

Lectures on Defensive Management

Lecture #2: Introduction of Quotation of trading company & Defensive techniques for trading company

Objective:

- . Revision of the Quotation process in a trading firm
- . Demonstration of errors
- . Planning technique in error trapping and error avoidance.

Outcome:

- . Capable to minimize problem in quotation related activities..

[Note: M is buyer, L makes mistake and C is usually right. All stories are being made up. Similarity is pure coincidence!]

PART A

Introduction of Quotation of trading company

1. Revision of Quotation process

1.1 What is Quotation?

Before a business deal can be made, the supplier offers a price and the buyer considers the offer. If the offer is accepted, the business transaction, such as manufacturing, begins. Upon the completion of the transaction, such as delivery of goods, settlement is made. [Note: the word settlement is used instead of payment. It is because, there are situations, where credits and other form of non-cash methods are used instead.]

It is of paramount importance to note that:
Quotation ... Price !

For example, when you go shopping, different T-shirts have different price. Although they are all T-shirts, their raw materials, construction methods, country of origins, etc. are different. Consequently, their prices are different.

So: Quotation = Price (subjected to a set of conditions)

1.2 Quotation process

This is a simplified version of the quotation process:

A. Buyer presents a sample with the requirements:

- a. Fibre content (100% cotton, 65/35 poly cotton, etc)
- b. Yarn count (32s, 100s x 2, etc)
- c. Fabric construction (jersey, rib, etc)
- d. Yarn density (course per inch, etc)
- e. Trimming (material, style, colour etc)
- f. Styling of the garment (with reference to the sample)
- g. Size specification (include the size chart)
- h. Size assortment (1-2-1, 1-3-2-1, etc)

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- i. Colour assortment (include the colourway)
- j. Colour standard (usually, Pantone® is used)
- k. Garment construction (stitch per in, lining, etc)
- l. Packing method (flat pack, hang pack, etc)
- m. Shipping mode (air, sea, or land)
- n. Format of order (CMT, FOB, CIF, etc)
- o. Quantity of order (doz or piece)
- p. Approximate delivery schedule
- q. Include quota price (IQ, EQ)
- r. Special requirement (flammability test, colour fastness)

B. Supplier then calculates the price for such order and makes an offer. The following items are under consideration:

- a. Quantity
- b. Anticipated cost of raw material (fibre, yarn, fabric, trimming)
- c. Manufacturing cost (garment construction)
- d. Shipping cost (freight)
- e. Production lead time

Other important considerations:

- a. Quality requirement
- b. Country of origin
- c. Quota cost
- d. Financial charge (Bank charge for L/C, etc)
- e. Fixed overhead (Office overhead, etc)
- f. Anticipate profit

The quotation should look something like the following:

The price is \$\$\$\$, subjected to the following conditions:

- a. Production time is 90 days after receipt of L/C
- b. Country of origin is Hong Kong
- c. Quota category is 338/9(1)

Other conditions may look something like this:

- d. Yarn count is 30s instead of 32s
- e. Fabric density is 170 ~ 180 gm/m²
- f. Etc

C. Negotiation begins. Typical activities include:

- a. Change of material
 - replace 80s x 2 with 100s x 2, how much more?
 - use 100% cotton instead of t/c, how much more?

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- b. Adding and Removing items
 - remove the back patch pocket, how much less?
 - add an embroidery on the chest, how much more?

- c. Change of construction
 - use invisible zipper instead of semi-conceal zip, how much difference?
 - use side slit instead, how much more?

- d. Other changes
 - replace purple with blue, how much cheaper?
 - use 1-2-1 instead of 1-3-2-1, how much cheaper?
 - change the quantity from 100 doz to 90 doz!

D. If the price is right, the final details must be settled before signing the contract.

1.3. People involved in the quotation process

In different organization, quotation may be handled by different people. The following tables list the typical people involved in this process:

Buyer (Retailer)		Seller (Wholesaler)	
Organization	Position	Organization	Position
Mom-&-Pop Shop	Owner	Private Label Importer	Owner/ Salesperson
Local Retail Chain	Buyer	International Buying Office	Salesperson
Private Label Importer	Owner/ Buyer		
International Renown Label	Buyer		

Buyer (Wholesaler)		Seller (Trading Firm)	
Organization	Position	Organization	Position
Private Label Importer	Owner/ Buyer	Exporter	Owner/ Merchandising Manager

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Buyer (Wholesaler)		Seller (Trading Firm)	
Organization	Position	Organization	Position
Overseas Retail Chain	Buyer	Local Buying Office	Owner/ Merchandising Manager
International Renown Label	Buyer		
International Buying Office	Buyer		

Buyer (Trading Firm)		Seller (Factory)	
Organization	Position	Organization	Position
Mom-&-Pop Shop	Owner	International Factory	Sales Manager
Local Retail Chain	Buyer	Factory	Owner/ Factory Manager
Private Label Importer	Owner/ Buyer		
International Renown Label	Buyer		
Overseas Retail Chain	Buyer		
International Buying Office	Buyer		
Exporter	Owner/ Merchandising Manager		
Local Buying Office	Owner/ Merchandising Manager		

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PART B

Defensive Techniques for trading company

2. Common problem in the preparation of quotation

Quotation is very important because if the price is too high, the order will not be placed; if the price is too low, higher the volume of transaction, more loss will result.

2.1 Misunderstanding

There are many sources of misunderstanding: cultural difference, different terminology in the trade, etc.

2.2 Misinterpretation

In a firm with vertical set up, such as private label, it is very common to prepare an initial quotation, which based on an illustration sketch, instead of a production sketch. This job is sometimes done by the design manager, who needs to screen those styles that are good and profitable!

In another instance, where a new fashion designer who wants to produce his/her own line, he/she may approach the factory directly and asks for quotation based on the design sketch. In this case, problem may arise because usually the factory manager does not have any training in reading the design sketch. Misinterpretation may result.

[Defensive Act] Ask for production sketch. Do not quote on design sketch!

2.3 Technically impossible

The problem is that "this garment cannot be done!" There are two general reasons for it:

@1 The construction method is not suitable for mass production

@2 The production sketch is wrong!

2.4 Technically possible, but manufacture at the wrong place

Usually, when a company tries to opening up new sourcing, such as new manufacturers or suppliers, this kind of problem is common.

[Defensive Act] To avoid the waste of time, it is a good idea to call and ask if you have find the right place. Let the telephone do the walking for you.

There are situation where this is in fact a problem. Some simple example are:

#1 Buying garments with heavy hand embroidery work in the USA.

[Defensive Act] You should look for a country where labour cost is low and workmanship is good.

#2 Buying garments with photographic print in Vietnam.

[Defensive Act] You should look for a country where such technology exists.

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#3 Buying cheap cotton garments from South Korea.
[Defensive Act] You should try China, where cotton is planted.

#4 Buying silk blouse from Italy.
What could be wrong? [Answer at the back]

2.5 Careless mistakes
All sorts of careless mistakes are common. Examples are:

%1 Pushing the wrong number with the calculator.

%2 Copying the wrong number.

...

Since each mistake costs money, [The order with most unit loss always receives the most quantity! - The Murphy's Law in disguise!] therefore some experienced buyers tactically ask for quote. [The situation is very similar to chess. When two top players are playing, the person who can successfully set up and trap the opponents wins the game!] Here are some standard tricks:

Example: Disclosing the competitors

Buyer M visits Hong Kong and he sets up many appointments with the suppliers. He purposely overlaps the appointments so that the suppliers know who the competitors are, and that creates a tendency to lower the price to beat the competitors. The existence of competition usually creates a psychological threat to the supplier, who has a tendency to make a mistake too. This is a psychological trick, and it works.

[Defensive Act] Train up yourself to cope with this pressure.

Example: Time can pressure you into a mistake

Buyer M plans his buying trip to stay in Hong Kong in two days. All quotations must be ready before his departure. Of course, if there are only 10 or 15 quotations, it is manageable. M purposely asks for about 100 quotations. If you burn the midnight oil, the body condition drops and errors are sure to happen. If you don't and quote less styles, all the unquoted styles are for sure will have no chance of getting. Can you afford the loss of such opportunity cost? Therefore, usually M wins.

[Defensive Act] Automate the quotation process. Nowadays, computer is a handy tool. In the old days, people have a large reference book, which contains all the necessary data for quotation. This technique turns multiplication into a table look-up exercise. Don't forget to take it with you when you leave.

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Example: Noise and disturbance

Buyer M also loves talking, especially when you are calculating. Distraction can cause careless mistake.

[Defensive Act] Ask M to keep quiet! Don't forget to be polite.

3. Receiving quotations

Now is the time to swap the role. With respect to the fabric supplier, trimming supplier, a trading firm is the buyer. The same general principles apply. There is a different kind common problem in this situation:

4. Most Powerful Tool

4.1 Black and White

The most powerful defensive act is "black and white". Whenever you have doubt, write it down in black and white, and pass it to the other party for a written confirmation. If anything goes out of control, and the case must be settled in court, all black and white records become the determining factor.

4.2 Cushion

In a negotiation process, the seller makes an offer, and the buyer counter-offers, and the seller offers again, etc. Therefore, a seller MUST build in some cushion in the initial quote, so that after negotiation, a seller can still make money.

4.3 Region of negotiation

Here is the famous formula:

Target price - factory cost = boundary of negotiation

If the boundary of negotiation is less than zero (< 0), there is no hope to make a deal, because such a deal means either party will lose money. Nobody wants to lose money.

[Defensive Act] If you know a certain style has a negative boundary of negotiation, don't border to quote and save your energy!

Usually, the boundary of negotiation is positive. Then the question becomes how should this gap be divided! This is the art of quotation as well as negotiation.

[Note: Since this matter is extremely complicated, we can only arouse your attention and interest in this matter. Experience can show you the way. Of course, you may want to consult any book of negotiation.]

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4.4 Counter-offer

In many cases, where the target price is substantially different from the best offer, it is time to counter-offer the order with an appropriate substitute, such as using a cheaper fabric, or removing some design detail.

4.4.1 General requirements on the substitution

~1 Keep the hand feel

Example: Replace with a less expensive fabric (it can be lower grade or different material). Say 100% cotton -> CVC (Chief Value Cotton)

Example: Replace with a less dense fabric
Say 100s x 2 -> 80s x 2
Say 210~220 gm/m² -> 180~190 gm/m²

~2 Keep the look

Example: Remove expensive detail
Say remove back patch pocket
Say remove one side seam pocket

Example: Remove lining
Say full lining -> half lining

Example: Less colour print or embroidery
Say 7 colour print -> 5 colour print

~3 Keep the function

Example: Replace with less expensive fastening device
Say shell button -> fake shell button
Say YKK zipper -> non-YKK zipper

[Defensive Act] Make sure that there is no major defects created by such substitution.

Assignment: Suppose you are a buyer, suggest one method which can help to find out how much the profit margin of a quotation. [Hint: you can ask as much questions and quote as you like.]

[No need to turn in. We'll discuss in next class!]

Activity #1: Some of you play the role of buyers, and the others play the sellers. Here

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are one set of important information for each of you. Read the information and prepare for a session of quotation. I shall take bidding and offers. You have 5 minutes to work on your figures. If a deal is made, write down the seller ID and buyer ID, and the agreed price. Your performance is compared to the solution. You'll know if you make or lose money.

[Game to be played during tutorial]

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SOLUTION SECTION

Solution: Story of zip-zip

In British standard, figure 1a is a semi-concealed zip; figure 1b is a concealed zip; figure 1c is a invisible zip. In the American standard, figure 1b is called the lapped zip; other reminds the same. I have seen books in chinese which calls figure 1c as concealed zip. So, the terminology can be extremely confusing!

[Defensive Act] In the industry, we rely on the production sketch and/or sample!

Solution: Missing top stitch

The factory manager says, "The problem is at the waistband. Since there is no top-stitch, the waistband must be set in on the right side, and then hem stitch at the wrong side. We don't have any hemming machine, so we need to bring it out to subcontractor."

[Defensive Act] Begin one's training with a solid technical background, before proceeding to be the boss!

Solution: Why T not 8?

The pattern of such style line is impossible. When the dart is rotated, the fabric will overlap each other, and therefore impossible to make. [Figure 2]

[Defensive Act] Begin one's training with a solid technical background, before proceeding to be the boss!

Solution: Buying silk blouse from Italy.

Nothing is wrong. Although Italy does not produce silk, it imports silk for processing. Therefore you can surely buy silk blouse from Italy. Just make sure you check your purse!

Solution: 1 or 2 lines?

In cut-and-sewn knitted garment, a double-needle stitching can easily be done by using wedge stitch [stitch type 407]. However, for woven garment, a double-needle stitching machine is needed to produce two roles of 301. Unfortunately, 407 machine is common for the majority of cut-and-sewn knitted factory, but double-needle 301 machine is much less popular. Therefore, the production is not feasible for the woven partner.

[Defensive Act] We should match the equipment/capacity of the factory to the produciton.

Solution: Extra bonus

You should clarify whether the extra bonus means literally an extra discount from the factory, or in fact bride! According to the Law, it is illegal to offer and to accept any bride. So, you should be careful.

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Solution: Story of shoulder pad

Since the shell fabric is white jersey, which is very thin and transparent, the black polka dots on the shoulder pad can also be seen from the outside. That destroys the look of the T-shirt.

[Defensive Act] This trick can be used if the shell fabric is dark in colour and the shoulder pad won't show on the surface.

[Alternative Act] Use white colour fabric for the shoulder pad. Of course the cost may be higher!.

Solution: How big is your hand

The fax says:

Ms. L,

We find that there is a major size problem with the side seam pocket. The average length of our clients' hands is 8.5". The depth of the pocket is only 6.5". That's definitely too shallow.....

Best regards,

Gib-foot

Manager of the US main office

[Defensive Act] Keep in mind, it is the consumers who buy the products, not us!