

How to calculate the cost-price of an apparel item?

Last updated:

12 April 2022

If you want to build a successful business relationship with a European buyer, your ability to properly calculate the cost-price of your apparel items is crucial. Only when you understand every cost item that is involved in making an apparel item can you manage production efficiently and negotiate a profitable deal with a buyer. This report explains how you can choose the most suitable calculation method for your business and correctly calculate costs yourself.

Disclaimer

This study ([and the accompanying calculation-sheet](#)) uses practical examples to explain how to calculate costs. They should be considered as such, examples only. Costs in your factory will differ from the examples presented in this study. Some cost items that occur in your factory may be missing in this study and the accompanying sheet. When calculating costs for a real production order, always use accurate company data. CBI is not responsible or liable in any manner for any outcomes that are the result of using this study or the accompanying calculation-sheet.

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1. Why is cost-price calculation important for the continuity of your business?

The factory price of your product includes many different cost items: labour, fabrics, accessories, employees, machinery, energy and more. Such costs fluctuate, sometimes heavily. Fabric prices, for instance, have risen significantly in 2021 (for both [polyester](#) and [cotton](#)), and so have [shipping costs](#). Furthermore, [labour costs have risen](#), particularly in Asian production countries. These costs are central to the sourcing strategy of European buyers. When costs change, [sourcing strategies change with it](#). That's why you need to monitor all your costs regularly.

Please note that 'regularly' means weekly, or preferably daily, not once every season. There was a time in the apparel industry when you could confirm the cost price of an order for a period of six months or longer, but that time is over. If you do not review your cost items regularly, you may face unexpected price increases and make a loss on your order. When you monitor your costs regularly you will come well-prepared to any negotiation with a buyer and prevent difficult discussions later during production.

Figure 1: Rising shipping costs have made many buyers looking for alternative sourcing destinations



Photo by [william william](#) on [Unsplas](#)

2. What is retail mark-up?

Manufacturers can sometimes be unpleasantly surprised by the big difference that may occur between the FOB-price ('Free on Board', see below) they receive for an apparel item and the price that the item is eventually sold for on the European consumer market (the retail price). An apparel item that has left the factory for less than \$20, may be sold to European end-consumers for €100 or more. Does this make manufacturers the victims of unfair negotiations? No, not necessarily, and it is important to understand why.

Why do retail companies mark-up the FOB-price?

Retailers mark up the FOB-price because they need to account for (among other things) import duties, transport, rent, marketing, overhead, stock keeping, markdowns and VAT (15-27% in EU-countries). For this reason, the retail price of an apparel item is on average 4-8 times the FOB-price. This is called 'retail mark-up'. It follows that the FOB-price is on average 12,5-25% of the retail price of the product. Exceptions do occur. In the budget market, some large European retail chains may only double the FOB-price.

Figure 2: European retailers mark-up FOB-prices to account for costs such as renting a store in an expensive high-street



Photo by [Jordan Pulmano](#) on [Unsplash](#)

3. What are the differences in calculating cost-price for common Incoterms?

Which cost items should be included in your cost calculation? That depends on the contract that you have signed with your buyer. It may vary from CM (cut-and-make) to CNF (cost-and-freight). The difference in cost items means a different way to calculate costs.

International commercial law has defined several terms to help buyers and suppliers communicate clearly about the tasks, costs, and risks associated with international transportation and delivery of goods. These terms are called Incoterms (International Commercial Terms). The most-used Incoterms in the apparel industry are:

- CM (Cut & Make)
- CMP (Cut, Make & Packing)
- CMT (Cut, Make & Trims)
- FOB (Free on Board)
- CNF (Cost and Freight)

CM

This manufacturing method is focused on the added value of labour only. The factory does not supply any fabrics or trims but carries responsibility for the manufacturing process. The factory cuts the fabrics into pieces, stitches the pieces into one product and makes sure the items are properly packed. All fabrics, trims and packing materials are supplied by the buyer. This way of manufacturing is very basic, with low profitability, but also low risks. The profit depends mainly on the speed of the production process.

CMP

CMP is similar to CM, but means the factory also takes responsibility for arranging the packing materials. Because materials such as carton boxes and polybags are often locally available, buyers prefer the factory to order these materials directly and include it in the costing.

CMT

CMT includes the trims, such as zippers, buttons, hang-tags and labels. If these are available locally, then the buyer prefers the factory to order and manage the delivery of the trims. Organising the trims in countries that lack a local industry that produces trims is often complicated and most probably expensive.

FOB

FOB is the most-used Incoterm in the apparel industry. Most buyers prefer the factory to manage the production of the complete product. You as a manufacturer are responsible for sourcing the materials, producing the apparel item, packing it and loading the goods onto the ship at a port you both agreed on, as well as clearing customs in the export country.

Sometimes a buyer may want you to buy fabrics, trims, packaging or other materials from a nominated supplier. In most such cases, the price of the materials is already negotiated by the buyer. This means it will not be possible to calculate any additional profit on the materials purchased from the nominated supplier.

CNF

In addition to the cost items mentioned under CM, CMP, CMT and FOB, CNF-orders include the costs for transport to the buyer's warehouse and clearing customs. This way of doing business represents the highest risks and costs for you as a manufacturer. Especially during the current instability in international logistics, shortage of shipping containers and associated price volatility, buyers may prefer manufacturers to take care of the transport to their warehouse.

Tips:

Check the [International Chamber of Commerce's website](#) for more background information on the different Incoterms.

Always choose an Incoterm that fits your capabilities and don't take unnecessary risks. Try to avoid an agreement where you, as an exporter, are responsible for transport and delivery, especially when dealing with first-time buyers. Go for FOB or EXW, since FOB is the most common and will be accepted by most buyers.

4. How to calculate your cost-price

Calculating the cost-price of a particular apparel item means you need to determine what type of costs you are going to make when producing the order, how high each cost item will be and what profit you want to make.

What type of cost items you need to include in your cost calculation depends on the Incoterm you have agreed on with your buyer. If you provide CM, you will need to include direct and indirect labour costs and overhead costs in your calculation. CMP also includes packing costs, CMT includes costs for trims. If you provide FOB-production, your cost calculation should include all of the cost items mentioned above, plus material costs.

Table 1: Cost items per Incoterm to include in your cost calculation

Incoterm	Associated cost items
CM	Direct labour costs: costs for labour directly related to production, such as: cutting, stitching, quality control. Indirect labour costs: costs for labour indirectly related to production such as management, administration, human resources, sales and sourcing. Overhead costs: costs such as rent, interest, insurance, travel and transport.
CMT	Direct labour costs, indirect labour costs, overhead costs plus costs for accessories, labels, hang-tags and trims.
CMP	Direct labour costs, indirect labour costs, overhead costs plus costs for packing and packaging materials
FOB	Direct labour costs, indirect labour costs, overhead costs plus costs for fabrics and other materials, trims, packing and packaging materials

Explanation of the different steps in cost-price calculation

The most common way to calculate costs for most apparel categories is based on the Standard Allowed Minute-calculation (SAM). This is also sometimes called Standard Minute Value. In this study, we will use the term SAM. The SAM can be defined as the time it takes to properly produce a certain type of garment. The SAM of a shirt can for instance be around 25 minutes in your factory. This means it is expected that it takes an average employee 25 minutes to properly produce a shirt.

Besides the SAM-method of cost calculation, there is also the cost-per-day pricing method. This method is primarily used by volume-focused manufacturers. This report will explain both methods, but is focused on the SAM-method of calculation costs.

In the following paragraphs we will calculate the cost-price of a shirt made by a fictitious factory in 5 easy steps. First, we will determine how many working minutes the factory has available. Then we will determine all the costs the factory makes to operate. With this information, we can determine the average cost of 1 working minute. All that is left to do then is to measure how long it takes to properly produce the shirt (the SAM). Finally, we can calculate the cost-price of the apparel item by multiplying the working minute cost by the SAM.

The role of labour in cost calculation

Before we start our calculation it is important to realise that the cost-price calculation for a production line focused on manual labour is different from the calculation for a fully automated factory in which manual labour is reduced to a minimum. The cost-price calculation for an automated factory is based on the cost-price of the machinery, production time, investments made and the return on them. Elements like machine cost-price minutes and weight of the product determines the final cost-price.

This report focuses on a production-line in which labour is still a substantial cost item.

Calculation sheet

If you want to calculate costs yourself, [see this example for a cost-price calculation](#) for a men's shirt.

Remember: the cost items and numbers that are mentioned below and in the calculation sheet are examples. When calculating costs for a real production order, always use accurate company data.

Step 1: calculating your factory's available working minutes

In this report we will base our cost-price calculation on a fictitious SME called Best Apparel Manufacturer (BAM). This is a factory with 100 employees, focused on manufacturing shirts. The factory offers CM, so it is only focused on cutting and stitching.

The first step in calculating your cost price is to determine how many minutes your employees can effectively work for you on producing garments. BAM calculates the available minutes based on working days:

24 working days per month x 100 employees	2400
Daily working hours (8 working hours - 1 hour break)	7
Monthly available working hours (2400 x 7)	16.800
Available working minutes per month (16.800 x 60)	1.008.000
Available yearly working minutes for 100 employees (1.008.000 x 12 months)	12.096.000

Note that this amount of available working minutes is based on the presumption that every worker works 7 hours continuously. However, this is rarely the case on the production floor. Experience learns that in an efficient factory circa 25% of working time is lost due to factors such as:

- Machine breakdown
- Delay in cutting
- Inefficient line setup

Step 2: calculating your factory costs

The second step involves determining the yearly costs of running your factory. Factory costs can be divided into the following categories.

- Direct labour costs include all labour directly related to production, such as: cutting, stitching, quality control and packing.
- Indirect labour costs include all labour indirectly related to production such as management, administration, human resources, sales and sourcing.
- Overhead costs include all costs not related to employees such as rent, interest, insurance, travel and transport.

In the BAM case, let's presume that:

Direct labour costs per year	\$300.000
Indirect labour costs per year	\$120.000
Overhead costs per year	\$50.000

Total working cost	\$470.000
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Step 3: Calculating your factory cost per minute

Now that you have determined your yearly factory costs, the factory cost per minute can be calculated. The working minute costs = (direct labour costs + indirect labour costs + overhead costs) / total production time per year. The working minute costs is the value for 1 minute of labour that a factory needs to receive to be able to break even (no loss and no profit).

Direct labour costs per minute $\$300.000/12.096.000$	\$0,025
Indirect labour costs per minute $\$120.000/12.096.000$	\$0,0099
Overhead costs per minute $\$50.000/12.096.000$	\$0,00415
Total break-even cost price for 1 working minute in BAM-factory ($\$0,025 + \$0,0099 + \$0,00415$)	\$0,039

Step 4: determining the SAM for your product

Now that our company BAM has calculated how much it costs to run its factory for one minute, it is time to measure how long it takes one employee on average to produce a particular piece of apparel, in this case a shirt. The operation cycle is broken down into operation elements and observed time is captured per element. This exercise can simply be done by one employee with a stopwatch and a clipboard. In the case of CM, include the following elements in your time measurement:

1. Inspection of fabrics
2. Spreading and relaxing of fabric
3. Pattern marking
4. Cutting
5. Transport of panel bundles to the production floor
6. Stitching
7. Quality control
8. Repairs
9. Ironing
10. Packing

Depending on the order, other activities may have to be included, such as: washing, printing or garment dyeing.

PMTS-software

Larger factories often use so-called PMTS-software (Principle Member Technical Staff) to help them measure the SAM. Such software depends on the information input, such as operator hand and body movements.

Popular PMTS-software programmes to help you calculate your SAM include:

- [GSDCost](#)
- [SewEasy](#)
- [ProSMV](#)
- [TimeSSD](#)

The role of production speed

Production speed determines for a large part the final price of your products and your competitiveness. The time employees need to perform a certain action can vary, depending on the balance of the production line, employee experience and motivation. The efficiency of the production line is heavily influenced by order quantity. Large-volume orders can be produced more efficiently than small orders. Efficiency of handling speed. This is because the line is more balanced and fewer orders means fewer reorganisations of the production line.

Step 5: calculating your CM price based on SAM

For the sake of argument let's presume that our BAM-factory has measured the SAM for a shirt at 25 minutes.

It is common to include an efficiency percentage of 25% for lost time and a factory profit percentage of 20% (this can differ per factory and order).

SAM (25 minutes per shirt) x 1.25 efficiency loss	31.25
Break-even CM-price 31.25 SAM x \$0,039 minute cost	\$1,22
20% factory profit	\$0,24
CM-price	\$1,46

Calculating your CM price based on cost-per-day

As was explained at the beginning of this section, there is another way to calculate your CM-price. This method is based on cost-per-day. It is primarily used by bigger CM-factories, producing large volume orders.

Let's go back to our BAM-factory with 100 employees. The total factory costs are determined at \$470.000 per year. If we divide the total costs by the number of employees, then the total-costs-per-worker is: $\$470.000/100 = \$4.700,00$ per worker per year.

If 1 year has 288 working days, this results in $\$4.700,00/288 = \$16,32$ per day. This is the price 1 worker should cost per day to break even.

Total yearly factory costs	\$470.000
Number of employees	100
Working days per year	288
Factory costs per day per employee	\$16,32

Let's presume that a large order has been placed of 12000 shirts. To produce this order a production line is needed in which 30 employees are working for 25 days to produce the full quantity of shirts. These 25 days include a 25% loss of production efficiency because of issues such as setting up the production line, balancing the line, machine breakdown, et cetera.

Case: order of 12000 shirts at BAM

Employees	30
Working days	25
Cost price (30 x 25) x \$16,32	\$12.240,00
Profit margin	20%
Total price for the buyer	\$14.688,00

Tips:

As the buyer is responsible for the delivery of the fabrics and trims it is important that all the materials have arrived in the factory according to your planning. Do not forget to mention in your contract the consequences in case the buyer does not deliver all the materials on time.

Do not forget to include the efficiency percentage in your costing.

Calculating CMP-orders

In case of CMP-orders, please note that you need to add the cost for packing materials or trims to the CM-price. Let's presume that a shirt is packed as follows:

- 1 piece in a polybag (\$0,02 per polybag)
- 25 pieces in a carton box (\$0,10 per carton box)
- 100 pieces in an export carton (\$1,00 per export carton box)

To understand the upcharge for the packing materials we need to calculate the costs per shirt. As there will always be waste involved in packing, include wastage into your calculation (approximately 2%).

Polybag	\$0,02
Inner carton per shirt \$0,10/25	\$0,004
Export carton box per shirt \$1,00/100	\$0,01
Total packing cost per shirt	\$0,034
Wastage 2%	\$0,00068
Total packing cost per shirt	\$0,03468

Tip:

If applicable, do not forget to include finance costs for ordering and purchasing packing materials.

Calculating CMT orders

In case of a CMT order you need to include the labels, hang-tags and trims to your cost price. Before you can quote the price to your buyer, check prices with your trim supplier and add the costs to the CM price of the product.

Figure 3: Example of a product design that includes labels and trims



To understand the upcharge for the trims we need to calculate the costs per shirt. As there will always be waste involved, include wastage into your calculation. Approximately 2%.

Hang-tags and labels	\$0.10
Interlining	\$0.13
Thread	\$0.06
Buttons (13)	\$0.26
Subtotal	\$0.55
Wastage 2%	\$0.011
Total trims cost per shirt	\$0.56

Tips:

Don't forget to ask about your trim supplier's minimum order quantity (MOQ) and about the upcharge in case the quantity you need does not meet the MOQ

Don't forget to ask your customer about nominated suppliers. Many buyers nominate their trim supplier that are usually more expensive than your own trim supplier.

Similar to packing materials, don't forget to include a 2% waste percentage for trims.

Check [this article on Techpacker](#) explaining what should be included in a Bill of Materials (BOM) and how items should be presented.

Calculating FOB-orders

FOB means that your buyer does not supply you with fabrics, trims or packing material. The factory carries the full (financial) responsibility for arranging these materials. This is not always easy because it means extra buyer requirements that you need to meet as a manufacturer. Planning is crucial in the FOB-manufacturing business. A delay in one of the product elements can result in a delay of the entire production.

An FOB cost calculation includes two cost categories.

1. The CM price, covering labour costs.
2. All costs related to fabrics, trims, accessories and packing materials. This is included in the so-called Bill of Materials (BOM).

The Bill of Materials is a complete list of all items with corresponding costs and quantities that are required to produce a product. The BOM helps companies estimate material costs to plan purchases and reduce waste. It also helps you to never miss a single thread, button, zipper, or tiny detail when manufacturing your products.

Let's go back to the shirt order our BAM factory has calculated. The CM price was \$1,46 per shirt. This included an efficiency loss of 25%. In this case:

CM-price per shirt	\$1,46
Fabrics (including 3% wastage)	\$2,81
Trims (including 2% wastage)	\$0.56
Packing (including 2% wastage)	\$0,035
Subtotal	\$4.86
Factory profit 20%	\$0.97
Total FOB-price	\$5.83

About profit margin

Note that this calculation includes an extra FOB-profit margin, on top of the profit margin that was already including in the calculation for the CM-price. This is not a mistake. Factories often include both a CM profit and an FOB profit in their final quotation. This is because CM and FOB are often perceived as different departments with individual profitability responsibilities.

Moreover, in case of outsourcing production it is convenient to have a separate CM profit included, as the third party factory will always quote a CM price including profit.

Note that the 20% profit margin is not a fixed percentage. It can vary per buyer or per order. It also depends on the company's strategy. A buyer that is easy to work with and does not pressure the organisation too much can also be serviced with a lower profit margin compared to a buyer that pressures the organisation and has many special requirements.

Buyer-specific costs

In addition to the CM price and costs related to fabrics, trims, accessories and packing materials, in some cases the following buyer-specific costs need to be taken into account, depending on the agreement you have with your buyer.

- Payment conditions (interest)
- Payment discount
- Chemical testing

- Salesman samples
- DHL packages
- Fit samples
- Finance costs

If you want to monitor your buyer-specific profitability, it is important to exclude buyer-specific costs from the general costs. This will enable you to measure how profitable an individual buyer is and what the impact of a buyer is on your people/organisation, positive or negative.

Tips:

When you accept an FOB-order, make sure you study the buyer's requirements in advance and discuss these with your fabric and trims suppliers.

Always specify the latest date the buyer should confirm the order to protect yourself fabric prices rising between the moment you make an offer and the buyer confirms.

Do not forget to include wastage. On average 3-6% for fabrics and 2% for trims and packing.

Note that wastage can vary. It depends not only on the efficiency of your pattern making and cutting, but also on washing and finishing. Every step in the supply chain effects the wastage.

Do not forget to check the details of the order received and compare it with your quotation. Some buyers might accidentally add details and requirements that were not shared in the calculation phase.

Do not forget to monitor the currency exchange rate. You need to make sure that an instant increase is always covered in the terms and conditions of your offer.

5. How important is the impact of production efficiency?

When considering international competitiveness, most buyers and manufacturers are focused on the minimum wage in a particular country and GSP-advantage. GSP stands for '[Generalised Scheme of Preferences](#)'. It removes import duties from products coming into the EU market from vulnerable developing countries. However, production efficiency often has more influence on FOB-prices than minimum wages or (the lack of) import duties.

Efficiency in production can be looked at through different lenses.

1. First there is practical efficiency. This refers to minimal movement of people and product within a production line setup.
2. Then there is line balancing. This refers to a consistent production speed of every worker within the production line so that there is a continuous product flow.
3. Finally, there is personal production speed. This refers to the workers motivation to work as fast as possible.

Solving practical efficiency and line balance issues starts by gathering data within your factory. This does not have to involve huge investments in software or machinery. The basic principle to optimising efficiency is to track and monitor every cost item in your factory. That can be done by hand by an employee with a clipboard and a pen.

If you do want to invest in software and machinery, companies such as [Juki](#) provide sewing machines that can be digitally linked to a smart factory software system, integrating the cutting and sewing department, and optimising efficiency by balancing the line.

Increasing employee motivation can actually be a bigger challenge. In many countries financial gratification is used to increase motivation and productivity. Paying your employees a competitive wage is a prerequisite to maintain a motivated workforce. Paying individual employees a premium based on effort and personal results can work to motivate your employees more. However, being an attractive employer often also includes giving employees a sense of pride, recognition and a family feeling that cannot directly be described in financial terms.

6. How to determine the right price for your target market?

Before you try to enter any European market, channel or segment, it is crucial that you develop a pricing strategy that fits your capacity and sales strategy. A first requirement to being profitable is to fully understand the service level that your buyer requires.

Say for example that you have a design department and sample room because you mostly service brands, then your overhead costs will probably be too high to service high-volume retailers. On the other hand, if you mostly service high-volume retailers and you lack a design department and sample room, it will cost you production efficiency to cater to a brand's requirements for high flexibility.

Some examples of pricing strategies include:

- Cost-plus pricing (no profit optimisation). Central to this strategy is the costs your factory has and a fixed profit margin you want to achieve on all orders. The risk is you may lose sight of market conditions and quote too high (or too low).
- Target pricing (top-down, target costing, lean overhead). This strategy focuses solely on what the buyer wants to pay. The risk is you quote too low and will make no profit, or even a loss.
- Competition based pricing. This strategy focusses on undercutting competitors. The risk is you quote too low and will make no profit, or even a loss.
- Penetration pricing. Central to this short-term strategy is that you take any order, at any price. The idea is aggressively gaining market share.
- Portfolio pricing (find a place in the product portfolio). The idea behind this strategy is that you position your factory and product within a certain price range, within a market segment (low, medium or high). This means you will accept orders if they fit into your price range. The risk is that you target a segment that does not fit your capabilities and you forget to include for instance costs that come with high requirements regarding service (in the higher market segments).

Average retail prices in different EU-markets

Your pricing strategy should be based on the type of buyer you want to target and how you want to reel them in. However, some EU-countries are on average richer than others, resulting in higher average retail prices for apparel items. According to [Eurostat's 2020 comparison of retail prices for apparel](#), of the top six European importers of apparel and footwear France has the highest price level at 107.6 points, compared to the European average of 100, followed by Netherlands (106.1), Italy (101), Germany (98.2), Spain (92.2).

The UK, which is now out of the EU, had a score of 90.7 in 2019.

Note that brands and retailers that sell in multiple European countries usually keep prices equal or deviate only slightly from the standard retail price.

Tip:

[Read this article on Fashion Network about European online retailer Zalando's growth strategy.](#) Since its launch in 2008, the company has seen many years without profit, but fast-growing sales.

A good example of the difference between market segments within one product category is underwear company Schiesser. The company's designs are as basic as any other competitor in this category, but their use of top-quality materials allows them to ask a relatively high retail price.

7. How to reduce your cost-price?

To maintain maximum competitiveness, it is important to continuously monitor your expenses and efficiency. Improving your production efficiency is the easiest way to improve profitability. This is also the biggest challenge for many SME's working in the apparel industry.

Other ways to reduce your costs and increase profitability include:

- Changing from CM to FOB
- Expand your sourcing internationally
- Place fabric orders off season
- Invest in automation to reduce the number of people in the production line
- Motivate workers to increase production speed
- Reduce your cutting waste
- Sell or re-use your cutting waste.

Tips:

One interesting method to reduce your cost-price is to valorise your cutting waste. Turkish-Ethiopian company [Etur](#) for instance, produces regenerated fibres made from waste from the spinning and cutting process.

To reduce labour costs, Turkish apparel manufacturers are increasingly investing in automating their production process. [This article in Just Style explains how they do this and what the benefits are.](#)

8. How to be competitive

Besides quality, quantity, sustainability and service-level, your price-level is also an important factor in doing business with European buyers. Most European buyers have experience in buying from different factories in different sourcing countries. They usually know quite well what the price-range for a certain apparel item in a certain quality and quantity from a certain production country should be. So you should as well, if you want to stay ahead of the competition.

Comparing price-level is difficult

However, trying to understand the cost-level of another production market is difficult. Data such as minimum wage level, local prices for raw materials, government export support programmes, local tax breaks and the application of GSP only say so much.

If you want to compare your price-level to specific companies, other factors come into the equation, such as production volume and specialisation, the status of the order book, the level of efficiency, compliance to environmental regulations, housing costs, prices for energy and water, et cetera.

Focus on your USP's

Instead of focusing solely on price, a more sensible strategy to become more competitive is to determine your Unique Selling Points (USP's) and advertise them properly; to target buyers that match your capabilities; to research them intensively and to communicate well. Good quality, competitive pricing and on-time delivery are

not USP's. They are non-negotiable requirements that every manufacturer should be able to deliver. Unique selling points are qualities that make you stand out in the crowd, such as:

- unique designs;
- special skills and associated machinery;
- flexibility with low minimum order quantities;
- extra-fast delivery;
- a high service level;
- a transparent supply chain;
- a good sustainability strategy.

Tip:

Do not focus solely on price-level. A factory with the lowest FOB-price for a certain apparel item is not always the cheapest factory for a buyer, because they might be confronted by delays or quality problems. In the end, such issues can make a factory very expensive, even though it seemed cheap.

9. What kind of payment terms are acceptable?

For a first-time order, European buyers may agree with a down payment (e.g. 30%). They will pay the rest (70%) after the order is completed. The safest payment method for you as a manufacturer is the LC ([Letter of Credit](#)). An LC obligates a buyer's bank to pay the supplier when the conditions that both parties have agreed are met. However, many buyers no longer favour LC payments because these block their cash flow. Be aware that LCs do not offer financial protection against bankruptcies.

For further orders, most European buyers will ask for a TT (Telegraphic Transfer) after 30, 60, 90 or sometimes even 120 days. This means you as a manufacturer will finish the production and hand over the shipment to the buyer, including the original documents, before payment is due. The payment will be made after the number of days that you have agreed with the buyer. This is a risky payment agreement because you take full financial risk.

Tip:

Don't accept payment terms that pose too great a risk for your factory. Realise that you are not the only factory that has recently pushed back by asking for safer payment conditions.

Further Reading

The [CBI report '10 Tips for Finding European Buyers'](#) can help you with finding interesting prospects and how to approach them.

The [CBI study '10 Tips for Doing Business with European Buyers'](#) provides tips on how to successfully approach a potential buyer and develop a long-lasting business relationship with them.

Frans Tilstra and Giovanni Beatrice for [FT Journalistiek](#) carried out this study on behalf of CBI.

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