

# Make a Profit: Pricing & Costing for the Apparel Industry

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P O R T L A N D  
F A S H I O N  
I N S T I T U T E



# Course outline

- ▶ Goal
- ▶ Commandments
- ▶ Steps in manufacturing apparel
- ▶ Glossary
- ▶ Elements of costs
- ▶ Costing exercises
- ▶ Reverse costing, pre-costing and re-costing
- ▶ Formulas
- ▶ Making a living



# Goal: To succeed & make a profit

- ▶ Know the product cycle & terminology
- ▶ Know all of your costs
- ▶ Price for your customer
- ▶ Think like an apparel **wholesaler**
- ▶ Stay in business (don't go broke quickly or slowly)
- ▶ Enjoy life!



# Commandments

1. Know thy customer
2. Know thy competitor
3. Know thy terminology and the way the apparel business works
4. Know thy wholesale/retail price
5. Know thy target price per yard
6. Know thy cost sheet
7. Know thy volume
8. Know thy budget
9. Do thy research!



# Market research essential

- ▶ Who is your target market: Demographics & psychographics. How many people?
- ▶ What location?
- ▶ Why would they buy your product?
- ▶ Does your product fill a niche?
- ▶ Which stores would buy your product?
  - ▶ Buyer vs consumer
- ▶ Who are your competitors



# Glossary 1

- ▶ What is profit?  $\text{Price} (-) \text{Costs}$
- ▶ What is the difference between gross & net?
  - ▶  $\text{Gross} = \text{Wholesale price} (-) \text{cost of making that garment}$
  - ▶  $\text{Net} = \text{Gross} (-) \text{all other costs needed to run your business}$
- ▶ What is a margin?
  - ▶ Gross or net profit expressed as a %
- ▶ What is a discount?
  - ▶ Anything that cuts your wholesale price
  - ▶  $\text{Net selling price} = \text{wholesale price after discounts}$



# P&L: Gross & Net

Income Statement					
Year Ending					31-Dec-15
			\$\$	%	
Gross Sales			12,800,000	100	
	RTV		200,000		
	Chargebacks		200,000		
Net Sales			12,400,000	97%	Net Sales/Gross Sales
COGS (Cost of Sales)			7,440,000	58%	COGS/Gross Sales
	Fabric				
	Trims				
	CMT				
Gross Profit/Margin			4,960,000	39%	GP/Gross Sales
Operating Expenses			4,340,000	34%	OE/Gross Sales
	Overhead/Indirect Labor*				
	G&A**				
	Taxes				
Net profit (or loss)			620,000	5%	NP/Gross Sales

\*Overhead/indirect labor includes product development, qc, contractors

\*\*G&A includes office supplies, utilities, insurance, maintenance & repairs, marketing, legal, accounting, business travel, equipment



# Gross profit calculation

Gross Profit/Margin Exercise			
Wholesale Price			32.90
Cost of producing garment			16.46
Gross Profit			
Gross Margin			



# Gross profit calculation #2

<b>Gross Profit/Margin Exercise #2</b>	
Wholesale Price	32.32
Cost of producing garment	16.16
Gross Profit	
<b>Gross Margin</b>	
Wholesale Price	32.32
Sales commission 10%	
Net wholesale	
Cost of producing garment	16.16
Gross profit	
<b>Gross margin</b>	



# Net profit calculation

Net profit/Margin Exercise	
Wholesale Price	44
Sales commission 10%	
Net wholesale	
Cost of producing garment	15.44
Gross profit	
Gross margin	
Operating expenses per garment	20
Net profit	
Net margin	



# Glossary 2

- ▶ What are variable, fixed, operational costs?
  - ▶ What is
    - ▶ CMT?
    - ▶ COGS?
    - ▶ G&A?
    - ▶ FOB?
    - ▶ LDP?



# Variable costs

- ▶ CMT = cut, make and trim
- ▶ COGS (cost of goods sold) = Fabric, trims, direct labor
- ▶ Vary because you can change fabric, trims, where the garment is made
- ▶ Is easy to calculate per unit. Be precise!
- ▶ Relate directly to production.
- ▶ Manage by:
  - ▶ DIY? Hire? Or contract?
  - ▶ Number of employees/contractors
  - ▶ One contractor or several



# CMT: Cut, Make, Trim

- ▶ Charged by a contractor to manufacture garment
- ▶ Direct labor:
  - ▶ Cut, sort, bundle
  - ▶ Make: Sew
  - ▶ Trim: add details (zippers, buttons, labels), finish (press, steam, bag & tag)
- ▶ CMT plus cost of materials = COGS

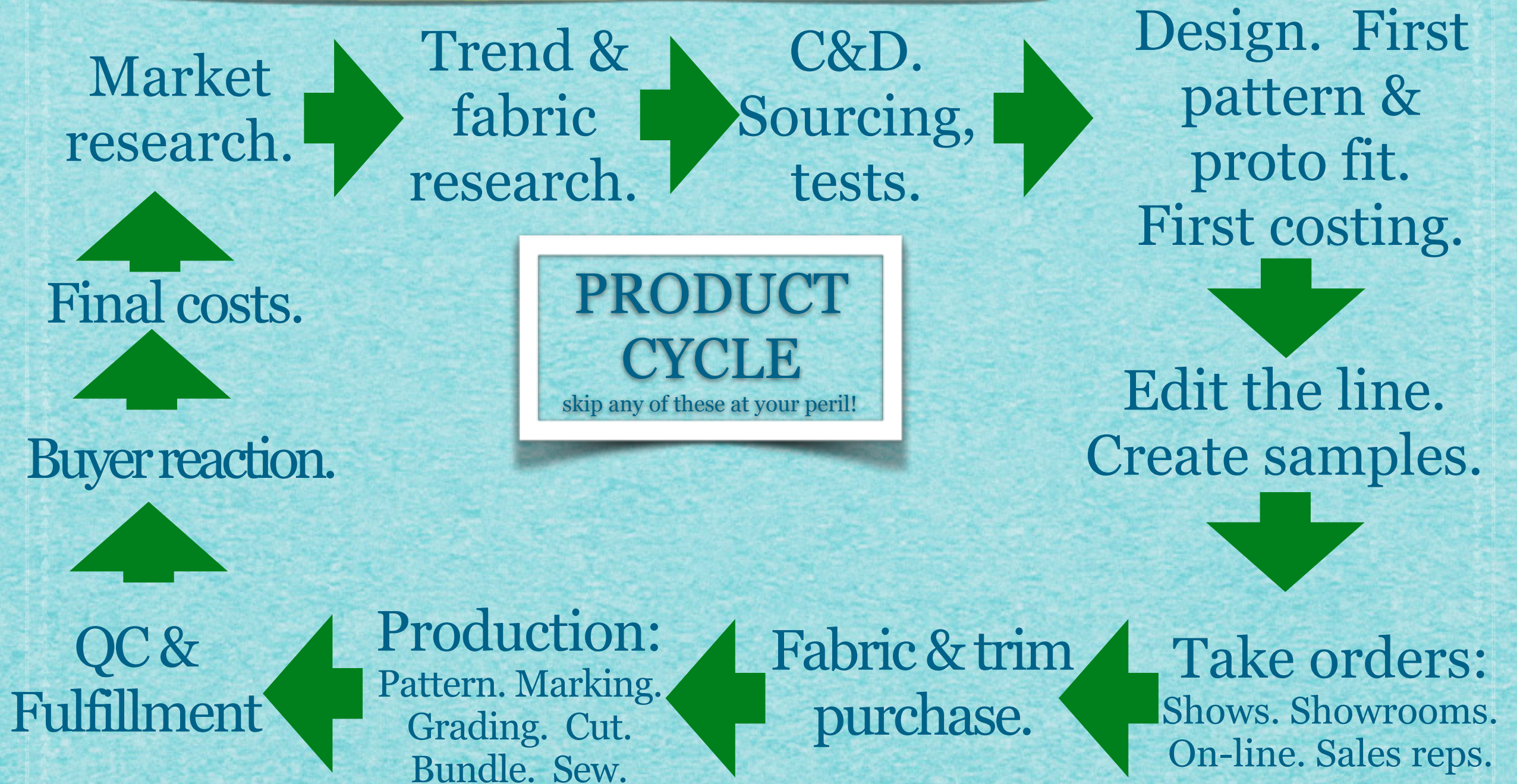


# Fixed costs

- ▶ Fixed costs are those that do NOT change as your production changes
- ▶ Set by others though you can make some choices
- ▶ Property and other taxes
  - ▶ Building maintenance & insurance
  - ▶ Utilities: Light, heat, water, garbage, Internet
  - ▶ Mortgage/Lease/Rent/NNN
  - ▶ Salaries and benefits
  - ▶ Loan principal and interest



# What it takes to make and sell clothes





# Operational costs

- ▶ Costs needed to run your business
- ▶ G & A: General & administrative expenses
  - ▶ Marketing, merchandising & selling expenses
  - ▶ Distribution expenses (shipping, warehouse, fulfillment)
  - ▶ Administrative expenses (office, executive, PR, HR, legal, accounting, secretarial)



# Calculate fixed costs/unit

- ▶ To recover fixed costs, a portion of these costs must be assigned to each unit sold
- ▶ Calculate total number hours spent in manufacturing products per month
- ▶ Divide total monthly fixed costs by the number of manufacturing hours = Fixed Costs/Hour
- ▶ Multiply fixed costs/hour by # of hours needed to make each item = Fixed Cost/Unit



# Costing example: Sandals

	Men' s	Women' s
Pairs made per month	50	50
Variable cost per pair	\$ 75	\$ 65
Hours to make one pair	2	2.5



# Add the fixed costs

Fixed costs/month	\$4,000
Total hrs.mfg./month	225
Fixed cost/hour	\$17.78
Fixed cost/pair (mens)	\$35.56
Fixed cost/pair (womens)	\$44.44
Total cost (mens)	\$110.56
Total cost (womens)	\$109.44



# More G&A costs

- ▶ What is:
  - ▶ An agent? Agency fee?
  - ▶ Brokerage?
  - ▶ Duty? Tariff? Quota?
  - ▶ Factor?
  - ▶ LDP?
  - ▶ FOB?



# LDP: landed duty paid

- ▶ Final costs for finished products:
  - ▶ Shipping
  - ▶ Import duties
  - ▶ Delivery
  - ▶ Insurance
  - ▶ Brokerage fees/expenses
  - ▶ Customs clearing costs
- ▶ Typically applies to anything made outside USA



# FOB: Free on board

- ▶ Says who pays for transportation, loading and insurance of goods.
- ▶ Says when responsibility and ownership of the goods transfers from shipper to buyer, e.g.:
  - ▶ Seller pays for transportation of the goods to port.
  - ▶ Buyer pays freight, insurance, unloading costs and transportation from port to final destination.
- ▶ Ask for “FOB destination”
  - ▶ Seller takes risk of any damages
  - ▶ Buyer pays for transportation



# Glossary 3

- ▶ What is:
  - ▶ Wholesale price? Retail price?
  - ▶ Keystoning?
  - ▶ Markup? Retailer's profit.
    - ▶ Added as #, \$ & %
    - ▶ Your profit is called “margin” (gross and net)
  - ▶ Payment terms?
  - ▶ A cost sheet?
  - ▶ Reverse costing, pre-costing and re-costing?



# Pricing strategy: Keystone

- ▶ Add up your costs
- ▶ Double for wholesale
- ▶ Double to know retail



# Market research=price range

- ▶ Price range: Budget-moderate-**better**-bridge-designer
- ▶ Cost too high = no orders
- ▶ Cost too low = no profits
- ▶ Create Customer Value Perception or Unique Selling Proposition
- ▶ Must retain quality of styling and construction to sustain price range & brand image
- ▶ Differentiate from direct and indirect competitors



# Contributors to final price

- ▶ Complexity of design
- ▶ Status of the label or brand
- ▶ Produced overseas or domestically
- ▶ Fabric cost
- ▶ **Retailer who bought the garment**



# When can you price above range?

- ▶ Prestige pricing
  - ▶ Designer, branded merchandise.
  - ▶ Relies on image advertising.
  - ▶ Product in high demand, quantity limited.
  - ▶ “Fad” - drops off quickly
- ▶ **Customer pays for brand recognition, quality, value, service.**



# Getting paid

- ▶ Payment terms
  - ▶ 2 net 30 or 2 percent 10 net 30
  - ▶ Discounts for early payment, seasonal, shipping terms, allowance (quantity), quantity purchases, prepacks (best fabric usage), to win a store
  - ▶  $\leq 5\%$  but cuts into your margin
- ▶ RTV & Chargebacks
- ▶ Sales reps and showrooms
- ▶ Consignment



# Pricing strategy: Reverse costing

- ▶ Start with retail price.
  - ▶ Value of product to consumer.
  - ▶ Know the retail markup (MU)
    - ▶ ~ 60% or 2.5-3 wholesale

Retail	MU	Wholesale
\$88	2.5	

Retail	MU	Wholesale
\$160	60%	



# Reverse Costing: How much you can spend

<b>Retail</b>	<b>\$110</b>
MU 54.5%	
<b>Wholesale</b>	
Operational \$\$/garment	4
G&A \$\$/garment	4
Overhead \$\$/garment	6
<b>Subtotal</b>	
Direct \$\$/garment	
Labor	20
Labels	0.15
Fusible	1
Buttons (5@.20)	1
<b>Subtotal</b>	
<b>Net profit 5%</b>	

How much can you spend/yard on 2 yards of fabric?  
 Can you afford to hire a sales rep @ 20%?  
 Can you afford to give discounts?



# Pre-costing: Cost Sheets

Style #:		Style Name:		Base Size:	
Date:		Revised:		Final:	
Description / Features:					
SWATCHES			SKETCH		
FABRIC					
Fabric / # /Content	Vendor	Color	Yardage	Price	Cost
					\$ -
					\$ -
					\$ -
					\$ -
					\$ -
					\$ -
Total Fabric Cost:				\$	-
TRIMS / SUNDRIES					
Style/ Size /Vendor /#	Color	Unit	Quantity	Price	Cost
					\$ -
					\$ -
					\$ -
					\$ -
					\$ -
					\$ -
					\$ -
Total Sundries Cost:				\$	-
TOTAL MATERIALS COST:				\$	-



# Recosting

<b>Style #:</b>		<b>Style Name:</b>		<b>Base Size:</b>	
<b>Date:</b>		<b>First Cost Estimate/Garment</b>		<b>Final Cost/Garment:</b>	
<b>Description / Features:</b>					
<b>SWATCHES</b>			<b>SKETCH</b>		
<b>FABRIC</b>					
<b>Fabric# &amp; Name / Content</b>	<b>Vendor</b>	<b>Color</b>	<b>Yardage</b>	<b>Price</b>	<b>Cost</b>
Outer 1					\$ -
Outer 2					\$ -
Lining					\$ -
Fusible					\$ -
<b>Total Fabric Cost:</b>				<b>\$</b>	<b>-</b>
<b>TRIMS / SUNDRIES/LABELS</b>					
<b>Style / Size / Vendor Name / #</b>	<b>Color</b>	<b>Unit</b>	<b>Quantity</b>	<b>Price</b>	<b>Cost</b>
Zipper					\$ -
Buttons					\$ -
Thread					\$ -
Labels					\$ -
Packaging					\$ -
<b>Total Sundries Cost:</b>				<b>\$</b>	<b>-</b>
<b>TOTAL MATERIALS COST:</b>				<b>\$</b>	<b>-</b>
<b>CMT</b>					
<b>Spreading/Cutting/Bundling/Sew/Trim/Press</b>	<b>Cost</b>	<b># Garments</b>		<b>Cost/Garment</b>	
<b>TOTAL CMT COST</b>					
<b>LANDED COST</b>					
<b>Source</b>	<b>Citation</b>	<b>Checked</b>	<b>Cost</b>	<b>#Garment</b>	<b>Cost/Garment</b>
Quota					
Duty					
FOB					
LDP					
<b>TOTAL LDP</b>				<b>\$</b>	
<b>TOTAL DIRECT COST/GARMENT</b>				<b>\$</b>	



# Retail math formulas

- ▶  $GM\$ = Wholesale\$ - COG\$$
- ▶  $GM\% = GM\$ / Wholesale\$$
- ▶  $Wholesale\$ - Discount\$ = \text{Net selling price}$
- ▶  $Retail\$ / MU = Wholesale\$$
- ▶  $Retail\$ * (1 - MU\%) = W\$$
- ▶  $Wholesale\$ / (1 - MU\%) = Retail\$$
- ▶  $MU\% = MU\$ / Retail\$$ 
  - ▶  $MU\% = (Retail\$ - Wholesale\$) / Retail\$$
- ▶  $COGS / (1 - GM\%) = Wholesale\$$



# Can you make a living?

- ▶ What is volume?
  - ▶ What you need to sell to make a living:
- ▶ Median income Portland = \$40,000/year
- ▶ \$6 Net profit/garment = 6,666 garments
- ▶ 6,666 garments @ \$35 COGS & \$14 operational costs = \$326,634/year budget



# Next steps: Do thy research!

- ▶ Attend business classes: Working with buyers, strategic marketing, pr techniques, branding, finding a sales rep, apparel business plan.
- ▶ Shop! Research your favorite stores.
- ▶ Work retail! Primary customer research.
- ▶ Read:
  - ▶ Entrepreneur's Guide to Sewn Product Manufacturing by Kathleen Fasanella
  - ▶ Blue is the New Black by Susie Breuer
  - ▶ Fashion Designer Survival Guide by Mary Gehlhar
  - ▶ Fashion for Profit by Frances Harder
  - ▶ Made in America by Sue Gary and Connie Ulasewicz