# **Impact of fabric raw material's price hike on the entire RMG sector**

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**ABSTRACT**

The effect of raw material costs on the organization's financial performance is discussed in this study. The purpose of this study is to ascertain how changes in the price of raw materials affect manufacturing costs, which are comprised of the cost of raw materials, direct labor, and factory overhead, as well as how these changes affect the net profit of the company. It cannot be remembered when was the last time the textile and apparel industry did not face any challenge. Disruptions like pandemics, labor, dyes and chemicals, power, wages, compliance, law, etc make this sector unsettled for any upcoming progress. Likewise, fabric raw material price hikes and excessive rise in prices of yarns are creating significant challenges for the apparel and textile industry. Where business momentum of buyers has been started because customers began their buying as they got little leverage from the pandemic, this steep rise in the prices of yarns is having an impact on the RMG sector and this report is based on focusing on those impacts, challenges, and recommendations.

**Keywords:** Raw materials, Price hike, cost rise, Supply chain collapse, etc

1. **INTRODUCTION**

Being operated for over 8 years, Nice Denim has been continuously focusing on product quality improvement. They have invested in new R&D and have become a one-stop solution for woven and denim fabric in the market. Nice Denim is capable of producing lightweight denim fabric like 2.5 oz to very heavy weights like 15 oz of different blends of Cotton yarn and a variety of cotton yarn blended with Viscose, Tencel, and Nylon fibers and it is famous for offering the best and unique combination of product quality, price, commitment, and after-sales services. Nice Denim has a total area of 976129 sq. feet and runs with a total of 2200 manpower. Among them 2150 are male employees and 150 are female employees. It has an annual turnover of $190 million. Nice Denim supplies very high-quality fabrics to the world’s famous brands like H&M, C&A, LEVI’S, GAP, U.S. POLO, INDITEX, S. OLIVER, WALMART, PRIMARK, MANGO, LIDL, ALDI, M&S, GLORIA JEANS and many other high-end brands. I want to explore the impact of fabric raw material’s price hike on entire RMG sector on the basis of my current organization’s situation. As we all know post-pandemic situations have reduced customer’s buying ability and customers are now careful about spending money to buy new things. So due to fabric raw material’s price hike and excessive rise in prices of yarns, any price revision of the garments by the end buyers is not going to be entertained by the consumers. So as a fabric marketer, I need to keep the above issue in my mind and find the better way to make things balanced in order to achieve the company’s target and to sustain in this volatile market as well. That’s why I have chosen this topic.

As an account holder, we have to negotiate with our customer over a certain price. And when both party agrees on a particular price, the order gets confirmed. As this is a long time time-consuming process, the yarn price often fluctuates from our original price that was used in the costing of the fabric. Hence after price confirmation if the yarn price gets increased, the customer refuses to accept the amendment in the costing for the new price of yarn.

Similar circumstances had to be faced by me back in 2020. A fabric (construction 7 RING x9 RING/90x 68) price had a BEP of $2.10/ Yds. Where yarn prices were 7/1 RING for $2.40 and 9/1 Ac for $2.50. This price was fixed after 2 weeks of negotiation. But unfortunately during this period, the rate of both yarn increased $0.90. As a result, the BEP of the same fabric was now $2.80/ yds. That the customer was not willing to pay. And for this, a 2 million yds. Order of “Primark” was about to be canceled. This kind of phenomenon is not rare anymore. The rapid change in yarn prices puts marketers like us in a dilemma. And this was the main inspiration for me to implement my experience of overcoming the situation through this project work.

**Objectives**

Broad Objective

Illustrate the current situation of the garment Industry due to fabric raw material's price hike and its impact on fabric sales and marketing.

 Specific Objectives

1. To analyze how order quantity fluctuates due to fabric raw material's price hike in the last year.

2. To analyze the reason behind this fabric raw material's price hike.

3. To address the challenges faced by the fabric marketers due to this price hike and to identify the required changes.

1. **LITERATURE REVIEW**

Fabric Raw Materials and prices Raw materials (RM) are the main materials used as inputs in the production process for subsequent modifications and finally modified into finished goods. Raw materials may be in a processed or unprocessed state. Most of the raw materials are natural resources like cotton, oil, rubber etc. The materials are also converted for use in various processes before being used in the final manufacturing process. So we can say that, the processed or unprocessed material used to produce the final textile product is called TRM. The textile industry uses various types of fibers that come from nature or are produced manually. These fibers are used to produce dresses, towels, blankets, etc. Some of these fibers were known and used in the early years of civilization, as well as in modern times. Other fibers have had varying degrees of importance in recent years. Factors influencing the development and utilization of these fibers include their ability to be spun, their availability in sufficient quantities, the cost or economics of production, and the desirability of their properties to consumers. "As raw material prices continue to rise, textile companies need to improve the precision of the production process to reduce raw material waste," said Gao Yong, vice president of the China Textile Industry Association (CTIA). According to Yong, after the global financial crisis, the increase in the price of textile raw materials has exceeded the increase in oil prices due to supply shortages, and this trend is likely to continue. As a result, the reduction of raw material consumption becomes very important and precision production is much more important. 1. Selling price to consumers increases 2. Supply of raw materials for production decreased 3. Market demand will definitely decline 4. Employee salary will be taken into consideration Factors that cause an increase in the price of fabric/textile raw materials 1. The number of textile industries in Indonesia 2. The density of the amount of production produced by an industry caused by the large demand so that prices rise. 3. The imposition of Temporary Safeguard Measures (BMTPS) or safeguards on imports of textiles and textile products (TPT) such as yarn and fabric. 4. Increased demand for domestic materials. Production Quantity Determination Efforts or Factors That Can Increase the Amount of Production There are four factors to increase the yield/quantity of production: productivity. 2. Extension Extensification is an effort made by increasing the 1. Intensification Intensification is an effort made by increasing work By definition, production is an economic activity to produce or add value to the usefulness of a good or service. People or business entities that carry out production activities are called producers. In the English - Indonesian dictionary the word "production" linguistically means income. When human needs are not too many and still simple, production and consumption activities can be carried out alone, namely by producing and meeting their own needs. However, when the needs of these consumers are increasing and the available resources are limited, these consumers are no longer able to produce their own needs. factors of production. 3. Diversification This method is done by developing production results 4. Rationalization This rationalization is carried out by utilizing technological advances to expand knowledge which can later support the production process

1. **METHODOLOGY**

Research design is a strategy used by researchers to combine and discuss research components logically, systematically, and through analysis. Research design is a guideline to be able to carry out research properly. The research method chosen is a descriptive research method with a quantitative approach. Research method quantitative approach is a situation where a researcher explains how a variable can affect other variables. Primary research has been done widely. Several group discussion sessions have been taken with the head of the Planning and costing department

1. **RESULTS AND DISCUSSION**

**Order fluctuation:**

Where business momentum of buyers has been started because customers began their buying as they got little leverage from the pandemic, the steep rise in prices of yarns is having an impact on fabric sales and marketing and thus on the garment industry as well. Where we had the price of fibers at 83 cents per pound before 2020, it has risen up to 120 cents per pound in 2020. As a consequence, now the price of yarns has increased by almost 1 dollar per kg in every single country.

If we see the summary of orders of Nice Denim Mills Ltd for the last year, we can assume how dramatically orders have been reduced.

July 2020 to June 2021

The year 2020

 Month qty-Yardage

July 25, 80,888

August 26, 21,576

September 27, 36,419

October 33, 17,890

November 35, 59,468

December 38, 81,353

Year 2021

 Month qty-Yardage

January 27, 58,907

February 22, 63,415

March 30, 12,227

April 37, 11,081

May 35, 52,407

June 43, 94,961

Nice Denim’s average sales are 50 lacs per month where the capacity is 60 lacs per month. Before yarn’s price hike, the sale was 50 lacs on average per month. But we see in 2020 after the price hike order quantity had been reduced gradually. October, November, and December are the main seasons for the orders that’s why in these three month it seems the order qty is increasing gradually. But the overall sale was less than the previous 50 lacs. This fall down of orders continued till March 2021. However, after taking preventive measures later orders continue to increase gradually. So, we can see from the summary that the sales and marketing department was unable to achieve their target due to this abrupt yarn price hike.

**Reasons behind This Price Hike**

Among many of the reasons we have categorized them into primary, secondary, and tertiary reasons, and they are discussed below.

**Primary Reasons:**

* Prices of any item vary mostly due to the fluctuation of their raw materials. Between July,2020 to July,2021 we have seen such price hikes of raw cotton fiber across the globe and the price of yarn has increased as well for Nice Denim as is obvious from the below graph.



 Figure: Raw Cotton Fiber Price Hike (From July 2020 to July 2021)

* Fiber-to-yarn conversion cost is increased as due to the power shortage needed to generate it using liquid fuels and fuel’s price is also high due to high demand. Previously in Nice Denim, it was 80 cents per kg where it has been increased to 120 cents per kg.

 Figure: Conversion Rate Hike (From July 2020 to July 2021)

* Consistently rising transportation cost also contributes to the rise of raw material costs. Previously where it was $5000 per container then it seemed 15000 to 16000 dollar per container.

**Secondary Reasons:**

Apart from the primary reasons some secondary issues like high labor costs, shortage of energy, Political instability, and inflation play a vital role in increasing yarn prices.

* Acute labor shortage and high labor costs also pave the way to increased raw material prices. The minimum wage level has been increased from 6000tk to 8000 tk and in 2020 during the pandemic situation machines were idle in the spinning section and at the same time management had to pay the full wages to the workers. So for balancing the extra cost spinners increased the price of yarn.
* Non-availability of gas for power generation and huge capacity remains idle frequently, that is why production is less and as the supply of yarn is less, the demand gets higher, and as a consequence price is also increasing by the hour. Shortage of energy, as a result, electricity cost has risen up by 30-40 percent due to power cut and needs to buy power from the open market. Consequently, raw materials price has increased.
* Unstable global politics contribute to the increase of fertilizer costs, gas costs it has a consequence on the rise of raw material costs.

**Tertiary Reasons:**

More frequent natural calamities like below are affecting the proper harvesting cycle. Thus, they play a role in increasing the price of yarn.

* Drought.
* Locust attack.
* Excessive snowfall/rain.
* Global warming.

Moreover, inflation and corruption also play a role in increasing the price of yarns.

**Challenges Faced by the Fabric Marketers Due to This Price Hike**

1. Fabric marketers are unable to maintain profitability or keep their price-cost margins due to this abrupt price hike.

2. Due to the non-availability of raw materials, disruptions happen in the supply chain. Due to this, it is not possible to keep the commitment with buyers.

3. Due to the high price of the product, contraction in demand happens from the consumer end and it is not possible to get the individual’s target filled up.

4. Due to the abrupt rise and uncertain economic environment it is not possible to have the economic recovery of the organization.

5. As order flow is getting down due to high prices it is not possible to retain the full workforce of an organization.

6. Getting delay of salaries workers/employees.

Apart from the above challenges sometimes to keep good business relationships with the buyer company takes the order even with very low profit or with below breakeven price. And it leads to a high cost of capital and repayment of loans gets delayed.

1. **CONCLUSION**

The author was given a vast opportunity by this two-month-long internship to work with different departments of this industry. I have been given access to work closely with Sales and Marketing, Supply chain, R&D, Planning, Production, Store, and Quality and gained a huge knowledge of each department. Now I know how those departments are run by and interrelated with each other. This learning is very essential for anybody in this industry to face future challenges like my above-discussed topic. Through this internship skills like communication, thinking differently, team working, coordination, etc have been developed in me. I hope this will be a new milestone for my career. The readymade garments industry being a blessing for a developing country like Bangladesh to strengthen the country’s economy is embarking on a new era. Every day is becoming a challenge for this sector to meet customers’ requirements by ensuring better prices, better quality, and better lead time. So, to meet these challenges & and sustain in a competitive market we must adopt new tools to improve managerial skills which can ensure increased productivity with better lead time. As a professional in this sector, a course like the Post Graduate Diploma in Garment Business will help me an extra mileage.

1. **RECOMMENDATION**

To survive in this critical price hike situation my experience can be shared as a recommendation of what I did during the order cancellation period back in 2020 of Buyer Primark. I thought of using open-end yarn instead of ring yarn keeping the same look and hand feel and took the buyer’s approval. Open-end yarn’s price was a minimum of 30 cents less than the ring yarn by which I managed to reduce some cents.

1. Another thing I did and it was also helpful. I brought a change in the ratio of virgin and contaminated fibers which was also helpful in bringing down the price. (I used a 70/30 ratio of virgin versus contaminated fibers where the normally used ratio was 60/40).
2. I worked also to reduce process costs. I had to work on the weaving section, dyes chemical section, and finishing section to reduce the price.
3. Apart from the above discussions some other works have to be done given below as required changes.
4. World leaders have to step up politically to keep the trade up and running and they need to be stable first to refrain the raw material’s price from being out of reach.
5. Mostly we have to make sure that the supply chain remains stable. For that reason, the three pillars must stay strong.
6. Strong agriculture that can give back up the demand easily. New highly productive seeds and innovation in agriculture are a must for having good crops. The availability of good fiber in the market brings good quality yarns at a cheap rate. And available raw materials can bring down the price very easily.
7. ii. Finding alternative energy sources for giving backup to our industries 24/7
8. iii. We have to reduce dependency on particular natural fiber and look forward to alternative solutions.
9. We can offer our existing price product to buyers with value addition like with sustainable content. Pre-consumed, post-consumed, recycled poly, BCI cotton, CMIA cotton, and organic cotton nowadays seem to be lucrative to buyers.
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