

Subject: Apparel Manufacturing

Unit 2: The Nature of Business

Quadrant 1 – e-Text

Learning Objectives

The learning objectives of this unit are:

- Understand the scale of operations.
- Identify the suitable method for funding an apparel business.
- List the techniques required to run a business.
- Identify an appropriate organizational structure for the business.
- Determine the importance of budget, cost and incentives.
- Understand the role of Operations, Human Resource Management and Administration.

2.1 Scale of Operations

The need of fixed capital depends upon the nature of business. Usually, the nature of business is of two kinds: Manufacturing Business and Trading Business. In the case of manufacturing business, large investments are made in land, building or machinery. Thus, there is a need for large amount of fixed capital. On the contrary, in the case of trading businesses in which finished goods are bought and sold, less amount of fixed capital is needed.

There are four main types of business formats existing in apparel manufacturing. They are: Micro, medium, small and large.

The larger the spread of business activities the greater the need for fixed capital. If a manufacturing enterprise is operating on a small scale, it will require less amount of fixed capital. On the other hand, a large-scale manufacturing enterprise will need relatively more amount of fixed capital.

In enterprises where production is carried out mainly through manual labour the need for fixed capital is very little. Enterprises having semi-automatic manufacturing techniques require moderate amount of fixed and working capital. Manufacturing enterprises which make use of modern and automatic machines need large amount of fixed capital.

There are some businesses where the fixed asset is used and which requires immediate change. These days computer technology is undergoing rapid changes. Therefore, companies whose business is computer based need more fixed capital.

There are two types of organisations from the point of view of growth:

- Organisations, which have no possibility of growth. They do not need additional fixed capital in future.
- Organisations which have more possibilities of growth. They need more additional fixed capital. Such organisations make a choice of the sources of finance well in advance so that needed additional finance can be made available.

Diversification

Diversification means running a business in more than one product.

Organisations, which wish to adopt diversification, certainly need more fixed capital. For example, if a textile manufacturing company starts the business of footwear manufacturing, it will have to invest in land, building and machinery. Therefore, it will require more additional fixed capital.

Rented, Leased and Owned Properties

As explained earlier there are three different techniques being used in apparel manufacturing: manual, semi-automatic and automatic techniques. The technique that is being used plays an important part in deciding the contract under which the owner of the property operates. Leasing is a sort of contract under which the owner of a property gives the right to some other person to use his property in return of a definite consideration which is called Lease Rental. On the expiry of the period of the lease, the property is returned to the owner. Sometimes, when the lease ends, the lesser gives the lessee the option to buy the property or get it on lease again.

2.2 Methods of Financing

Let us begin by understanding the terms assets, operating capital and working capital. Assets or capital investments are needed to start up and conduct business, even at a minimal stage. These assets are considered fixed in that they are not used up in the actual production of a product or service, but have a reusable value. Fixed-capital investments typically depreciate on the company's accounting statements over a long period of time, up to 20 years or more. Examples of assets include factories, office buildings, computer servers, insurance policies, legal contracts and manufacturing equipment. In short, anything that is not continually purchased in the course of production of a product or service.

Operating Capital is the capital available for the operations of a firm such as manufacturing or transportation.

Working Capital is the assets available for use in the production of further assets. It is the capital that is required for financial transactions and long-term improvements.

Generally, for making investment in fixed assets long-term capital sources such as equity share capital, preferential share capital and debentures are used. However, another source of finance

has emerged these days. This is called *leasing*. If a company makes use of this source, it acquires fixed assets on lease rather than buying them. In such a situation the need for fixed capital decreases.

2.3 Site Selection Factors

The Top Manufacturing Site Location Factors are availability of raw material / skilled labour, labour costs, availability and costs of energy and costs, highway accessibility, state and local incentives, tax exemptions, corporate tax rate, availability and rates of land and buildings, occupancy or construction costs, inbound and outbound shipping costs. Of these site selection factors: availability and costs of energy, highway accessibility, state and local incentives, availability and rates of land and buildings, occupancy or construction costs, inbound and outbound shipping costs all increased in importance.

Land Coverage (usually 40% of land is allowed to cover out of the total land.)

FLOOR SPACE INDEX (FSI), is vital to check whether the target capacity will be met along with optimal design of various departments such as cutting, sewing and finishing.

2.4 Human Resources Management

The role of Human Resources (HR) is changing as fast as technology and the global marketplace. Historically, the Human Resource Department was viewed as an administrative overhead. HR handled administration of benefits, kept personnel files, and other records, managed the process of hiring and provided other administrative support to the business. Some common roles for a Human Resource Executive are: recruitment, sending the offer letter, orientation for new employees, providing salary statements, monitoring attendance, maintaining employees database and preparing the list of holidays applicable during the year.

As times have changed, Human resource professionals now have the opportunity to play a more strategic role in business. The challenge for Human resource managers is to keep, up to date with the latest Human resource technological innovations and legal requirements.

There is a need to know about the current Human resource challenges, and how to effectively manage them in your workplace. We will now look at some best Human resource practices in a few companies.

HR Practice

Any practice that you devise to increase the competence, commitment and improve the culture at a workplace can be termed as Human resource practice, and this can be in the form of a norm, rule or system. Examples of Human Resource practices include:

Wishing Employees on their birthday or anniversary by the Human resource Head. Having health facilities / baby-sitting facilities. Continuous learning and development oriented Performance Management System. Good Employee Services. Provision of a company's Internal

Magazine covering all the happenings in the company. Regular training and development. Job rotations or internal department transfer. For example, service employees based on their performance are shifted to Research & Development.

Best Practices

There is no single best practice to which all organizations should aspire. Rather, literature shows that each firm has a distinctive Human resource system that represents a core competency required for the survival and sustainability for that particular organization. "Best Practices" in Human resource are subjective and transitory. What is best for one company may not be best for another. What was best last month may not be best for today. The concept of "best" is highly subjective and non-specific. "Best Practice" is not a set of discrete actions, but rather a cohesive and holistic approach to organizational management.

Best Practices are initiatives taken by Human resources to: Create a feel good factor, give high visibility and focused impact, be unique and relevant, gel with organization culture and provide a fresh / creative way to accomplish a task. Some factors which constitute best practices in Human resource management are: Communication, Continuous Improvement, Risk Taking, Recognition, Work-life Balance, Culture Consciousness, Recruitment, Training & Development.

Communications in Companies

The "best practice" companies have the most intense communications which are broad, continuous and involve multi-directional employee contact. Communications with employees is "a given", and is formal, focused and an on-going responsibility. Communications are not done as an "extra".

Examples of good communication strategies are:

1. **"Talk of the Week"** where all the employees are asked to participate and give their word and opinion about their superiors helping to bridge the gap.
2. **"Taking a Step Ahead"** is a Round Table Initiative followed by the GSK Group to empower their employees.

These, are improvements in employee services, provided by some companies.

"Dosti" is a Counseling Facility adopted by Texas Instruments, where a trained counselor offers free and confidential advice on any issue under the sun - from work related stress to marital discord.

Les Concierges Service followed by Johnson & Johnson outsources chores like paying bills, booking tickets and buying vegetables.

Breakfast with Department Head in groups of 10 adopted by Glaxo SmithKline.

Cashless Hospital Scheme for employees and their families by Johnson & Johnson.

Risk Taking

The best companies have leaders who possess courage to make the hard decisions and carry them out. People like Jack Welch, CEO of General Electric, is known as "Neutron Jack" for his massive shake-ups at GE. These people are not afraid to go face-to-face with employees to discuss issues they feel need to be addressed.

Recognition

“On-the-spot Recognition” followed by Shoppers' Stop where all employees are recognized on their contribution and talent they exhibit. For every contribution, they are given stars - making people feel like Stars. Special Awards like "Helping Hand", "First Mover", And Quarterly Rewards and appreciation are some of the initiatives taken by many companies.

Work Life Balance

Examples of Work Life Balance initiatives are:

An initiative taken by GSK where every employee can walk out of the office at 6.00 p.m. helping them to balance both professional and personal life.

Hewlett Packard rewards Quarterly Star Performers with packages like Dinner-with-Family and Stay-over-the-Weekend at Five Star Hotels.

Hewlett also invites spouses to give a pleasant surprise to employees on anniversaries and birthdays.

Culture Consciousness

The best companies are all sharply focused on their culture and are conscious of how culture shapes systems and behaviors. The best example for that is an initiative Fun @ Work Cadbury Annual Theme. This is a reflection of the company's corporate goals. The Celebration Calendar built around the theme is to ensure at least one event per month.

On Company Day, employees are encouraged to interact with consumers and bring back new ideas. The worm controversy was overcome through 'Delivering Smiles'. Specific days like Traditional Day are introduced.

2.5 Training and Development

Evaluation

Evaluation of individual training needs, performance and targets.

E-learning portal

FEDEX and HEWLETT allow employees to choose from a whole range of topics, such as Communications, Project Management and Strategic Planning.

Rotational Development Program

Provides cross-functional exposure to junior and mid-level staff.

Mentoring Program

Promotes diversity - mentor from different department.

Kaizen & Behavioral Training by Classic Stripes

Allows employees to spend 150 minutes a month on this specialized training.

Recruitment

Recruitment is done through a number of ways. Some innovative ways are:

An Employee Referral Scheme.

"Interview over a Meal". This initiative helps create extra comfort levels.

Posting job openings internally. At BSL anybody can apply for an opening two levels above his current designation.

Collaboration

Collaboration means seeking the help of other organisations in order to run a business. For example, if a bank enters an understanding with another bank to use its Automated Teller Machines, this could mean more income for the bank, while the bank getting this facility will not have to invest in fixed assets. Therefore, it can be said that collaboration helps in reducing the need for fixed capital.

2.6 Plant Startup Project

Checklists

A-Product Range

Check the different products to be manufactured, such as Shirts, Blouses and Trousers.

B-Capacity

Check the daily target capacity of the plant.

C-Product Ratio

Check the ratio in which multiple products, if any, that are to be manufactured out of the total target capacity.

D- Proposed Departments

Will the factory have the following departments in house?

Cutting, Sewing, Finishing. Washing – Yes / No.

If yes, then there should be provision for an effluent treatment plant and water storage.

E- Land Details

Check if the details for previously owned / leased are available.

(Yes / No)

If Yes, then a site map is required.

F- Contour Drawing

A Contour drawing shows the different levels in the land.

The drawing will show if the land available is at a slope or plain.

If there is a slope within the area then measures should be included in the concrete structure of the building to avoid the slope, instead of leveling the surface with sand to the extent possible.

Example: Stairs could be built at one end, usually at the back to negate the slope.

G - Physical Layout

Does a Physical layout exist.

(Yes / No)

If Yes, a site map is required.

Check if the existing building will incorporate all the departments along with good material. An evaluation will also be necessary of the movement of manpower along with special evacuation plans during any emergency should be considered.

H Type of Roof

What kind of roof will the facility have?

Example: Tin roof.

I- Vastu Preferences

Check if any Vastu preferences need to be incorporated. **J – Gender Ration**

Check the gender ratio.

K – Number of Shifts

Check the number of shifts.

L – Source of Power

Check the source of power: Main supply, DG System, Combination.

M – Facilities for Workers

Check the facilities for the workers like the canteen, with or without cooking, dormitory, medical room, lockers and children's room.

N- Material Movement

Check the system of moving materials.

O – Compliance

Check if the factory is compliant.

(Yes / No)

If Yes, then it is advisable to be aware of both local laws and buyer laws.

P – Inventory Planning

Stores: Check the Fabric roll diameter and length.

Finishing: For Finishing, check the Carton type and the type of packing, such as hangar packing and fold.

2.7 Conclusion

To summarize, in this unit you have learnt about various aspects of capital management including, Fixed capital, Working capital, Selection of location, HR Procedures and Planning the Infrastructure.