

David Birnbaum

Cost To Value Analysis

Fashion Transformer Online Conference

Hong Kong
5 November 2020

david@birnbaumandfather.com

Birnbaum
& Father

birnbaumandfather.com

COST TO VALUE

- Cost is what the supplier pays.
- Price is what the customer pays.
- Cost is quantifiable.
- Price is based on value.
- Everyone in business is both a supplier and a customer.
- There is no relationship between cost and price.
- All successful decision are based on lower cost against higher value.

PART I

Fighting for lower fob prices makes no sense.

LOW VALUE

Basic Costing				
Fabric	60%	\$6.00		
Trim	10%	\$1.00		
CM	30%	\$3.00	CM Breakdown	
FOB	100%	\$10.00	Labor	\$0.64
			Net Profit	\$0.50
			Overhead	\$1.86

HIGH OPPORTUNITY COST

	Customer	Factory
Traditional	Savings \$0	Profit 50¢
Competitive Model	Savings 63¢	Loss -10¢
Cooperative Model: Product Development	Saving \$1.64	Profit 75¢
Cooperative Model Reduced Markdown	Saving \$10.59	Profit \$2.50

WORLD'S TOP 10 GARMENT EXPORTERS

Rank	Country	Value \$mn	Market Share
1	EU	134,531	28.6%
2	China	138,238	29.4%
3	Bangladesh	40,715	8.7%
4	Vietnam	30,038	6.4%
5	India	16,508	3.5%
6	Turkey	15,540	3.3%
7	Indonesia	8,246	1.8%
8	Cambodia	8,287	1.8%
9	Pakistan	5,843	1.2%
10	Sri Lanka	5,638	1.2%
Source ITC Geneva			

CHINA AND THE EU HAVE MUCH IN COMMON

- easy access to locally produced materials,
- ease of doing business,
- concentration on sophisticated fashion products,
- educated management and technical specialists and well-trained workers
- Strong domestic demand particularly for fashion clothing.

CHINA AND THE EU HAVE DIFFERENCES

FOB Price Comparison EU vs China (Year of Latest data)				
HTS	Description	FOB EU	FOB China	Year
6205.20	Men's Cotton Woven Shirts	\$15.11	\$5.99	2015
6203.31	Men's wool Jacket	\$111.31	\$47.27	2019
6203.41	Men's Wool Pants	\$40.94	\$26.11	2019
6203.42	Men's cotton pants	\$16.41	\$6.51	2016
6204.42	Women's Dresses	\$21.93	\$6.60	2016
6204.61	Womens wool pants	\$51.39	\$21.62	2019
6204.62	Women's cotton pants	\$14.29	\$6.04	2018
6209.10	Cotton T-shirts	\$4.18	\$2.99	2015
6110.11	Wool Sweaters	\$41.37	\$14.75	2019
6110.20	Cotton Sweaters	\$11.86	\$6.68	2015

HIDDEN VALUE ADVANTAGES

DESIGN:

The EU is home the world's greatest agglomeration of design centers including, Italy, France, Spain, Netherlands, Sweden, Germany, ETC. Importers placing orders in the EU generally rely on EU design. Contrast this with China where the customers placing orders provide their own designs, often of EU origin

BRAND:

Made-in-Italy, Made-in-France, Made-in-Spain etc. provides a cachet which allows the importing retailer and/or brand to charge a higher price. Some may claim that this brand cachet is unwarranted, but we must accept that these EU based brands create value which Made-in-China lacks.

PART II

Selecting the right factory—*The traditional way*

- ▶ You are a major brand importer
You are working with 1000 factories located in 10 countries
You place 5000 orders per month
- ▶ You rate each factory according to 10 – 20- or 50 factors.
The result is that you have A-Class, B-class, C-class suppliers.
- ▶ The problem is that it does not work
Too subjective. No all factors are equal. Different factors have different value.
Gives rise to corruption
- ▶ The best you can say is that the traditional way is the only way

PART II

Selecting the right factory—*Cost to Value*

Only 1 factor determines the best factory

You want to work in the factory where you make the most money.

Ironically, your company already has the data. You just have to put the data together and you have a record of profit for each product, from each factory. At this point you do not care why factory A provides greater profit than factory B, only that the data is accurate and quantifiable.

Cost to value not only gives you immediate answers. It also allows your merchandisers to use that information on a timely basis to factor in other consideration.

You can also use the data to improve other suppliers or conversely to see when a factory has become less profitable, which allows you to take remedial steps.

This is what cost to value analysis can provide

Welcome to the world of COST-TO-VALUE ANALYSIS

Our industry faces an existential problem.
The decisions we make do not lead to the results we expect.
The tools we use to make our decisions no longer work.

Why do retailers and brands beat up their factories to save pennies when they could instead work together to save dollars?

Why do they choose which factories to work with using 10, 20 or even 50 factors, when only one factor is important? Buyers simply need to work with the factory where they make the most money.

Why do the factories still believe that low FOB price will save them when in fact success depends on moving from product maker to service provider?

Why do factories not recognize that in this new consumer-driven industry, their survival will depend on greater compliance and sustainability?

Our industry needs a new tool box.
Every decision has a cost and at the same time, every decision should provide added value.

This book will ensure that the decisions you make bring lower costs and greater profit.



DAVID BIRNBAUM is an internationally renowned garment industry specialist working for major importers, retailers, suppliers, governments and institutions to solve industry-related problems through innovative and cutting-edge strategies. This book is the result of information and insights gathered during projects throughout his career.



EMMA BIRNBAUM is a specialist in the new generation, consumer-centric apparel industry. Beginning her career in product innovation, she quickly moved into strategic planning resulting in Birnbaum & Father Ltd, a joint venture with David Birnbaum. Emma is currently pursuing a PhD at University College London.



Photo by Tool., Inc on Unsplash

Birnbaum on Strategy The Guide to Cost-to-Value Analysis

Birnbaum on Strategy The Guide To Cost-To-Value Analysis

David Birnbaum
Emma Birnbaum

Published by:

FASHIONDEX, Inc.