible for calculate fabric and trim consumption per garment and coordinate it with sourcing department.
- The approvals related to fabric i.e. lab-dips, desk-loom, print-strike-off, dye-lot, thread run, needs to get from buyer within time frame.
- The art work, trim card need to get approved from buyer which is responsibility of merchandiser.
- To maintain the proper buffer in Time and action calendar is the responsibility of merchandiser.

The sourcing decisions are mainly based on the following factors like

- Lead time of the delivery
- Quality of the product
- Cost of the product.

Once the order is received, then it is the merchandiser's duty to follow- up with the manufacturer and ensure that the product is at the factory at the correct time of requirement. Another important issue associated with the sourcing process is vendor nomination. In some cases, the buyer or customer nominates different vendors for different raw materials. In that situation, the merchandiser loses the flexibility in choosing vendors. In other cases, the merchandiser will choose the appropriate vendor and the flexibility is more compared to the buyer nominated supplier, from the point of a manufacturing firm. Ultimately as an end result of the process, the high quality products are purchased with minimum cost, from the manufacturers.

The process of fabric/trims sourcing

The process of fabric sourcing is very dynamic, it changes with the fabric type, cost quoted by fabric supplier, lead time, buyers requirement. The typical process of fabric sourcing in an export house can be described as:

The material and information flow

The material and information flow in sourcing is from buyer to either to buying house or garment manufacturer. And buying house or garment manufacturer passes this information to fabric and trim supplier. According to information fabric and trim supplier supplies the material to garment manufacturer. Sometimes buyer has nominated supplier for fabrics and trims hence; buyer shares all the information to fabric and trims supplier directly and ask merchandiser to source the fabric and trims as per requirement of order. In this case the all-risk related to fabric and trims i.e. delay, variation, quality checks is transfer to fabric and trim supplier and solely bare by the buyer.

Factors affecting sourcing of fabric and trims

Lead time:

Fabric and trim sourcing is very time consuming process which includes desk loom and lab-dip approvals, trim and art work approval, FPT approval.

The fabric sourcing itself will take lead time of 30-60 days depending upon type of fabric for yarn dyed fabric it takes approx.45 day, for piece dyed fabric it take approx. 30 days and for fibre dyed fabric it takes approx.55 -60 working days. Merchandiser needs to decide the supplier of the fabric supplier on the basis of type of fabric and time remains in hand to complete the export order. If fabric sourced from other country, then time required for transportation needs to keep in mind.

Trim sourcing is another important factor that needs to take care. For trims generally it takes 30 days to get in - house. That is also depends upon type of trims and from where trims are getting procured.

Logistics:

Logistics is one of the main factors which affects the fabric sourcing drastically. There are several aspects those are

- **Time required for transportation**
- **Infrastructure for logistics**
- **Cost of logistics**

Merchandiser needs to keep in mind these factors while placing the order for fabric or trims. The time required for transportation is very important to achieve the accurate lead time of fabric/trims procurement. Absence of adequate infrastructure will lead to delay in fabric procurement. Cost of logistics will directly affect the cost of garment; hence merchandiser should be well aware about these aspects of logistics and then place the order for fabric and trims.

Quality parameters:

The demand for high-quality low-cost fabric/trims coupled with the need to reduce costs to increase operating profits is driving more companies to outsource manufacturing overseas. Though sourcing is an effective way to do business but sometimes fabric and trims supplier cannot meet the quality parameters, which will lead to trouble for apparel merchandiser to execute the export order.

The ability of sourcing partners to produce quality fabric and trims consistently depends on a number of factors. One of the main factors is skill of the workforce and their worker's flexibility to work to produce wide range of fabrics and trims. The technology up -gradation of the sourcing partners. Another important factor is the accuracy of written communications and instructions received from the garment manufacturer/ apparel merchandiser.

Sourcing costs:

The sourcing decisions are taken mainly on the basis of cost manufacturing. But now a days garment exporters makes strategic bonding with fabric and trims vendors. The buyers also makes bonding with fabric and trims vendors, these are called nominated vendor. The sourcing cost depends upon following factors

- Labour wages
- Manufacturing cost
- Cost of logistics/transportation
- Incoterm negotiated(for international sourcing)

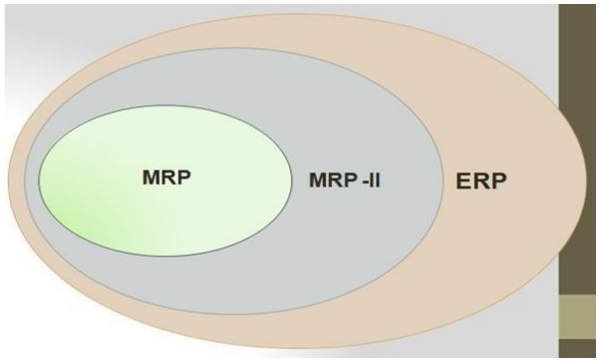
When comparing the costs of manufacturing a fabric and trims offshore or domestically, manufacturers must include all the hidden costs of added processes and steps that go hand in hand with offshore production. The cost of sourcing is optimised when fabric and garment manufacturing units are under one roof or closer to each other. The freight chargers are increased when there delay in manufacturing and material need to send with air freight.

Minimum Order Quantity (MOQ):

This is the important factor that affects the sourcing. For sourcing of fabric and trims there is always a MOQ for which directly affects the cost. Every supplier requires a certain MOQ to produce the fabric and trim economically; otherwise the cost of running the production is higher if production is below MOQ. If garment exporter places the order of raw material below MOQ then generally cost will be more for that. Hence throughout the supply chain MOQ is maintained the in order to achieve the appropriate cost of production.

MANUFACTURING RESOURCE PLANNING

Manufacturing resource planning evolved from material requirement planning in the 1980s. It abbreviated as MRP-II to distinguish from MRP. Oliver Wight and Walter Goddard developed manufacturing resource planning from MRP.



MRP-(Material Requirement Planning)

MRP (Material requirement planning) is a system used for planning the future requirement of the dependent demand items. Black and decker was the first company who used MRP in 1964. It typically determine "when to order" based on a average usage for a planned replenishment lead time + safety stock to protect the severer demand.

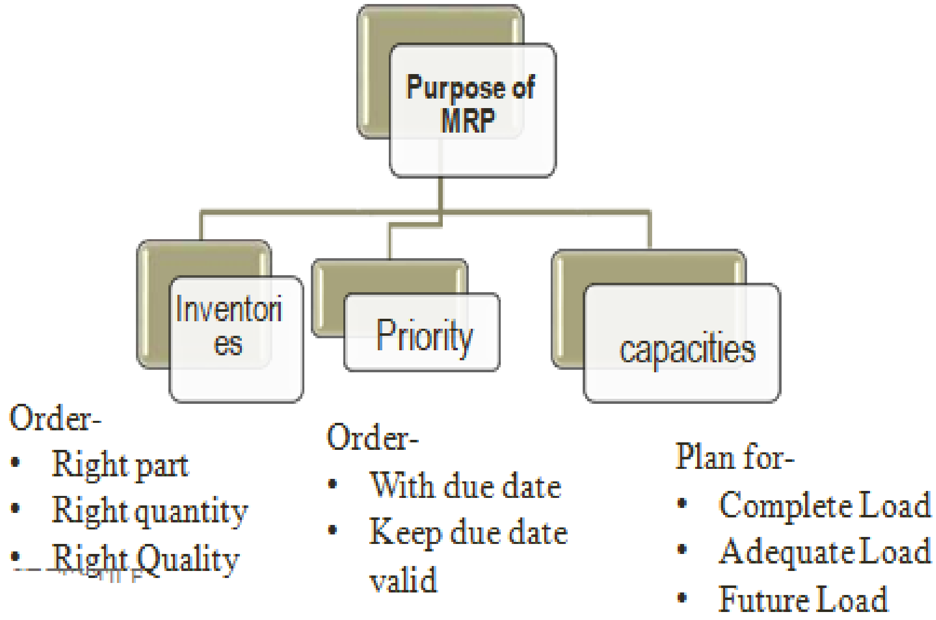
Materials Requirements Planning (MRP) is a set of techniques that takes the Master Production Schedule and other information from inventory records and product structure records as inputs to determine the requirements and schedule of timing for each item. It is a production planning process that starts from the demand for finished products and plans the production step by step of subassemblies and parts.

Necessity:

- To avoid over ordering on under-ordering of materials.
- To reduce unwanted expenses due to last minute ordering.
- To reduce capital locked up in excess.

Purpose:

- Control inventory levels
- Assign operating priorities
- Plant capacity to load the production system



Types of System

- Independent Demand
- Dependent Demand

Independent Demand:

Demand for final products.

Dependent Demand:

Demand fort items that are sub assemblies or component parts to be used in production of finished goods.

Principles of Manufacturing / Production resource planning

Manufacturing/Production planning is an integrative process of coordinating plant resources with the demand for finished goods. Both long and short-range planning is necessary to develop resources and skills needed to produce the desired style, maintain consistency in quality and meet delivery deadlines.

Long-term planning is based on forecasts and budgets, and Short-term planning is based on customer-orders. Production planners work to ensure smooth transitions in new products. Some styles may require installation of additional equipments, planning layouts, line balancing, operator trainings, production planning, etc. Manufacturing planning involves coordinating plant capacity with style requirements, projected volume and delivery dates.

"Capacity" refers to the productive capability of a plant, machine, or work force in a given period of time. It is usually measured in units of output.

Plant capacity is the total hours available for production in a given period of time. The various types of capacities have been detailed herewith:

- Maximum capacity - Total hrs available under normal conditions
- Potential capacity - maximum capacity adjusted for efficiency
- Committed capacity - total hrs previously allocated for production
- Available capacity - difference between potential capacity and committed capacity
- Required capacity - Standard Allowable Minutes (SAM) or Hours required to produce a specified volume
- Excess capacity - difference between potential capacity and required capacity.

Manufacturing / Production Resource Management

Plant resources are those entities used by the firm to produce its product. These include inventory, employees, and equipment and facilities, all of which require investment by the firm.

Inventory Management

Inventory includes Materials to be processed, Work in progress and finished goods. Certain stock levels have to be planned and maintained to meet customer needs. Excess inventory increases costs, and a shortage of inventory will curtail production. Inventory control is an effort to maintain stock levels and costs within acceptable limits. Some manufacturers operate on Just-In-Time (JIT) inventory system.

Human Resource Management

Human resources in an apparel firm fall under 3 categories namely direct labour, management and support staff. The degree of motivation given to human resources has much to do with the success of a firm. Through right motivation, and training, their capability can be increased and reinforced. Compensation or payment of wages and salary along with fringe benefits enables the management to have good rapport with labor, and be able to retain talent.

Equipment and Facilities

A firm"s "strategic plans", and "financial base", determine the need and priority for technology and equipment. How much to modernize the plant and equipment depends on management policies. Acquisition of new equipment for expansion, replacement or modernization of equipment, may necessitate investment and limit cash flow, and must be decided by the management. However, productivity, improved efficiency and quality, very much depend on the level of technology available in the manufacturing plant.

MRP Inputs & Outputs:

MRP Inputs

- Master Production Schedule (MPS)
- Bills of materials (BOM)
- Inventory status file
- Lead time

MRP Outputs:

Primary reports

- Work orders
- Purchase orders
- Action notices or rescheduling notices

Secondary reports

- Exception reports
- Planning reports
- Performance Control reports

Inventory transaction

Master Production Schedule (MPS)

MPS is based on the actual customer orders and predicted demand. It indicates when each ordered item will be produced in coming weeks, and in how much quantity. It is a plan specifying timing and quantity of production for each end item.

MPS inputs come from sales and marketing and it covers about 1-3 months into the future.

Bills of materials (BOM)

A listing of all of the raw materials, parts, subassemblies, and assemblies needed to produce one unit of a product. It shows way a finished product or parent item is put together from individual components.

Parent item shown at highest level or level zero, Parts that go into parent item are called level 1 component and so on. Production planners explode BOM to determine the number, due dates, and order dates of subcomponents.

Inventory status file

It provides the detailed information regarding the quantity of each item, available in hand, on order to be released, for use in various time periods. It is lso known as Inventory Master File

MRP system using inventory master file is used to determine the quantity of material available for use in a given period. If sufficient items not available, the system includes the item on the planned order release report .

Primary Reports

Work orders / Planned orders

- It schedule indicating the amount and timing of future orders.

Order Release

- Authorization for the execution of planned orders.

Action Notices or Rescheduling Notices

- In which orders are to be released, revised and canceled during the current time period.

Secondary Reports

Performance control Reports - evaluate system operations.

- They aid in measuring deviations from plans, and also provide information to assess cost performance.

Planning Reports

- They are useful to forecast future inventory requirements.

Exception Reports

- These help to find the major discrepancies such as late and overdue orders, excessive scrap rates, reporting errors, etc.

MRP PROCESS

It comprises of four process, they are

- Exploding and Offsetting
- Gross and Net Requirements
- Releasing Orders
- Low level Coding and Netting

Exploding and Offsetting

- Lead time

  It is the time needed to perform the process. It includes order preparation, queuing, processing moving receiving and inspecting time as well as any expected delays.
- Exploding the requirements

  It is the process of multiplying the requirements by usage quantity of each item and recording the appropriate requirements throughout the product tree.
- Offsetting

  It is a process of placing the exploded requirements in their proper periods based on lead time.

Gross and Net Requirements

- Gross Requirement

  Total expected demand of the product.
- Net Requirements

  Actual amount needed in each time period.

  Net Requirements = Gross Requirement - available inventory
- Planned on hand

  The expected inventory on hand at the beginning of each time period.
- Planned-order receipts

  Quantity expected to received at the beginning of the period
- Planned-order releases

  Planned amount to order in each time period

Releasing Orders

- Releasing an order

  It means authorization is given to buy the necessary material or to manufacturing of required component.
- Scheduled Receipts

They are orders placed on manufacturing or on a vendor and represent a commitment to make or buy.

By considering Scheduled Receipts,

Net Requirement = Gross Requirement - Scheduled Receipts - available inventory

Low Level Coding and Netting

- **Netting**

  It is a process in which any stock on hand is subtracted from the gross requirement determined through explosion, giving the quantity of each item needed to manufacture the required finished products.

- **Low Level Code**

  It is the lowest level on which a part resides in all bills of material.

  Low level codes are determined by starting at lowest level of bill of material and working up, recording the level against the part. If part exists on higher level, its existence on the lower level is already recorded.

- **Time buckets**

  The column in an inventory record that represents a unit of time. It may be in days or weeks.

- **Action bucket**

  The current time period.

- **Action notices**

  Output from the MRP system identifying the need for an action, to avoid future problem.

- **Planning Horizon**

  It is the total number of periods in a record.

Applicable Areas:

- This inventory management system is appropriate for items that have a dependent demand.
- MRP is applicable for industries that offer a variety of finished products where the customer is allowed to choose among many different options.
- MRP is most appropriate when the manufacturing environment is complex and uncertain.

Benefits of MRP

- Keep inventory levels to a cost-effective minimum.
- Keeps track of inventory that is used.
- Tracks the amount of material that is required.
- Set safety stock levels for emergencies.
- Determine the best lot sizes to fulfill orders.

- Set up production times among the separate manufacturing stages.
- Plan for future needs of raw

Drawbacks of MRP

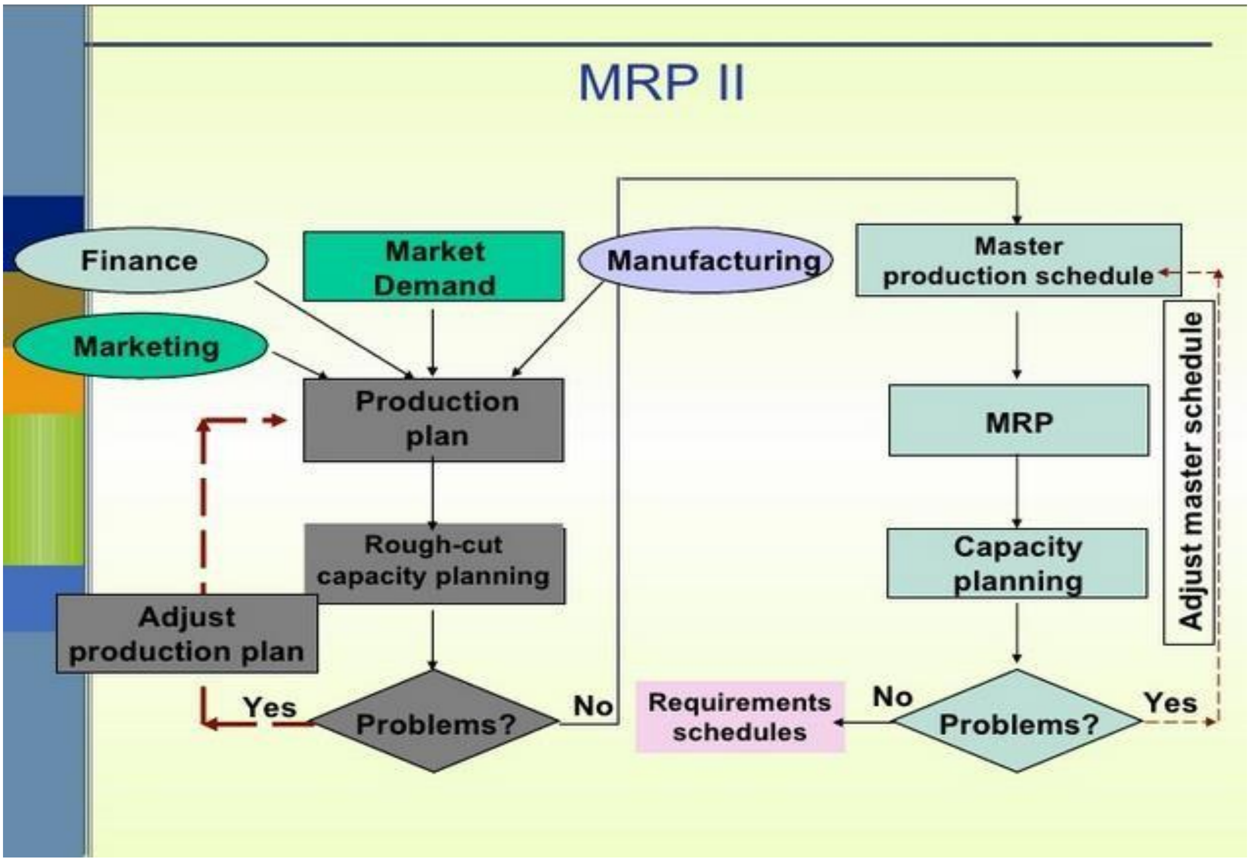
- Inaccurate information can result in miss planning, overstock, under-stock, or lack of appropriate resources.
- The inaccurate master schedule will provide wrong lengths of time for production. Hence affecting planning.
- The user has to specify how long it takes a factory to make a product from its components.
- This system assumes the lead time is constant.
- This system could not include resource planning in its system.
- MPS is only depends on Forecast value or firm order.
- MRP systems can be costly and time-consuming to set up.

EVOLUTION OF MRP INTO MRP II

Manufacturing resource planning (MRPII) is defined as a method for the effective planning of all resources of a manufacturing company. Ideally, it addresses operational planning in units and financial planning. This is not exclusively a software function, but a combination of people skills, dedication to data base accuracy, and computer resources. It is a total company management concept for using human resources which is used more productively.

MODULES IN MRP II

- Business Planning
- Purchasing
- Forecasting
- Inventory Control
- Order Entry And Management
- Shop Floor Control
- Faster Production Scheduling
- Distribution Requirement Scheduling
- Service Requirement Planning
- Capacity Requirement Planning
- Accounting



Rough Cut capacity Planning

Rough cut capacity plans are "Finite capacity plan" because they have to operated within certain constrains. Quick check on a few key resources required to implement the MPS.

Capacity Planning

- It provides more detailed information than Rough cut capacity planning.
- It explodes the manufacturing order through routine specified in the shop floor control system.
- It provides information about what capacity is required in each work center.

MRP II Features

- Fluctuation of forecast is taken into account by including simulation of MPS.
- MRP2 is a total company management concept for using more human resources effectively.
- The MRP2 is carried out by a synergistic combination of computer and human resources.
- The integration extends from strategic to operational level and encompasses long term planning up to short term control.

BENEFITS OF MRP II

- Increased direct labor productivity
- High accuracy of inventory and manufacturing capacity

- Effective interaction between different functions due to common databases and improved information flow
- Quicker implementation of engineering changes
- Simulation capability to test what-if scenarios in a risk free environment
- Company focus shifts from crisis management to process control

For Manufacturing Functions:

- Better control of inventories
- Improved scheduling
- Productive relationships with suppliers

For Financial and Costing Functions:

- Reduced working capital for inventory
- Improved cash flow through quicker deliveries
- Accurate inventory records
- Timely and valid cost and profitability information

For Design / Engineering Functions:

- Improved design control
- Better quality and quality control

Overall

- More efficient use of resources
- Better priority planning
- Improved customer service
- Improved employee moral
- Better management information

Disadvantages of MRP II

- Capacity can be considered only after the MRP schedule has been prepared.
- It may happen that insufficient time was allowed within the MRP schedule for the individual operations to be completed, thus leading to erroneous data.
- All the planning, if done on the basis of misleading data, will slow down the production process.
- If unexpected input changes occur, the planning process has to be recalculated from start.

MRP Application in Garment Industry:

Material Requirements Planning (MRP) is designed to assist manufacturers in inventory and production management. MRP helps to ensure the materials will be available in sufficient quantity and at the proper time for garment production to occur, without incurring excess costs by having the materials on hand too early. MRP assists in generating and (as needed) revising garment production plans to meet expected demands and replenishment plans to assure the timely availability of raw materials (fabrics) and all levels of product components(Trimmings, Accessories, etc.,).

MRP begins by compiling a Bill of Materials (BOM) for each garment order and style. This is a listing of the components and quantities that are needed to manufacture the end product or component. The compilation of BOMs continues recursively, enumerating the subcomponents that are needed to manufacture each component, until only raw materials appear in the generated BOMs. In practice, a manufacturer may prefer to extend the BOM enumeration for only a specified number of levels and to assume that components and/or raw materials beneath that level are available on demand.

Next, MRP requires information on the lead times associated with each garment manufacturing or assembly procedure that is required to produce the components and end products. Lead time is the time required to assemble or manufacture the needed components into garment, and thus is the time elapsed between the point at which all needed components are present and the end of assembly or manufacturing. These lead times may be compiled per unit of each component/product or may be based on predetermined batch sizes.

MRP combines the BOMs, the lead times, and estimates of demand for end products to generate the Master Production Schedule, which details a schedule of assembly and production that enables the manufacturer to meet the estimated demand. This schedule addresses only the final level of assembly or production (resulting in end products), and includes both the timing and quantities of production. The Master Production Schedule serves as the basis for all further output information from MRP.

Using the Master Production Schedule as a starting point, it is a conceptually simple (but computationally demanding) task to combine it with the data on lead times and BOMs to derive a schedule of component (and possibly raw materials) requirements, through as many levels of assembly and production as the manufacturer chooses. This schedule can account for such factors as work-in-progress, current inventory of and pending orders for materials and components, and direct demand for components as service items. Using this schedule of requirements, the manufacturer must determine a material replenishment strategy that satisfies these requirements. A wide variety of ordering rules and heuristics can be incorporated into computer-based MRP models.

In addition to the material requirements, other useful data can be generated from the Master Production Schedule. These include the projected inventory levels for any end product, the projected schedule for any assembly or production process, and the projected utilization of capacity for a particular production operation. Any of this information should aid in evaluating current or potential materials replenishment strategies.

Computers are instrumental in any real-world implementation of MRP, due to the large amount of data processing required to generate initial material requirements. Additionally, it's probable that the entire analysis will have to be repeated several times in response to changing conditions (for example, changes in demand, manufacturing processes, or material supply).

This example illustrates the use of SAS/OR software (specifically, PROC CPM and PROC GANTT) in a SAS/AF application that performs Material Requirements Planning for a hypothetical clothing manufacturer. A small number of data steps and relatively simple procedure calls from SAS/OR, Base SAS, and SAS/GRAPH accomplish all the computational work needed to support this application. The few simplifying assumptions made to limit the scope of this sample application could in practice be relaxed to make the application useful in a more complex and more realistic MRP setting. This application could also serve as an MRP module in a broader production and inventory control system.

The MRP system provides solutions and convenience for users to order raw materials. The system produce output in the form of raw materials booking schedule, using Material Requirement Planning (MRP) method with the assumption that goods arrive on time. The Master Production Schedule (MPS) is a requirement to be entered into this system. MPS are resulted from Production Scheduling Information System and generated from the demand forecasting results of sales transaction history data in Online Transaction Processing (OLTP). With the construction of this system, it can reduce errors in ordering raw materials up to 80%, which includes the number of orders and order time. Errors can occur if there is a change in market demand from what has been predicted or there are supplier time constraints in sending goods outside of previous planning. The development of this system results in the planning of ordering raw materials in the form of a schedule for ordering raw materials according to the previously estimated, so that the risk of delays in the delivery of raw materials from suppliers can be handled properly.

Just-in-time (JIT)

Just-in-time (JIT) inventory management, also known as lean manufacturing and sometimes referred to as the Toyota production system (TPS), is an inventory strategy that manufacturers use to increase efficiency. The process involves ordering and receiving inventory for production and customer sales only as it is needed to produce goods, and not before.

JIT is a manufacturing management process. It was first developed and applied in the Toyota manufacturing plants in order to meet consumer demands with minimum delays.

Taiichi Ohno of Japan is referred to as the father of Just In Time. Toyota met the increasing challenges for survival through a management approach that was entirely focused on people, systems and plants.

Toyota realised the Just In Time approach would only be successful if every person within the Toyota was committed and involved in it, and if plant and processes were properly arranged for maximum efficiency and output, and if the quality of the goods produced and production programs were scheduled to meet demands exactly.

Purpose of JIT

Just-in-time inventory management is a positive cost-cutting inventory management strategy, although it can also lead to stockouts. The goal of JIT is to improve a company's return on investment by reducing non-essential costs.

- JIT helps companies lower their inventory carrying costs,
- It increase efficiency
- It decrease waste.
- JIT requires manufacturers to be very accurate in forecasts for the demand for their products.

JIT Philosophy

Just-in-Time (JIT) is not just a manufacturing technique but a philosophy of manufacturing that influences a company's relationship with its suppliers, customers, and employees. The two basic underpinnings of this philosophy are elimination of anything that does not add value for the customer, and continuous improvement. Thus, the emphasis is on efficient utilization of resources, where resources can include time, material, and people. JIT activities include setup and lead time reduction, minimization of inventory, employee involvement in the decision making process, cooperative arrangements with suppliers, and a focus on meeting the needs of the customer.

The JIT philosophy fosters an environment, where continuous improvements are sought in waste reduction and quality. Another important aspect of the JIT philosophy is that improves the relationships with employees, and employees are given broad problem-solving and decision-making authority.

Elements involved in JIT

- Continuous improvement
- Simplicity
- Eliminating Waste

Continuous improvement:

- Attacking fundamental problems and anything that does not add value to the product.
- Devising systems to identify production and allied problems.

Simplicity:

- Simple systems are simple & easy to understand, easily manageable and the chances of going wrong are very low.
- A product-oriented layout for less time spent on materials and parts movement.

- Quality control at source to ensure every worker is solely responsible for the quality of their own produced output.

Eliminating Waste:

There are seven types of waste:

- Waste from product defects.
- Waste of time.
- Transportation waste.
- Inventory waste.
- Waste from overproduction.
- Processing waste.

Waste minimization is one of the primary objectives of the Just In Time system. This needs effective inventory management throughout the whole supply chain.

Initially, a manufacturing entity will seek to reduce inventory and enhance operations within its own organization.

In an attempt to reduce waste attributed to ineffective inventory management, SIX principles in relation to JIT have been stated by Schniededans and they are:

- Reduce buffer inventory.
- Try for zero inventory
- Search for reliable suppliers.
- Reduce lot size and increase the frequency of orders.
- Reduce purchasing cost.
- Improve material handling.

Lean Manufacturing in Garment Industry

Lean Manufacturing is a systematic approach for achieving the shortest possible cycle time by eliminating the process waste through continuous improvement. Thus making the operation very efficient and only consisting of value adding steps from start to finish. In simple words lean is manufacturing without waste.

Lean manufacture has a comprehensive set of rule, elements and tools which focus on the elimination of waste and the creation of value. Any non-value added activity or process is called waste.

Principle of Lean Implementation

The first step for implementing the lean concept in any manufacturing company is to define the value from the perspective of the final customer first. Then identify the value stream by creating a map of the Current State and the future State of the value stream. Identify and categorize waste in the Current State, and eliminate it. Eliminating this waste ensures the flows of product to the customer without any interruption, detour or waiting. Return to the first step and begin the next lean transformation, offering a product that is ever more nearly what the customer wants.

Lean Manufacturing Tools

- 5S: 5S is a systematic method for organizing and standardizing the workplace. It's one of the simplest Lean tools to implement
- TPM: TPM is important for smooth running of a production facility and gives the best utilization of machines with least disruption of production
- CM: CM is an integral part of lean manufacturing systems. Cellular Manufacturing is based upon the principles of Group Technology.
- VSM: VSM is used to find waste in the value stream of a product. Once waste is identified, then it is easier to make plan to eliminate it
- KAIZEN: A strategy where employees work together proactively to achieve regular, incremental improvements in the manufacturing process. Pareto Chart: The Pareto diagram is a graphical overview of the process problems, in ranking order from the most frequent, down to the least frequent, in descending order from left to right.

- POKA YOKE: Design error detection and prevention into production processes with the goal of achieving zero defects. This method makes sure that the operator does not make any mistake while in operation.
- KANBAN: Kanban is a Japanese word that means instruction card. A Kanban can be any visual indication used to order the requirement of part or component. It is a manual pull device that allows an efficient means to transfer part from one shop to other.
- SMED: It focuses on simplifying machine setups. Reduce setup or changeover time to less than 10 minutes and it focuses on increase production flexibility
- JIT: Pull parts through production based on customer demand instead of pushing parts through production based on projected demand. It involves having the right items with the right quality and quantity in the right place at the right time Visual Inspection: Makes the state and condition of manufacturing processes easily accessible and very clear - to everyone.

K.S.RANGASAMY COLLEGE OF TECHNOLOGY

DEPARTMENT OF TEXTILE TECHNOLOGY

B.TECH TEXTILE TECHNOLOGY

III YEAR / VI SEMESTER

50 TT E 25 APPAREL MARKETING AND MERCHANDISING

UNIT V

Syllabus

Documentation and Incentives

Various types of export documents - Pre-shipment & post-shipment documentation; Terms of payment; Export incentives - Advance authorization scheme, DFIA, Duty drawback scheme, RoSCTL, EPCG scheme; DEPB scheme; I/E license; Exchange control regulation; Export risk management; ECGC schemes; Export finance; IMF / WTO / GATT / MFA - functions, objectives, success & failures.

EXPORT DOCUMENTATION

The trade between two nations involves significant documentation process. In domestic trade, an organization has to fulfill only the requirements of taxation department of the own country and make a simple invoice against the customers. However, in case of international trade, exporters and importers have to submit a number of documents to different institutions.

These institutions are as follows:

- Importing organization that has placed order and exporting organization that is selling the goods
- Taxation, custom control, and exchange control authorities of both the countries
- Port authorities for loading and unloading of goods
- Shipping and warehousing authorities for transporting and storing goods
- Inspection agencies that inspect and verify the products
- Banks of exporting and importing countries if involved

Export documentation plays a vital role in the flow and movement of goods and services in international markets. This documentation involves heavy and cumbersome paper work for exporting organizations.

There are various outsourcing agencies/ experts that prepare these documents on behalf of organizations and charge fee for it. Exporters have to understand the importance of each and every document. If they miss any document, the contract may be cancelled.

Importance of Export Documents:

The export documentation should be prepared with care as they are used

- As an evidence of the shipment and title of goods
- For obtaining payment.

Documentation is evidence for whatever we do as facing terms about exports, the documentation process is very important. The export documentation itself is a risky job, which needs lot of experience to carry out that regard.

Purpose:

The main purpose of the documents accompanying a shipment is to provide a specific and complete description of the goods so that they can be assessed correctly for duty purpose and meet the import licensing requirements or import quota restrictions imposed on the goods for clearance purpose. If there are any discrepancies in the documents and or if the required documents are not produced, the shipment may not be allowed for import or may even be confiscated by the customs of the importing country. The following are the main purpose of export documents

- To effect the shipment on time
- To ship the correct goods
- To ensure the quality of goods
- To clear the export customs procedure
- To describe the shipment and the contents in it
- To indicate the ownership of goods
- To facilitate smooth flow of goods across borders to the designated country
- To avoid disputes with the importer
- To ensure proper government procedures are followed
- To avoid any unlawful activities
- To obtain payment from the buyer after completing all the formalities through his/her bank.

Classification of export documents

Export documents can be classified into the following four categories:

I. Commercial documents
II. Shipping documents
III. Foreign exchange-related documents
IV. Documents specially required by the buyer

I. COMMERCIAL DOCUMENTS

These documents are used by exporters/importers to discharge their respective legal and other incidental responsibilities under the sales contract.

These documents serve the following purposes:

- To effect the physical transfer of goods and title of the goods from exporter to the buyer
- To realize export sales proceeds

The following are the commercial documents.

- Commercial invoice
- Packing list
- Certificate of inspection
- Certificate of insurance/insurance policy
- Bill of lading
- Combined transport document
- Certificate of origin
- Shipping advice
- Letter of credit

Commercial invoice

It is the basic and most important document in an export transaction and extreme care has to be taken by the exporter to prepare this document.

This document requires the exporter to submit details such as

- Exporters own details
- Invoice number with date

- Details of the consignee and buyer (if the buyer is other than consignee)
- Buyer's order number with date
- Country of origin of the goods
- Country of final destination
- Terms of payment and delivery
- Pre-carriage details (road/rail)
- Vessel/flight number
- Port of loading
- Port of discharge
- Final destination
- Container number
- Number and kind of packaging
- Detailed description of goods
- Quantity
- Rate and
- Total amount chargeable and so forth

Therefore, a commercial invoice contains the complete details of the export order. Normally, the trade practice is to raise and send a proforma invoice to the buyer for his approval, once the order has been finalized. On receipt of the approved proforma invoice, the exporter can use it as a part of the export contract. The commercial invoice then becomes easier to prepare on the basis of the approved proforma invoice.

Packing list

This document provides the details of number of packages; quantity packed in each of them; the weight and measurement of each of the packages and the net and gross weight of the total consignment.

- Net weight refers to the actual weight of the items and the gross weight means the weight of the items plus the weight of the packing material.
- The packing list serves a useful purpose of the exporter while dispatching the consignment as a cross-check of goods sent.

- For the port personnel, it comes handy while planning the loading and offloading of cargo.
- It is also an essential document for the customs authorities as they can carry out the physical examination of the cargo and conduct checks on the weight and measurements of the goods smoothly against the declarations made by the exporter in the packing list.

Certificate of inspection:

This is the certificate issued by the Export Inspection Agency after it has conducted the pre-shipment inspection of goods for export provided the goods fall under the notified category of goods requiring compulsory shipment of inspection

Certificate of insurance/insurance policy:

- Insurance is an important area in the export business as the stakes are usually very high.
- Protection needs to be taken in the form of insurance cover for the duration of transit of goods from the exporter to the importer.

Bill of lading:

- This is issued when the goods are shipped using ocean (marine) transport.
- When the exporter finally hands over the goods to the shipping company for loading on board the ship for transport to their final destination, the shipping company issues a set of bills of lading to the exporter.

Airway bill:

- Airway bill is a B/L when the goods are shipped using air transport.
- It is also known as air consignment note or airway B/L.

Combined transport document:

- This is also known as multi-modal transport document.
- Ever since containers have become popular, the concept of combined transport document has gained solid ground.

Certificate of origin:

- This document serves as a proof of the country of origin of goods for the importer in his country.
- Imported countries usually require this to be produced at the time customs clearance of import cargo.

- It also plays an important part in computing the liability and the rate of import duty in the country of import.
- This certificate declares the details of goods to be shipped and the country where these goods are grown, manufactured or produced.
- Such goods need to have substantial value addition so as to become eligible for certification of this nature.

Bill of exchange:

Also known as draft, this is an instrument for payment realization. It is a written unconditional order for payment from a drawer to a drawee, directing the drawee to pay a specified amount of money in a given currency to the drawer or a named payee at a fixed or determinable future date. The exporter is the drawer and he draws (prepares and signs) this unconditional order in writing upon the importer (drawee) asking him to pay a certain sum of money either to himself or his nominee (endorsee). This order could be made for payment on demand, called a bill of exchange at sight.

Shipping advice:

- The exporter sends this document, called shipping advice, to the buyer soon after the shipment is made to provide him with all the shipment details.
- This serves as an advance intimation of the shipment and allows the importer to arrange for delivery of the same.

Letter of credit:

This method of payment has become the most popular form in recent times; it is more secure as company to other methods of payment (other than advance payment).

A letter of credit (L/C) can be defined as 'an undertaking by importer's bank stating that payment will be made to the exporter if the required documents are presented to the bank within the variety of the L/C'.

II. SHIPPING DOCUMENTS

Pre shipment Documents

- Bill of leading or Charter party
- Marine Insurance Policy
- Shipping Bill
- Export Order

- Performa Invoice
- Export Invoice
- Customs Invoice
- Consular Invoice
- legalized invoice
- Packing List
- Intimation for Inspection
- Inspection Certificate
- Shipping Instructions
- Bill of exchange
- Shipping Order
- Mate’s receipt

Post shipment Documents

- Customs Declaration Form
- Dispatch Note
- Commercial invoice
- Consular Invoice
- Customs Invoice
- Legalized Invoice
- Certified Invoice
- Packing List
- Certificate of Inspection
- Black List Certificate
- Manufacturer's Certificate
- Certificate of Chemical Analysis
- Certificate of Shipment
- Health/ Veterinary/ Sanitary
- Certificate of Conditioning

- Antiquity Measurement
- Shipping Order
- Cart/ Lorry Ticket
- Shut Out Advice
- Short Shipment Form

General shipping Documents

- Bill of lading
- Shipping bill
- Marine insurance

Bill of lading

A B/L is a document issued and signed by a shipping company or its agents acknowledging that the goods mentioned in the B/L have been duly received for shipment, or shipped on board a vessel, and undertaking to deliver the goods in the order and condition as received, to the consignee, or his order or consignee, provided that freight and other charges specified in the B/L have been duly paid.

B/L serves the following purposes:

- It is receipt for goods received by the shipment company.
- A contract with the carries: - It contains the terms of the contract\ between the shipper and the shipping company, between stated points at a specific charge and,
- Evidence of title - It is a certificate of ownership or title to the goods.

For the B/L to be negotiable, in fact, three requirements must be fulfilled.

- It must be made out to the order to the shipper.
- It must be signed by the steamship company.
- It must be endorsed in blank by the shipper.

Endorsement of B/L

By practice and custom, the B/L has been transferable. If, however, the bill requires the goods to be delivered to a particular named person and does not include a reference to his assignees, the B/L is not transferable. It is only namely that a B/L would be drawn this way.

The consignee or consignor, as the case may be, can transfer the bill and lading either by a special endorsement, an endorsement that makes the transfers in the blank (i.e. not naming an endorse). In the latter case, the goods are deliverable to the bearer. The holder may, however, correct the blank endorsement in to a special endorsement by inserting the name of the person to whom delivery is to be made. It is then called, ‘the endorsement in full.

Types of bills of lading

- Freight paid or freight to collect
- Clean or classed B/L
- Direct or through B/L

Freight paid or freight to collect

The former is the case when the contract is C and F and one of the terms in the L/C would be that B/L should indicate, ‘freight pre-paid’

Clean or classed B/L

A clean B/L is one, which is without any advance entry, about the apparent order and condition of the goods. A classed B/L is one in which there are some adverse remains lice, for example, ‘Two cases in damaged Conditions’.

Direct or through B/L

The former is the case when the vessels take the goods directly from theport of loading to the destination. If there is transshipment or where a vessel of another line takes the goods from an intermediary port to the port of destination, the latter is used.

Shipping bill

Shipping bill is required by the customs. It is only after the shipping bill is stamped by the customs that cargo is allowed to be carted to the docks. The aligned shipping bill has been prepared after taking into consideration the requirement of the custom’s public notice No. 39, which suggests a uniform shipping bill for different categories of export, namely free goods, dutiable goods and goods under claim for drawback.

To facilitate identification and processing of different categories of shipping bill, it will be desirable to Introduce uniform color scheme at all ports. Identification will be easier and quicker if the different categories of shipping can be distinguished by the colour of the forms rather than by the colour of the letters print on the shipping bills.

Marine insurance

Marine insurance declaration form and marine insurance certificate/policy: It is suggested that open cover/policyholders/may be supplied with the blank forms of these documents. These can be reproduced from the master and then sent to the appropriate office of the General Insurance Corporation. The corporation can issue the Insurance Certificate after completion of necessary entries and certificate.

The Export Shipping Documentation Process: An Overview

Step 1: Receive an Inquiry

Step 2: Screen the Potential Buyer and Country

Step 3: Provide a Proforma Invoice

Step 4: Finalize the Sale

Step 5: Prepare the Goods and the Shipping Documents

Step 6: Run a Restricted Party Screening (Again)

Step 7: Miscellaneous Forms and **Ship** Your Goods

Pre-Shipment & Post Shipment Procedure:

Pre-shipment Procedure

Pre-shipment stage consists of the following steps:

Approaching Foreign Buyers:

In order to secure an export order, a new exporter can make use of one or more of the techniques, such as, advertising in international media, sales promotion, public relation, personal selling, publicity and participation in trade fairs and exhibitions.

Inquiry and Offer:

An inquiry is a request from a prospective importer about description of goods, their standard or grade, size, weight or quantity, terms of payments, etc. On getting an inquiry, the exporter must process it App immediately by making an offer in the form of a proforma invoice.

Confirmation of Order:

Once the negotiations are completed and the terms and conditions are finalised, the exporter sends three copies of proforma pre invoice to the importer for the confirmation of order. The importer signs these copies and sends back two copies to the exporter.

Opening Letter of Credit:

The documentary credit or letter of credit is the most appropriate and secured method of payment adopted to settle international transactions. On finalization of the export contract, the importer opens a letter of credit in favor of the exporter, if agreed upon in the contract.

Arrangement of Pre-shipment Finance:

On securing the letter of credit, the exporter' Procures a pro-shipment finance from his bank for procuring raw materials and other components, processing and packing of goods an transfer of goods to the port of shipment

Production or Procurement of Goods:

On securing the pre-shipment finance from the bank, the exporter either arranges for the production of the required goods or procures thorn from the domestic market as per the specifications of the importer.

Packing and Marking:

Then the goods should be properly packed and marked with necessary details such as port of shipment and destination, country of origin, gross and net weight, etc. If required, assistance can be taken from the Indian Institute of Packing (IIP).

Pre-shipment Inspection:

If the goods to be exported are subject to compulsory quality control and pre-shipment inspection then the exporter should contact the concerned Export Inspection Agency (EIA) for obtaining an inspection certificate.

Central Excise Clearance:

Exportable goods are completely exempted from the central excise duty. Such exemption can be sought in one of the following ways:

- Export under Rebate.
- Export under Bond.

Obtaining Insurance Cover: The exporter must take appropriate policies in order to insure risks: ECGE policy in order to cover credit risks. Marine policy, if the price quotation agreed upon is CIF.

Appointment of C&F Agent:

Since exporting is a complex and time-Consuming process, the exporter should appoint a Clearing and Forwarding (C&F) agent for the smooth clearance of goods from the customs and preparation and submission of various export documents.

Post Shipment Procedure:

The post-shipment stage consists of the following steps:

Submission of Documents by the C&F Agent to the Exporter:

On the completion of the shipping procedure, the C&F agent submits the following documents to the exporter:

- A copy of invoice duly attested by the customs.
- Drawback copy of the shipping bill.
- Export promotion copy of the shipping bill.
- A full set of negotiable and non-negotiable copies of bill of lading.
- The original L/C, export order or contract.
- Duplicate copy of the ARE-I form.

Shipment Advice to Importer:

After the shipment of goods, the exporter intimates the importer about the shipment of goods giving him details about the date of shipment, the name of the vessel, the destination. etc. He should send also send one Copy of non-negotiable bill of lading to the importer.

Presentation of Documents to Bank for Negotiation:

Submission of relevant documents to the bank and the process of getting the payment from the bank is called "Negotiation of the Documents." and the documents are called 'Negotiable Set of Documents'. The set normally contains:

- Bill of Exchange, Sight Draft or Usance Draft.
- Full set of Bill of Lading or Airway Bill.
- Original Letter of Credit.
- Customs Invoice. Commercial Invoice including one copy duly certified by the Customs.
- Packing List.

- Foreign exchange declaration forms, GR/SOFTEX/PP forms in duplicate.
- Exchange control copy of the Shipping Bill.
- Certificate of Origin, GSP or APR Certificate, etc.
- Marine Insurance Policy, in duplicate.

Despatch of Documents:

The bank negotiates these documents to the importer's bank in the manner as specified in the L/C. Before negotiating documents, the exporter's bank scrutinises them in order to ensure that formalities have been complied with and all documents are in order. The bank then sends the Bank Certificate and attested copies of commercial invoice to the exporter.

Acceptance of Bill of Exchange:

Bill of Exchange accompanied by the above documents is known as the Documentary Bill of Exchange. It is of two types:

- **Documents against Payment (Sight Drafts):**

  In case of sight draft, the drawer instructs the bank to hand over the relevant documents to the importer only against payment.

- **Documents against Acceptance (Usance Draft):**

  In case of usance (borrowed) draft, the drawer instructs the bank to hand over the relevant documents to the importer against his 'acceptance' of the bill of exchange.

Letter of Indemnity:

The exporter can get immediate payment from his ban on the submission of documents by signing a letter of indemnity. By signing the letter of indemnity the exporter undertakes to indemnify the bank in the event non-receipt of payment from the importer along with accrued interests.

Realization of Export proceeds:

On receiving the documentary bill of exchange, the importer releases payment in case of sight draft or accepts the usance draft undertaking to pay on maturity of the bill of exchange. The exporter's bank receives the payment through importer's bank and is credited to exporter's account.

Processing of GR Form:

On receiving the export proceeds, the exporter's (iv bank intimates the same to the RBI by recording the fact on the duplicate copy of GR. The RBI verifies the details in duplicate copy of GR with the original copy of GR received from the customs. If the details are found to be in order then the export transaction is treated to be completed.

Realization of Export Incentives:

If the exporter is eligible for export incentives, then he should submit claim for the same accompanied by the bank certificate to the appropriate authority.

III. FOREIGN EXCHANGE-RELATED DOCUMENTS

- GR form
- PP form

GR form

This is known as the Exchange Control Declaration Form. It required to be completed in duplicate for shipments otherwise than by port to all countries other than Nepal and Bhutan. It should be submitted to customs at the time of shipment. Important details to be provided in GR form are: Exporter, his address, IE Code No., Bank through which the documents are being sent to buyer, details of buyer, amount of invoice, break up into C and F, freight and FOB value, any discount or agency commission deducted from invoice value and so forth.

PP form

This is a declaration made by parcel (except when made of Value Payable (VP)/Cash on Delivery (COD) basis). It is required particularly when jewelry items or precious stones are exported. The products are checked, valued and the parcels are sealed in the presence of customs authorities. Then, the bank countersigns the bill (invoice) and PP form. Details are furnished to RBI and later the fact of remittance is intimated to RBI through periodical statements.

The countersignature will indicate any advance OT advance payment of bill received or the details of irrevocable L/C's opened.

IV. DOCUMENTS SPECIALLY REQUIRED BY BUYER

- GSP
- Inspection certificate

GSP

This is a form used as part of the generalized system of preference (GSP) under which scheme certain duty concessions are provided to exports from certain underdeveloped countries. To provide proof of the eligibility, the buyer (importer) required the GSP form.

Inspection certificate (auxiliary certificate)

This certificate relates to the quality of the goods shipped or their conformance to the specified quality description. An accredited person indicated by the buyer may give this certificate or an agency indicated by him like SGS, Marine Products Export Development.

EXPORT TRADE DOCUMENTS RELATED TO PAYMENTS:

- **I. Letter of Credit**
- **II. Bill of Exchange**
- **III. Trust Receipt**
- **IV. Letter of Hypothecation**

Bank Certificate of Payment

(I) Letter of Credit

A letter of credit is an important financial tool in trade transactions. Both, domestic as well as international market, trades use the LC to facilitate the payments and the transactions. A bank or a financial institution acts as a third-party between the buyer and the seller and assures the payment of funds on the completion of certain obligations.

An LC is a financial document provided by a third-party (with no direct interest in the transaction), mostly a bank or a financial institution, that guarantees the payment of funds for goods and services to the seller once the seller submits the required documents. A letter of credit has three important elements - the beneficiary/seller who is the recipient of the LC, the buyer/applicant who buys the goods or services and the issuing bank that issues the LC on the buyer's request. At times, there is an involvement of another bank as an advising bank that advises the beneficiary.

(II) Bill of Exchange

The Negotiable Instruments Act, 1881, defines the bill of exchange as "an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument."

There are five important parties to a bill of exchange:

The Drawer:

The drawer is the person who has issued the bill. The drawer is the creditor to whom the money is owned.

The Drawee:

The drawer is the person to whom the bill is addressed or against who the bill is drawn. In other words, the drawee is the debtor who owes money to the drawer, the creditor.

The Payee:

The payee is the person to whom the bill is payable. The bill can be drawn payable to the drawee or his bank.

The Endorser:

The endorser of a bill is the person who has placed his name and signature pit the back of the bill signifying that he has obtained title to the bill and payment is due on his own account or on account of the original payee.

The Endorsee:

The endorsee is the person to whom the bill is endorsed. The endorsee can obtain payment from the drawee.

There are the following important types of bill of exchange.

(a) Sight bill of exchange:

A sight or demand B/E is one which is required to be paid by the drawee immediately on presentation of the bill.

(b) Usance bill of exchange:

In case of the usance or time B/E, there is maturity period the tenor, and the payment is to be made only on the maturity of the bill.

Generally, the due date of payment of the usance bill is calculated from the date of presentation or sighting of the bill by the drawee. Such a bill is called after sight Usance Bill. But sometimes the date of maturity is calculated from the date of drawing of the bill. Such a bill is known after date usance bill.

(c) Clean bill of exchange:

A bill of exchange not accompanied by the relative shipping documents is known as a clean bill of exchange. In respect of the clean B/E, the documents are sent to the consignee directly and he can take delivery of the goods on their arrival at Port of destination.

(d) Documentary bill of exchange:

A documentary B/E is a bill of exchange accompanied by the relative shipping documents such as the bill of lading, marine insurance policy, commercial invoice, certificate of origin, etc. The documents accompanying the bill are delivered to the importer by the bank only upon either acceptance or payment of the bill. The former is called documents against acceptance and the latter is called documents against payment. It is the documentary B/E that is commonly used in foreign trade transactions.

Upon shipment of the goods, the exporter may draw a B/L on the importer or, frequently, on bank acting for the importer. The exporter usually draws the bill payable to his own order, or to that of his bank. He then endorses the bill and sells it to, or discounts it at, his bank. In this way the exporter receives his money immediately upon the shipment of the goods. The bank sends the bill and the documents to its foreign branch or correspondent bank which, upon arrival, promptly notifies the importer and presents the bill to him for payment or acceptance.' Until the importer has accented the bill or made arrangements for payments he cannot receive the bill of lading, which is his title to the goods.

(III) Trust Receipt

If the importer is unable to take possession of the documents by making the payment-on the DIP bill following the arrival of the goods, the merchandise may be made available to the importer by his bank under an arrangement whereby the importer signs a trust receipt. Under this arrangement, the importer is allowed to sell the imported good by acting as an agent of the bank; but the retains ownership of the merchandise until the importer has made full settlement; all sums received from the sale of goods must be credited to the bank until such settlement is made.

(IV) Letter of Hypothecation

A letter of hypothecation is a document signed by the customer conveying to a barker the full ownership of goods at the port of destination in respect of which he has made advance either by loan or by acceptance or negotiation of bills of exchange. This is a sort of blanket document which any banker, who accepts bills, advances money or negotiates bills and shipping documents, demands from a customer to give him recourse on the bills and control of the documents. The letter of hypothecation pledges the documents of title with the banker as e security for an advance and gives the bank power to sell the goods. If necessary, to insure them and to warehouse them at the customer's expense.

(V) Bank Certificate of Payment

It is a certificate issued by the negotiating bank of the exporter, certifying bill covering particular consignments, has been negotiated and that the proceeds received accordance with exchange control regulations in the approved manner.

TERMS OF PAYMENT:

Payment terms are the conditions surrounding the payment part of sale. It provides clear details about the expected payment on a sale.

Payment term in any business is a major part of sales contract. Terms of payment in exports and imports plays an important role in international business. The terms of payment are very important when dealing with foreign buyers as the company might not know the credibility of the buyer and so he / she should exercise caution when doing business. If not, losses may occur and the business would collapse. Hence the terms of payment should be decided up front during the order confirmation stage. Some companies even does a credit check of the buyer through a third party before doing business with them as it is difficult to know the financial condition of the buyer. It is essential for a merchandiser to know the various payment terms.

The different types of mode of payment in exports and imports

- **I.** Advance payment
- **II.** Letter of credit.(L.C.)
- **III.** D.A.P or D/P basis - Documents against Payments
- **IV.** D.A terms means Documents against Acceptance

I. Advance payment

It is considered to be the safest mode of payment in seller's perspective. Receiving amount of sales in advance helps exporter in various ways to plan his financial activities smoothly. With a seller's point of view, an advance payment is the safe mode of payment for any business including export business. However with a buyer's point of view, advance payment carries little risk, as he advances payment before dispatch of goods. Advance payment is done before the dispatch of goods and not before the production commencement. Hence, the buyer also feels little safe that the goods are ready for dispatch and risk is little less. Advance payment of term in exports and imports is opted by a buyer only when he knows the seller in details on genuineness as a seller.

II. Letter of credit (L.C.)

Letter of credit is another type of payment term opted by importers and exporters.

A letter of credit is an important financial tool in trade transactions. Both, domestic as well as international market, trades use the LC to facilitate the payments and the transactions. A bank or a financial institution acts as a third-party between the buyer and the seller and assures the payment of funds on the completion of certain obligations.

An LC is a financial document provided by a third-party (with no direct interest in the transaction), mostly a bank or a financial institution, that guarantees the payment of funds for goods and services to the seller once the seller submits the required documents. A letter of credit has three important elements - the beneficiary/seller who is the recipient of the LC, the buyer/applicant who buys the goods or services and the issuing bank that issues the LC on the buyer's request. At times, there is an involvement of another bank as an advising bank that advises the beneficiary.

The major parties involved in a letter of credit are

- Applicant of Letter of Credit.

Applicant is one of the main parties involved in a Letter of Credit. Applicant is the party who opens Letter of Credit. Normally, buyer of goods is the Applicant who opens letter of credit. Letter of credit is opened as per his instruction and necessary payment is arranged to open Letter of credit with his bank. The applicant arranges to open letter of credit with his bank as per the terms and conditions of Purchase order and business contract between buyer and seller. So Applicant is one of the major parties involved in a Letter of credit.

- LC Issuing Bank

Issuing Bank is one of the other main parties involved in an LC. Issuing Bank is the bank who opens letter of credit. Letter of credit is created by issuing bank who takes responsibility to pay amount on receipt of documents from supplier of goods (beneficiary under LC).

- Beneficiary party

Beneficiary is one of the main parties under letter of credit. Beneficiary of Letter of credit gets the benefit under Letter of credit. Beneficiary is the party under letter of credit who receives amount under letter of credit. The LC is opened on Beneficiary party's favor. Beneficiary party under letter of credit submits all required documents with is bank in accordance with the terms and conditions under LC.

- Advising Bank

Advising bank is another party involved under LC. Advising bank, as a part of letter of credit takes responsibility to communicate with necessary parties under letter of credit and other required authorities. The advising bank is the party who sends documents under Letter of Credit to opening bank.

- Confirming Bank

Confirming bank is one of the other parties involved in Letter of Credit. Confirming bank as a party of letter of credit confirms and guarantees to undertake the responsibility of payment or negotiation acceptance under the credit.

- Negotiating Bank

Negotiating bank is one of the main parties involved under Letter of Credit.

Negotiating Bank, who negotiates documents delivered to bank by beneficiary of LC. Negotiating bank is the bank who verifies documents and confirms the terms and conditions under LC on behalf of beneficiary to avoid discrepancies

- Reimbursing Bank

Reimbursing Bank is one of the parties involved in an LC. Reimbursing bank is the party who authorized to honor the reimbursement claim of negotiation/ payment/ acceptance.

- Second Beneficiary

Second beneficiary is one of the other parties involved in Letter of Credit.

Second beneficiary who represent the first beneficiary or original beneficiary in their absence, where in the credits belongs to original beneficiary is transferable as per terms of L/c.

There are various types of letters of credits like

a) Revocable,
b) Irrevocable,
c) Confirmed,
d) Unconfirmed,

e) Clean & Documentary,
f) Fixed,
g) Revolving,
h) Transferable,
i) Back to Back etc.

Most common and safe LC is Irrevocable Letter of Credit.

a) Revocable Letter of Credit

A revocable letter of credit is a type of letter of credit in which the issuing bank can amend the terms of the letter of credit or cancel the letter of credit completely without giving prior notice to the beneficiary.

Types:

- Secured Revocable Letter of Credit
- Unsecured Revocable Letter of Credit

Secured Revocable Letter of Credit

This letter of credit is secured by the applicant’s assets. In other words, the applicant of the letter of credit has given some mortgage security or personal guarantee to obtain the letter of credit.

Unsecured Revocable Letter of Credit

This letter of credit does not carry any security. The bank has issued this letter of credit solely by looking at applicants history and credit score.

It is important to note that whether it be secured or unsecured, the banker always has the choice to revoke any revocable letter of credit.

b) Irrevocable Letter of Credit

An irrevocable credit is a credit, the terms and conditions of which can neither be amended nor cancelled. Hence, the opening bank is bound by the commitments given in the LC.

An irrevocable letter of credit is a guarantee from a bank, issued in the form of a letter. It creates an agreement where the buyer's bank agrees to pay the seller as soon as certain conditions of the transaction are met.

These letters help eliminate concerns that unknown buyers won't pay for goods they receive or that unknown sellers won't ship goods that have been paid for. This allows companies (and individuals) to do business with confidence.

Letters of credit are often found in international trade, though they can also be used for domestic transactions. Irrevocable letters of credit cannot be changed or canceled without the permission of everybody involved (the buyer, the seller, and any banks involved). This minimizes the risks that all parties take in the transaction.

c) Confirmed Letter of Credit

A confirmed letter of credit is a letter of credit in which the seller or exporter has payment guarantee from a second bank or a confirming bank i.e. in case the first bank fails to pay then the payment will be done by the second bank. This is a trade payment method used for international trade.

d) Unconfirmed Letter of Credit

As opposed to a confirmed letter of credit, an unconfirmed letter of credit is the one where there is a guarantee of payment by only one bank i.e. issuing bank. The involvement of the second bank is simply as an intermediary and helps in processing the transaction. There is no additional confirmation or guarantee.

Security of payment is the sole purpose of using a letter of credit as a means of payment for an international transaction. A regular letter of credit provides this security. So, most letters of credit are unconfirmed letters of credit. It's only when there is an additional risk that the confirmed letter of credit is used.

e) Clean letter of credit

A clean letter of credit or simply clean LC is one form of various letters of credit. It does not specify any terms and conditions as strictly as in a documentary credit. It does not contain the condition of presenting the bill of exchange from the exporter to demand the payment.

In a clean letter of credit, the trading partners can negotiate and execute the payment terms directly. The issuing bank does not possess control over documentation and presentation of documentary evidence as in a documentary credit such as commercial LCs. This type of credit arrangement is often seen between two established trade partners. The banks also issue a clean LC to established businesses only.

f) Fixed letter of credit

A fixed letter of credit is for a fixed period and amount. Letter of credit expires if the credit is exhausted or period is over, whichever is earlier.

g) Revolving letter of credit

When a single LC is issued for covering multiple transactions in place of issuing separate LC for each transaction is called revolving LC. They can be further classified into Time Based (Could be Cumulative or Non-Cumulative) and Value-Based.

The letter of credit would be revived automatically for the same amount and period, once it is exhausted. Such letter of credit is beneficial when the exporter and importer have frequent dealings of the same nature.

h) Transferable LC

A letter of credit that allows a beneficiary to further transfer all or a part of the payment to another supplier in the chain or any other beneficiary. This generally happens when the beneficiary is just an intermediary for the actual supplier. Such LC allows the beneficiary to provide its own documents but transfer the money further.

i) Back to Back LC

Back to back LC is an LC which commonly involves an intermediary in a transaction. There are two letters of credit, the first issued by the bank of the buyer to the intermediary and the second issued by the bank of an intermediary to the seller.

III. Documents against acceptance

Documents against acceptance (DA) is a payment term where the payment to the seller is made on the maturity date mentioned in the bill of exchange. In this payment type, the shipping documents are sent to the buyer's bank after shipment. The buyer's bank asks the buyer to accept the documents. The buyer accepts the document by signing the bills of exchange sent by the exporter and agrees to pay the value of goods shipped as per the agreed period of time. The buyer receives the original documents after accepting the bill of exchange and he completes import customs clearance procedure with the original documents and approaches carrier to deliver the cargo. The payment is made on the maturity date to the buyer. This type of payment is risky for the seller and hence followed only when the seller has a long standing relationship with the buyer and he is ready to ship goods on a credit basis. Buyer's credit worthiness is very important for accepting this type of payment term. However there are various credit agencies that provide insurance coverage if there is default of payment for sale of goods by the buyer. In India, Export credit guarantee corporation (ECGC) is an insurance agency which protects the seller when buyer defaults payment. ECGC's factoring scheme makes exports easier than ever. ECGC other insurance agencies also provide buyer's credit cover, line of credit cover, transfer guarantee, overseas investment insurance, customer specific covers and national export insurance account (NEIA). DA payment term is riskier when no insurance coverage is obtained for the sale of goods and it is advisable to obtain insurance coverage before proceeding with DA payment term.

IV. Documents against payment

Documents against payment (DAP) or DP is one of the payment terms used in export. Under this payment term, the documents under consignment are delivered to buyer only after collecting payment from the buyer's bank for the materials sent. Bill of lading plays a vital role in the DP term. The original bill of lading has to be presented to the carrier of the goods at the port of destination for getting the goods released from the carrier. The buyer will be able to possess the original bill of lading only after making payment to the seller.

Sometimes, there will be a delay in payment as the buyer waits (for confirmation) for the goods to arrive at his port of destination and only then accepts the documents and effects the payment.

EXPORT INCENTIVES

Export incentives are regulatory, legal, monetary, or tax programs that are designed to encourage businesses to export certain types of goods or services.

Export incentives are certain benefits exporters receive from the government as acknowledgement for bringing in foreign exchange and as compensation for the costs they incur on sending goods and services out of the country.

Export incentives can take the form of:

- Subsidies that lower export prices
- Tax concessions such as duty exemptions (which enable duty-free import of inputs for export production) and duty remissions (which enable post-export replenishment of duty on inputs used in export product)
- Credit facilities such as low-cost loans
- Financial guarantees such as provisions covering bad loans

In India, export incentives are in line with the government's flagship "Make in India" and "Atmanirbhar Bharat" (Self-sufficient India) programmes. The former aims to *transform* India into a manufacturing major while the latter advocates *self-sufficiency*. These incentives are highlighted in a document called the foreign trade policy, which is a set of guidelines and strategies for the import and export of goods and services. The policy is formulated for a period of five years. The current one is valid till March 31. A new one will come into effect from April 1.

Implementation Body of Export Incentives

- **Directorate General of Foreign Trade (DGFT)**

In India, the foreign trade policy and many of the export incentives and it highlights are formulated and implemented by the Directorate General of Foreign Trade (DGFT) under the Ministry of Commerce and Industry.

- **Central Board of Indirect Taxes and Customs (CBIC)**

The Central Board of Indirect Taxes and Customs (CBIC), which devises policy regarding the levy and collection of customs duty, central excise duties and Goods and Services Tax (GST). One of its arms, the Directorate General of Export Promotion (DGEP), deals with “refund issues arising out of export”, “looks into policy issues relating to export promotion schemes”, and recommends changes/improvements in customs-related procedures and policies.

Furthermore, some financial incentives are implemented by the Reserve Bank of India, the country’s central bank.

A country’s export incentives might be considered as unfair trade practice by another country. When disputes arise between countries over the level of government involvement in foreign trade, these are settled by the World Trade Organisation (WTO). As a rule, the WTO discourages (even prohibits) government incentives barring those implemented by least-developed countries.

Export incentives concept

Export incentives make cross-border trade beneficial.

The government collects less tax on an export product, thereby bringing down its price and making it more globally competitive. This, in turn, ensures the product has a wider reach in the international market. Export incentives can depend on the availability of the goods. Usually, if there is surplus production, the government might offer an export incentive so as not to let the goods go to waste.

Importance of export incentives:

- They bring in foreign exchange. Countries need foreign exchange reserves to make international trade transactions easier, pay for imports, pay back foreign loans, use as a cushion against economic collapse, currency devaluation and other such events, etc
- They create jobs by helping businesses grow and expand their workforce
- They create higher wages (especially for skilled, experienced and urban workers in India, as per this World Bank report)
- They lower the current account deficit, which is the deficit caused when a country imports more than it exports. India's current account deficit has averaged 2.2% of GDP in the past decade (worth around $15 billion in July-September 2020)
- They encourage self-reliance by reducing dependence on foreign goods
- All of this means export incentives contribute to overall economic growth

ADVANCE AUTHORIZATION SCHEME (AAS)

Advance Authorization Scheme ASS is one of the incentive schemes provided by Indian Government thorough its government agency called DGFT - Director General of Foreign Trade.

Advance authorization is an order issued to endorse the import of duty-free inputs which are physically integrated into the export product. Its provisions extend to fuel, oil, energy, and catalysts which are consumed or utilized to obtain export products.

Duties exempt under the Advance Authorization Scheme

The inputs imported are exempt from duties like Basic Customs Duty, Additional Customs Duty, Education Cess, Anti-dumping duty, Safeguard Duty and Transition Product-Specific Safeguard duty, Integrated tax, and Compensation Cess, wherever applicable, subject to certain conditions.

Duty-free importable items under the scheme

The following items can be imported without payment of duty under this scheme:

- Inputs that are physically incorporated in the product to be exported after making normal allowance for wastage
- Fuel, oil, catalysts which are consumed or utilized to obtain the export product.
- Mandatory spares that are required to be exported along with the resultant export product - up to 10% of the CIF value (Cost, Insurance and Freight) of Authorization

- Specified spices would be allowed to be imported duty-free only for activities like crushing, grinding, sterilization, manufacture of oil or oleoresin and not for simpler activities like cleaning, grading, re-packing, etc.

Eligibility for Advance Authorization

The Advance Authorization Scheme is available to either a manufacturer exporter directly or a merchant exporter tied with a supporting manufacturer.

The authorization is available for the following:

- Physical exports
- Intermediate supply
- Supplies made to specified categories of deemed exports
- Supply of 'stores' on board of a foreign going vessel/aircraft provided that there are specific Standard Input Output Norms (SION) in respect of items supplied.

The validity of Advance Authorization

Advance Authorization is valid for 12 months from the date of issue of such Authorization. In the case of deemed exports, the Authorization is linked to the contracted duration of project execution or 12 months from the date of issue of such Authorization, whichever is more. However, the export obligation may be fulfilled within 18 months from the date of issue of Authorization or as notified by the DGFT. Unless specified, the export proceeds should be realized in freely convertible currency.

Grounds for issuing Advance Authorization

Advance Authorization can be issued for inputs used in the product that is to be exported on the basis of the following:

- **Standard Input Output Norms (SION) notified**:

The Director General of Foreign Trade (DGFT), on the recommendation of the Norms Committee, issues standard norms that define the amount of input required in the manufacture of a unit of the output product that will be exported. It is available for a wide range of products.

- **Self-declaration:**

Sometimes the SION is not available for a particular product. In such a case, an application may be made to the Regional Authority who will issue the Advance Authorization upon review.

- **Application prior to fixation of the norm by the Norms Committee:**

Another option available to an exporter where the SION is not defined is to make an application to the norms committee, requesting the same. After providing all the required data to the norms committee, the committee shall endeavour to either fix these norms or provide ad-hoc norms on the basis of the application made. Such ad-hoc norms are valid for one authorization only and no repeat authorizations can be issued.

- **Self Ratification Scheme:**

Advance Authorization under this Scheme is available only to an exporter who holds the Authorized Economic Operator (AEO) Certificate under Common Accreditation Programme of CBEC. This Scheme can be opted for when there is no SION or valid ad-hoc norms for an export product and also where, SION has been notified, but the exporter wishes to use additional inputs in the manufacturing process. Ratification by the norms committee is not required under this scheme and the regional authority may issue Advance Authorization upon fulfilment of the relevant conditions.

Annual Advance Authorization

Subject to certain conditions, where an item is specified in SION, Advance Authorization can be issued for the annual requirements. It is not available on a self-declaration basis. Exporters need to have a past export performance in at least two preceding financial years, in order to be entitled to such authorization. Under Advance Authorization, the minimum Value Addition to be achieved is 15%, except for physical exports for which payments are not received in freely convertible currency and other specified export products.

DUTY FREE IMPORT AUTHORIZATION (DFIA) SCHEME:

DFIA is issued to allow duty free import of inputs, fuel, oil, energy sources, catalyst which are required for production of export product. DGFT, by means of Public Notice, may exclude any product(s) from purview of DFIA.

DFIA Scheme

- Duty Free Import Authorization is issued to allow duty free import of inputs.
- In addition, import of oil and catalyst which is consumed / utilized in the process of production of export product, may also be allowed.
- Duty Free Import Authorization shall be exempted only from payment of Basic Customs Duty.

- Additional customs duty/excise duty, being not exempt, shall be adjusted as CENVAT credit as per DOR rules.
- Drawback as per rate determined and fixed by Central Excise authority shall be available for duty paid inputs, whether imported or indigenous, used in the export product.

However, in case such drawback is claimed for inputs not specified in SION, the applicant should have indicated clearly details of such duty paid inputs also in the application for Duty Free Import Authorization, and as per the details mentioned in the application, the Regional Authority should also have clearly endorsed details of such duty paid inputs in the condition sheet of the Duty Free Import Authorization.

Eligibility

- Duty Free Import Authorization shall be issued on post export basis for products for which Standard Input Output Norms have been notified.
- Merchant Exporter shall be required to mention name and address of supporting manufacturer of the export product on the export document viz. Shipping Bill / Airway Bill / Bill of Export / ARE-1 / ARE-3.
- Application is to be filed with concerned Regional Authority before effecting export under Duty Free Import Authorization.

Minimum Value Addition

Minimum value addition of 20% shall be required to be achieved. For items where higher value addition has been prescribed under Advance Authorisation in Appendix 4C, the same value addition shall be applicable for Duty Free Import Authorisation also.

Validity & Transferability of DFIA under EXIM Policy 2015-20 (FTP 2015-20)

- Applicant shall file online application to Regional Authority concerned before starting export under DFIA.
- Export shall be completed within 12 months from the date of online filing of application and generation of file number.
- While doing export/supply, applicant shall indicate file number on the export documents viz. Shipping Bill / Airway Bill/ Bill of Export / ARE-1 / ARE-3, Central Excise certified Invoice.
- After completion of exports and realization of proceeds, request for issuance of transferable Duty Free Import Authorisation may be made to concerned Regional Authority within a period of twelve

months from the date of export or six months (or additional time allowed by RBI for realization) from the date of realization of export proceeds, whichever is later.

- Applicant shall be allowed to file application beyond 24 months from the date of generation of file number as per paragraph 9.03 of Hand Book of Procedures.
- Separate DFIA shall be issued for each SION and each port.
- Exports under DFIA shall be made from from a single port as mentioned in paragraph 4.37 of Handbook of Procedures.
- No Duty Free Import Authorisation shall be issued for an export product where SION prescribes 'Actual User' condition for any input.
- Regional Authority shall issue transferable DFIA with a validity of 12 months from the date of issue. No further revalidation shall be granted by Regional Authority.

DUTY DRAWBACK SCHEME

The Duty Drawback Scheme provides exporters a refund of customs duty paid on unused imported goods, or goods that will be treated, processed or incorporated into other goods for export.

The term drawback is applied to a certain amount of duties of Customs and Central Excise, sometimes the whole, sometimes only a part remitted or paid by Government on the exportation of the commodities on which they were levied. To entitle goods to drawback, they must be exported to a foreign port, the object of the relief afforded by the drawback being to enable the goods to be disposed of in the foreign market as if they had never been taxed at all. For Customs purpose drawback means the refund of duty of customs and duty of central excise that are chargeable on imported and indigenous materials used in the manufacture of exported goods.

Goods eligible for drawback applies to

- Export goods imported into India as such;
- Export goods imported into India after having been taken for use
- Export goods manufactured / produced out of imported material
- Export goods manufactured / produced out of indigenous material
- Export goods manufactured /produced out of imported or and indigenous materials.

The Duty Drawback is of two types:

- All Industry Rate (AIR)
- Brand Rate.

The All Industry Rate (AIR)

It is essentially an average rate based on the average quantity and value of inputs and duties (both Excise & Customs) borne by them and Service Tax suffered by a particular export product. The All Industry Rates are notified by the Government in the form of a Drawback Schedule every year and the present Schedule covers 2837 entries. The legal framework in this regard is provided under Sections 75 and 76 of the Customs Act, 1962 and the Customs and Central Excise Duties and Service Tax Drawback Rules, 1995.

The Brand Rate of Duty Drawback

It is allowed in cases where the export product does not have any AIR of Duty Drawback or the same neutralizes less than 4/5th of the duties paid on materials used in the manufacture of export goods. This work is handled by the jurisdictional Commissioners of Customs & Central Excise. Exporters who wish to avail of the Brand Rate of Duty Drawback need to apply for fixation of the rate for their export goods to the jurisdictional Central Excise Commissionerate. The Brand Rate of Duty Drawback is granted in terms of Rules 6 and 7 of the Drawback Rules, 1995.

The **Duty Drawback facility on export of duty paid imported goods** is available in terms of Sec. 74 of the Customs Act, 1962. Under this scheme part of the Customs duty paid at the time of import is remitted on export of the imported goods, subject to their identification and adherence to the prescribed procedure.

Scope:

In this category, two types of cases are covered viz.,

- Imported goods exported as such i.e. without putting into use - 98% of duty is refunded and
- Imported goods exported after use - the percentage of duty is refunded according to the period between the date of clearance for home consumption and the date when the goods are placed under Customs control for exports. The percentage of duty drawback is notified under **Notification. No 19 Custom, dated 6th Feb, 1965** as amended from time to time.

Elements necessary for drawback:-

The elements necessary to claim drawback are;

- The goods on which drawback is claimed must have been previously imported;

- Import duty must have been paid on these goods when they were imported;
- The goods should be entered for export within two years from the date of payment of duty on their importation (whether provisional or final duty). The period can be further extended to three years by the Commissioner of Customs on sufficient cause being shown.
- The goods are identified as the goods imported.
- The goods must be capable of being identified as imported goods.
- The goods must actually be re-exported to any place outside India.
- The market price of such goods must not be less than the amount of drawback claimed.
- The amount of drawback should not be less than Rs. 50/- as per *Sec.* 76-(1) (c) of the Customs Act.

RoSCTL

RoSCTL is Rebate of State & Central Taxes and Levies (RoSCTL) Scheme.

It is an export incentive in the form of transferable and sellable duty credit scrips offered on the basis of the FOB value of the export. It replaces the Rebate of State Levies (RoSL) scheme, a monetary incentive scheme under which Customs would deposit the rebate directly into the exporter's bank account.

The Ministry of Textiles notified the introduction of RoSCTL in March 2019. It was followed by the release of the RoSCTL rate list and a CBIC notification on the scheme.

The introduction of RoSCTL was seen as India's reaction to the increasing international pressure on export incentives provided by the Indian government. The US, in particular, has been very vocal, urging the discontinuation of export incentive schemes like the Merchandise Exports from India Scheme (MEIS) on the grounds that they flouted the WTO Agreement on Subsidies and Countervailing Measures. Notably, the US also objected to Export Oriented Units (EOU), Electronics Hardware Technology Park (EHTP), Export Promotion Capital Goods (EPCG), Special Economic Zones (SEZ), and Duty-Free Import Authorization (DFIA) schemes at various points in 2019.

Despite the WTO's objections, the MEIS looks set to continue, at least till the new Foreign Trade Policy is introduced in April 2020. However, in the long term, the MEIS is an unviable export incentive, and hence the RoSCTL has been introduced.

Benefits of RoSCTL

- The benefits of Rebate of State Levies RoSCTL are available to exporters of readymade garments and made-ups for now.

- The scheme aims to help them cut high logistics and other costs and enable them to compete globally.
- An exporter can benefit from this scheme for all exports done after 1st April 2019.
- For exports made prior to this date, the eligibility criteria of the RoSCTL scheme would be applicable.
- The rebate for such exports was allotted out of the RoSCTL scheme fund, on exhaustion of which DGFT would issue scrips, but at RoSCTL rates.

Claim Procedure:

To claim a rebate under the RoSCTL scheme, should file your application in the ANF 4R form. It has to be accompanied by the digital signature and submitted to the DGFT. Up to 50 shipping bills can be attached to one such application. There is no late cut fee under this scheme, which has been made available for exports only till 31st March 2020.

In the case of exports made from non-EDI (electronic data exchange) ports, a separate application has to be filed for each export. It cannot be clubbed with exports from EDI ports either. In the case of EDI exports from enabled ports, the port of registration will be the EDI port itself. The applications are processed through an online system of the Directorate-General of Foreign Trade (DGFT) and approved on the basis of an online approval/check mechanism. Depending on the option selected in the application, the scrips are either handed over physically or by post.

Apply for RoSCTL

RoSCTL is implemented through a scrip-based system on the export of garments and made-ups. In a Ministry of Textiles notification dated 8th March 2019, the rates under the scheme were notified in four schedules.

- Schedules 1 and 2 specify the Central and State taxes and levies for apparel and made-ups.
- Schedules 3 and 4, on the other hand, give the Central and State taxes applicable for apparel export when the fabric (including interlining) has been imported duty-free under the Special Advance Authorisation Scheme.

Based on the rate specified in the schedules for the particular item of export, exporters will be issued duty credit scrips. If the export is made from multiple EDI ports, all the details thereof can be clubbed into a single application, selecting a port of registration from one of the shipping bills included in the application. The Rebate of State Levies RoSCTL application has to be filed within a year from the date on which shipping bill(s) is uploaded from ICEGATE (Indian Customs EDI Gateway) to the DGFT (Directorate General of Foreign Trade)server. Once issued, these scrips (a provisionl certificate) can be used with Customs for the next 24 months, after which it cannot be revalidated.

As an exporter to avail of Rebate of State Levies RoSCTL scrips, they must retain the shipping bills and other documents related to the export for three years from the date of issue of the scrips. The concerned authorities may demand to take a look at these documents, and failing to produce them could lead to you having to repay the scrip value with interest and/or penalty under the Foreign Trade (Development and Regulation) (FTDR) Act.

Precautions

The realization of foreign currency is crucial to the receipt of a rebate, so it is important for every exporter benefiting from RoSCTL to retain the proof of receipt-of-sale proceeds.

The jurisdictional regional authority can challenge the value of your scrips through an electronic examination of records.

If an excessive rebate is found to be claimed, exporters will be required to pay back the excess rebate to the DGFT, along with interest at 15% per annum from the date of receipt of scrip to the repayment date.

Additionally, exporters may be penalized for not declaring the excess receipt and for fraudulent practices. Legal action may also be initiated under the FTDR Act in case of non-repayment or non-reply to the regional authority within 30 days of receipt of the notice.

EPCG SCHEME

The objective of the Export Promotion Capital Goods (EPCG) Scheme is to facilitate import of capital goods for producing quality goods and services and enhance India's manufacturing competitiveness. EPCG Scheme allows import of capital goods for pre-production, production and post-production at zero customs duty. Capital goods imported under EPCG for physical exports are also exempt from IGST and Compensation Cess up to 31.03.2020. Alternatively, the exporter may also procure Capital Goods from domestic market in accordance with provisions of FTP.

- Capital goods for the purpose of the EPCG scheme shall include:
- Capital Goods as defined in Chapter 9
- Computer systems and software which are a part of the Capital Goods
- Spares, moulds, dies, jigs, fixtures, tools & refractories
- Catalysts for initial charge plus one subsequent charge

EPCG scheme covers manufacturer exporters with or without supporting manufacturer(s), merchant exporters tied to supporting manufacturer(s) and service providers.

Export Obligation under EPCG scheme is required to be fulfilled by export of goods manufactured/services rendered by the applicant. There are two types of export oligation that are mandatory. First, Annual Average in which export obligation is over and above, the average level of exports achieved by the authorization holder in the preceding three licensing years for the same and similar products within the overall export obligation period including extended period, if any. Such average would be the arithmetic mean of export performance in the last three years for the same and similar products. Secondly, Specific Average which is 6 times the duty saved amount in which the Authorization holder shall also fulfill a minimum of 50% export obligation in each block of years - the first block being of 4 years and the second block is of 2 years.

The EPCG Scheme provides for in addition, a specific EO of 75% of normal Export Obligation for export of Green Technology Products. The scheme also provides for Post Export EPCG duty credit scrip(s) which are available to exporters who intend to import capital goods on full payment of applicable duties in cash and choose to opt for this scheme.

DEPB SCHEME

Duty Entitlement Passbook Scheme is an export encouragement scheme instituted by the Government of India to the Indian exporters in the year 1997.

This scheme earlier constituted of 2 parts:

- Pre- export DEPB- got abrogated in 2000 and
- Post- export DEPB- issued after the exports

In post-export DEPB scheme, the exporter is given a DEPB at a pre-decided credit on the Freight on Board Value (FOB).

The fundamental aim behind this scheme is to provide incentives in import and export policy of India and to nullify the basic custom duty rates on the import content of the commodities exported.

Under the DEPB scheme, an exporter of the commodities is empowered to demand credit which can be an already settled percentage of the value of the commodities that are exported and are available at a rate of exported good which is determined and notified by the Director General of Foreign Trade (DGFT).

It must be kept in mind that the credit amount which is made available to the exporters can only be utilized to pay off the amount of customs duty which is liable to be paid and the same cannot be utilized to adjust it with any other liability nor can it be withdrawn. Although, there is no restriction on trading the amount, i.e., it can be transferred to another person and then can thereafter be transferred to another person from him.

The DEPB scheme permits the import of any commodity excluding those commodities that are banned for instance, Gold pens, Gold Nibs, Gold watches, etc. Although these goods constitute the generic description of writing instrument and component of writing instrument, watches, etc these are still not allowed to claim the benefit from the DEPB scheme.

DEPB Rate:

The DEPB rates are relevant based on either the FOB value or the value cap, whichever value is minimum. For instance, if a commodity's FOB value is Rs. 1000/-, and the cap value is Rs. 600/-, then the DEPB rate shall be applied on Rs. 600/- which is the cap value.

IE LICENSE:

It is also known as Importer- Exporter Code. IEC (Import Export Code) license is one of prerequisite for importing or exporting from India. It is issued by the DGFT (Director General of Foreign Trade). IEC is a 10-digit code which has lifetime validity. Predominantly importers merchant cannot import goods without the Import Export Code and similarly, the exporter merchant cannot avail benefits from DGFT for the export scheme, etc. without IEC.

Requirement of IEC

- When an importer has to clear his shipments from the customs then it's needed by the customs authorities.
- When an importer sends money abroad through banks then it's needed by the bank.
- When an exporter has to send his shipments then its needed by the customs port.
- When an exporter receives money in foreign currency directly into his bank account then its required by the bank.

Steps Involved in IEC (Import/Export Code) Registration

Step 1: Application Form

First, need to prepare an application form in the specified format - Aayaat Niryaat Form ANF-2A format and file it with the respective Regional office of DGFT.

Step 2: Documents

Secondly, need to prepare the required documents with respect to the identity & legal entity and address proof with bank details & the certificate in respect of ANF2A.

Step 3: Filing Application

Once application is completed, need to file with DGFT via DSC (Digital Signature Certificate) and pay the required fee for the IEC Registration.

Step 4: IEC Code

Finally, application is approved then would receive the IEC Code in a soft copy from the government.

Documents required for IEC (Import Export Code) Registration

For IEC Code Registration following documents are required:

- Individual's or Firm's or Company's copy of PAN Card
- Individual's voter id or Aadhar card or passport copy
- Individual's or company's or firm's cancel cheque copy of current bank account
- Copy of Rent Agreement or Electricity Bill Copy of the premise
- A self-addressed envelope for delivery of IEC certificate by registered post

Benefits of IEC Registration

Expansion of Business

- IEC assists you in taking your services or product to the global market and grow your businesses.

Availing Several Benefits

- The Companies could avail several benefits of their imports/ exports from the DGFT, Export Promotion Council, Customs, etc., on the basis of their IEC registration.

No Filling of returns

- IEC does not require the filing of any returns. Once allotted, there isn't any requirement to follow any sort of processes for sustaining its validity. Even for export transactions, there isn't any requirement for filing any returns with DGFT.

Easy Processing

- It is fairly easy to obtain IEC code from the DGFT within a period of 10 to 15 days after submitting the application. There isn't any need to provide proof of any export or import for getting IEC code.

- IEC code is effective for the lifetime of an entity and requires no renewal. After it is obtained, it could be used by an entity against all export and import transactions.

EXCHANGE CONTROL REGULATION

Exchange controls are government-imposed limitations on the purchase and/or sale of currencies. These controls allow countries to better stabilize their economies by limiting in-flows and out-flows of currency, which can create exchange rate volatility. The government's major aim of exchange control is to manage or prevent an adverse balance of payments position on national accounts. It involves ordering all or part of foreign exchange received by a country into a common pool controlled by authorities, typically the central bank. In India Reserve Bank of India is the authority for Exchange control.

Objectives of Exchange Control in India!

The primary objective of exchange control in India is to regulate the demand for foreign exchange for various purposes against the supply constraints. When the Government finds a shortage of foreign exchange due to the low level of external reserves on account of deficit in the balance of payments, exchange control becomes necessary.

Exchange control implies a kind of rationing of foreign exchange for the various categories of demand for it. The Reserve Bank of India implements exchange control on a statutory basis.

The Foreign Exchange Regulation Act, 1973 empowers the bank to regulate investments as well as trading, commercial and industrial activities in India of foreign concerns (other than banking), foreign nationals and non-resident individuals. Moreover, the holding of immovable property abroad and the trading, commercial and industrial activities abroad by Indian nationals are also regulated by the Bank under exchange control.

The Reserve Bank manages exchange control in accordance with the general policy of the Central Government. In India, exchange control is grossly related to and supplemented by trade control. While trade control is confined to the physical exchange of goods, exchange control implies supervision over the settlement of payments – financial transactions pertaining to the country's exports and imports. Comparatively, exchange control is more comprehensive than trade control, since it covers all exports and imports as well as invisible and capital transactions of the country's balance of payments.

Under the present exchange control system, the Reserve Bank does not directly deal with the public. The bank has authorised foreign exchange departments of commercial banks to handle the day-to-day transactions of buying and selling foreign exchange. Further, the bank has given money changer's licences to certain established firms, hotels, shops, etc. to deal in foreign currencies and travellers cheques to a limited extent. The Reserve Bank has issued some directions to the authorised dealers and money changers in dealing with foreign exchange which are published in the Exchange Control Manual.

Under exchange control, there is check on foreign travel. An Indian visiting abroad is given a fixed sum of foreign exchange only. The present limit is U.S. $ 500. To facilitate export promotion, however, the bank issues blanket foreign exchange permits for lump sums for specified purposes to eligible registered exporters.

There is exchange control on exports, whereby all exporters are required to make a declaration on the prescribed form to the customs/postal authorities that foreign exchange representing the full export value of the goods has been or will be disposed of in a manner and within a period specified by the Reserve Bank and shall receive payment by an approved method.

Similarly, all non-resident accounts are also governed by the exchange control regulations. There are various categories of non-resident accounts such as:

- Nonresident accounts,
- Ordinary non-resident accounts,
- Non-resident (external) accounts, and
- Blocked accounts.

"Non-resident bank accounts" refers to the accounts of the overseas branches and correspondents of authorised dealers.

"Ordinary non-resident accounts" are those which are maintained by Indians who have gone abroad for the purpose of employment, business or vacation. Balances in these accounts cannot be transferred abroad without the Reserve Bank's approval.

"Non-resident (External) Accounts" are meant to encourage Indians abroad to remit their savings to India.

"Blocked account" implies that the Reserve Bank is empowered to "block" the accounts in India if any person whether an individual, firm or company, resident outside India and to direct that payment of any sums due to that person may be made to such blocked account. In the normal course, balances in the blocked account cannot be invested in India.

The Foreign Exchange Regulation Act, 1973 also puts a check on foreign investment in India. In short, in our country, the scheme of exchange control is largely governed by the Foreign Exchange Regulation Act, 1973.

EXPORT RISK MANAGEMENT

Export risk management is about taking steps to ensure that a company knows what and how much risk it faces and how much of that risk it is able to mitigate. These steps to stronger export risk management can help businesses focus on both individual risks and the entire portfolio of export risks they face.

- Identify all potential risks.
- Rank each risk according to the likelihood of occurring and potential severity. These risks can include macroeconomic risks, such as the risk of inflation; political risks, such as civil unrest or economic sanctions in a given country or region; and business-specific risks, such as the potential for decreased market demand and changes to customers' creditworthiness.
- Evaluate strategies to manage these different types of export risks, including developing customized payment terms, targeting business partners only in specific locations or industries, and insuring against specific and significant risks where possible.
- Monitor risks over time as circumstances and conditions change and adjust risk management and mitigation approaches according to new information.

A strong export risk management approach allows companies to do business with a larger number and variety of international business partners. A company with strong risk management can more confidently extend credit and favorable payment terms in order to increase growth and solidify critical business relationships, while also investing in other customer relationships slowly over time when necessary.

Types of Export Risks

There are many types of export risks. While doing business internationally, companies may be affected by more extreme changes in the political environment or fluctuations in business and macroeconomic indicators than they might encounter in domestic markets. Business norms and cultures differ. Currency exchange rates rise and fall. Changes to the business, political and legal environment can all impact companies doing business in a given country or region.

The various types of Export risk are

- Credit Risk
- Poor Quality Risk
- Transportation Risks
- Logistic Risk
- Legal Risks
- Political Risk
- Unforeseen Risks
- Exchange Rate Risks
- Export Risk Mitigation

Credit Risk:

it becomes difficult for an exporter to verify the creditworthiness and reputation of an importer or buyer due to various factors. Any false buyer can increase the risk of non-payment, late payment or even straightforward fraud. So, it is necessary for an exporter to determine the creditworthiness of the foreign buyer. An exporter can seek the help of commercial firms that can provide assistance in credit-checking of foreign companies.

Poor Quality Risk:

Exported goods can be rejected by an importer on the basis of poor quality. So it is always recommended to properly check the goods to be exported. Sometimes buyer or importer raises the quality issue just to put pressure on an exporter in order to try and negotiate a lower price. So, it is better to allow an inspection procedure by an independent inspection company before shipment. Such an inspection protects both the importer and the exporter. Inspection is normally done at the request of importer and the costs for the inspection are borne by the importer or it may be negotiated that they be included in the contract price.

Alternatively, it may be a good idea to ship one or two samples of the goods being produced to the importer by an international courier company. The final product produced to the same standards is always difficult to reduce.

Transportation Risks

With the movement of goods from one continent to another, or even within the same continent, goods face many hazards. There is the risk of theft, damage and possibly the goods not even arriving at all.

Logistic Risk

The exporter must understand all aspects of international logistics, in particular the contract of carriage. This contract is drawn up between a shipper and a carrier (transport operator). For this an exporter may refer to Incoterms 2000, ICC publication.

Legal Risk

International laws and regulations change frequently. Therefore, it is important for an exporter to drafts a contract in conjunction with a legal firm, thereby ensuring that the exporter's interests are taken care of.

Political Risk

Political risk arises due to the changes in the government policies or instability in the government sector. So it is important for an exporter to be constantly aware of the policies of foreign governments so that they can change their marketing tactics accordingly and take the necessary steps to prevent loss of business and investment.

Unforeseen Risks

Unforeseen risk such as terrorist attack or a natural disaster like an earthquake may cause damage to exported products. It is therefore important that an exporter ensures a force majeure clause in the export contract.

Exchange Rate Risks

Exchange rate risk is occurs due to the uncertainty in the future value of a currency. Exchange risk can be avoided by adopting Hedging scheme.

Export Risk Management Plan

Risk management is a process of thinking analytically about all potential undesirable outcomes before they happen and setting up measures that will avoid them. There are six basic elements of the risk management process:

- Establishing the context
- Identifying the risks

- Assessing probability and possible consequences of risks
- Developing strategies to mitigate these risks
- Monitoring and reviewing the outcomes
- Communicating and consulting with the parties involved

A risk management plan helps an exporter to broaden the risk profile for foreign market. For a small export business, an exporter must keep his risk management analysis clear and simple.

Export Risk Mitigation

Export risk mitigations are the various strategies that can be adopted by an exporter to avoid the risks associated with the export of goods.

Direct Credit:

- Export Credit Agencies support exports through the provision of direct credits to either the importer or the exporter.

Importer:

- A buyer credit is provided to the importer to purchase goods.

Exporter:

They makes a deferred payment sale; insurance is used to protect the seller or bank.

Guarantees

- Bid bond (tender guarantee): protects against exporter's unrealistic bid or failure to execute the contract after winning the bid.
- Performance bond: guarantees exporter's performance after a contract is signed.
- Advance payment guarantee (letter of indemnity): in the case where an importer advances funds, guarantees a refund if exporter does not perform.
- Standby letter of credit: issuing bank promises to pay exporter on behalf of importer.

Insurance

Transportation insurance:

- Covers goods during transport; degree of coverage varies.

Credit Insurance:

- Protects against buyer insolvency or protracted defaults and/or political risks.

Seller non-compliance (credit insurance):

- Covers advance payment risk.

Foreign exchange risk insurance:

- Provides a hedge against foreign exchange risk.

Hedging

Instruments used to Hedge Price Risk

- Stabilization programs and funds.
- Timing of purchase/sale.
- Fixed price long-term contracts.
- Forward contracts.
- Swaps

ECGC SCHEME

ECGC Ltd. (Formerly known as Export Credit Guarantee Corporation of India Ltd.) wholly owned by Government of India, was set up in 1957.

The objective of promoting exports from the country by providing credit risk insurance and related services for exports. Over the years it has designed different export credit risk insurance products to suit the requirements of Indian exporters.

ECGC is essentially an export promotion organization, seeking to improve the competitiveness of the Indian exports by providing them with credit insurance covers.

The Corporation has introduced various export credit insurance schemes to meet the requirements of commercial banks extending export credit. The insurance covers enable the banks to extend timely and adequate export credit facilities to the exporters. ECGC keeps its premium rates at the optimal level.

ECGC provides

- A range of insurance covers to Indian exporters against the risk of non - realization of export proceeds due to commercial or political risks
- Different types of credit insurance covers to banks and other financial institutions to enable them to extend credit facilities to exporters and

- Export Factoring facility for MSME sector which is a package of financial products consisting of working capital financing, credit risk protection, maintenance of sales ledger and collection of export receivables from the buyer located in overseas country.

Export finance

Government of India provides various financial assistances to exporters to enable them to export goods to foreign countries. The government is very clear in its policy that no exporter should suffer from shortage of funds to execute export order and provides various finance options to the exporters. Financial assistance extended by the banks to the exporters pre-shipment and post-shipment stages. Financial assistance extended to the exporter prior to shipment of goods from India falls within the scope of pre-shipment finance while that extended after shipment of the goods falls under post shipment finance. While the pre-shipment finance is provided for working capital for the purchase of raw material, processing and finishing of the goods meant for export, post-shipment finance is generally provided in order to bridge the gap between shipment of goods and realization of money

Arranging finance for manufacturing is the activity of the owner of the company. However, in many companies, pre- and post-shipment financing has become a day-to-day activity and merchandisers are managing the funds for each orders at times and so it is a necessity for merchandisers to know the various financing options available for exports. The various initiatives of the government for providing finance are given below.

I. Finance on FOB value for exports
II. Lower interest rate
III. Increased credit period
IV. Pre-shipment finance
V. Short-term credits
VI. Post-shipment finance

I. Finance on FOB value for exports

Banks provide money up to 90% of FOB value for helping exporters to manufacture and export goods as per government directive. Sometimes even 100% financing is done by the banks and at a lower interest rate.

II. Lower interest rate

The interest rates for export finance are kept very low to aid the exporters. The rates are kept at around 6% to enable the exporters to utilize the funds for manufacturing, procuring of materials and shipping the goods to the customer.

III. Increased credit period

The credit period provided for the exporters is up to 270 days. This augurs well for the exporters as they will be realizing the funds from the export proceeds before 270 days and would be able to pay the money back to the bank within the credit period and avoid interests and other charges for the finance received from the bank.

IV. Pre-shipment finance

It is the pre-shipment finance provided by the banks based on the basis of export stocks available for export. The exporter provides order details to the bank along with the stock details. The bank inspects the exporter's place and takes stock of the material available and pays money to the exporter accordingly.

Based on the stock valuation, exporter is provided financial assistance at a very lower interest rate. In other cases, where exporter doesn't have enough money to execute the export order, finance is provided to get material and manufacture the material for export.

Objectives

- Procure raw materials
- Carry out the manufacturing process
- Provide a secure warehouse for goods and raw materials
- Process and pack the goods
- Ship the goods to the buyers
- Meet other financial cost of the business
- Export duty or any other tax
- Freight and insurance charges

Types of pre-shipment finance:

- Packing credit
- Advance against cheques/draft and so forth representing advance payments.

Pre-shipment finance is extended in the following forms:

- Packing credit in Indian rupee
- Pre-shipment credit in foreign currency (PCFC)

V. Short-term credits

This is one more facility provided by the banks to help exporters. In this type of financing, the exporter can obtain short term credits for executing his export orders from authorised banks. The amount and duration of short-term credits are based on the government directives issued time to time in this regard.

VI. Post-shipment finance

It is also known as bill discounting or bill negotiation. The exporter gets money for the export he has already made and that money can be used by the exporter for carrying out his next export order. Very low-interest rates are maintained for post-shipment finance. After shipment, exporter sends all the export documents to the overseas buyer and it takes time till maturity for the exporter to receive funds and in the meantime, to execute the next order, the exporter can claim funds from finance institutions to use it for the next order.

He applies for post-shipment finance by discounting of export bills already exported. Bill negotiation procedures are followed to get post-shipment finance in the case of letter of credit payment term.

Post-shipment finance is a kind of loan provided by a financial institution to an exporter or seller against a shipment that has already been made. This type of export finance is granted from the date of extending the credit after shipment of the goods to the realization date of the exporter proceeds

Types of post-shipment finance

- Export bills purchased/discounted
- Export bills negotiated

GATT

- The General Agreement on Tariffs and Trade (GATT) is a multilateral agreement regulating international trade.
- The outcome of the failure of negotiating governments to create the International Trade Organization (ITO).
- GATT was signed in 1947, took effect in 1948, and lasted until 1994; it was replaced by the World Trade Organization in 1995.
- GATT held a total of eight rounds, during which countries exchanged tariff concessions and reduced tariffs.

Objectives of GATT

- Reduction of barriers to international trade
- Raising standards of living
- Ensuring full employment
- Increasing large and steady growing volume of real inome and effective demand
- Developing full use of resourse of the world
- Settle the disputes between two or more parties

Functions of GATT

GATT established a set of standard to guide the contracting parties to participate in international trade practices.

- It reduced the tariff on the basis of mutual benefit, accelerate the trade liberalization
- It reduced the discrimination in tariff and trade which promoted to reduce other trade barriers.
- It protected the benefits of the developing countries

Success of GATT

- When gatt was signed in the year 1947 only 23 countries were party to it. in 1986 there where 117 were members.
- Gatt achieved considerable liberalisation except agriculture and textile.
- Developing countries with balance and payment problem had been exempted from liberalisation.
- The average level of tariff of manufactured goods in industrial countries was brought down from 40% to 3%.
- GATT acted as the “court of international trade”.

Failures of GATT

- Every country started to protect their own home industry.
- High rate of unemployment and constant factory closures in werstern europe and north america.
- The globalisation of the world economy was underway.
- Trade in service -not covered by GATT rules
- Ever increasing international investments.

Why GATT was replaced by WTO?

- On January 1, 1995, the World Trade Organization was found to replace GATT after the eighth round of GATT multilateral negotiation.
- The major weakness of the GATT was provisional arrangement
- It had no real enforcement mechanism
- The scope on jurisdiction of GATT was limited only in products transaction.
- There was a gap for GATT to regulate the transactions in services and technologies and international investments.
- There were some limitations in the disputes settlement systems of GATT.
- Some rules in GATT were not strict enough.
- The historical multilateral rounds of GATT were influenced by

  the policies of some larger countries. From the Geneva Round to Uruguay Round, there was national sovereignty existing in the multilateral negotiation rounds.
- Its stronger enforcement powers represent a further shift in power from citizens and national governments to a global authority run by unelected bureaucrats.

WORLD TRADE ORGANIZATION

World Trade Organization (**WTO**) is the only international organization dealing with the global rules of trade. **Its** main **function** is to ensure that trade flows as smoothly, predictably and freely as possible. WTO constituted on Jan 1,1995.

Structure

- It has nearly 153 members
- Decision made by entire membership by consensus

Purpose of WTO

The purpose why WTO was created was to ensure that global trade start and go on smoothly, freely, and predictably.

- To strengthening the GATT mechanism of settling trade disputes. Any issue that happens between nations will be bringing up to WTO to be solved. Ex.US gasoline
- To create economic peace and stability in the world

WTO includes three independent councils with special responsibility:

The Council for Trade in Goods (**Goods Council**)

- It all began with trade in goods. the forum for negotiating lower customs duty rates and other trade barriers.
- It has annexes dealing with specific sectors such as, agriculture and textiles and with specific issues such as, state trading, product standards, subsidies and action taken against dumping.

The Council for Trade in Services (**Services Council)**

- Banks, insurance firms, telecommunication companies, tour operators, hotel chains and transport companies looking to do business abroad can now enjoy the same principles of free and fair that originally only applied to trade in goods.
- WTO members have also made individual commitments under GATS stating which of their services sectors, they are willing to open for foreign competition and how open those markets are.

The Council for Trade-Related Aspects of Intellectual Property Rights (**TRIPS Council**)

There are also four committees dealing with the following issues:

- For Trade and Environment
- For Trade and Development
- For Balance of Payments Restrictions
- For Budget, Finance and Administration

Objectives of WTO

- To implement the new world trade system as visualized in the Agreement;
- To promote World Trade in a manner that benefits every country;
- To ensure that developing countries secure a better balance in the sharing of the advantages resulting from the expansion of international trade corresponding to their developmental needs;
- To improve the standard of living of people in the member countries
- To demolish all hurdles to an open world trading system
- To foster economic growth;
- To enhance competitiveness among all trading partners so as to benefit consumers and help in global integration;

- To increase the level of production and productivity with a view to ensuring level of employment in the world;
- To expand and utilize world resources to the best;
- To protect the environment
- To enlarge production and trade of goods

Functions of the WTO

- Elaboration of the legal basis for management of the current trade barriers
- Elimination of discrimination in the international trade;
- Management of the process of multilateral trade negotiations;
- Settlement of international disputes related to trade;
- Supervision of the trade policy of Member States to WTO
- Cooperation with international organizations determining the world economic policy.

Success of WTO

- The WTO has not only enhanced the value and quantity of trade but has also helped in eradicated trade and non - trade barriers.
- WTO has also broadened the trade governance scope to trade in investment, services and intellectual property
- The WTO system helped to resolve the disputes peacefully and constructively
- Including developmental policies which further helped in settlement of disputes
- Improved monitoring by introducing the Trade Policy Review
- The World Trade Report as well as increased transparency by removing green room negotiations.
- WTO also encouraged sustainable trade developments
- WTO members are now reducing the trade barriers which give consumers more choices, and a broader range of qualities to choose from.
- The WTO has been so successful that numerous groups have petitioned to use the WTO to enforce a range of nontrade rules affecting labor, the environment, and competition policy.
- The least-developed countries received extra attention in the WTO.

- Liberalization under the WTO boosts global GDP and stimulates world demand for developing countries' exports.

Failure of WTO:

- The maintenance of high protection of agriculture in developed countries while developing ones are pressed to open their markets;
- Many developing countries do not have the capacity to follow the negotiations and participate actively in the Uruguay Round.
- The TRIPs agreement which limits developing countries from utilizing some technology that originates from abroad in their local systems (including medicines and agricultural products).
- Rich countries are able to maintain high import duties and quotas in certain products, blocking imports from developing countries
- WTO is seeking to privatize essential public services such as education, health care, energy and water.
- Privatization means the selling off of public assets - such as radio airwaves or schools - to private (usually foreign) corporations, to run for profit rather than the public good.
- Those least able to pay for vital services - working class communities are the ones who suffer the most.
- WTO is also destroying the Environment to a great extent - including logging, fishing, water utilities, and energy distribution, which will lead to further exploitation of these natural resources.
- The "free trade agreements" threaten to erode many of the advances in global environmental protection, endangering our planet and the natural resources necessary to support life
- The new agreements threaten global biodiversity, would accelerate the spread of genetically engineered (GE) crops, increase natural resource exploitation, further degrade some of the most critical environmental regions on the planet, and erode the public's ability to protect our planet for future generations.

MFA (MULTI FIBRE ARRANGEMENT)

- The **Multi Fibre Arrangement** (MFA) governed the world trade in textiles and garments from 1974 through 2004.
- Imposing quotas on the amount developing countries could export to developed countries.
- Developing countries have a natural advantage in textile production because it is labor intensive and they have low labor costs. It expired on 1 January 2005.

A chronology of events leading to the Multi Fibre Agreement

Quantitative restrictions on imports as a means of achieving specific developmental outcomes. This form of protection provides a limited shield to local industry against foreign competition. In the United States (US), early trade restricting measures affecting the textiles and clothing sector were in the form of domestic agricultural policy that restricted the importation of cotton. The resultant upward pressure on the price of cotton meant that downstream textile and clothing manufacturers. US concluded a bilateral agreement with Japan (one of the country's major foreign suppliers of cotton and cotton textiles Short-term Arrangement regarding International Trade in

- Cotton Textiles' (STA) - note the explicit reference to cotton textiles - and pursuant to this, a 'Long-term Arrangement Regarding International Trade in Textiles' (LTA).
- Voluntary agreements were nonetheless concluded mainly between the US and various key suppliers of man-made fibre products, as well as wool products.
- All these developments contributed to the negotiation and subsequent conclusion, in1973, of the MFA.

The Agreement also provided for the conclusion of

- Bilateral treaties, which in effect permitted countries to tailor quantitative restrictions on differentially according to their own particular requirements. This demonstrated the MFA's most significant departure from GATT rules, particularly that of nondiscrimination.
- While the latter continued to call for a liberalization of textile and clothing trade, it was only in 1991 that versions of what was to become known as the Agreement on Textiles and
- Clothing (ATC) - . A final version of the ATC, which set out a definitive plan for the structured removal of quantitative restrictions, was finally implemented on 1 January1995.

Outcomes under the MFA and ATC

- Trade-restricting quotas on textiles and clothing have changed the global nature and location of production.
- Even the two decades preceding the formalization of a quota regime under the MFA in the early 1970s saw a rapid rise in production and exports mainly from South East and East Asian countries.
- The MFA slowed down this trend and thus played an important role in the further growth and development of this sector in industrialized countries.
- With the WTO Agreement on Textiles and Clothing providing a scheduled removal of
- MFA quotas over the decade 1995 - 2005, little global change relating to quota phase-out took place during the early stages of the Agreement.
- The period covered by the ATC was also significant for other developments, notably a broad reduction in import tariffs on industrial goods