

Corporate Business Strategies: Costing and Scheduling

HAVE YOU THOUGHT ABOUT owning your own fashion business? Are you designing your own clothes and wonder if you could sell them? Learning about corporate business strategies will help ensure you have a profitable and successful business. This E-unit focuses on learning about costing and scheduling in the fashion industry. Even the hangtag design and printing is part of costing a fashion garment.



Objective:



Cost a product, and use product and staff scheduling tools.

Key Terms:



buyer	markup	product insert
costing	merchandise production	profit
costing sheet	schedule	promotion
fashion promotion	merchandise retailing	retail
Gantt chart	schedule	shipping
hangtag	minimum order quantity (MOQ)	supply and demand
labor	Omnichannel	target audience
marketing	packaging	wholesale

Fashion Costing and Scheduling

Costing is determining the dollar amount (price) of producing a product. Understanding the costing process and the factors that must be considered when producing and selling a product are crucial to developing a successful fashion business. In order to perform their job well, a

designer may be responsible for costing or, at the very least, must be aware of the factors that go into the costing process. For example, many factors go into determining the cost of a product: materials, labor, packaging, promotion, and shipping. The selling price and desired profit must also be determined.

One of the first steps in costing a product is to determine all of these factors. Though the concept of costing is similar from product to product, the specific details of each factor will be unique to each product and each situation. A costing sheet is created for each product. A **costing sheet** is an organized form—paper or electronic—used to track all design and production tasks and their associated expenses. Although this lesson mostly focuses on garment costing, the process and factors are similar for accessories, handbags, and other fashion items.



FIGURE 1. Along with the fabric, items such as thread, zippers, buttons, chains, fringe, appliques, and other trims are included in the costing process. These raw materials are the garment's most expensive components.

COSTING A PRODUCT

Materials

The raw materials are the most expensive component when producing garments. According to the Fibre2fashion website, the fabric used to make a garment is 60 to 70% of the total cost of the product. (Source: “Garment Costing Techniques, Garment Costing Methods, Costing Methods Used in Clothing Industry” at <https://www.fibre2fashion.com/industry-article/7159/garment-costing-techniques>.) Fabric is the material used when designing a garment. When costing an item created from premade fabrics, the amount of material needed for each piece of clothing, the minimum amount of fabric that can be purchased, and the conditioning prior to use in production must all be considered when costing the item. When a designer plans to create items from custom-made fabrics (those specifically knit or woven for the garment) the material cost will be more than for premade fabrics.

- ◆ A drawing of the garment is included in the costing sheet. The drawing gives the designer a visual reference when working with multiple costing sheets as well as details for the production (sewing) of the garment. Also, the drawing usually indicates the use of specific fabric and/or the placement of trims and fasteners (buttons, hook and eye, etc.).
- ◆ A fabric's **minimum order quantity (MOQ)** is the yardage or weight of the cloth the fabric manufacturer has set as the smallest amount they will sell. The MOQ influences

the total price of the garment. A fabric manufacturer may require the purchase of a minimum of a thousand yards of fabric to obtain a particular price point. If the designer only needs 500 yards of the fabric, the fabric cost is increased or the designer may be unable to obtain that particular fabric. MOQ could force the designer to choose a different fabric and potentially cause production issues and/or increase the overall cost of producing the product.

- ◆ Along with the fabric, items such as thread, zippers, buttons, or appliques, must be part of the costing process. Once all items have been chosen they will be added to the costing sheet. The brand and care label that is sewn into the garment and the hangtag must also be designed and created. A **hangtag** is the small card/label attached to the garment/merchandise that includes brand information, logo, fabric or material, model number, care instructions, and often the price.

Labor

Labor is the physical work done to produce the product. This includes pattern creation, cutting, and sewing of the garment. Labor is either calculated by the amount of time needed to complete each piece or by the piece. When time is used for calculating labor, the intricacy of the garment design usually influences the cost. When the designer sews the garment, time is usually used to cost the item. If labor is calculated by the piece, a set cost is agreed upon prior to production. Then, labor cost is added to the costing sheet.



FIGURE 2. The more complex the design, the more difficult and time consuming the production will be which leads to an increase in product cost.

Packaging

Packaging is the material used to contain the product for resale. Packaging can also be a broader term used to describe the wrapping design, the box, and any merchandise inserts for the product. For example, the wrapping used to hold the product might be a sealed plastic bag with the logo of the company printed on it. If an item needs to be protected or shipped, the box or bag used might be custom designed in a particular size, shape, and color and may include the company logo. A **product insert** is the printed informational material accompanying merchandise. The product insert may contain the history of the company, care instructions, or a website link. Choosing how to package the product influences the total cost of the product.

Promotion

A **promotion** is advertising that further supports and adds value to a product or service. There are many different types of promotion that can be utilized, including print, radio, television, word of mouth, email, website or social media. The promotion costs of producing a product may be included in costing.

- ◆ **Fashion promotion** is communication about a product, store, brand, or designer to a target audience meant to inform and persuade the audience to purchase. Fashion promotion is used to increase the awareness of the product or brand, create interest, generate sales, and create brand loyalty. A **target audience** is the intended demographic for which a promotion is directed. Promotion is just one component of the marketing mix used by companies.
- ◆ **Marketing** is promoting and selling products. When marketing products or services, companies consider promotion, price, product, and place.

Shipping

Shipping is the transportation mode for a product. Once a product is produced it must be delivered to a store or to a customer. With the onset of Omnichannel shopping, shipping has become more complex. **Omnichannel** is the integration of all online and offline purchasing experiences. Shipping is no longer just to a store for customers to buy a product in person. With the popularity of online shopping, customers may choose to have a product delivered to their door, to a nearby store, or to a remote pick-up location. All shipping avenues must be considered in the costing of a product.

Selling Price and Profit

Designers must determine how much to sell their garment for and the desired profit. **Profit** is a financial gain: the amount of money remaining after all costs have been paid. Setting of the markup and profit determines the selling price. **Markup** is the amount added to the production cost to obtain the selling price of a product. Markup can be calculated forward, backward, or by creating a specialty method based on pricing influences. For example:

- ◆ **Forward Method:** The forward method is the simplest and most commonly used in the fashion industry. Using the forward method, the cost to produce the product would be determined, then that cost to produce is doubled to get the wholesale price, then, doubled again to get the retail price. For example: $\$10$ (cost to produce a shirt) $\times 2 = \$20$ (wholesale price) $\times 2 = \$40$ (retail price).
 - **Wholesale** are large quantities of products sold to a buyer to be retailed by others to consumers.
 - **Retail** is any product sold directly to a consumer.



FURTHER EXPLORATION...

ONLINE CONNECTION: How To Create a Cost Sheet

Nick Verreros is a fashion designer and author. He has created numerous videos about designing, choosing fabrics, and sewing. He also was a contestant on PROJECT RUNWAY and created a series of videos about his experience. His entire library of videos is accessible on YouTube at <https://www.youtube.com/channel/UCxRA86w9CxlMJkuhsEkQyaQ/videos>.

Nick's costing video, "How To Create a Cost Sheet," is available on YouTube at <https://www.youtube.com/watch?v=q8mkValuei0>.

- ◆ **Backward Method:** Working backward, the profit is determined first. If a designer wanted to make a \$40 profit on each dress sold, they would divide \$40 by four. Thus each dress would need to be produced for \$10.
- ◆ **Influences on Pricing Methods:** Because consumers purchase the end product, many factors can influence the selling and the profit amount. Supply and demand is one such factor. **Supply and demand** is the amount of a good available for purchase (supply) compared to the amount of that good that consumers want to buy (demand). Local and global economics, fashion trends, and technology could also influence the selling price and profit.

PRODUCT AND STAFF SCHEDULING TOOLS

Identifying and using resources efficiently is good business practice. A resource may be physical, such as fabric and thread, and a resource may be people. To cost-effectively utilize a person's skills, knowledge, and time improves a business's overall profit and success. One way to identify and use resources well is through scheduling. Merchandise scheduling falls into two main categories: production and retailing. A **merchandise production schedule** is the timetable from conception to finished good. A **merchandise-retailing schedule** is the timetable for pricing and markdowns once the item is for sale in a store.

Merchandise Production Schedule

A merchandise production schedule is necessary to ensure the arrival of a product at the point of sale at the optimal time. There are several selling seasons in the fashion world depending on the type of product. Women's garments have six seasons: two in the spring, two in the fall, holiday, and resort. Accessories have the same schedule minus the resort season. New lines for men's garments are usually introduced twice a year: spring and fall. Children's clothing typically has new lines for spring/summer, back to school, and holiday.

- ◆ The seasons drive the production. Most samples are introduced to buyers several months prior to the season. A **buyer** is the person who chooses what products will be sold in a

store (online and brick-and-mortar). Once the buyer decides on what pieces to sell in the store, the designer must produce the items and have them ready for market by the selling seasons. For example, in the case of holiday-wear the buyer is looking for garments to purchase from a designer in May or June. Then, the buyer expects those items to be ready in October to be placed on the sales floor at the appropriate time. Imagine if a children’s clothing designer were to produce a red velvet dress with the intent of having it sold during the holiday season. If they have not planned at least six months in advance, the dress may be ready for the spring season rather than holiday and, as a result, will not be purchased by buyers.

- ◆ A good way to ensure a product is ready on schedule is to create a Gantt chart. A **Gantt chart** is a graphic production schedule organized as a type of bar chart with start and finish dates for most project elements: resources, milestones, and key tasks. The chart indicates the sequence in which tasks are completed and estimates and then tracks the actual amount of time it takes to complete a production task.

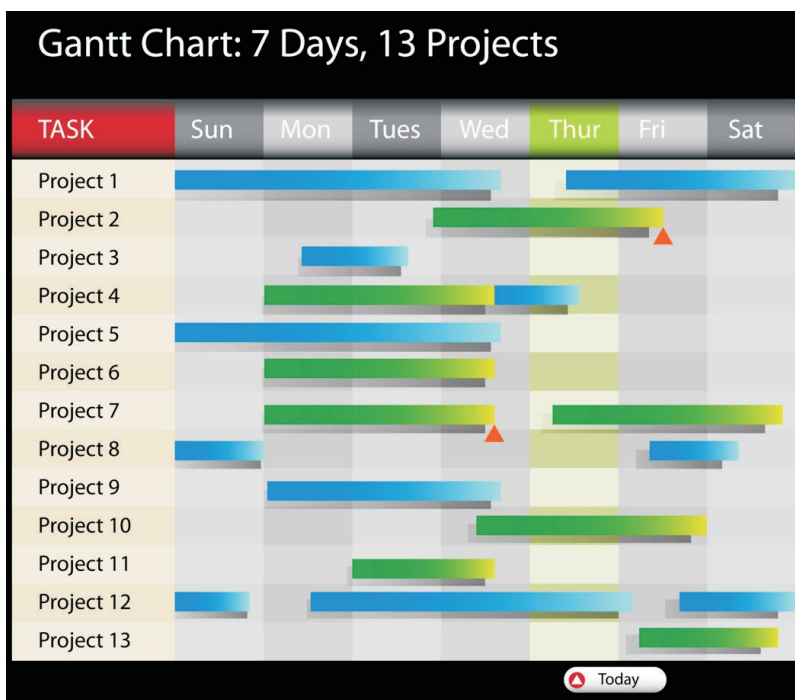


FIGURE 3. Information designers add to a Gantt chart tool includes order information, fabric delivery dates, production (sewing) time estimates, and the date when the merchandise needs to be ready for the buyer.

Merchandise Retailing Schedule

Many methods and formulas can be used to determine the selling price of a product. According to Brian Peter’s article, “How To Price A Product: A Scientific 3-Step Guide,” being educated about the price of similar products in the industry can help a merchandiser or store owner set the price of an item. (Source: Sumo.com website at <https://sumo.com/stories/how-to-price-a-product>) The product could be priced lower than the competition to appeal to those wanting a deal or could be priced higher to appear to be of higher quality than similar products.

Recall that doubling the wholesale cost is also common practice. For example, if an item is purchased from a designer for \$20, and that amount is doubled, that item would retail for \$40 on the sales floor. Pricing could also be adjusted throughout the day, week, or month to get the attention of a customer or to adjust for market demand. Merchandise retailing scheduling is a complex job and takes a skilled person with intuition and knowledge to do it successfully.

Staff Scheduling

Staff scheduling is a complex process and can be approached from many different angles. There are several different tools that can be utilized to schedule staff. A spreadsheet, such as Microsoft Excel or Goggle Sheets, could be used or specialized packaged software programs are found free on the Internet or purchased. There are literally hundreds of packaged software programs for employee scheduling. Many offer customizable options within the framework to accommodate individual company needs.



FIGURE 4. Staff scheduling is a complex job that can be approached from many different angles. There are several different scheduling tools that you could utilize.

- ◆ According to the Business.com article “5 Employee Scheduling Tools for Retail,” recommended software programs include *ShiftNote*, *Reflexis Workforce Management*, *OpenSimSim*, and *Branch*. (Source: Business.com website at <https://www.business.com/articles/employee-scheduling-tools-for-retail/>) Again, because there are so many staff scheduling tools available, a company must evaluate the desired purpose and criteria desired when choosing a software program to best manage employee schedule. Some of the criteria available through staff scheduling tools include the ability to:
 - Communicate with employees through a mobile device app
 - Forecast how many employees will be needed each shift
 - Calculate an employee’s hourly wage
 - Calculate the total cost of labor per hour, day, week, or year
- ◆ In the article “*Smarter Schedules, Better Budgets: How to Improve Store Operations*,” it is suggested to look at what each employee must accomplish each day and how long that particular skill takes. (Source: McKinsey & Company website at <https://www.mckinsey.com/industries/retail/our-insights/smarter-schedules-better-budgets-how-to-improve-store-operations>) While using software programs that calculate labor hours are useful, personalizing the process of determining how many employees to hire and when they should work can create a more efficient and profitable business while ensuring customers are serviced well.

Summary:



Now that you learned the basics about fashion industry costing and scheduling, you have a better understanding of what it takes to make a business profitable and suc-

cessful. You know what should be included on a costing sheet and how to obtain the information. You also learned some common practices and tools for scheduling both the product and your employees. And by watching Nick Verreros' videos you've seen firsthand how a designer can become a nationally recognized designer, author, and educator.

Checking Your Knowledge:



1. What is the value of a costing sheet?
2. What are the components of a costing sheet?
3. What is the most expensive component of a producing a garment?
4. Differentiate between wholesale and retail selling.
5. How does the fashion industry use Gantt charts?

Expanding Your Knowledge:



To find out more about scheduling in retail, find a store you are interested in learning more about and do some research. Perhaps you work at a clothing store or maybe one of your friends or classmates does; you could focus on that store. Find out how the scheduling is done. Think of some questions on your own or use the ones provided here. Do they use a software program? How do they schedule what merchandise to order? How do they communicate the schedule with their employees? Find the answers to your questions by interviewing someone who works at the store.

Web Links:



How To Price A Product: A Scientific 3-Step Guide (With Calculator)

<https://sumo.com/stories/how-to-price-a-product>

How to Price a Product—The Ultimate Product Pricing Strategy Guide for Small Businesses

<https://fitsmallbusiness.com/product-pricing/>

Research: When Retail Workers Have Stable Schedules, Sales and Productivity Go Up

<https://hbr.org/2018/03/research-when-retail-workers-have-stable-schedules-sales-and-productivity-go-up>