

WHAT'S BEHIND A PRICE TAG?

Commercial production of any garment includes three (3) processes: 1) designing, 2) manufacturing, and 3) selling the garment to retailers. At least twice a year a manufacturer's collection or line of garments is shown in a market city such as Chicago, Dallas, New York, or Los Angeles. Buyers from retail stores in towns and cities everywhere in the United States go to the shows and place orders for their individual stores. Garments that are ordered in insufficient numbers are dropped from the manufacturers' production lines. The price that retailers pay for garments purchased from manufacturers is called the wholesale price. Each manufacturer bases wholesale prices on the cost of producing a dozen of the same garment.

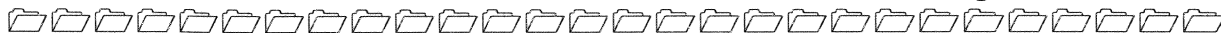
Wholesale Cost

The final cost of a garment is based on two (2) costing processes: 1) precost and 2) final cost. The precost estimate is made before a garment is included in the manufacturer's line. The designer keeps a record of the cost of all materials used in making each garment design. Next the designer or someone in the company's costing department uses that worksheet to estimate the wholesale cost of the particular garment. Finally, it is decided whether the garment will fit into the manufacturer's price structure. Each manufacturing company sets a price range for their merchandise (low, medium, or high) that consumers learn to recognize. Often price creates demand for a particular manufacturer's line.

The final costing process is an exact calculation of the cost of the garment. Final cost is calculated by the costing department. A detailed cost analysis sheet is made for each garment in the manufacturer's line. (An example of a cost sheet is shown on pages II-II-12 and 13.) The final cost is calculated using the designer's worksheet, an actual sample of the garment, and a list of the production steps (labor) necessary to produce the garment.

The cost sheet information includes:

- 1. Fabric.** The total yardage of each fabric used in a garment is multiplied by the cost per yard for each fabric. Costs of the individual fabrics used are added to find the total cost of all fabrics.
- 2. Trimmings.** The exact cost of each trim used is determined, then the total cost for all trims is figured.
- 3. Labor.** Garments may be made by the manufacturer or sent out to a specialized factory either in the United States or a foreign country. Production directors decide where the garments can be manufactured best and at least expense.
- 4. Patterns, grading, and marking.** Patterns must be made from the original design, graded to the size range produced by the manufacturer (for example, misses or



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juniors), and marked with information about how to construct the garment. Making, grading, and marking of patterns may be done by the manufacturer or by a pattern service. In either case, the total cost is divided by the number of units (garments) that will be cut to determine the cost per garment.

5. **Cutting.** Cost for cutting is figured on the number of garments to be cut, usually in dozen lots. If fabric cutting is done by the manufacturer, the cost is based on the cutter's hourly wage multiplied by the number of hours needed to cut all garments in the particular style. Sometimes cutting is contracted out and the contractor's fee is included.
6. **Construction.** In some companies, the cost of each operation needed to make a garment is determined, and the cost of the individual operations are added together. In other companies, the average time needed to make one garment is multiplied by the hourly wage paid to the workers.
7. **Trucking or air freight.** The cost of shipping the completed garments to the retail store is also included in the manufacturer's cost.
8. **Wholesale pricing.** This is based on the cost of labor, materials, and markup. Markup includes a sales commission to the manufacturer's sales representative (usually 7 to 10 percent); terms (a discount to retail stores of about 8 percent for paying bills early); overhead (daily operating costs such as rent, running machinery, utilities, advertising, salaries, markdowns of leftover fabric and garments); shortages (theft or misplacement of inventory that cannot be explained); and profit.

Most companies add a markup of 40 to 50 percent to the total cost of manufacturing a garment. The total of manufacturing costs plus markup is the wholesale price that is quoted to retailers. In the case of the jacket in the sample cost sheet, the manufacturer might add a 50 percent markup of about \$17 to the wholesale cost of \$33.73, making a total *wholesale price* of approximately \$50.

Retail Cost

Buyers for retail stores place orders from many different manufacturers whose lines are carried by their stores. The selling prices of all garments to consumers includes an additional *retail* markup. The retailer's markup may be as much as 100 percent of the wholesale price of a garment. A jacket that costs the retailer \$50 may be sold to the consumer at \$100.

The retail store markup must cover both the store's operating expenses and profit. Store expenses include salaries, sales promotion, and overhead (rent, utilities, store maintenance, and services offered). All expenses are averaged to determine markup



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per item. The difference in overhead cost is the reason that the same or a very similar garment may be sold at different prices from one store to another.

Before purchasing a garment, answer these questions:

- Is the price fair? (Remember that both the manufacturer and the retailer have to make a profit to stay in business.)
- Does the quality of the garment justify the price?
- Does the use I plan to make of the garment justify the price?
- Can I buy this garment or a similar one at a lower price elsewhere? (Other possibilities include making the garment at home, waiting until it goes on sale, and shopping around in different kinds of stores or at sources such as garage sales and thrift shops.)

Source: Cooperative Extension Service, University of Illinois at Urbana-Champaign,
College of Agriculture