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# Discovering Myanmar as a manufacturing country

**YANGON**



Barcelona School of Management and ESCI – UPF

# **Discovering Myanmar as a manufacturing country**

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## **Abstract**

Due to high price pressure within the fashion industry, retailers are permanently looking for low-cost production locations. Myanmar, which recently opened its economy and is stressing for political reforms, becomes attractive as a manufacturing base for labor intensive industries. Tishat Ltd., a new garment sourcing agency in Myanmar, which offers reliable, fast and high quality sourcing services wants to become one of the first players in the market and by benefiting from its first mover advantage. The following thesis contains a country analysis, which illustrates the risks and benefits of doing business in Myanmar. Furthermore, an operational plan is elaborated in order to present the main activities of the company. Finally three different scenarios are presented in order to introduce a final recommendation.

**Keywords:** Myanmar, South East Asia, Sourcing Agency, Market Entry, Garment Industry

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# 1. Executive summary

## Introduction

Myanmar is a state in Southeast Asia, bordered by Bangladesh, India, China, Laos and Thailand. The country was under military control for over 48 years, putting strong restrictions on international trade and therefore hindering the inland economy to develop. In 2010, a stepwise transition process was initiated towards a democratic elected government. As a result, the country moves into the light of sourcing experts due to price pressure and fierce competition within the global garment industry. Myanmar presents an opportunity to diversify the supply base of fast fashion brands, since they demand big quantities at low production costs. Driven by the high competition within the industry, the search for low wage countries underpins a history of several shifts for manufacturing locations from North America and Western Europe to Japan, followed by Hong Kong etc. and lastly to South East Asian like Vietnam. The textile and garment industry represents, due to its labour intensity and low level of investments, a typical starter industry for developing countries. The Southeast Asian nation Myanmar belongs to the last developed countries and 4<sup>th</sup> world countries and is known for one of the world's lowest wages, which especially attracts FDI into manufacturing industries helping to advance the economic prosperity of producers. But can these competitive advantages outrun the lack of advanced technologies and a rather insufficient infrastructure?

The thesis examines a market entry analysis regarding establishing a garment sourcing agency in Myanmar. Furthermore this paper analyse sourcing opportunities for medium to large European fashion brands in order to answer the question, if Myanmar is able to provide the appropriate operational framework as well as providing international production standards & skills. Consequently a final recommendation based on three scenarios, regarding the further development of Myanmar from a political and economic perspective is given. Since the country is a transition period, the scenarios propose different developments that would influence the final decision concerning the market entry. The thesis is primarily addressed to investors seeking new opportunities with high potential in the garment manufacturing sector and to guide fashion brands that are considering Myanmar as a new sourcing destination.

## Value Proposition

Tishat is a B2B service provider in the garment sourcing industry. The company acts as an intermediary between European fashion retailers and the Burmese garment manufacturers. Its primary activities and key capabilities cover the manufacturer selection, production monitoring, quality control & assurance as well as the managing logistics. The main value added on-site presence and the strategic network within Myanmar, the knowledge of the local market. Tishat defines itself as a reliable partner, who offers high quality services in combination with a fast responsiveness to market changes. Tishat's clients will benefit from low production costs and improved supply chain management through outsourcing its sourcing activities. Moreover the supplier assessment and auditing plays a major role within the daily activities in order to comply with international industry social standards.

Tishat is founded by two European with a fashion industry background and one Burmese expert, who provides the local supplier contacts and market know-how. Therefore the Burmese co-founder will manage the negotiation and contracting as well as the quality assurance and control activities. The two Europeans will be in charge for the customer acquisition, order processing and handling and shipping & invoicing. The target customers are large retail chains offering basic and casual garments, at a high volume and low price. In the early stages, Tishat has one main customer (Mango), who was brought in by one of the founders. Furthermore, the supplier base is small with three medium-sized suppliers, but will be extended according to the sales development.

### Benefits & Risks – a country evaluation

The objective of the external analysis was to identify the main differentiators, benefits and risks regarding the operational framework in view of manufacturing garments. The assessment of the economic, political and legal framework showed that despite an improved international business climate, the garment industry is still facing serious challenges. One major weakness is the low level of government effectiveness due to the ongoing influence of the military regarding political and economic decisions. Social tensions between the different ethnic groups, volatile local currency combined with an underdeveloped financial sector are further risk factors. Moreover, the Burmese garment sector faces rapidly increasing wages and low productivity, although they are still the lowest within ASEAN region. Another challenge is the shortage of skilled garment workers and a limited production capacity due to power shortages and a poor logistics framework. Furthermore, many domestic factories are merely able to produce CMT “cut, make, trim” which is a limited production service level only including the assembling of garments, not the sourcing neither the transport. Nevertheless one of the main benefits of Myanmar is clearly its geo-strategic location as it is surrounded by a market of 2.8 billion people, which represents 41% of the world’s population. Five decades of economic isolation led to an undeveloped consumer market of 60 million people, offering promising investment opportunities. In addition, Myanmar’s quota free access to EU markets as well as its young and large labor presents a further attractive investment argument, especially for the garment industry. It is expected, that the clothing manufacturing industry is evolving to be an interesting business opportunity due to a 50% growth of Womenswear within the next 12 years.

### Recommendation

The removal of excessive economic barriers and an implementation of consistent and transparent policies for a stable macroeconomic environment in order to attract foreign investment. For that reason, it is proposed to link the final decision according to the outcome of the general elections in November 2015, as it is a trend-setting indicator regarding the prospective development of the country. Furthermore, within this time period, the mentioned main bottlenecks could have been partly overcome e.g. Thilawa SEZ will partly operate since mid-2015 improving the infrastructure. All in all, Myanmar as manufacturing country, offers a favorable operational framework due to its locational advantages, which will unfold their full effects, if the political and economic modernization process will be pursued.

## 2. Global textile & garment industry

### 2.1 Industry segmentation

When talking about the “textile and garment industry” it needs to be distinguished between the *textile* and the *garment* industry. Whereas the traditional textile industry includes the activities from the production of natural and man-made fibres, the processing into yarn and the spinning or weaving of yarn into fabric, the garment<sup>1</sup> industry in contrast covers the steps from the processing of the fabric into clothing including the sewing, washing and finishing process until the end-product, the commissioning and sometimes including the shipment and distribution to the customer.<sup>2</sup> Appendix II.1 demonstrates the two processing steps graphically cited as “textile companies” and “apparel manufacturers” areas. The market of textile products is split into three broad groups wherein clothing accounts for the biggest sector with approximately 50% of total consumption, home and decoration textiles for 30% and textiles for technical or industrial use for 20%.<sup>3</sup> Further on, the thesis will only focus on the clothing sector.

### 2.2 The Garment Industry

The global garment industry forms an important component of world trade flows, particularly for some developing and emerging countries where clothing accounts for a large proportion of total exports. In 2012, world clothing exports were valued at US\$ 423bn, representing around 2.4% respectively of total world merchandise trade.<sup>4</sup> The biggest importers of clothing still remain the European Union and the United States, accounting for 38% and 20% respectively of total garment world imports in 2012 with Japan following in third place and China fourth.<sup>5</sup>

Garment manufacturing is one of the most labor-intensive activities in apparel production, even before textile (yarn and fabric) production, due to the time consuming, mainly manual production processes, which has been little automated until now.<sup>6</sup> Therefore, many low wage developing countries dominate the labor-intensive segments in this industry while higher income countries predominate in more capital-intensive segments such as the high-tech industry. As countries become richer and wages rise, the comparative advantage in manufacturing erodes and the focus shifts to high value-added products or to other manufactured products with lower labor intensity.<sup>7</sup>

#### *The Buying Side*

With the globalization of raw material and apparel production, competition and rivalry between the leading firms in the industry has intensified as each type of lead firm, retailers, brand marketers and branded manufacturers, has developed extensive global sourcing capabilities.

*Retailers* own or license the final product brand, but in almost all cases do not own their own manufacturing plants (e.g. Walmart).

*Brand Marketers* own the brand name but not the manufacturing plant. They are “manufacturers without factories” and their products are sold at a variety of retail outlets (e.g. Nike/ Hugo Boss)

*Branded Manufacturers* own the brand name and the manufacturing and typically coordinate the supply of intermediate inputs, cut-make-trim, to their production networks (e.g. Inditex)

<sup>1</sup> In this thesis the words garment, clothing, apparel or ready-made garment (RMG) are used interchangeably.

<sup>2</sup> Ajuntament de Barcelona (2013): “Textile industry. Sector Report 2013”, [http://w27.bcn.cat/porta22/images/en/Barcelona\\_treball\\_summary\\_sector\\_trends\\_textile\\_industry\\_gen2013\\_en\\_tcm43-4027.pdf](http://w27.bcn.cat/porta22/images/en/Barcelona_treball_summary_sector_trends_textile_industry_gen2013_en_tcm43-4027.pdf).

<sup>3</sup> Food and Agriculture Organization of the United Nations and International Cotton advisory Committee (2013): “World Apparel Fiber Consumption Survey”, [https://www.icac.org/cotton\\_info/publications/statistics/world-apparel-survey/FAO-ICAC-Survey-2013-Update-and-2011-Text.pdf](https://www.icac.org/cotton_info/publications/statistics/world-apparel-survey/FAO-ICAC-Survey-2013-Update-and-2011-Text.pdf)

<sup>4</sup> World Trade Organization (2012): “International Trade Statistics 2012”, [http://www.wto.org/english/res\\_e/statis\\_e/its2012\\_e/its12\\_toc\\_e.htm](http://www.wto.org/english/res_e/statis_e/its2012_e/its12_toc_e.htm).

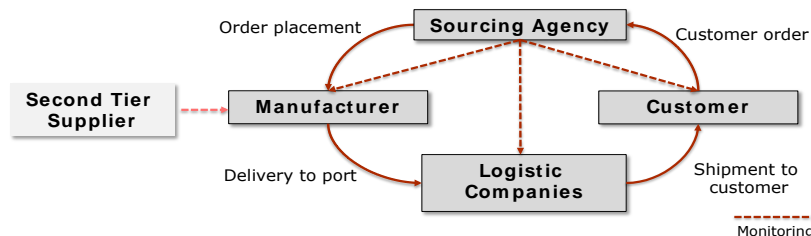
<sup>5</sup> World Trade Organization (2012).

<sup>6</sup> Anz Insights. Commercial Banking Asia (2012): “Textile & Garment Industry. Market update July 2012”, <http://www.anzbusiness.com/content/dam/anz-superregional/Textiles&GarmentIndustryUpdate.pdf>.

<sup>7</sup> Gereffi, Gary/ Frederick, Stacey (2010): „The Global Apparel Value Chain, Trade and the Crisis“, p.15-16.

The market is identified as a price sensitive “buyer-driven value chain” (see graph below), in which production decisions are based on actual demand of the buyer and the manufacturer responds to the specific orders, having no additional stocks. The flow is from the customer to the manufacturer. This so-called “pull-strategy” is common in the traded consumer goods industry such as clothing. Since consumer preferences are fast changing and there exist a high level of demand uncertainty, the key advantages are a high responsiveness to changing market trends and specific individualized orders on the supplying side. The direct shipping distribution strategy is a “just-in-time” strategy, which saves the retailer storage costs, allows for faster lead times and is necessary when operating in a field with high volumes and small margins.

#### Buyer-driven Value Chain (pull strategy)



Source: own graph

Most of the above mentioned buyers have set up decentralized production networks through arrangements with different independent suppliers, with no one supplier producing more than a fraction of the company’s output. These manufacturers, though concentrated in Asia, are scattered throughout the world away from their sales markets and in a variety of exporting countries, making the garment industry one of the most globalised of all manufacturing activities.<sup>8</sup> Generally speaking, retailers first outsource the production and logistics part to manufacturers, trading and logistics companies, and retain the high value-added R&D and design as well as marketing and additional service functions in house [Appendix II.4].

The global sourcing industry is scattered all over the world, though concentrated in Asia, especially around China. Due to market saturation on the retailing side, sourcing agents are finding themselves in a tough price competition, putting pressure on the manufacturing side. Rapid changes of fashion trends demand a high responsiveness and integration of the entire supply chain. The aggressive cost reduction strategies of the customers have shaped the industry.<sup>9</sup> The industry could be summarized as follows.

#### Porters Five Forces Analysis

1. Bargaining power of buyers: high
2. Bargaining power of suppliers: low
3. Threats of new entrants: high
4. Threats of substitutes: high
5. Rivalry among competitors: high

The facts that the industry is very price sensitive and margins are tight gives buyers generally a high, and suppliers a low bargaining power. Buyers would, in most cases, pick the supplier or sourcing organization with the cheapest offer, putting agents under an extreme price pressure. The industrial barriers to new entrants are low, because setting up a sourcing business does not demand high set up costs. Still, big multinational sourcing giants such as Li & Fung (Hong Kong) rule the market and make it harder for smaller agencies to sustain and to capture market share. The basic service itself is easily substitutable because most agencies know their local market and provide over a network of suppliers. What is not easy is the execution and handling of the order. Due to the international distribution of buyers and suppliers, these facts lead to an extensive global rivalry in the industry.

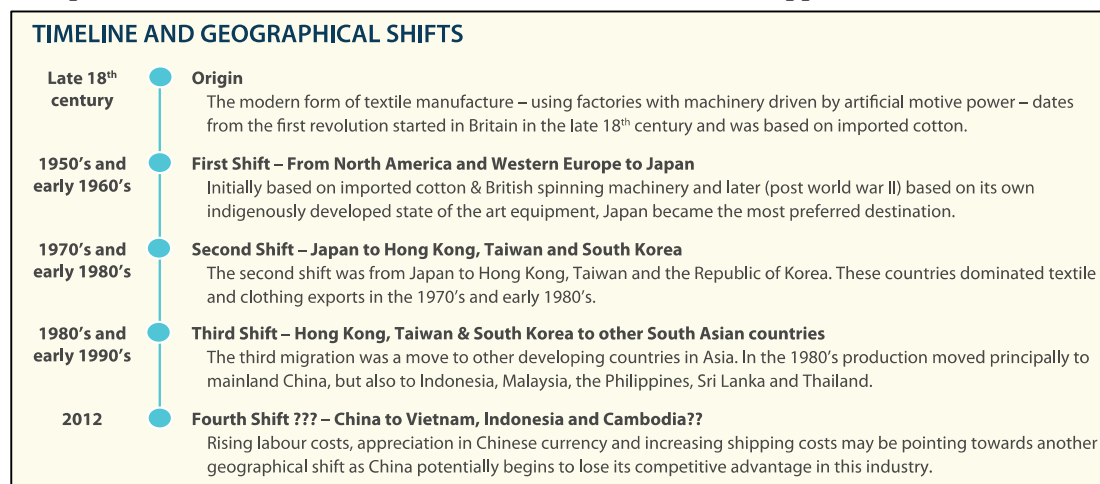
<sup>8</sup> Anz Insights. Commercial Banking Asia (2012).

<sup>9</sup> Anz Insights. Commercial Banking Asia (2012).



### 2.3 Geographical shifts of production countries

Driven by the competitiveness of the industry, the search for low wages underpins a history of three dramatic geographic shifts for manufacturing bases (see timeline below). Recent events in China, the world's largest producer and exporter of textile and garments, have led to speculation that we are at the early stage of another shift. The graph in [Appendix II.2] illustrates concrete tendencies in shifts of European imports in the decade from 1990 to 2000 in a more detailed approach.



**Timeline and Geographical Shifts:** Source: Anz Insights. Commercial Banking Asia (2012)

The phase out of the Multi Fibre Arrangement (MFA) in 2005 marked the end of over 30 years of restricted access to the US and EU markets to protect their domestic industries. This created a big flux in the global geography in apparel production and trade and facilitated the entry of developing countries with limited technical or business skills into global apparel networks.<sup>10</sup> Since 2005, the garment and textile industry follows the general restrictions of the World Trade Organisation (WTO) which supervises and liberalizes international trade and which principles are non-discrimination i.e. tax-equality, reciprocity, binding and enforceable commitments and a transparent and safe trade.<sup>11</sup> It gets clear that historical and economical events such as the economic recession by the end of the year 2009 had a substantial effect and the lowest cost suppliers gained market share in that times versus more expensive rivals due to growing cost pressure.<sup>12</sup> For that reason, countries such as Bangladesh and Vietnam could increase their exports tremendously in the last years.

Today, developing countries produce nearly three-quarters of the world's garment exports.<sup>13</sup> China still continues to be the leading exporter of textiles and garments with a 38% share in world garments exports, the European Union with a 35% share, followed by India, Turkey and Bangladesh [Appendix II.3].<sup>14</sup> Overall, Asia accounted for 57% of world garment exports (2010). China's textile and garment industry has built its current dominance through technical innovation and the lowest production costs in the world. But its success has been undermined by the country's growing wealth: Labour, land and regulatory costs are on the rise, pushing prices up and driving some customers to South East Asia and Africa.<sup>15</sup>

Now, there are two opposite emerging trends that are likely to drive the evolution of this industry. One trend is the re-shoring of manufacturing back towards the major sales markets in Europe. With manufacturing moving to Turkey or countries in North Africa such as Tunisia or Morocco, the companies are satisfying the demand for flexibility asked by the European retailers.

<sup>10</sup> Gereffi, G./ Frederick, S. (2010): "The Global Apparel Value Chain, Trade and the Crisis: Challenges and Opportunities for Developing Countries", [http://www-wds.worldbank.org/servlet/WDSCContentServer/WDSP/IB/2010/04/27/000158349\\_20100427111841/Rendered/PDF/WPS5281.pdf](http://www-wds.worldbank.org/servlet/WDSCContentServer/WDSP/IB/2010/04/27/000158349_20100427111841/Rendered/PDF/WPS5281.pdf).

<sup>11</sup> WTO (ed.)(2012): „What we stand for“, [http://www.wto.org/english/thewto\\_e/whatis\\_e/what\\_stand\\_for\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/what_stand_for_e.htm).

<sup>12</sup> Gereffi, G./ Frederick, S. (2010).

<sup>13</sup> Anz Insights. Commercial Banking Asia (2012).



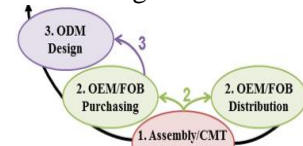
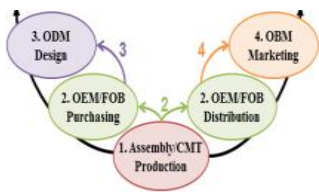
<sup>14</sup> World Trade Organization International Trade Statistics (2012): "II. Merchandise trade. Key developments in 2012: a snapshot", [http://www.wto.org/english/res\\_e/statis\\_e/its2013\\_e/its13\\_highlights2\\_e.pdf](http://www.wto.org/english/res_e/statis_e/its2013_e/its13_highlights2_e.pdf) (accessed on 03.02.2014).

<sup>15</sup> Anz Insights. Commercial Banking Asia (2012).

The other trend is the continuance of chasing the countries with the currently lowest wages in cheap South East Asian countries, which were Myanmar (\$3.2 per day) or Vietnam (\$5.3 per day for a factory worker) in 2010.<sup>16</sup> Most buyers still make increased use of the “China plus one” strategy. Since China has developed into a country with extremely good workmanship and a well-functioning and reliant supplier basis it is still the biggest sourcing nation.<sup>17</sup> At the same time, at the supplying side, leading apparel supplying nations, concerned about a slowdown in global exports, have also begun to focus more on sales to their domestic markets. 56% of China’s overall apparel production in 2008 was for their local consumers. Due to its booming domestic economy, China is becoming an increasing sales market.

## 2.4 Mode of operations on supplying side

The manufacturing landscape is best divided into the four functional capabilities (CMT, OEM, ODM and OBM). The table shows the current manufacturing capabilities of the main apparel export countries ordered by their complexity and value-addition along the apparel commodity chain in favour of lead firms. In the [Appendix II.4] you can find a graphic visualization of the value-added stages in the apparel value chain.

| Functional Capabilities  | Explanation   | Countries  |
|--|---|--|
| <b>Cut, Make, Trim (CMT)/Assembly</b><br><br>                                       | <ul style="list-style-type: none"> <li>The focus of the supplier is on production alone; assembles inputs following buyer’s specifications</li> <li>Inputs – such as textiles, accessories, and packaging – may be imported due to limited availability and quality concerns over local inputs. Product focus may be relatively narrow</li> <li>Factory is simply paid a processing fee, not a price for the garment. Typical entry into the value chain</li> </ul>   | Cambodia,<br>Sub-Saharan<br>Africa,<br>Caribbean,<br>Vietnam<br><u>Myanmar</u> |
| <b>Original Equipment Manufacturing (OEM)/Package Contractor/Sourcing</b><br><br> | <ul style="list-style-type: none"> <li>Firm takes on a broader range of tangible, manufacturing-related functions, such as sourcing inputs and inbound logistics (fabric, trim), as well as production services, finishing, and packaging for delivery to the retail outlet</li> <li>Raw materials and manufacturing according to customer specifications and design</li> <li>The supplier may also take on outbound distribution activities. Mostly FOB</li> <li>First stage of functional upgrading</li> </ul>                              | Bangladesh,<br>Indonesia, Sri<br>Lanka, Mexico                                 |
| <b>Original Design Manufacturing (ODM)/Full Package Provider</b><br><br>          | <ul style="list-style-type: none"> <li>Supplier carries out part of the pre-production processes, such as design or product development</li> <li>Design may be in collaboration with the buyer or the buyer may attach its brand to a product designed by the supplier</li> <li>“Full package garment supplier” including design, fabric purchasing, cutting, sewing, trimming, packaging, and distribution</li> </ul>  | Turkey, EU,<br>India, China  |
| <b>Original Brand Manufacturing (OBM)</b><br><br>                                 | <ul style="list-style-type: none"> <li>Supplier acquires post-production capabilities and is able to fully develop products under its own brand name. Two options: <ul style="list-style-type: none"> <li>1. Supplier maintains a relationship with the buyer and develops brand collaboratively</li> <li>2. Supplier establishes its own distribution channels by establishing a new market channel that is typically more profitable and allows the firm to expand skills. These are often local or regional markets</li> </ul> </li> </ul> | Hong Kong,<br>South Korea,<br>Taiwan,<br>Singapore,<br>Malaysia                |

Source: Gereffi, Gary/ Frederick, Stacey (2010): „The Global Apparel Value Chain, Trade and the Crisis“, p.15.

<sup>16</sup> McKinsey Global Institute report (June 2013), page 17: Myanmar’s moment: Unique opportunities, major challenges

<sup>17</sup> Anz Insights. Commercial Banking Asia (2012).

## 2.5 Garment sourcing strategies of buyers

One major change occurred that caused a shift in the sourcing strategies of lead firms in the apparel value chain. The desire of buyers to reduce the complexity of their own operations, keep costs down and increase flexibility to enable responsiveness to consumer demand, has encouraged the need for suppliers or agents capable of bundling and selling the entire range of manufacturing and logistics activities. This led to a shift from CMT to OEM and ODM package contractors. Logistics coordination and sourcing are frequently the first functional areas retailers are willing to shift to their first tier suppliers. Full-package production fundamentally changes the relationship between buyer and supplier in a direction that gives far greater autonomy and learning potential for industrial upgrading to the supplying firm. Therefore, countries which manufacturers are not capable of providing in-bound sourcing activities are at a disadvantage moving forward. Mostly, an increase in the domestic purchasing power, allows the local economy to grow and manufacturers to industrially upgrade in apparel and to climb up in the manufacturing service level. On the supply side, network relationships in the apparel supply chain became increasingly complex due to the span and specialization of apparel products and the growth of countries with advanced production capabilities.<sup>18</sup> Two groups emerged to provide the key links between the producing and retailing side: Transnational manufacturers with established buyer relationships and traders (import-export companies), and agents who emerged as intermediaries.

Agent-sourcing model: Benefits of using a third-party sourcing agent include scale of operations, buying power, flexibility and ability to spread risk among suppliers. Indirect sourcing enables the buyer to focus on his core business. The agent knows the requirements of the buyers on the one side and the capabilities and limitations of the manufacturer on the other side. Furthermore, being at site he can communicate directly in the native language with his network of local factories and manufacturers. By being able to consolidate orders of several buyers, he reaches higher quantity levels and therefore has a higher bargaining power when negotiating buying prices with suppliers. Sourcing agents charge clients around 9-10% of the wholesale price as commission.

Overseas sourcing offices: Alternatively, as buyers developed expertise in assessing local capabilities, they often establish direct sourcing relationships with the factories and setting up their own overseas sourcing offices in their main producing countries to reduce cost and mitigate risk. Over the years, retailers shifted more responsibilities to these overseas sourcing offices such as product development and design, to be closer to the manufacturing, driven by lower costs and the skills of the staff based at site. It allows a reduction of buying costs by saving the commission of the agent. The very big industry players have several liaison offices worldwide e.g. H&M having 21.

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<sup>18</sup> Gereffi, Gary/ Frederick, Stacey (2010): „The Global Apparel Value Chain, Trade and the Crisis“.

### 3. External analysis

#### 3.1 Country snapshot

| Geography  |  | Politics   |  |
|--|--|--|--|
| <ul style="list-style-type: none"> <li>Size: 676.578 km<sup>2</sup></li> <li>Coast line: 1,930 km</li> <li>Population: 64,93 mill.</li> <li>Main cities: <ul style="list-style-type: none"> <li>Yangon (economic center): 4,6 mill.</li> <li>Mandalay (cultural center): 1,2 mill.</li> <li>Naypyidaw (capital): 0,9 mill.</li> </ul> </li> <li>Neighboring countries: Thailand, Laos, China, India, Bangladesh</li> </ul>   |  | <ul style="list-style-type: none"> <li>Presidential parliamentary government (since 2011)</li> <li>Constitution referendum in 2008</li> <li>General election scheduled in Nov. 2015</li> <li>Member of ASEAN (since 1997): <ul style="list-style-type: none"> <li>Presidency turn in 2014</li> <li>Asian Free Trade Area (AFTA) by 2015</li> </ul> </li> <li>Membership in: UN, WTO, IMF and world bank</li> </ul> |  |
| Economy (2013)   |  | Social   |  |
| <ul style="list-style-type: none"> <li>Inflation rate: 5,8 %</li> <li>Labor force: 31.0 mill.</li> <li>Unemployment rate: 4.0 %</li> <li>GDP (nom.): \$ 56,40 bill. (+7.5 %)</li> <li>GDP by sector: <ul style="list-style-type: none"> <li>Agriculture – 37.9 %</li> <li>Services – 40.8 %</li> <li>Industry – 21.3 %</li> </ul> </li> <li>Foreign Trade: <ul style="list-style-type: none"> <li>Imports – \$ 11.66 bill.</li> <li>Exports – \$ 9.64 bill.</li> </ul> </li> <li>FDI (total: \$ 42.6 bill.): \$ 2.7 bill.</li> </ul> |  | <ul style="list-style-type: none"> <li>Life expectancy: 65.6 years</li> <li>Literacy rate: 92.8 %</li> <li>Urbanization rate: 32.6 %</li> <li>Population below poverty line: 25.4 %</li> <li>Main ethnic groups: Burman (68 %), Shan (9 %), Karen (7 %), Rakhine (4 %) ⇒ 135 recognized ethnic groups</li> <li>Major religions: Buddhism (89%), Christianity (4%), Islam (4%), etc.</li> </ul>                     |  |



Source: CIA factbook, WB & IMF reports

#### 3.2 Country analysis

In order to assess the potential business risk, regarding operating in Myanmar, a profound analysis of the political and economic framework (since 2008) as well as the technical and social infrastructure needs to be developed.

##### 3.2.1 Political developments & legal framework

The political and legal reformation process could be summarized as follows:

| Key political & legal developments |             |   |
|------------------------------------|-------------|---|
| 2008                               | May         | Execution of constitution referendum  |
| 2010                               | Nov.        | 1 <sup>st</sup> general election (boycotted by opposition) on 7 <sup>th</sup> Nov.<br>Release of opposition leader Aung San Suu Kyi from house arrest on 13 <sup>th</sup> November.     |
| 2011                               | Oct.        | Hundreds of political prisoners released as a part of amnesty.  |
|                                    | Nov. - Jan. | Signing of individual ceasefire agreements with armed rebel groups –<br>Nationwide agreement within 2014 possible.  |
| 2012                               | March       | Enactment of labor regulation including the allowance of labor unions   |
|                                    | April       | By-elections with participation of the opposition since 1990<br>(won 43 out of 44 parliament seats).<br>Unification of FOREX rate and establishment of a managed float currency system. |
|                                    | May         | US suspends all sanctions regarding investment in Myanmar.  |
|                                    | Aug.        | Abolishment of press censorship by new media regulation   |
|                                    | Nov         | New FDI and tax law introduced.   |
| 2013                               | Jan.        | Debt relief of \$ 6 billion from Paris Club of creditor nations (Appendix III.1)  |
|                                    | April       | EU lifts all remaining economic and political sanctions and grants trade preference (GSP) status.   |
|                                    | Aug         | Central Bank of Myanmar law enacted in order to assure an independent monetary policy   |
| 2014                               | March       | Nationwide population census since 1983   |
|                                    | Nov.        | By-elections scheduled  |

Source: <http://www.bbc.com/news/world-asia-16546688>; <http://journals.sub.uni-hamburg.de/giga/jsaa/article/view/581/579>;  
<http://www.bbc.com/news/world-asia-pacific-12990563>

Myanmar was under military control for over 48 years. In 2010, a stepwise transition process was initiated in order to transform the political and legal framework from a military regime towards to a democratic elected government [Appendix III.1]. Nevertheless, the military still holds a large stake in power by holding 25 % of the parliament seats and still occupies key positions within government institutions and companies. Consequently, the started democratization process requires further commitment and concessions of the government. A key event will be the general elections in 2015, as at the moment the opposition leader Aung San Suu Kyi is not permitted to run for presidency due to a certain constitution clause.

Although the government has received international recognition for taking measures to enhance transparency, still Myanmar has a long road ahead to reduce corruption. Its attempts show impact in ranking 157 out of 177 countries in the Transparency International's "Corruption Perceptions Index 2013" [Appendix III.3] – an improvement on its 2012 position of 172. The British colonial era is still present within the current regulation system. At the moment a mixed legal system of common law and customary law is in place, but will be stepwise reformed and adjusted (see developments timeline). However, the judiciary is not independent from the executive and a fair public trial is not guaranteed [Appendix III.4]. A foreign company formed under the CA does not need to obtain an MIC (Myanmar Investment Commission) permit and is required to apply for a trade permission [detailed procedure – Appendix III.5] and then for a registration at the company registration office.

### **3.2.2 Technical & social infrastructure**

#### Technical infrastructure

Due to years of political and economic isolation accompanied with underinvestment and mismanagement, Myanmar's infrastructure stock became antiquate and inadequate. According to the Logistics Performance Index (LPI), Myanmar was ranked 133 out of 155 in 2012 [Appendix III.6]. Consequently, the third world country has one of the most limited infrastructure networks within the ASEAN region, which results in significant barriers to trade and economic development. According to a World Bank report in 2011 [Appendix III.6], Myanmar has one of the lowest mobile and internet penetration rates [Appendix III.7] within south-east Asia, only 21 % of its roads are paved and the level of motorization is 3,8 %. Especially the energy sector is a key enabler for wider economic development. It is estimated that only 28 % of Myanmar's population currently has access to a regular supply of electricity compared with 24 % in Cambodia, 98 % in Vietnam and 99 % in China (ADB report Myanmar 2014). Even the major cities like Yangon are plagued by frequent blackouts, which implies limited production capacities by operating only single production shifts per day. Therefore the labor productivity of Myanmar remains at a low level compared to its peers [Appendix III.12]. As a result, the GOM started to prioritize infrastructure projects in cooperation with foreign partners.<sup>19</sup> Furthermore the GOM expects to overcome its infrastructure bottlenecks through promoting foreign direct investment by Special Economic Zones [SEZ – Appendix III.11]. There are a total of 18 privately-operated industrial zones across the country, contributing to about 20 % of the country's GDP.<sup>20</sup> For example, the GOM has worked out a 75-year plan to develop its Dawei Special Economic Zone in cooperation with the government of Thailand.

#### Social infrastructure

According to the IMF, Myanmar has the lowest HDI index (rank 189) compared to other ASEAN countries [Appendix III.8]. This result illustrates that Myanmar offers low quality of education and health services as well as a low level of income for the majority of the population. Consequently, one of the key policy priorities of GOM is to improve education, health and living standards.

Due to its ethnic diversity, there are several religious and ethnic conflicts at the border regions. The government achieved to put in place individual ceasefire agreements (signed in 2011 and 2012) with each of the country's major ethnic-minority groups.

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<sup>19</sup> McKinsey estimates that the total investment volume for the next 20 years will be \$ 320 bill.

<sup>20</sup> KPMG (2013): Infrastructure in Myanmar, page 14

### 3.2.3 Economic situation

This section mainly assesses the economic developments within the macro economy and garment industry in order to highlight the positive and negative influence factors of Myanmar's competitive advantage.

#### 3.2.3.1 Macro economy analysis

Myanmar is currently reforming its economy from a centrally directed economy to a market-oriented economy. Due to implemented reforms mentioned in 3.2.1, the economy grew by 7.5 % in 2012/13.<sup>21</sup> The main growth drivers were increased gas production, services, construction, foreign direct investment and strong commodity exports. Therefore, the countries natural resources in form of oil, gas and minerals assure a constant high inflow of funds within the next years. Nevertheless, Myanmar is one of the poorest countries in East Asia, with an estimated GDP per capita of \$ 868 in 2012/13 [Appendix III.9]. In addition, due to the political and economic isolation, the economy of Myanmar's GDP has stagnated for nearly a century with a compound annual GDP growth rate of 0.1 % (due to population increase) compared to Asian region with 1.7 % [Appendix III.10]. This economic gap is likely to be closed over the next decades through foreign direct investments which offers attractive opportunities in various sectors, especially the infrastructure and manufacturing sector.

Another key factor for its promising economic growth potential is its geo-strategic location between the two economic giants India and China. This unique advantage will enable Myanmar to become the leading transit hub for people and goods within South East and Central Asia, the home of more than 41 % of the world's population. One example for this economic possibility is the joint venture of Thailand and Myanmar to develop a deep-sea port (including development of a SEZ) in Dawei, which would significantly reduce shipping time for goods from China or Japan [Appendix III.12].

Myanmar has a large and young labor population (World Bank & EIU estimation: 31.0 mill.) and one of the lowest labor costs within the region. The average wages of a Myanmar factory worker in 2010 are about \$3 a day, compared with \$4 in Indonesia, \$5 in Vietnam, and \$18 in China and Thailand [Appendix III.13]. This competitive advantage gives Myanmar the opportunity to boost output in labor-intensive manufacturing sectors such as textiles, apparel, leather, furniture, and toys at a time when some of this manufacturing is leaving China. However, labor productivity is weak as the output per worker is only 70 % of that in Vietnam, 20 % of that in China or Thailand in 2010.<sup>22</sup> To compete within the region, Myanmar will need to improve its labor productivity by building core enablers such as workforce skills and infrastructure. On the back of that higher productivity, there is scope to move towards to more value-added sectors over the time [Appendix III.14], following the example of Thailand, Malaysia and other Asian economies.

#### 3.2.3.2 Garment & textile industry in Myanmar

It should be noted at the beginning, that a detailed analysis of the garment industry is difficult to execute as the available data is not accurate and/or outdated.

In the 1990s an export-oriented garment sector was developed, driven mainly by South Korean investment and supported by strong sales to the US and EU (90 % garment export share in 2000)<sup>23</sup>. However, development of the sector slowed down due to an US ban on all imports in 2003 [Appendix III.15]. Apart from the deprivation of the GSP status in 1997, the EU kept its markets for Burmese garment companies accessible. Still, many European garment retailers became afraid of possible consumer boycotts campaigns and therefore avoided to source garments from Myanmar which supported the downside trend. Prior to 2003, Myanmar had an estimated number of 400 garment and textile factories with 300,000 employees in

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<sup>21</sup> ADB Myanmar report (2014), page 1.

<sup>22</sup> McKinsey Global Institute (June 2013): Myanmar's moment: Unique opportunities, major challenges, page 6.

<sup>23</sup> Toshihiro Kudo (Sept. 2013): Myanmar's Apparel Industry in the New International Environment: Prospects and Challenges, page 5

operation, generating an export volume of almost \$868 million.<sup>24</sup> Due to the exemption from Western markets, garment firms started to export to the Asian markets. The Myanmar Garment Manufacturers Association (MGMA) noted that South Korea and Japan continue to dominate Myanmar's garment export sales, accounting for a combined 70 % of all orders [Appendix III.16].<sup>25</sup> At the moment there are 300 garment factories operating with 250,000 workers and some expect those numbers to double by 2015.<sup>26</sup> The restoration of the GSP status (by meaning tariff and quota-free access to EU markets) helped Myanmar to earn more than US\$1.1 bn from garment exports in 2013. With increasing orders especially from Germany, UK and the US, the industry is aiming to reach an annual export sum of US\$1.5 bn in 2014.<sup>27</sup> Most firms (90 %) within the garment industry operate on the basis of CMP (Cut, Make, Pack) arrangements. The CMP system is a form of production on consignment in which the main raw materials (fabrics, trims, etc.) are provided by overseas buyers and imported free of charge, then cut, sewn and packed in the domestic factories, after which all of the finished products are exported.<sup>28</sup> There exist some Korean and Taiwanese owned factories that can offer FOB Free-on-Board production.<sup>29</sup> Myanmar is focusing to upgrade its production systems from a contract manufacturing to Original Equipment Manufacturing (OEM) and Original Design Manufacturing (ODM) over time.

This substantial growth of Myanmar's garment exports clearly show its competitive advantage within the garment industry. Nevertheless this advantage derived mainly from low labor costs and could be offset by other disadvantages such as electricity shortages, transport costs, communication costs, limited financial services and the lack of skilled labor (especially in Yangon). In addition during the last years, the wages for garment workers have increased up to \$72-85 per month due to labor shortage, inflation and exchange rate increases [Appendix III.17]. The actual challenge for Myanmar's garment industry is meeting its increased orders with competitive prices, reasonable quality, and timely delivery in order to compete with its local competitors such as Cambodia, China and especially Vietnam.

### 3.3 Country benchmarking – Myanmar vs. Vietnam

After the examination of the macro economy and the garment industry of Myanmar, a benchmarking analysis is required in order to evaluate and assess its competitive advantage with its competitors. Therefore, the Vietnamese garment sector provides an interesting reference point. Myanmar and Vietnam are in various aspects very similar, as both have opened up their economies and started exporting garments in the early 1990s. However, their performance since then has been very different [Appendix III.18]. In 2000, Vietnam's garment exports were just about double those of Myanmar. Its growth has been very stable, with an export volume of about US\$20.4 bn in 2013, which is 18 times larger than that of Myanmar.<sup>30</sup>

#### 3.3.1 Garment industry in Myanmar & Vietnam – critical factors of success

The over performance of the Vietnamese garment industry is based on following key factors:

- Vietnam has been relatively open to foreign businesses in view of foreign direct investment by adapting its economic and legal framework. Especially the early set-up of industrial parks in cooperation with foreign investors was a key factor in order to overcome infrastructure deficits.

<sup>24</sup> Kudo, Toshihiro (2012): Dynamics of the Garment Industry in Low-Income Countries: Experience of Asia and Africa – Chapter 8; How has the Myanmar garment industry evolved?, page 5.

<sup>25</sup> Mudditt, Jessica (2014): "Burma: Eyes US\$1.5bn from garment exports in 2014", [http://www.just-style.com/news/eyes-us15bn-from-garment-exports-in-2014\\_id121110.aspx](http://www.just-style.com/news/eyes-us15bn-from-garment-exports-in-2014_id121110.aspx).

<sup>26</sup> <https://www.sourcingjournalonline.com/new-ilo-study-explore-minimum-wage-myanmar-ik/>

<sup>27</sup> Mudditt, Jessica (2014).

<sup>28</sup> Kudo, Toshihiro (2012).

<sup>29</sup> Kent, Justin (2012): "Can Manufacturing Succeed In Myanmar?", <http://www.forbes.com/sites/connorconnect/2012/10/18/can-manufacturing-succeed-in-myanmar/>.

<sup>30</sup> VNM exports: US\$20.4 bn / MYN exports US\$1.1 bn



- Stable and favorable macroeconomic conditions over the past decade due to a stable FOREX rate against the US dollar.
- Substantial productivity growth and product upgrading, mainly achieved through technological transfer from abroad, mainly from Japan. Garment production is highly labor intensive and substitutability between labor and capital is very limited. In such a case, intangible knowledge and skills becomes essential for productivity growth in order to remain competitive.

Despite an improved international business climate in Myanmar, its garment industry is still facing serious challenges, including a rapidly increasing wage rate, due to a strong appreciation of the local currency against the US dollar. While wages strongly increased, they are still the lowest within the region [Appendix III.12]. However, as Myanmar's productivity levels are well below those of its peers, this demonstrates an obstacle to exploit its economic potential.

Another challenge is the high production costs due to shortages of electricity and a poor transportation infrastructure. As a result, the GOM is focused to prioritize investments in basic infrastructure. Moreover, the Vietnamese example has shown that the removal of excessive government control and an implementation of consistent and transparent policies for a stable macroeconomic environment is a must-have in order to attract foreign investment. Additionally the garment industry is a typical buyer-driven chain and therefore links with foreign businesses is crucial in view of process and product upgrading.

### **3.3.2 Weighted-score model assessment**

Based on the above presented country analysis of Myanmar (see 3.2.) and the highlighted competitive advantages of Myanmar and Vietnam (see 3.2 & 3.3.1), a weighted-score model was compiled in order to measure the gathered findings. The model is divided into two parts – a macroeconomic (covering the economic, political and legal framework) and a garment industry part (focusing on operational factors). The scoring range is from 1 for poor to 5 for excellent. It should be noted that for the score rating, the political and economic situation within the ASEAN member countries, was considered.

The results of the macroeconomic sector shows that Vietnam offers a better developed political and economic framework for the garment industry (at the moment) than Myanmar. Especially a reliable and advanced infrastructure is a key requirement for the garment production, which is offered within the existing economic zones of Vietnam. However, Myanmar is at the beginning of the transition stage of its economy, which was isolated for over 48 years. Therefore, the GOM is focused to modernize its infrastructure through foreign partners in order to raise the necessary capital and know-how. Consequently, the first projects (energy, telecommunication) are underway and the development of the SEZ [example Thilawa SEZ – Appendix III.11] obtain high priority by the GOM.

The second part shows that Myanmar offers favorable operation conditions in terms of very low wages [lowest within ASEAN region – Appendix III.13] as well as through its preferred market access (tariff and quota free access) due to its status as a developing country, unlike Vietnam. Nevertheless, due a low productivity and non-skilled labor force, Myanmar's operation range is limited to CMP activities, compared to Vietnam. This productivity and experience gap could be closed over time, through foreign investments.



Therefore the result is as follows:

| Macro sector         | Weight | Data                          | Score | MYN  | Data                         | Score | VNM  |
|----------------------|--------|-------------------------------|-------|------|------------------------------|-------|------|
| Size                 | 15 %   | 676.578 km <sup>2</sup>       | 3     | 0,45 | 331.698 km <sup>2</sup>      | 4     | 0,60 |
| Population           |        | 64.9 mill.                    |       |      | 89.7 mill.                   |       |      |
| Labor Force          |        | 31.0 mill.                    |       |      | 52.8 mill.                   |       |      |
| GDP                  |        | \$ 56.408 bill.<br>(+7.5 %)   |       |      | \$ 170.565 bill.<br>(+5.4 %) |       |      |
| Inflation            |        | 5.8 %                         |       |      | 6.6 %                        |       |      |
| FDI                  |        | \$ 2.2 bill.<br>(+42.1 %)     |       |      | \$ 8.4 bill.<br>(+17.0 %)    |       |      |
| Minimum wage         |        | \$ 32                         |       |      | \$ 113                       |       |      |
| HDI Index            | 25 %   | 149 <sup>th</sup>             | 1     | 0,25 | 127 <sup>th</sup>            | 3     | 0,75 |
| Logistic Index       |        | 129 <sup>th</sup>             |       |      | 53 <sup>th</sup>             |       |      |
| Corruption Index     |        | 157 <sup>th</sup>             |       |      | 116 <sup>th</sup>            |       |      |
| Rule of law Index    |        | 89 <sup>th</sup>              |       |      | 65 <sup>th</sup>             |       |      |
| Garment sector       |        |                               |       |      |                              |       |      |
| Garment exports 2013 | 15 %   | \$ 1.1 bill.<br>(+30.0 %)     | 3     | 0,45 | \$ 20.4 bill.<br>(+19.3 %)   | 3     | 0,45 |
| GSP status           |        | Tariff & quota<br>free access |       |      | Reduced tariff<br>& customs* |       |      |
| Operation modes      | 20 %   | Mainly OEM                    | 2     | 0,40 | OEM & ODM                    | 4     | 0,80 |
| Operations costs     |        | Appendix III.19               |       |      | Appendix III.19              |       |      |
| Average wages        | 25 %   | \$ 72 - 82                    | 4     | 1    | \$ 90 - 128                  | 3     | 0,75 |
| Sum                  |        |                               |       | 2,70 |                              |       | 3,35 |

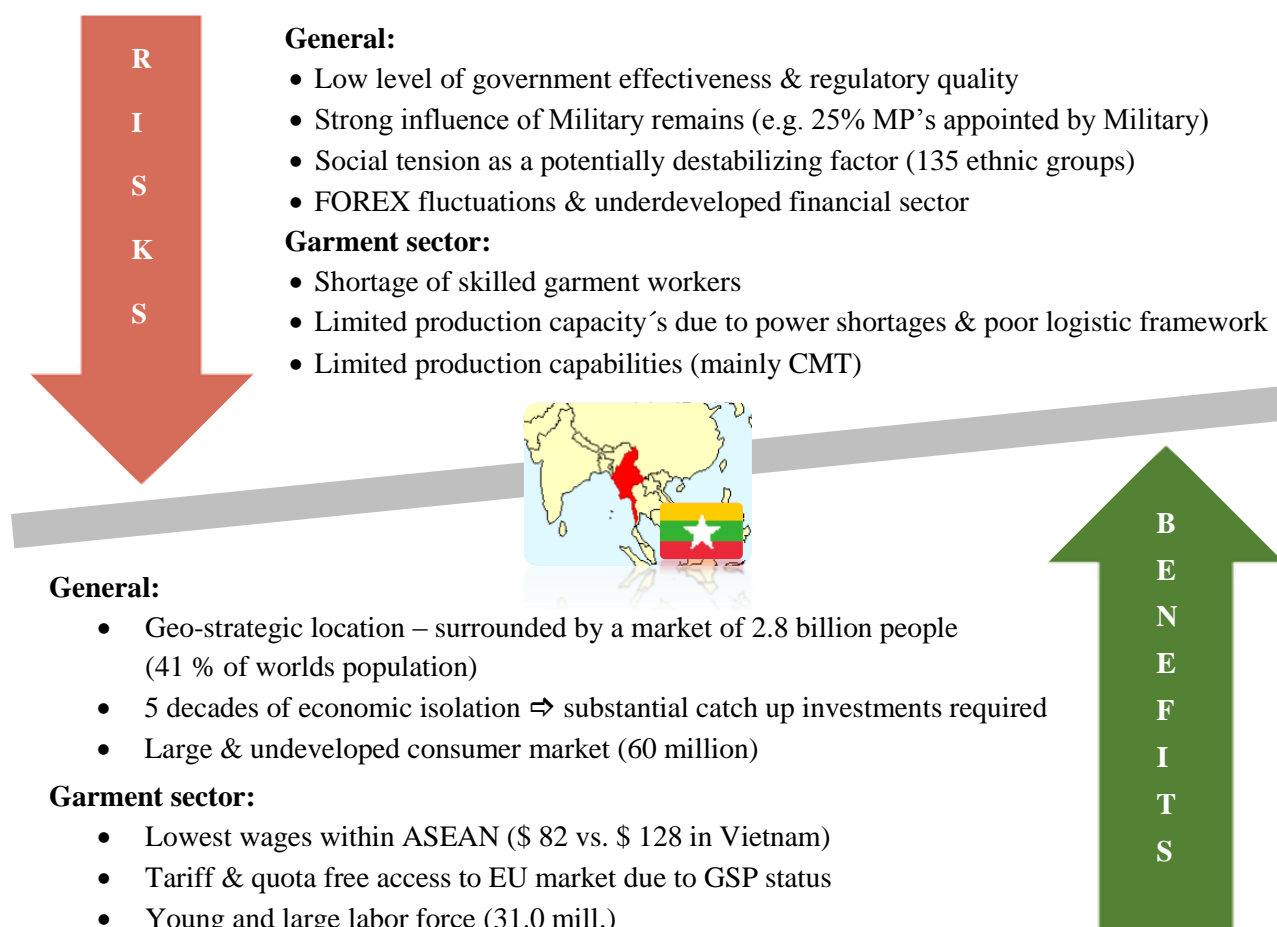
Source: World Bank & IWF reports, Transparency International, CIA Factbook

Scoring range: 1 = Poor, 2 = Fair, 3 = Good, 4 = Very Good, 5 = Excellent

\*Free trade agreement under negotiation

### 3.3 Main benefits & risks

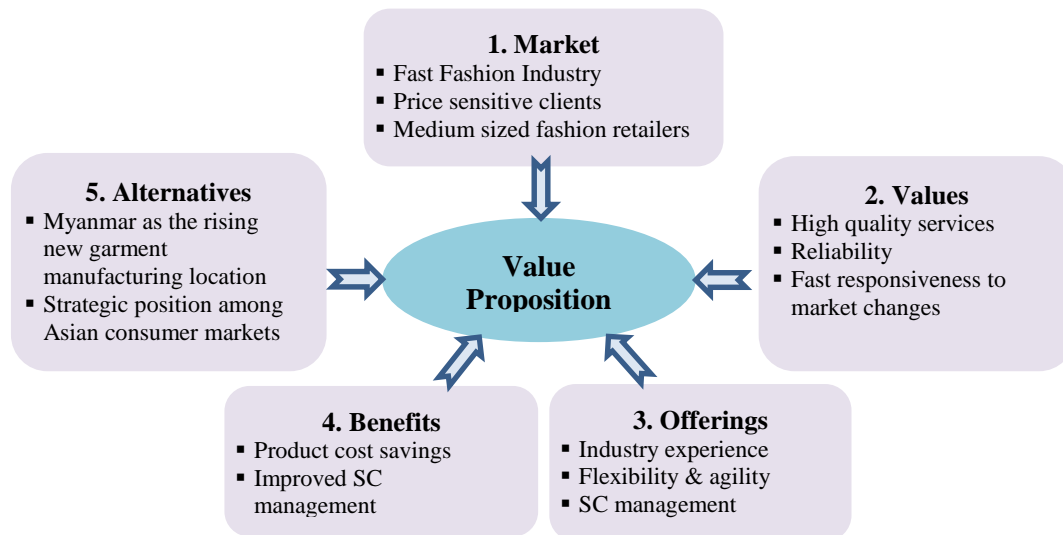
The objective of this external analysis was to identify the main benefits and risks regarding manufacturing garments in Myanmar and its Asian peers. These findings could be summed up as follows:



## 4. Company description

### 4.1 Introduction - Tishat Ltd.

Tishat is as B2B service provider in the garment sourcing industry in Myanmar. The company acts as an intermediary between European fashion retailers (e.g. Mango) and Burmese manufacturers. Since retailers are focusing on their core competences (Design & Development) value chain activities like manufacturing, sourcing and logistic services are outsourced to third parties. Therefore following value proposition is presented



### 4.2 Company positioning

Tishat is founded as a Limited Liability company (Ltd.) because of the short foundation time, the limited amount of required equity as well as the exclusion of private liability.<sup>31</sup> The company is founded by two European fashion industry specialists and a Burmese garment expert which provides the local market knowledge. Therefore, the Burmese colleague is in charge of the Quality Assurance & Quality Control (QA&QC) [Appendix IV.1]. The primary activities and key capabilities cover merchandising, QA & QC as well as logistics services. The main value for the customer lies in the strategic network of the manufacturers, the knowledge of the Burmese market and the organizational skills in dealing with manufacturers, institutions and transport companies.

By producing garments in a low wage country, Tishat is able to offer lower prices than its competitors based in other countries. Furthermore, the customers will achieve additional economies of scale by ordering these basic articles in high quantities. The early market entry leads to a first mover advantage in selecting applicable suppliers, trustful networking partners and in reaching a deep understanding of country and culture. With these competitive advantages, the company's vision and mission can be achieved [Appendix IV.2].

### 4.3 Products & Values

In regard to Myanmar's little garment manufacturing experience, Tishat focuses on simple styles. Therefore, the company provides services for woven and knit "ready-made garments" (RMG)<sup>32</sup> products [Appendix IV.3] especially for Casual and Street Wear within the Young Fashion Segment<sup>33</sup> (e.g. T-Shirts, Knits, Jeans etc.), [Appendix IV.4]. The Casual and Street Wear segment includes many basic articles which can be produced with comparatively less production knowledge. The minimum ordering quantity is

<sup>31</sup> Ug-ltd (2014): "Vor- und Nachteile einer Ltd.", <http://www.ug-ltd.de/service/faq/welche-vorteile-bietet-die-ltd-co-kg.html>.

<sup>32</sup> **Ready-made garments** = RMG are mass-produced finally assembled textile products of the clothing industry; Transport Information Service (2014): "Ready-made garments", [http://www.tis-gdv.de/tis\\_e/ware/textil/konfektion/konfektion.htm](http://www.tis-gdv.de/tis_e/ware/textil/konfektion/konfektion.htm).

<sup>33</sup> **Young Fashion Segment** = This term is referred to brands for the 14 year old youngsters to beginning of the 30s young adults mostly less price intense segment; Experian (2013): "Fashion Segment Handbook", [http://www.experian.co.uk/assets/business-strategies/brochures/fashion\\_segments\\_handbook\\_females\\_small%5B1%5D.pdf](http://www.experian.co.uk/assets/business-strategies/brochures/fashion_segments_handbook_females_small%5B1%5D.pdf).

1,500 pieces/style and 1,000 pieces/color<sup>34</sup>. After five years Tishat considers to extend their product range with accessories or home products.

In terms of transportation, Tishat transfers the products from, around Yangon located factories e.g. Hlaing Thayar Township, to the port of Yangon by truck, from where its shipped to Europe. One of the competitive advantages lies in a responsive and agile distribution system with punctual just-in-time delivery diminishing warehouse expenses for the customer. Tishat is able to offer FOB deliveries on OEM (Original Equipment Manufacturing) basis, comforting the customers ordering procedure.<sup>35</sup> In the near future, Tishat is aiming to increase its service level to ODM (see chapter 5).

Due to the small size of the agency, it is agile and able to react immediately to the customer needs and is in direct and close contact with its manufacturers and logistic companies. To ensure an optimal value experience for the customers, the firm familiarizes itself with the buyer's processes and main buying decision criteria to evaluate his motivations and individual preferences. Afterwards, Tishat allocates an ideal manufacturer. With these offerings, Tishat fulfils its promise of a fast processing-time and an optimal time-to-market. As a result, Tishat is able to assure an optimal price-performance ratio and simultaneously a high satisfaction level for its customers.

#### 4.4 Customer profile

Tishat targets price sensitive fast fashion retailers<sup>36</sup> in the European market, which operate in the Young-Fashion-Segment. These are medium to large sized (minimum order quantity of 50.000 pieces) and do not have their own liaison sourcing office in Asia. These customers are constantly looking for alternatives to their current manufacturing locations, following a distinctive outsourcing and offshoring strategy. Due to high stock turnover on the buying side, customer asks for quick lead-time and a high flexibility. Tishat is convinced that the worldwide fast fashion industry disposes over a great potential since an increasing number of people in emerging countries enter the middle class in the next five years.<sup>37</sup> The rising purchasing power paired with increasing brand awareness in second and third tier cities (less important/smaller cities in a country) generate a huge market potential for retail chains. As an example ZARA, UNIQLO, H&M and C&A have set up in total 210 stores in China in the last 18 month (calculated from June 2013), which implies the trend of a significant expansion of those brands<sup>38</sup> [Appendix IV.5]. In the early stages, Tishat has one main customer (Mango), who was brought in by one of the founders.

#### 4.5 Supplier network

Due to the limited amount of potential suppliers in Myanmar, Tishat starts with an initial supplier base of three medium-sized manufacturers, but plans to extend the number of suppliers according to the sales development. With the desire of establishing a long-term relationship of mutual trust, the on-going exchange of feedback and input for improvements between the two parties creates synergies throughout the value chain. Below differently sized supplier examples are listed [Appendix IV.6].

| Size                | Company Name                               | Employees | Annual Sales | Total monthly capacity |
|---------------------|--|-----------|--------------|------------------------|
| Small manufacturer  | Best International Co., Ltd. <sup>39</sup> | 435       | \$300'000    | 35'000 pcs             |
| Medium manufacturer | LatWar Co., Ltd. <sup>40</sup>             | 270       | n/a          | 240'000 pcs            |
| Big manufacturer    | Opal International Co., Ltd. <sup>41</sup> | 3'500     | \$25'000'000 | 860'000 pcs            |

<sup>34</sup> Asmara International (2014): "Fact Sheet", [http://www.asmarainternational.com/asm\\_branch\\_indo.php](http://www.asmarainternational.com/asm_branch_indo.php).

<sup>35</sup> YNFX (2013): "Opportunities & Challenges for the Garment Industry in Myanmar", [http://www.yarnsandfibers.com/preferredsupplier/reports\\_fullstory.php?id=664](http://www.yarnsandfibers.com/preferredsupplier/reports_fullstory.php?id=664).

<sup>36</sup> **Fast Fashion** = The phrase "fast fashion" refers to low-cost clothing collections that mimic current luxury fashion trends; Fashion Theory (2012): "Fast Fashion, Sustainability, and the Ethical Appeal of Luxury Brands",

<sup>37</sup> The whole brain group (2012): "Five Simple Steps to Creating an Ideal Customer Profile", <http://www.thewholebraingroup.com/steps-to-creating-an-ideal-customer-profile/>.

<sup>38</sup> Retail in Asia (2013): "Fast Fashion speeds up in China", <http://www.retailinasia.com/article/sectors/fashion/2013/10/fast-fashion-speeds-china>.

<sup>39</sup> Global sources (2012): "Myanmar supplier profiles", [www.chinasourcingreport.com/pdfs](http://www.chinasourcingreport.com/pdfs).

<sup>40</sup> Latwar Co., Ltd. (2013): "Company Profile", <http://www.latwar.com/product.html>.

<sup>41</sup> Opal International Co.,Ltd. (2009): "Production", <http://www.myanmararmament.net/index.htm>.

#### **4.6 Differentiators/Benefits**

Firstly, a flat organizational structure and highly qualified employees, lets Tishat achieve a high efficiency rate and fast and customized order processing times. The combination of an international team paired with local knowledge of the Burmese associate, the company values of reliability, trustworthiness and innovation as well as the promising geographical position, leads to the corporate competitive advantage. The company can offer competitive prices due to its operations in a 4<sup>th</sup> world country enabling low labor costs<sup>42</sup>. Secondly, Tishat sees itself as a young, independent and agile start-up agency with innovative concepts. The individualized expectancy analysis, the integration of FOB delivery as well as the quick and specific responsiveness to customers are only a few examples.

Thirdly, Tishat is gaining advantage throughout the control of the sourcing process from the material sourcing over the sampling process, the final bulk production towards the transportation upon agreement. Finally, due to its geographical location between China and India, Tishat positions itself in the world's most booming area. The company will reduce lead times dramatically once it starts with the intended expansion towards these neighboring nations.

#### **4.7 Organizational structure**

Forced by the new market entry and its upcoming formalities as well as the situation of having a small customer base, Tishat strives towards a slow but sustainable and continuous growth rate. The company has a simple functional departmentalization structure with a single layer [Appendix IV.1] and three employees [Appendix IV.7]. The main functions are strongly linked to the operations of the value chain: Merchandising, QA & QC and the Shipping & Documentation/CEO department. At first, it is necessary to merge departments and tasks broadly to be most cost efficient. Nevertheless, each employee is allocated to one or more distinct tasks to clarify his targets. The Merchandising department is divided into business units (BU's). In order to reduce complexity of the communication stream between Tishat and the customer, it is intended to account one BU to each customer. Since the organizational structure is very flat, authority is centralized in a coordinator, general manager. According to the allocated workload, the GM doing finance and accounting is also in charge of the Shipment & Documentation at first. The low degree of departmentalization leads to a higher responsibility and involvement in business decisions for every employee. Working in one common office, internal coordinating mechanisms are flexible and informal. The reason for the chosen organizational structure is to ensure organic growth as well as keeping innovative, agile and highly responsive to customers' needs or to changes in the business environment. Due to a small product range, the company wants to attain opportunities of expansion. As the organizational chart in Appendix IV.1 shows, additional capacities to be build up within expansion in the next years, shown as dashed fields. The Research & Development department is going to be set up in order to support the selling process to the customer by being able to provide them with new design possibilities from the technical context.

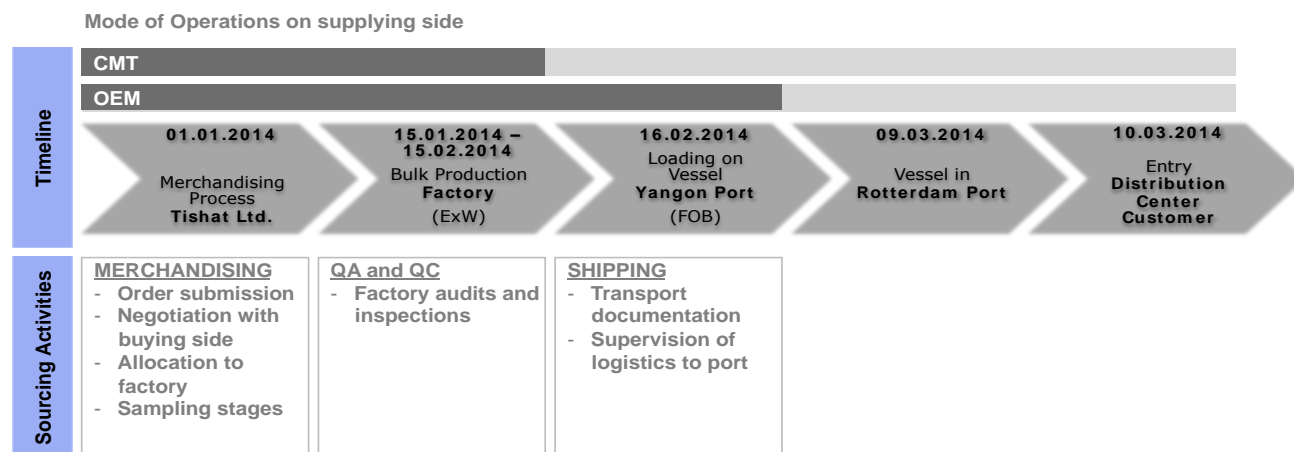
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<sup>42</sup> YNFX (2013): "Opportunities & Challenges for the Garment Industry in Myanmar", <http://www.yarnsandfibers.com/php?id=664>.

## 5. Operation plan

### 5.1 Order fulfilment processes

The order timeline below demonstrates the time frame from the order submission by the customer to the final delivery in the distribution center of the customer. Assuming an order quantity of 30.000 pieces of one style and an average factory size of 1.500 operators such as Opal-2 outlined in part 2 “supplier network” the lead time to the port of destination will be approximately 70 days. Our service offers range from Ex-Works 45 days (CMT) to FOB 46 days (OEM) from order submission date.



Source: own graph

Moreover, Tishat’s primary operating activities divided into Merchandising, Quality Assurance & Quality Control, and the Shipping & Documentation should be further elaborated.

**Merchandising:** The first step of the inbound activities is the contracting the customer. This starts when the merchandiser receives the *tech-pack* for the new style with a specific working number, containing all technical requirements and specifications (incl. sketch, measurements, material specifications and patterns, pantone color standards and all other details) [Appendix V.6]. The tech-pack is finalized in consultation between the buyer and the merchandiser. The merchandiser does the cost sheet to check the feasibility for his margin and the two parties go into a price negotiation, which in most cases is a face-to-face meeting after which the buyer submits the invoice, so-called *Purchase Order* (PO), that includes contract details such as lead-time, quantity and transport conditions. Before the order is allocated to a factory, the buyer delivers the *General Instructions* (GI), a company specific manual that includes all standards and compliances and the company’s Codes of Conduct. All requirements of the buyer must be correctly understood and processed to the manufacturer. The allocated factory starts with the sampling process, consisting of several sampling stages from prototype, salesman, size set to pre-production sample. With the confirmation of the final pre-production sample, the mass production (bulk) begins.

**Quality Assurance & Quality Control:** In order to deliver a quality product two key areas are essential, ‘prevention’ and ‘control’. The prevention part is the Quality Assurance. Guided by the GI, the quality standard needs to be assured during the development and production process. The agent does an in-advance monitoring of the factories to decide whether the factory suits the financial, legal, technical and social aspects and compliances of the buyer. Besides the monitoring of the social compliance, the chemical compliance requirements such as AZO, PVC and Nickel free are tested in a laboratory by taking random samples. After production prior to loading, the Quality Control manager does the final pre-shipment inspection of the bulk production to verify that the approved final product is shipped and received according to the buyer’s requirements.

**Shipping & Documentation:** The shipping manages and monitors all factory out-bound logistics. In case of a FOB contract, the in-bound logistics of fabrics and component parts are usually done by the factory. The agent checks that the end product reaches the board of the ship and ensures that the communication between

the forwarder and the various suppliers is smooth and seamless. The PO states delivery dates, mode of transport and terms of delivery and transport according to the Incoterms (*Internationally Accepted Commercial Terms*). The most commonly used Incoterm in the garment industry and the service level we are targeting is FOB and ExW [Appendix V.1]. In a FOB agreement, the manufacturer is responsible for the ground transportation of the goods from the factory to the port in Yangon and the loading on the vessel. The buyer takes all costs and risks coming up with the sea freight to the port of destination by container ship and any further transport modes. A map with the most relevant ports of Myanmar and an image demonstrating the shipping route from Yangon to Rotterdam, Netherlands can be found in [Appendix V.2 & V.3] respectively. Tishat's logistic activities is the supervision of the correct documentation. This outbound logistics is an essential part and needs special attention due to Myanmar's underdeveloped infrastructure, transport ways and ports.

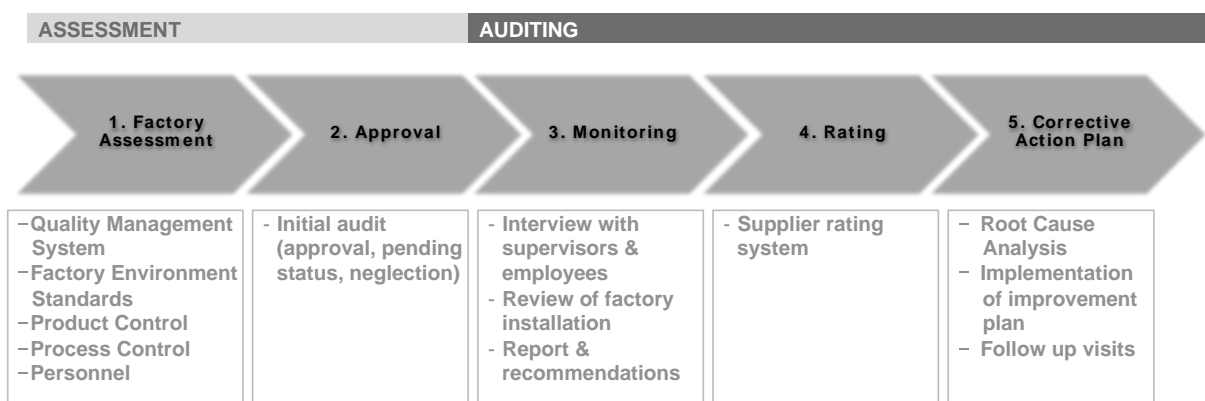
## 5.3 Supplier Assessment and Auditing

### 5.3.1 Relevance

With the distribution of operations in global markets, fashion brands face an increasingly complex regulatory environment that challenges the turn-around of goods.<sup>43</sup> Especially after accidents in garment factories such as the collapse of the Rana Plaza building in Bangladesh in April 2013 in which 1,130 garment workers died, conditions under which garments are produced have intensively moved into the focus of NGOs, unions, governments and the media. Specific organizations are for example the International Labor Organization (ILO), monitoring labor practices, and the World Customs Organization (WCO) observing rules of origin and supply chain security etc. The actions taken by public interest groups can be very damaging for the buyer and his brand Image, leading to a loss of consumer's trust, a reduction in sales and additional costs because of crisis communication. In a worst case, there is the possibility of commercial sanctions, liability claims and lawsuits. A functioning compliance monitoring is a necessity to ensure supply chain safety for manufacturers and consumers and supports productivity, quality and competitiveness.

In today's highly competitive consumer market, buyers need a vendor base that cooperates with them to meet all aspects of production: The technical requirements of production and the insurance of social standards. These two are checked by two different control mechanisms.<sup>44</sup>

### 5.3.2 Assessment and Auditing Process



Source: own graph

<sup>43</sup> Bureau Veritas (n.y.): "Softline Accessories", [http://www.bureauveritas.com/wps/wcm/connect/bv\\_com/group/home/about-us/our-business/cps/your-industry/softline-accessories](http://www.bureauveritas.com/wps/wcm/connect/bv_com/group/home/about-us/our-business/cps/your-industry/softline-accessories).

<sup>44</sup> Bureau Veritas (n.y.): "Factory Assessments", [http://www.bureauveritas.com/wps/wcm/connect/bv\\_com/group/home/about-us/our-business/cps/our-services/factory-assessments](http://www.bureauveritas.com/wps/wcm/connect/bv_com/group/home/about-us/our-business/cps/our-services/factory-assessments).

### Assessment steps

A factory assessment audits the production capability and performance of a factory against proven quality principles. As such, the key criteria assessed by the agent are the policies, procedures and records that would indicate the factory's ability to deliver consistent quality management over time, rather than at one given time or only for certain products. Core areas and processes addressed by a factory assessment include the Quality Management System, the manufacturing practices e.g. factory environment standards, product and process control and personnel.

The key benefits are to evaluate the capabilities of potential new vendors as part of the selection process and to identify key strengths and weaknesses of the existing vendor base. Further, it is essential to monitor and track progress over time to drive quality throughout the manufacturing process and to provide an independent assessment tool that retailers, buyers and vendors can use together to make improvements.<sup>45</sup> Tishat's approaches are multi-faceted to improve the performance of their suppliers. On the one side, Tishat briefs their clients in how the timing and planning of their purchasing decisions can impact productivity, for example last minute changes, and on the other side oversees workers conditions in the factories. Also, Tishat meets regularly with low-performing vendors to assess their performance and discuss how they can support improving their scheduling.

### Auditing steps

The QA & QC manager is in charge of the inspection processes. The monitoring program includes four stages:

*1. Approval.* Before any factory can manufacture apparel for the European market, it must undergo an initial audit, which is assessing its social compliance such as working conditions. Based on this audit, the factory either earns approval or is placed in a pending status while it addresses identified outstanding issues. Passing such audits is an absolute pre-condition for the buyer and Tishat to start discussing business with the supplier and is supposed to be conducted on an annually basis. An example for a factory rating process can be found in [Appendix V.4].

*2. Monitoring.* All monitoring or audit activities aim to identify gaps between the requirements of the specific buyer's Code of Conduct (CoC)<sup>46</sup> and the actual practices and conditions in the workplace. Every aspect mentioned in the CoC is checked and documented. Tishat does approximately 50% of visits according to schedule and 50% of unannounced visits without prior warning to conduct audits that assess actual conditions against the standards outlined in the CoC, to establish relationships with management and workers as well as to gain an accurate picture of how the factory is run. The agent also develops relationships with local NGOs and trade unions, whose close ties with workers enables them to provide Tishat with information it would not uncover during a standard factory evaluation. The goal is to gather all necessary information on labor, social and environmental aspects and their procedures and verifications. An audit is existing of the following steps:

1. Interview with the supervisors and/or owners of the factories
2. Review of employee files and other maintenance documentation
3. Review and documentation of factory installations
4. Interview by selection of a sample of employees from supplier's personnel files and directly from the chain of production
5. Social audit report [Appendix V.5]

Tishat tailors the frequency of visits to a factory's unique needs. For example, a factory that is not performing well may require more visits than a high-performing factory, but all active factories and

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<sup>45</sup> Bureau Veritas (n.y.).

<sup>46</sup> **Code of Conduct** = Set of rules outlining the responsibilities of and proper practices for all suppliers and their subcontractors. To ensure the adequate compliance with all labour, social and environmental standards and product safety on the part of the garment manufacturers, we need to verify every supplier in regard of the specific and binding Code (more information in Appendix V.7).

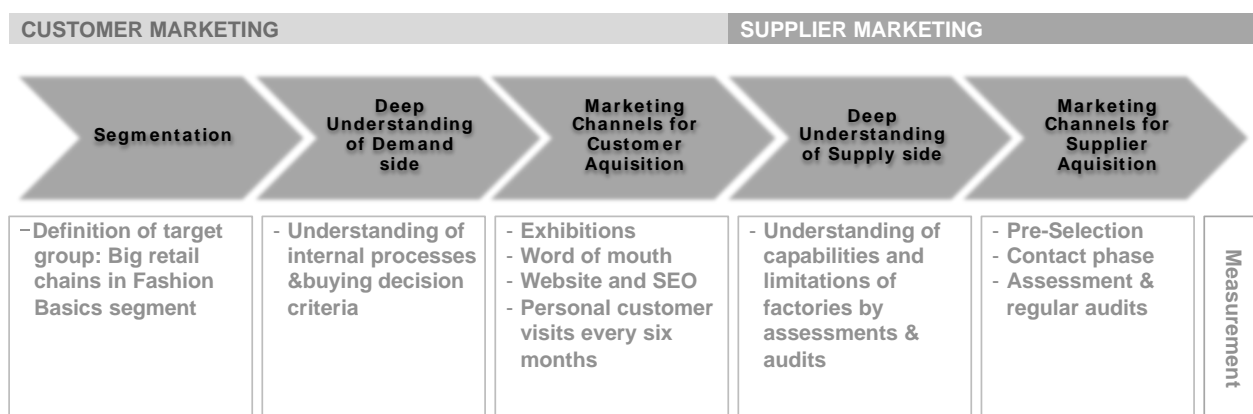
their authorized subcontractors should be at least monitored once per year. The manufacturer needs to authorize Tishat to carry out checks by giving access to documentation and all the necessary means in all partnering factories and subcontracting companies.

3. *Rating.* The QC manager assesses factory performance during its audits, reviewing all indicators in the process. The rating system places factories in one of four major colour tiers: Green = Top Performer; Light green = Above Average; Yellow = Average; Red = Below Average (see an example in [Appendix V.6]). Rating factories is a rigorous process that requires careful decisions about the weight of various issues. For example, we define "key" violations, such as excessive overtime, as having greater negative impact on a factory's rating than "non-key" violations, such as first-aid kits not being fully stocked. We also award a limited number of best-practice points to encourage factories to go beyond basic compliance for initiatives such as offering leadership training to workers or issuing public sustainability reports.

4. *Corrective Action Plan.* We conduct root cause analyses and review management systems to assess the underlying causes of on-going violations. When we find violations, a series of recommendations are raised and the factory is given the opportunity to propose and implement a time-bound corrective action plan. We monitor the implementation of the plan and verify that violations have been remedied through follow-up visits and on-site meetings with unions if they are present in a factory. Because partnerships can often yield better results than one-sided approaches, we also work with other agents to remediate issues in shared factories. A supplier failing to undertake sustainable improvements within the stipulated time frame would seriously damage the relationship and ultimately lead to a termination of the business relation with Tishat.<sup>47</sup>

## 6. Marketing

In their upstream activities Tishat operates with a supplier base (supplier marketing) and in the downstream activities with B2B customers (customer marketing), which then sell the product to the end consumer. Since Tishat does not sell directly to the end consumer, their marketing and advertising efforts are rather small.



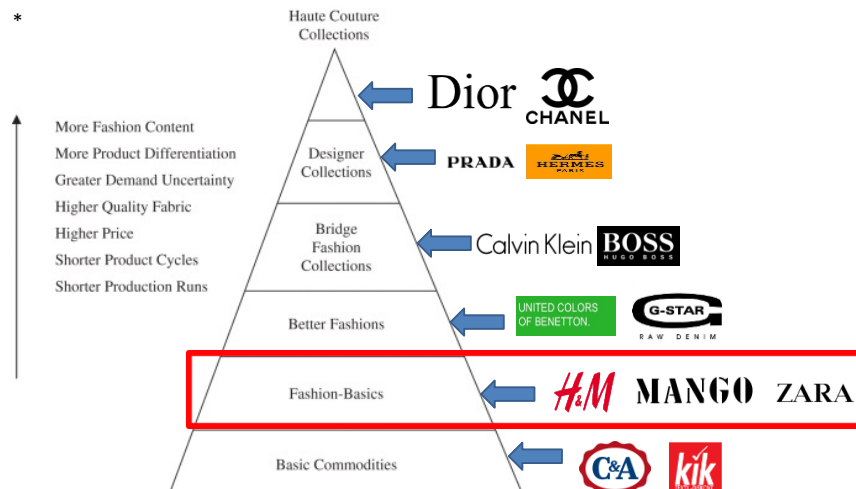
Source: Own diagram

<sup>47</sup> Gap Inc. (2012): "Social and Environmental Responsibility Report 2011/2012. Monitoring and Remediation", <http://www.gapinc.com/content/csr/html/human-rights/monitoring-and-remediation.html>.



## 6.1 Customer Marketing

### Fashion industry segmentation



Source: modified <http://ser.oxfordjournals.org/content/4/3/353/F1>

As a first step, the buying side needs to be segmented into several customer groups in order to define the specific target customer group. This B2B customer needs to be targeted directly and in a customized manner. In order to attract and retain customers, a strategic framework for conceptualizing and scaling efforts is needed. The market is segmented into six categories from mass product, less fashion approach Basic Commodities (C&A, kik) up to custom made delicate Haute Couture Collections (Dior, Chanel). Tishat selects its customers from the “Fashion Basics” segment represented by brands such as H&M, Mango or ZARA, because of its “fast fashion” meaning shorter production cycles and mass produced big quantities. This is considered the most price sensitive segment besides the, without fashion claims, Basic Commodities. This sector has a high turnover rate especially of seasonally uninterrupted basic articles and a constant demand. Moving up the pyramid, the more complex and time consuming the manufacturing and handicraft of these products becomes as in its production technique and the quality standard required. The requirements of standards in the three upper levels can definitely not be fulfilled by manufacturers in Myanmar yet, because of the lack of experience and skills of workers, the still rudimentary machinery and instable infrastructure in the country such as the shortage of electricity (8 hours production cycles). Moreover, upper market segment fashion brands such as Calvin Klein or Hugo Boss experience a greater demand uncertainty, a higher product differentiation and more demanding fashion content which Myanmar manufacturers are not able to provide at this current stage of development.

#### Deep Understanding of Demand Side

Once the segmentation has been done, Tishat needs to develop a deep understanding of the customer’s design and development process and following buying decision criteria as well as key trends and demands in the industry in order to be able to supply the customer with the necessary service. Once the buying motives of the customer are clear, Tishat can attain all necessary information in order to acquire and retain the new customers and to reach out to them directly.

#### Customer Acquisition channels

##### *Exhibitions*

Furthermore, Tishat is able to set appropriate points of contacts for example by visiting fashion exhibitions in Europe. Trade fairs such as the “Berlin Bread and Butter” and the “Premium Exhibitions” [Appendix VI.1] represent a vehicle to establish new business contacts (network) as well as acquiring new customers. These exhibitions provide the platform to meet essential sales people and buyers of European fashion brands. The attendance at fairs will be publicized on Tishat’s website to further draw attention to customers. This push strategy approach delivers the opportunity to market the business face-to-face. Prior acquired information will help to initiate conversations with target buyers and get them to be receptive to receiving

Tishat's content offerings. Business cards will be collected and used when revising or following up the exhibition to further extend connection with customers. The next step will be selecting the venue with the buyer, where further contract and order details will be discussed.

Preparation to the venue is essential. The planning process includes the planning of budget, which will serve as a guideline when counting the expenses and will be ratified in close cooperation with the finance department.

### *Word of Mouth*

One important contact point is the contact through third parties such as fellow employees or colleagues through word of mouth within the industry sector. It is one of the key elements to obtain company's growth by acquiring new customers and later on attracting talented employees. This form of contact is based on personal recommendations and is therefore more intimate, more efficient and less costly. Therefore, Tishat will closely monitor its existing customers and also establish a social media presence on main platforms such as LinkedIn and Twitter, drawing attention to the up-to-date corporate news and open vacancies.

In order for word of mouth to function effectively three criteria are to be acknowledged: Experience, Entice and Engagement. *Experience* refers to the creation of a personal contact with the client and creation of an environment by which special customer wishes are fulfilled ("Going the extra mile"). *Entice* describes to stay in frequent contact with customer, by following up on first contacts and providing a valuable service experience for the customer. This can be realized by giving presentations to the customer's employees to keep them updated about the latest development in Myanmar, capabilities and new developments of manufacturers, which goes hand in hand with the final point of *engagement*.<sup>48</sup> The potential risk of word of mouth is the little control over what is propagated. Consequently, it is important for Tishat to stick to its company values and to increase confidence about shared information.

## 6.2 Supplier Marketing

In the same way that Tishat needs to make itself familiar with the customer side, it needs to make itself familiar with the systems and processes of the supplier side (see chapter 5), especially focusing on the capabilities and strengths of each single supplier. The execution of the supplier marketing can be divided into four phases.

| Phases        | Action  | Timeframe                 |
|---------------|---|---------------------------|
| <b>First</b>  | Supplier is searched and pre-selected (MGMA and Fibre2Fashion) <sup>49</sup>  | 1 week                    |
| <b>Second</b> | Burmese employee contacts the supplier through phone or their website. The buyer's Code of Conduct and standards and specifications are exchanged and matched   | 3-4 weeks                 |
| <b>Third</b>  | Tishat visits the suppliers manufacturing plant, gaining an on hand experience about aspects such as size, manufacturing quality (factory assessment), chemical compliance and health and safety standards (audits) | 6-8 weeks                 |
| <b>Fourth</b> | Negotiation and setting of contract terms and conditions such as price, quantity, quality, lead time etc. for a specific order  | 24-26 weeks <sup>50</sup> |

After every marketing effort the outcome is to be measured against the well-defined targets and adjusted if necessary for an on-going future success.

<sup>48</sup> Goodman, Gil: Three Steps to More Word-of-Mouth-and More Business: <http://www.entrepreneur.com/article/223548>

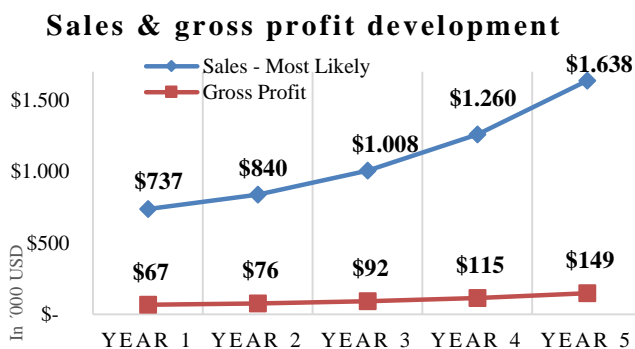
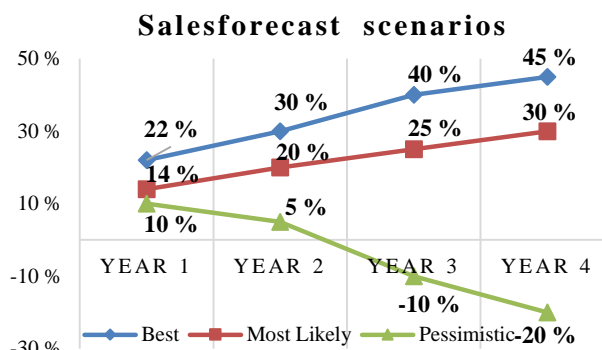
<sup>49</sup> Fibre2Fashion (n.y.): "Garment Manufacturer Directory from Myanmar", <http://manufacturer.fibre2fashion.com/garment/country/Myanmar/index.html>.

<sup>50</sup> Doing Business (2013): "Economy Rankings. Enforcing Contracts", <http://www.doingbusiness.org/rankings>.

## 7. Financial Statements

### 7.1 Sales forecast & scenarios

Tishats sales forecast [Appendix VII.1] contains three possible scenarios (best – most likely – pessimistic). The growth rates of these scenarios are linked to the economic and political development/progress of the country and the garment industry. Other influence factors are the growth rates regarding the global garment industry (+2.8%), the garment exports rate of Myanmar (+30%) and the sales of Mango (+25%). Due to the unstable political and economic challenges within Myanmar, Tishat is going to start its operations with mainly one customer (Mango), which was headhunted and brought in by one of the founders. As a result, the forecast is based on the assumption that due to the previous mentioned limited production capacities and services (electricity shortage; mainly CMP services), Mango is ordering basic shirts in two different colors (i.e. blue, red) in all available sizes (S,M,L,XL). For that purpose Tishat and Mango signed a blanket order agreement with a total volume of 238,044 pieces produced and delivered quarterly (59 511 pieces per quarter).

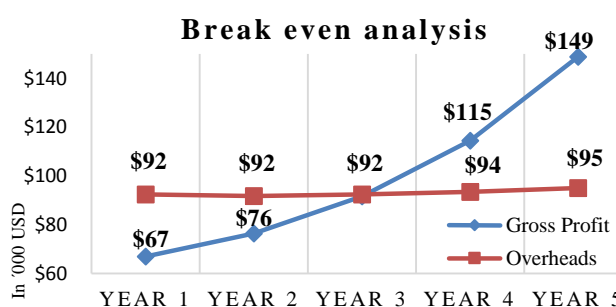


In order to reduce the dependency on Mango, Tishat is permanently focused on enlarging its client base, depending on the given capacity and production services of the garment manufactures in Myanmar. Consequently, if necessary, the organizational capacities will be adjusted according to the business development. Another assumption is, that the company suppose constant prices in its calculations, due to the fact that

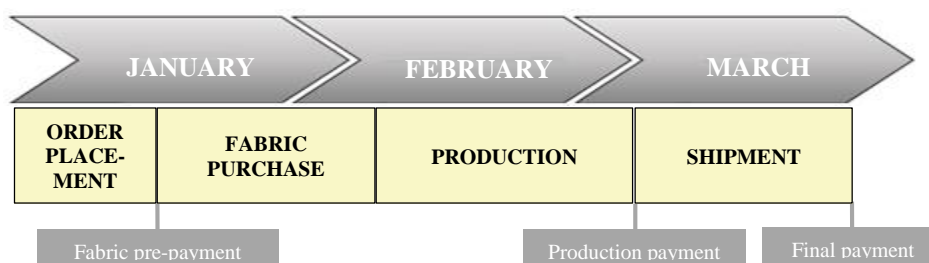
production costs or general cost increases are going to be partly absorbed by higher productivity and partly through shifts to the customer side. The presented forecasts and estimations are a sample business case, as each order and its requirements rely on the given situation.

#### Break even analysis

Based on the most likely scenario of the sales forecast, Tishat will enter the profit zone within the 3<sup>rd</sup> year. Based on constant prices and annual expenses of approx. \$ 92,000 the BEP will be achieved with approx. 333,200 pieces (of shirtsleeves). The most likely scenario also applies for the Cash Flow [Appendix VII.4] and Income statement [Appendix VII.3].



### 7.2 Revenue-Expense Stream



As mentioned before, Mango and Tishat have negotiated a blanket order agreement stating that Mango is going to purchase an annual amount of 238,044 units divided into quarterly deliveries (also its payments). For instance in January, Tishat is sending a quotation containing the exact order quantity, price, terms of delivery etc. Mango confirms this quotation by placing a purchase order (PO) which let Tishat assign the suitable manufacturer. Therefore, Tishat pre-finances the fabric purchase through a credit line for the manufacturer (38.8% production costs) which leads to a first cash outflow of \$ 64,981 (see CF-Statement below). With the delivery of the fabric, the manufacturer starts the bulk production. During this time, Tishat's employees will permanently check and assess the already finished products in order to assure the agreed level of quality. After the production completion by February/beginning of March, the batch will be shipped to Yangon port. By issuing the bill of lading, the next payment regarding the bulk production is released (61.2% production costs), representing a cash outflow of \$102,496 in February. Tishat and Mango agreed in their payment terms, that the final payment is released after billing the final invoice (incl. bill of lading) in order to receive the payment of \$184,225 by the end of March. In terms of a late payment from Mango, Tishat could increase its credit line in order to pre-finance another production cycle. Lastly it should be noted that all payments regarding the production as well as invoicing are stated in USD, in order to reduce FOREX exchange risk.

|                       | Cash Flow Statement (in USD) |         |          |         |         |          |         |         |          |         |         |          |         |          |           |           |           |
|-----------------------|------------------------------|---------|----------|---------|---------|----------|---------|---------|----------|---------|---------|----------|---------|----------|-----------|-----------|-----------|
| Most likely scenario  | Year 1                       | Jan     | Feb      | Mrz     | Apr     | Mai      | Jun     | Jul     | Aug      | Sep     | Okt     | Nov      | Dez     | Year 2   | Year 3    | Year 4    | Year 5    |
| Accounts Collected    | 736.901                      | 0       | 0        | 184.225 | 0       | 0        | 184.225 | 0       | 0        | 184.225 | 0       | 0        | 184.225 | 840.067  | 1.008.080 | 1.260.100 | 1.638.130 |
| CoGS - Fabric (38.8%) | -259.925                     | -64.981 | 0        | 0       | -64.981 | 0        | 0       | -64.981 | 0        | 0       | -64.981 | 0        | 0       | -296.315 | -355.577  | -444.472  | -577.813  |
| CoGS - Labor (61.2%)  | -409.985                     | 0       | -102.496 | 0       | 0       | -102.496 | 0       | 0       | -102.496 | 0       | 0       | -102.496 | 0       | -467.383 | -560.859  | -701.074  | -911.396  |
| Operation expenses    | -89.461                      | -10.124 | -6.724   | -6.576  | -10.939 | -6.576   | -6.724  | -6.576  | -6.724   | -8.473  | -6.724  | -6.576   | -6.724  | -87.961  | -87.961   | -87.961   | -87.961   |

### 7.3 Funding & revenue generation

The shareholders (its founders) of Tishat's provides \$50,000 in "Equity". These funds will finance the start-up costs (approx. \$5,000) and a part of the pre-financing for the fabric purchase. In order to cover the monthly financial gaps and all other monthly accrued expenses, the company will negotiate a credit line with a European bank (approx. € 150,000)<sup>51</sup>, collateralized by Equity and the signed blanket order agreement with Mango.

The summarized cash flow statement presents a surplus in the first year due to the equity inflow, followed by two deficits as the BEP is not achieved. After the third year, Tishat enters the profit zone because of its steady sales increases based on the "most likely" sales forecast scenario.

|                       | Income statement (in USD) |          |           |            |            |
|-----------------------|---------------------------|----------|-----------|------------|------------|
| Most likely scenario  | Year 1                    | Year 2   | Year 3    | Year 4     | Year 5     |
| Sales                 | 736.901                   | 840.067  | 1.008.080 | 1.260.100  | 1.638.130  |
| CoGS                  | -669.910                  | -763.697 | -916.437  | -1.145.546 | -1.489.210 |
| Gross Profit          | 66.991                    | 76.370   | 91.644    | 114.555    | 148.921    |
| Total Expenditures    | -92.476                   | -91.761  | -92.461   | -93.511    | -95.086    |
| Operating profit/loss | -25.485                   | -15.391  | -817      | 21.044     | 53.835     |
| Depreciations         | -528                      | -528     | -528      | -528       | -528       |
| EBIT                  | -26.013                   | -14.863  | -289      | 21.572     | 54.363     |
| Corporate Tax (25%)   | 0                         | 0        | 0         | -5.393     | -13.591    |
| Net Income            | -26.013                   | -14.863  | -289      | 26.964     | 67.954     |

|                           | Cash Flow Statement (in USD) |          |           |           |           |
|---------------------------|------------------------------|----------|-----------|-----------|-----------|
| Most likely scenario      | Year 1                       | Year 2   | Year 3    | Year 4    | Year 5    |
| Accounts Collected        | 736.901                      | 840.067  | 1.008.080 | 1.260.100 | 1.638.130 |
| CoGS - Fabric (38.8%)     | -259.925                     | -296.315 | -355.577  | -444.472  | -577.813  |
| CoGS - Labor (61.2%)      | -409.985                     | -467.383 | -560.859  | -701.074  | -911.396  |
| Operation expenses        | -89.461                      | -87.961  | -87.961   | -87.961   | -87.961   |
| Operating Cash Flow       | -22.470                      | -11.591  | 3.683     | 26.594    | 60.960    |
| Investment Cash Flow      | -2.634                       | 0        | 0         | 0         | 0         |
| Financing Cash Flow       | 46.796                       | -3.800   | -4.500    | -10.943   | -20.716   |
| Beginning Cash Balance    | 0                            | 21.692   | 6.300     | 5.483     | 21.134    |
| Net Cash Flow             | 21.692                       | -15.391  | -817      | 15.651    | 40.244    |
| Ending Cash Balance       | 21.692                       | 6.300    | 5.483     | 21.134    | 61.378    |
| Financial deficit/surplus | 21.692                       | -15.391  | -817      | 15.651    | 40.244    |

Tishat achieve a positive Net Cash Flow but a negative Net Income. One reason is that the cash flow statement contains equity inflow whereas the Income statement includes depreciations (i.e. office equipment). In fact, the company is generating a positive Net Cash Flow and Net Income since Year 4 as a result of increased sales.

## 8. Findings

This chapter contains certain scenarios regarding the further development of Myanmar from political and economic perspective. In order to give to deliver a final recommendation, the key findings, based on the previous executed industry, country and company analysis as well as the presented scenarios, are developed.

<sup>51</sup> Negotiated annual interest rate of 4%

## 8.1 Scenarios & contingency plan

In order to complete the market entry analysis in view of establishing a sourcing agency in Myanmar, following scenarios have been created in order to illustrate the different possibilities political and economic developments including its main challenges. Furthermore a different contingency plans were developed in order to limit the possible business risks through appropriate countermeasures.

| Scenario   | Major challenges  | Contingency plan   | Prop. |
|--|---|--|-------|
| <b>Best scenario: Fully establishment of multiparty democracy according to international standard, unleashing rapid economic growth</b>  |   |  |       |
| <ul style="list-style-type: none"> <li>• Opposition leader Aung San Suu Kyi runs and wins general elections in 2015 ⇒ political &amp; economic influence of military reduces considerably</li> <li>• Continuous high FDI inflow within manufacturing industry, due to launch of first special economic zones (e.g. Thilawa SEZ)</li> <li>• Boost of garment exports/production due to enhanced operational framework (infrastructure, production facilities, skilled labor force, etc.)</li> </ul>   | <ul style="list-style-type: none"> <li>• Uncertainty, if reformation process with new government will speed up</li> <li>• Increasing social gaps due to imbalanced wealth distribution</li> <li>• Increasing labor costs within garment industry</li> </ul>                                   | <ul style="list-style-type: none"> <li>• Improve government &amp; industry relationships</li> <li>• Shift to more complex operation modes along value chain (ODM)</li> <li>• Collaboration with garment manufacturers in order to increase their production capabilities/skills</li> </ul>                           | 35 %  |
| <b>Most likely scenario: Military party remains firmly in control – slow but ongoing reforms, with limited real structural change</b>  |   |  |       |
| <ul style="list-style-type: none"> <li>• Possible victory of opposition party in general elections without Aung San Suu Kyi ⇒ military still appoints 25% of parliament seats</li> <li>• Social tensions due to ethnic &amp; religious discriminations partly remains and causes occasional outbreaks of violence</li> <li>• Difficult business environment due to slowly closed infrastructure gaps, lack of skilled labor force and business know-how</li> <li>• Steady increase of garment production – full potential is still not utilized</li> </ul> | <ul style="list-style-type: none"> <li>• Structural imbalances due to weak political &amp; low-quality institutions</li> <li>• Shortage of skilled garment workers (specially Yangon)</li> <li>• Increasing labor and production costs</li> </ul>   | <ul style="list-style-type: none"> <li>• Stepwise expansion according to economic progress</li> <li>• Diversification of garment manufacturers base in order to offer different production service levels</li> <li>• Build-up of second customer base located in Asia</li> </ul>                                     | 45 %  |
| <b>Pessimistic scenario: Reforms are rolled back, military retrieve total political control</b>  |   |  |       |
| <ul style="list-style-type: none"> <li>• Power take over by hardliner within military. Civilian administration and parliament is forced out ⇒ all reformation steps withdrawn or stopped</li> <li>• Deteriorate security situation due to breach of peace agreements with ethnic minorities by military</li> <li>• Reintroduction of political and economic sanctions by western countries</li> <li>• Deadlock of economic development and sharp increase of FDI outflows</li> </ul>   | <ul style="list-style-type: none"> <li>• Partial or total political &amp; economic isolation</li> <li>• Restricted and controlled investment activities</li> <li>• FDI exodus leads to no further economic development.</li> <li>• Blocked access to western garment sales markets</li> </ul> | <ul style="list-style-type: none"> <li>• Shift of client base towards to Asian fast fashion retailers</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li>• Sale of 80 % of remaining company shares to Burmese partner</li> <li>• If accepted, possible re-entry, if political situation changes</li> </ul> | 10 %  |

## 8.2 Final recommendation

Myanmar became a promising opportunity for fast fashion retailers, due to its geo-strategic location, low manufacturing costs combined with a large and young labor force. Based on this competitive advantage the external analysis clearly confirmed that the manufacturing industry such as garment, could be one of the key drivers for the necessary economic development in Myanmar. Nevertheless at the moment, the country is not able to exploit its entire potential due to the economic and social limitations/gaps related caused by the long isolation period. Furthermore the democratization process is still evolving and strongly depend on the goodwill of the military. Consequently the initiated political and economic reforms are about to unfold their first effects but needs further time in order to complete the transition process.

Still, the started democratization process since late 2010, with new institutions of civilian rule and the relatively free by-elections in April 2012, Western governments started to lift all sanctions on trade and investment. Especially, the restoration of the GSP status in 2013 grants a Burmese garment manufacturers a tariff & quota free access to European markets, which is a remarkable advantage to its Asian competitors. As a result since the abolishment, the Burmese garment exports strongly increased by 30 %, which illustrates the high economic potential of this industry in order to support economic growth and development for the next years. Currently, the Burmese garment industry offers limited production capabilities by mainly offering CMT “cut, make, trim” operations, a low production service level for simple garments. This operation mode only includes assembling of garments, whereas designing, sourcing or shipping activities are not managed by the manufacturer. Consequently further development and progress is required in order to offer more sophisticated production services.

Based on these findings and the most likely scenario, it is proposed to link the final decision according to the outcome of the general elections in November 2015, as it is a trend-setting indicator regarding the prospective development of the country. In addition, a stable macroeconomic framework and political institutions are a pre-condition in order to operate in Myanmar. Furthermore within this time period, the mentioned main bottlenecks (lack of infrastructure & skilled labor) could have been partly overcome (e.g. Thilawa SEZ will partly operate since mid-2015).

All in all, Myanmar as manufacturing country, offers a favorable operational framework due to its locational advantages, which will unfold their full effects, if the political and economic modernization process will be pursued.



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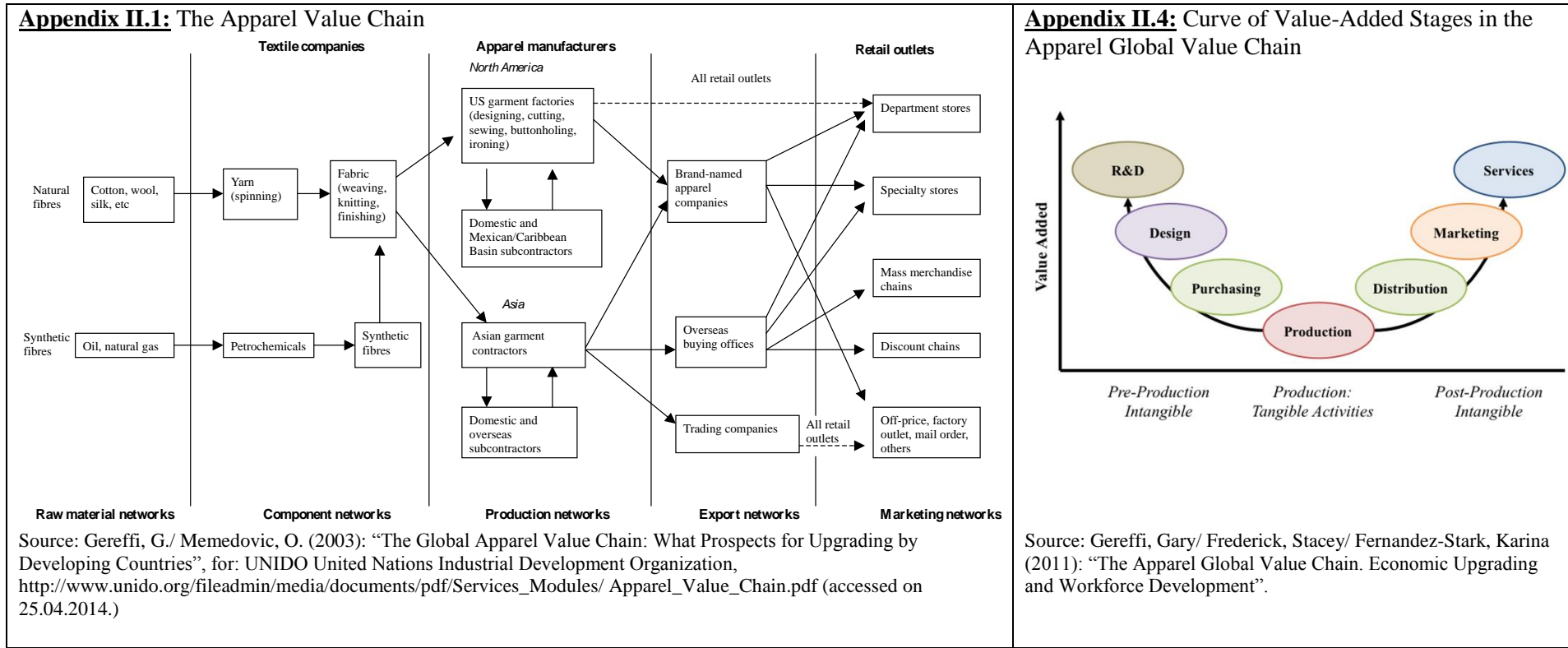
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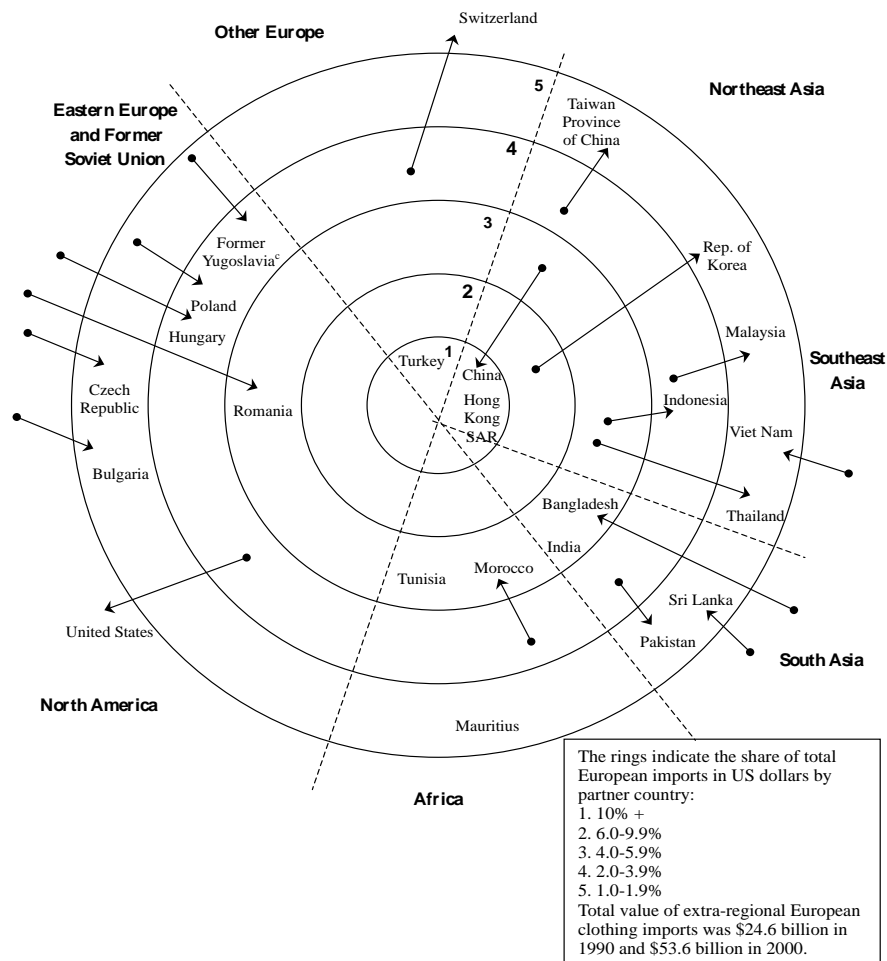


Appendix



## Appendix II.2:

### Shifts in the regional structure of European apparel imports, 1990-2000

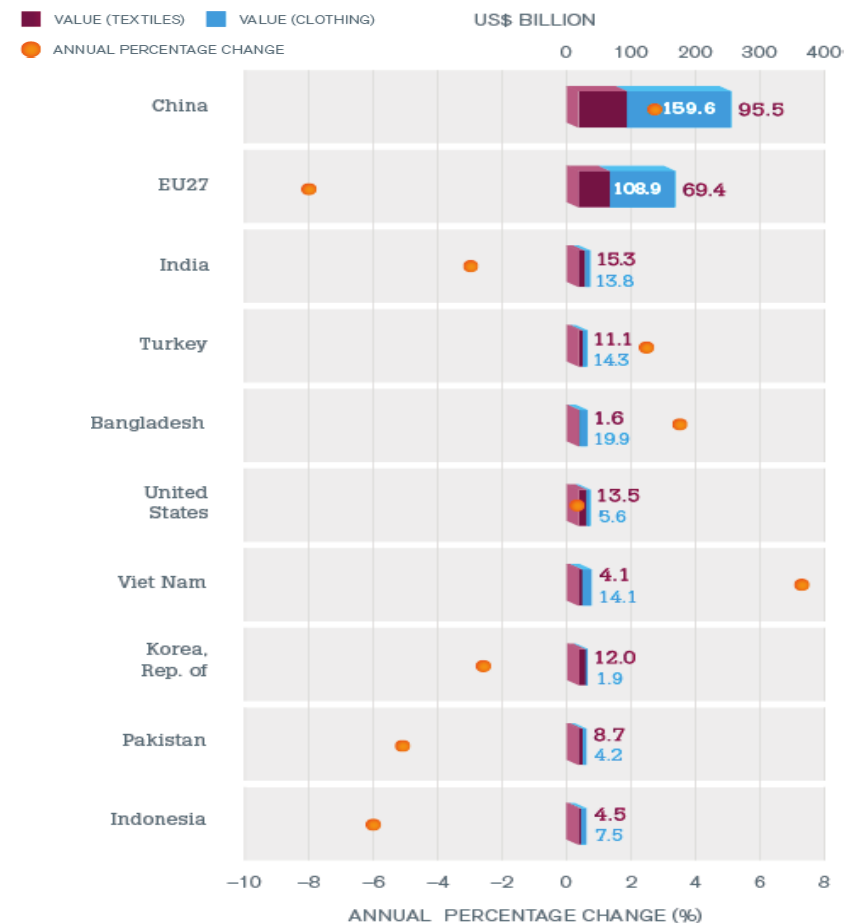


Source: World Trade Analyzer, based on United Nations data for Standard International Trade Classification SITC84 ("Articles of apparel and clothing accessories").

Notes: \* This chart excludes intra-European trade among the 15 member states of the EU (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom). Total apparel imports are for the entire European region, but exclude the former Soviet Union.

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## Appendix II.3: Major exporters of textiles & clothing 2012

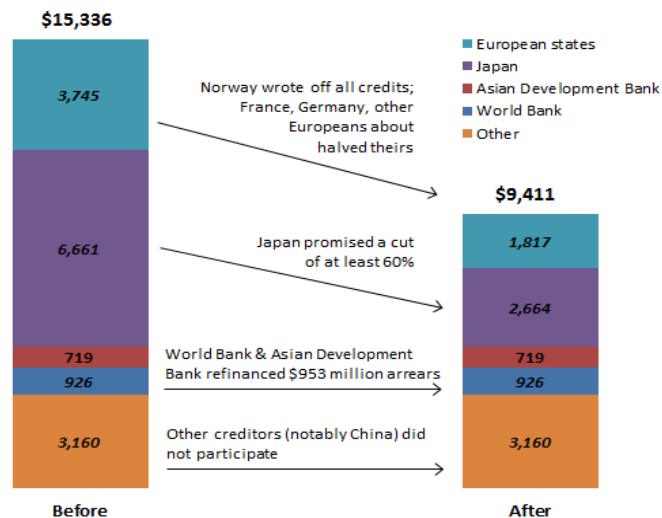


Source: World Trade Organization International Trade Statistics (2012): "II. Merchandise trade. Key developments in 2012: a snapshot", [http://www.wto.org/english/res\\_e/statis\\_e/its2013\\_e/its13\\_highlights2\\_e.pdf](http://www.wto.org/english/res_e/statis_e/its2013_e/its13_highlights2_e.pdf).

### Appendix III.1: Debt relief

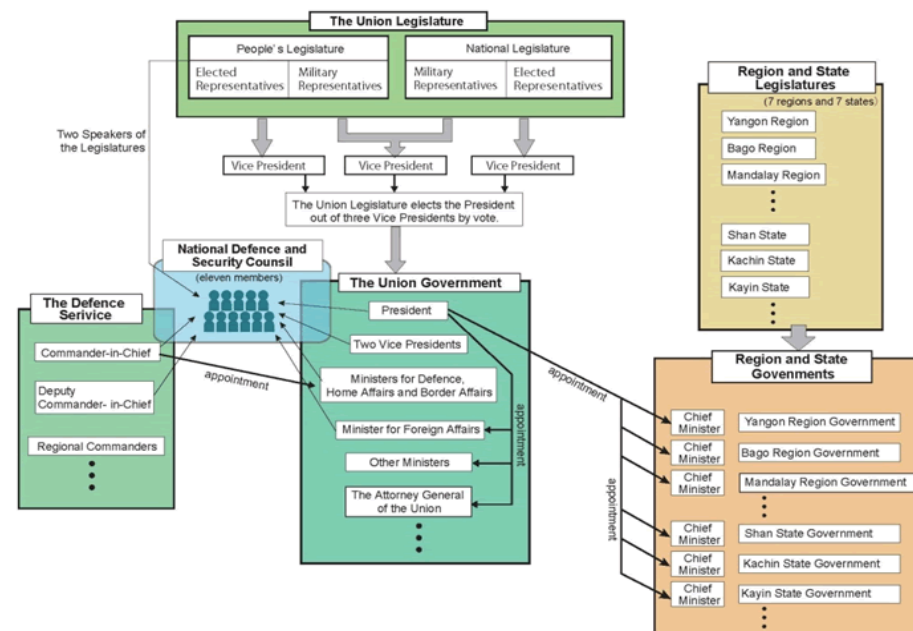
#### The Myanmar debt deal, January 2013

Estimates of debt stock, in million \$, based on IMF & Paris Club



Source: <http://www.ide.go.jp/English/Research/Region/Asia/20110111.html>

### Appendix III.2: Political framework and institutions of Myanmar



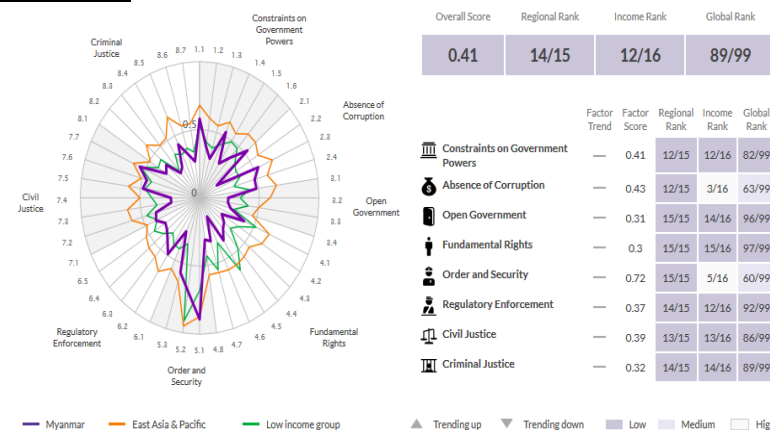
Source: <http://www.cgdev.org/blog/debt-deal-reunites-myanmar-and-donors>

### Appendix III.3: ASEAN corruption index 2013



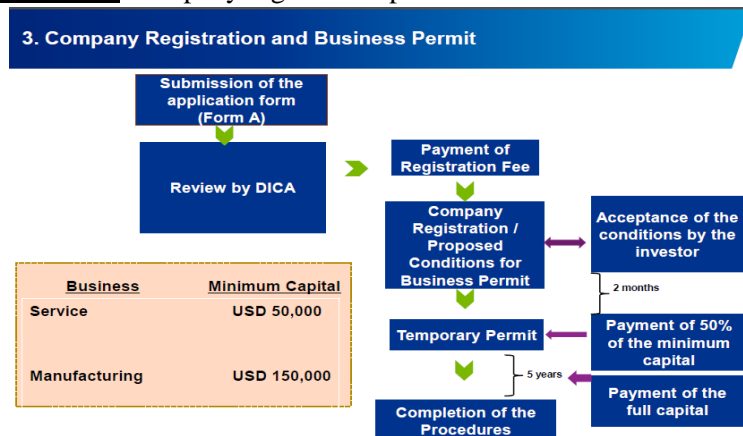
Source: <http://englishnews.thaipbs.or.th/ti-sees-progress-fight-graft-indonesia/>

### Appendix III.4: Rule of Law Index 2014



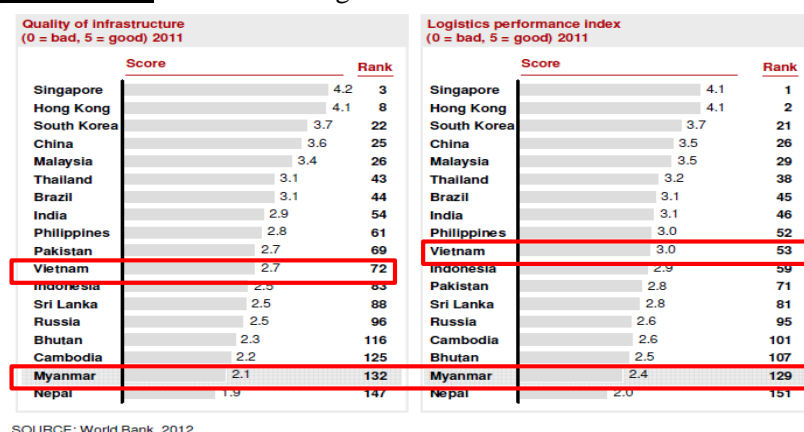
Source: <http://data.worldjusticeproject.org/#/index/MMR>

### Appendix III.5: Company registration procedure



Source: KPMG – FIL and Investment Procedures in Myanmar (July 2013), slide 20

### Appendix III.6: World Bank logistic Index



Source: WEF – Myanmar: Asia next tiger (2013), slide 27

### Appendix III.7: Telecommunication access

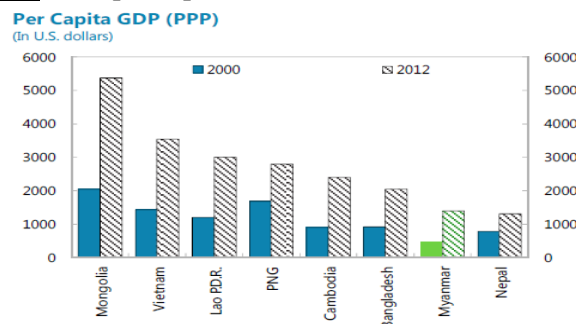
| (per 100 people)              | Myanmar | Cambodia | Lao PDR | Vietnam | Bangladesh | China |
|-------------------------------|---------|----------|---------|---------|------------|-------|
| Mobile cellular subscriptions | 2.6     | 96.2     | 87.2    | 143.4   | 56.1       | 73.2  |
| Telephone lines               | 1.1     | 3.7      | 1.7     | 11.5    | 0.6        | 21.2  |
| Internet users                | 1.0     | 3.1      | 9.0     | 35.1    | 5.0        | 38.3  |

(Note) Measures are based on 100 people.

(Source) World Bank, *World Development Indicators*, on-line.

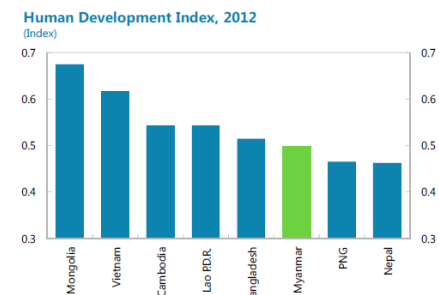
Source: Toshihiro Kudo (Sept. 2013), page 30: Myanmar's Apparel Industry in the New International Environment: Prospects and Challenges

### Appendix III.9: GDP per capita ASEAN



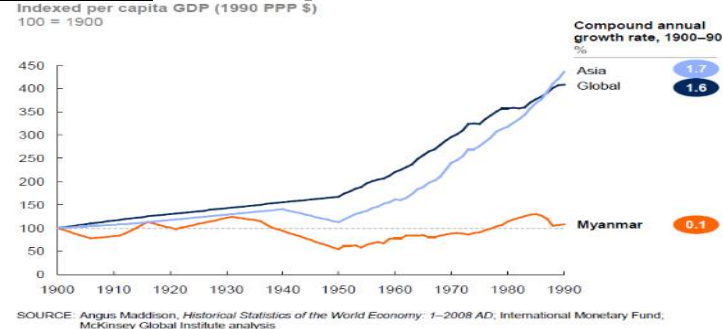
Source: IMF Myanmar review report (March 2014), page 13

### Appendix III.8: HDI index



Source: IMF Myanmar review report (March 2014), page 13

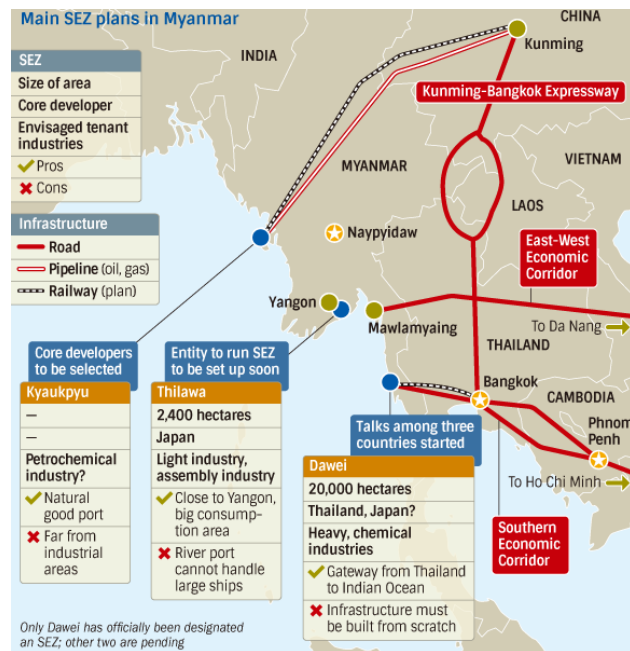
### Appendix III.10: GDP development



Source: McKinsey Global Institute report (June 2013), page 17: “Myanmar’s moment (...)”

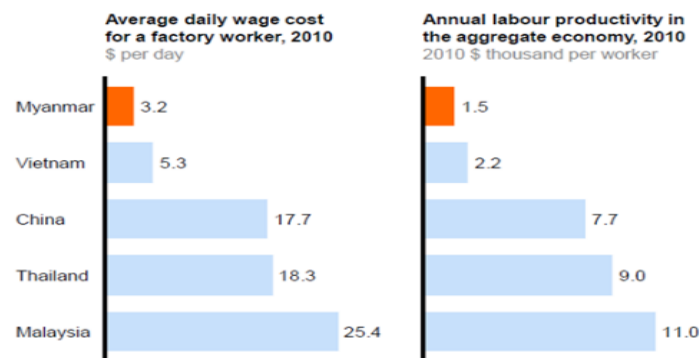


### Appendix III.11: Existing & planned SEZ



Source: <http://asia.nikkei.com/print/article/5794>

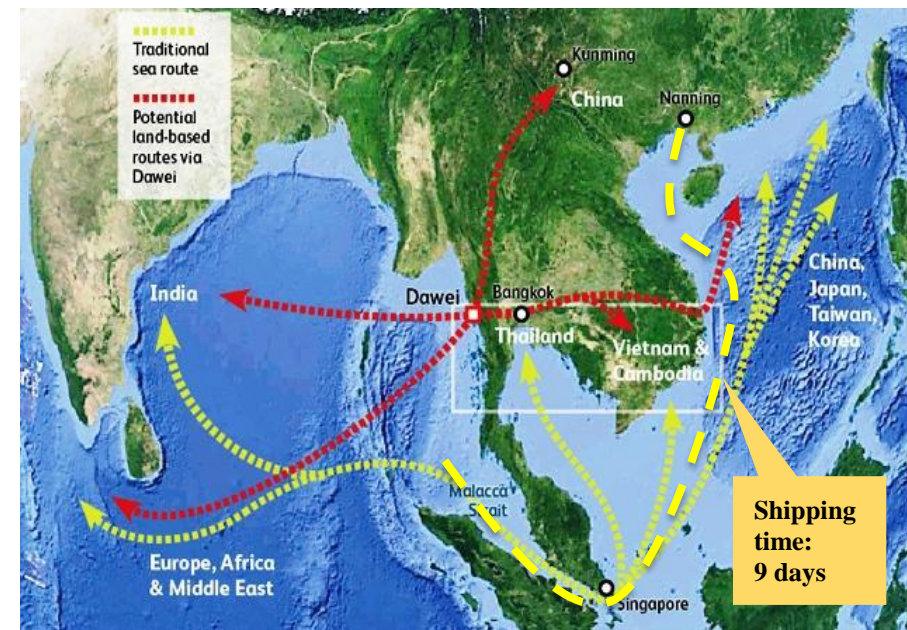
### Appendix III.13: Wages & labor productivity



SOURCE: International Monetary Fund; Sein Htay, *Burma Economic Review 2005–2006*, Burma Fund; International Labour Organization; *The Economist*; IHS Global Insight; interviews with embassy trade representatives in Yangon; McKinsey Global Institute analysis

Source: McKinsey Global Institute report (June 2013), page 70:  
Myanmar's moment: Unique opportunities, major challenges

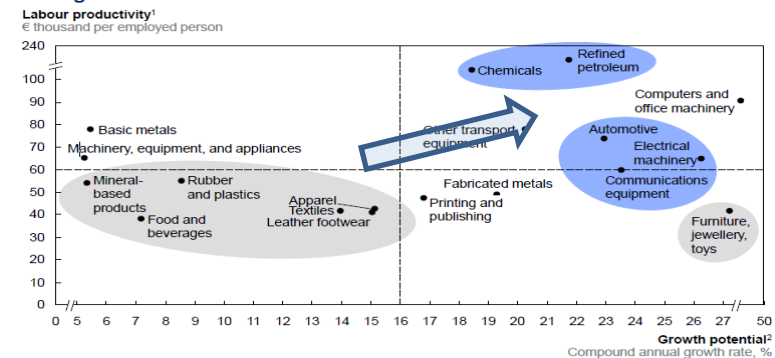
### Appendix III.12: Dawei deep seaport



Source: <http://www.daweiport.net/dawei-port-thailands-megaproject-burma/>

### Appendix III.14: Industry positioning

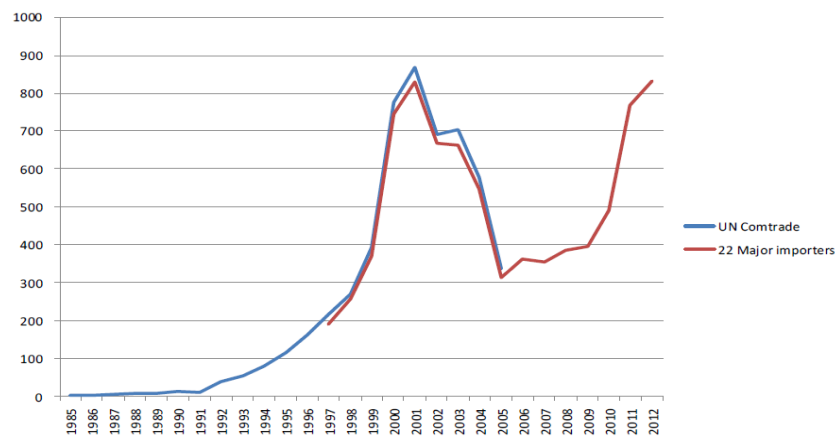
In the long term, Myanmar should consider aiming for fast-growing, high-productivity industries with strong consumer demand



1 German statistics used as an example of high-value-added manufacturing sectors in an advanced economy.  
2 Thailand's weighted average growth from 1982 to 1995 when per capita GDP growth was similar to Myanmar's estimated potential growth between 2010 and 2030.  
SOURCE: IHS Global Insight; EU KLEMS; McKinsey Global Institute analysis

Source: McKinsey Global Institute report (June 2013), page 73: "Myanmar's moment (...).

### Appendix III.15: Garment exports Myanmar (mill. US)



(Source) UN comtrade and World Trade Atlas.

Source: Toshihiro Kudo (Sept. 2013), page 5: Myanmar's Apparel Industry in the New International Environment: Prospects and Challenges

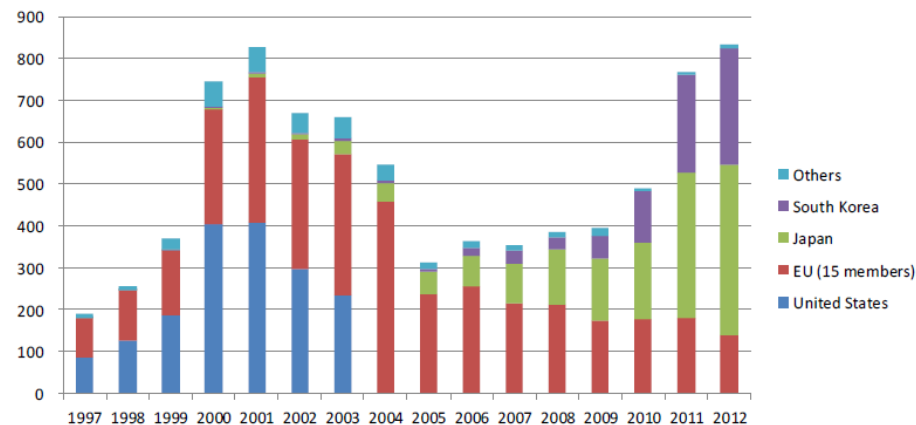
### Appendix III.17: Monthly wage development of garment workers

| Month/Year           | Wages in Kyat | Exchange rates (Kyat/US\$) | Wages in US\$ | CPI (2004=1.0) | Wages in real terms (Kyat) | Increase in real wages (Kyat) |
|----------------------|---------------|----------------------------|---------------|----------------|----------------------------|-------------------------------|
| Year 2000            | -             | -                          | about 20      | -              | -                          | -                             |
| June-Sept. 2004      | 17,800        | 1,000                      | 18            | 1.0            | 17,800                     | -                             |
| April 2008           | 39,000~42,000 | 1,110                      | 35~38         | 2.0            | 19,500~21,000              | 10%~18%                       |
| May 2013             | 70,000~82,000 | 975                        | 72~84         | 2.3            | 30,000~36,000              | 54%~85%                       |
| Growth for 2004-2013 | 3.9~4.6 times | -                          | 4.0~4.7times  | 2.7 times      | 1.7~2.0 times              |                               |

(Source) Wages in kyat for Year 2000 are based on the author's interviews, those for Year 2004 are based on SGIM (2005), those for Year 2008 is based on the author's interviews in Yangon in April 2008 (Kudo ed., 2008J), and those for Year 2013 is based on the MGMA's model wages in May-June 2013. Exchange rates are from market sources. CPI is from CSO SMEI (various numbers).

Source: Toshihiro Kudo (Sept. 2013), page 20: Myanmar's Apparel Industry in the New International Environment: Prospects and Challenges

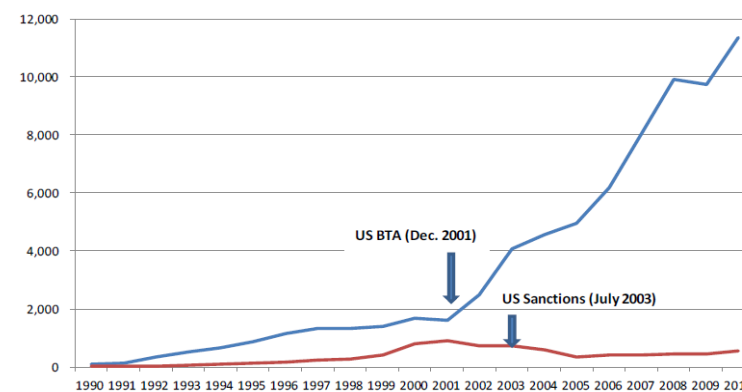
### Appendix III.16: Garment exports by country (mill. US\$)



(Source) World Trade Atlas.

Source: Toshihiro Kudo (Sept. 2013), page 6: Myanmar's Apparel Industry in the New International Environment: Prospects and Challenges

### Appendix III.18: Garment exports Myanmar & Vietnam (mill. US\$)



(Source) UN Comtrade.

Source: Toshihiro Kudo (Sept. 2013), page 7: Myanmar's Apparel Industry in the New International Environment: Prospects and Challenges

### Appendix III.19: Production costs

Major industrial estates in selected Asia countries

|                               | Myanmar                             |  | Vietnam  | Indonesia                                |
|-------------------------------|-------------------------------------|--|--|--|
|                               | Mingaladon Industrial Park (Yangon) | Hlaing Thar Yar Industrial Zone (Yangon) | Binh Xuyen Industrial Park (Hanoi)             | ModernCikande Industrial Estate (Serang) |
| Area                          | 90 hectares (Phase I)               | 560 hectares                             | 982 hectares                                   | 1,050 hectares                           |
| Land rent or land use premium | US\$4/m <sup>2</sup> /yr            | US\$3/m <sup>2</sup> /yr*                | US\$1.45 /m <sup>2</sup> /yr                   | US\$13-30/m <sup>2</sup> /yr             |
| Electricity cost              | US\$0.09/kWh (flat rate)            |  | US\$0.04/kWh (non-peak)<br>US\$0.08/kWh (peak) | US\$0.07/kWh**                           |
| Water bill                    | US\$0.5-0.7/m <sup>3</sup>          | Digging tube wells                       | US\$0.2/m <sup>3</sup>                         | US\$1.6/m <sup>3</sup>                   |
| Minimum wage                  | US\$70/month (average wage)         |  | US\$96/month (Hanoi and Ho Chi Minh City)      | US\$145/month (Serang)                   |

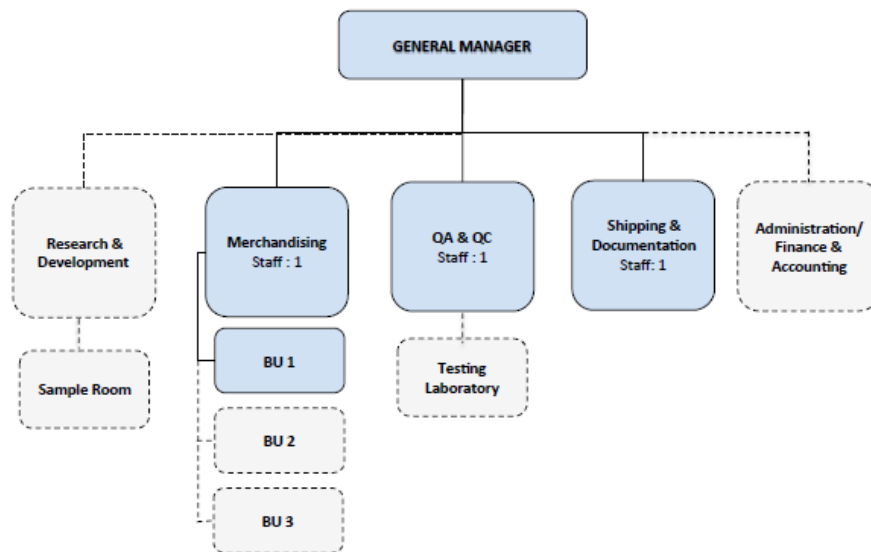
\* Existing factory premises in Hlaing Thar are rented at around US\$2-2.5/m<sup>2</sup>/month

\*\* Average tariff rate: non-peak and peak rates range between US\$0.05 and US\$0.1/kWh

Source: Various government and industrial park sources

Source: <http://economists-pick-research.hktdc.com/business-news/article/Research-Articles/The-how-and-where-in-developing-Myanmar-garment-plants/rp/en/1/1X000000/1X09PVLU.htm>

### Appendix IV.1: Tishat Organisational Chart



Source: Own graph

### Appendix IV.2: Vision, Mission, Values



Source: Own graph

### **Appendix IV.3: Product Segmentation/Product Groups**

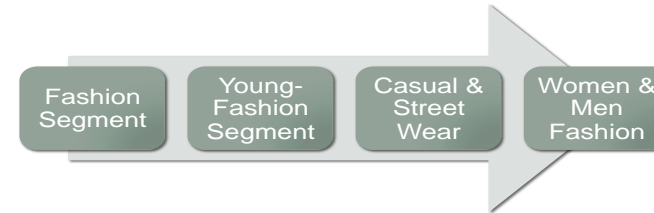
#### **Product Segmentation**

Every fashion brand has its own individual product range, mostly segmented into several product categories. The first segmentation is gender-specific into Men, Women and Kids apparel. The second segmentation divides each product range into several product categories which are targeting different customer profiles. These profiles are casual wear, street wear, active and sports wear and formal or city wear. Taking the example of the clothing retailer Zara, their women product range is subdivided into six product lines (i.e. Zara Women (sophisticated women's wear), Zara Basics (simple and basic styles), Zara Sport (sport's wear), TRF (young fashion) and Trafaluc (high fashion degree)). Each product line is then divided into different product categories such as jeans, cardigans, blouses etc. and under each of these product categories you find the single styles with each having its own article number.

#### **Product Groups**

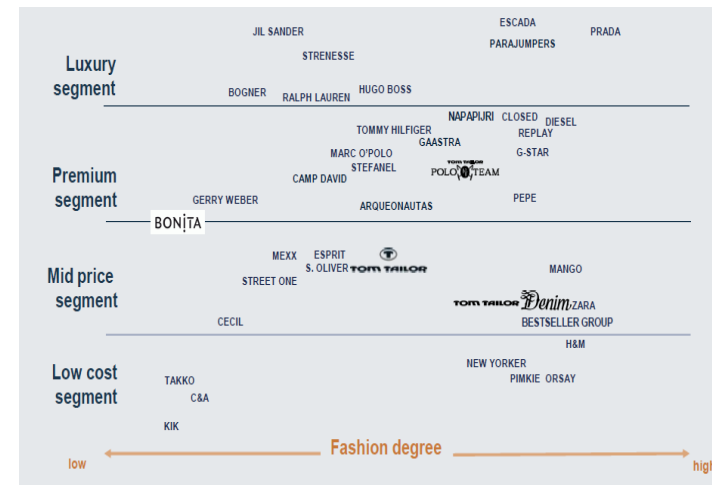
The garment products are divided into two main product groups, which are knits and wovens. The difference between the two lies in the construction, the technical method of creating a cloth of the fabric. While a knit surface is consists of a number of consecutive rows of loops called stitches, a woven is formed by weaving on a loom made of many threads woven on a warp and a weft. [Appendix IV.7]. It is common to divide the category knits into flat knits (FK) and circular knits (CK), since the machinery is a completely different one. Flat knitting is more flexible and allows complex stitch designs while circular knitting is limited in its patterns but also much cheaper and faster in producing. Knitted fabric is mostly used for stretchy jerseys such as t-shirts, long sleeves, underwear, socks and sweaters or cardigans. Whereas wovens are used for pants, jeans, shirts, blouses, blazer and coats. The product offering of the customer has a great impact on the decision for the sourcing country taking into account the necessity for fast lead times, the price and the availability as well as reordering cycles etc.

### **Appendix IV.4: Fragmentation of the Young Fashion Segment**



Source: Own graph

### **Appendix IV.5: Fashion Retailer Segmentation**



Tom Tailor (2012): "Analyst Presentation,  
[http://irpages2.equitystory.com/tomtailor/pdf/2012/TT\\_Analyst\\_presentation\\_FY2011.pdf](http://irpages2.equitystory.com/tomtailor/pdf/2012/TT_Analyst_presentation_FY2011.pdf).

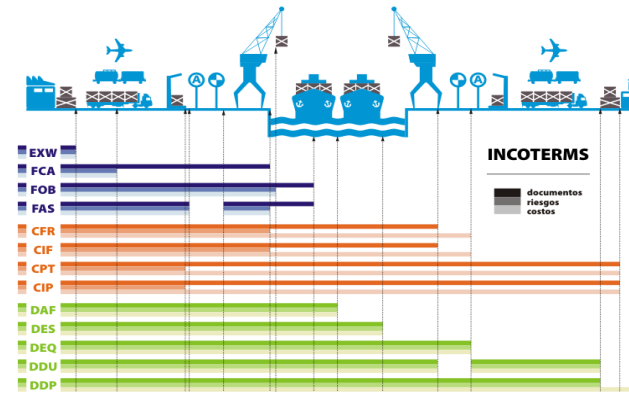


|  |   |
|--|---|
| <p><b><u>Appendix IV.6:</u></b><br/>Opal International Co., Ltd. as a potential supplier</p> <p>One of the first supplying partners is going to be Opal, one of the most experienced and reputable suppliers of high quality garments in Myanmar. It has manufactured and exported garments for over 20 years. It is located in the Special Economic Zone of Hlaing Thayar Township of Yangon. Opal has an annual capacity of 120.000 pieces of jackets and coats, 140.000 pieces of blazers and 500.000 pieces of pants. The factory is able to work with a wide range of material from cotton to nylon, linen, PVC, polyester, denim, blended and stretchable fabric, studs and other materials. Opal is sourcing fashion yarns and materials from China, Taiwan and Korea<sup>52</sup>.</p> | <p><b><u>Appendix IV.7:</u></b> Expertise for employees</p> <p><b><u>Expertise: Sourcing and Merchandising</u></b><br/>The person in the Merchandising department is in charge of client acquisition, contract negotiation and client service. Therefore it is fundamental that the merchandiser has deep knowledge in commodity prices, payment methods, term of deliveries and good contacts within the garment and textile industry. Furthermore, the merchandiser looks for market expansion opportunities. In his position as a merchandiser, the person is not directly involved in strategy decision. These tasks are fulfilled in his position as a member of the board and co-owner.</p> <p><b><u>Expertise: “QA &amp; QC” Department</u></b><br/>The members of the QA &amp; QC department are the first contact when it comes to complains. The merchandiser forwards the complaints to the QA &amp; QC and he edits them. Furthermore, the quality check is as much in the responsibility of the QA &amp; QC department as process optimization within the agency. To ensure the quality of the products, the employee is in close contact with the manufacturer in Myanmar and he is the one who approves the pieces before the final shipment to the customer.<br/>Furthermore, QA &amp; QC employees are responsible for Customer Social Responsibility (CSR) as well as for the maintenance of the labour conditions. In these cases the employee works close with international NGO’s in order to ensure and enhance the above mentioned conditions.</p> <p><b><u>Expertise: “Shipping &amp; Documentation” Department</u></b><br/>The department of Shipping &amp; Documentation consist the procurement process, the capacity planning with Tishat’s manufacturers as well as the organization of the shipment from Myanmar to the customer’s destination. This includes the handling with customs, dealing with shipping companies etc. in consideration of the existing contract details. Furthermore, the employee is in duty of extending and optimizing the pool of manufacturer of Tishat in Myanmar. Therefore, experts in the Shipping &amp; Documentation department are characterized by excellent organization and negotiation skills as well as sound knowledge in the areas of transport and law.</p> |
|--|---|

<sup>52</sup> Opal International Co.,Ltd. (2009):”Company Profile, <http://www.myanmargarment.net/profil.htm> (accessed 20.02.2014)  
Discovering Myanmar as a manufacturing country

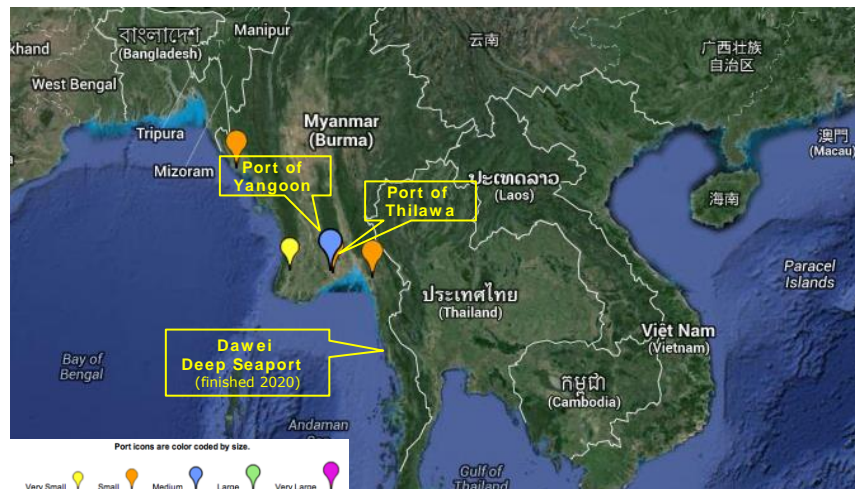
## Appendix V.1: Selected Incoterms

- *ExW* means that the manufacturer's job ends with placing the goods as agreed on with the buyer at the manufacturer's premises or at another named place i.e. works, factory or warehouse. The seller does not need to load the goods on any collecting vehicle (truck), nor does it need to clear the goods for export, where such clearance is applicable.
- *FOB* means that the manufacturer delivers the goods on board the vessel nominated by the buyer at the named port of shipment. The risk of loss of or damage to the goods passes when the goods are on board the vessel, and the buyer bears all costs from that moment onwards



Source: N.a. (2011): "Incoterms 2010: ICC Official rules for the interpretation of the trade terms", <http://www.searates.com/reference/incoterms/>.

## Appendix V.2: Relevant Ports in Myanmar



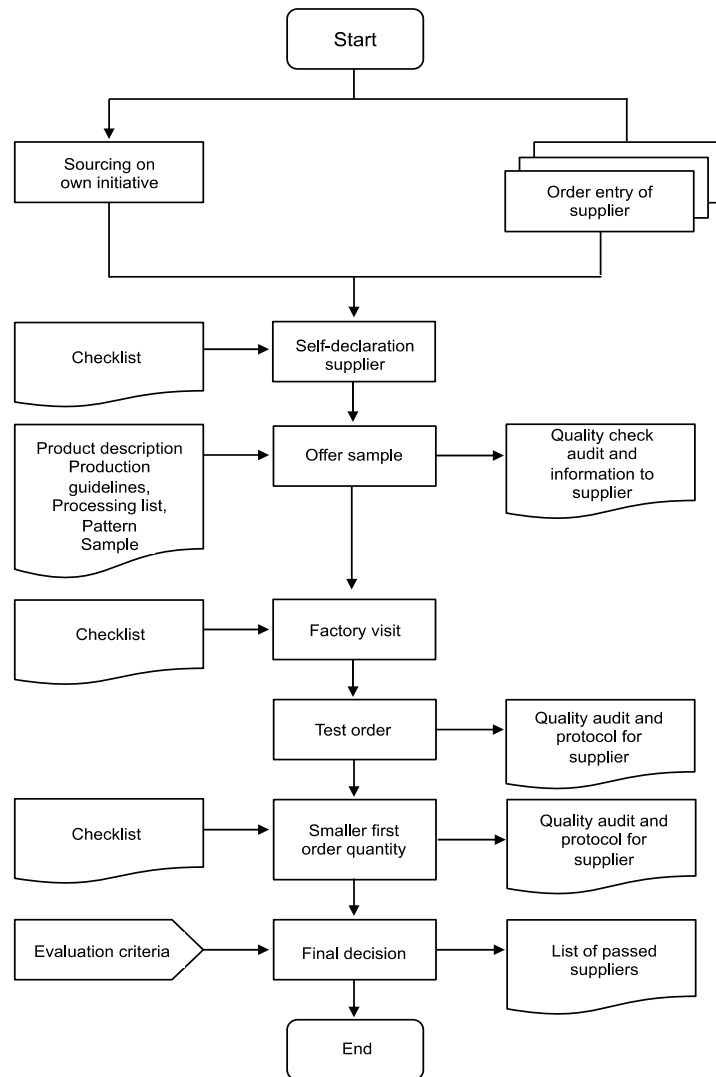
Source: <http://www.worldportsource.com/ports/MMR.php>

## Appendix V.3: Shipping Route from Yangon to Rotterdam



Source: <http://www.worldportsource.com/ports/MMR.php>

#### Appendix V.4: Factory evaluation procedure



Source: Gimpel, Sabine (1996): "Optimale Auswahl von Fertigungsstätten: Checklisten", Bekleidungstechnische Schriftenreihe, Band 117 Forschungsgemeinschaft Bekleidungsindustrie e.v.

#### Appendix V.5: Social audit report

|                 |                       |                       |             |
|-----------------|-----------------------|-----------------------|-------------|
| <b>Client</b>   | ABC Clothing Co.      | <b>AI Service No.</b> | O-cn-123456 |
| <b>Supplier</b> | China Garment Factory | <b>Auditor</b>        | EFG         |
| <b>Factory</b>  | China Garment Factory | <b>Audit Date</b>     | 31-12-20**  |

| SCORING SUMMARY                              |              |            |            |                |
|--|--------------|------------|------------|----------------|
| CRITERIA                                     | Actual Score | Score /10  | WEIGHT (%) | WEIGHTED SCORE |
| SAFETY – Fire Equipment                      | 9/30         | 3          | 5%         | 0.15           |
| SAFETY – Toxic Products                      | N/A          | N/A        | 10%        | N/A            |
| SAFETY – Machinery & heavy equipment         | 9/25         | 3.6        | 10%        | 0.36           |
| SAFETY – Electrical Installation             | 37/40        | 9.25       | 5%         | 0.4625         |
| HEALTH & HYGIENE – Medical Care              | 7/25         | 2.8        | 10%        | 0.28           |
| HEALTH & HYGIENE – Commodities               | 21/30        | 7          | 5%         | 0.35           |
| <b>CHILD LABOUR</b>                          | 50/60        | 8.3        | 15%        | 1.245          |
| EMPLOYEES INTERVIEW                          | 0/45         | 0          | 15%        | 0              |
| ASSOCIATION                                  | 6/10         | 0.6        | 5%         | 0.03           |
| DISCRIMINATION                               | 50/50        | 10         | 5%         | 0.5            |
| COERCION                                     | 25/25        | 10         | 5%         | 0.5            |
| <b>WORKING HOURS &amp; WAGES – Work time</b> | 5/20         | 2.5        | 5%         | 0.125          |
| WORKING HOURS & WAGE – Wages                 | 15/30        | 5          | 5%         | 0.25           |
| <b>Theoretical Max</b>                       | 390          | 10         | 100 %      | 10             |
| <b>Final Score</b>                           | <b>234</b>   | <b>6.2</b> | <b>90%</b> | <b>4.25/10</b> |

Source: [http://aius3.asiainspection.com/qi/aiweb.nsf/images/sa-report/\\$file/social-audit.pdf](http://aius3.asiainspection.com/qi/aiweb.nsf/images/sa-report/$file/social-audit.pdf)

## Appendix V.6: Example factory rating comparison by geographic region

| Region                                  | Number of factories | Action required (%) | Fair (%)     | Good (%)     | Excellent (%) |
|---|---------------------|---------------------|--------------|--------------|---------------|
| Greater China                           | 343                 | 22.4%               | 32.4%        | 34.4%        | 10.8%         |
| North Asia                              | 64                  | 6.3%                | 42.2%        | 48.4%        | 3.1%          |
| Southeast Asia                          | 295                 | 12.9%               | 30.2%        | 42.4%        | 14.6%         |
| South Asia                              | 332                 | 8.1%                | 47.9%        | 35.2%        | 8.7%          |
| Persian Gulf                            | 1                   | 100.0%              | 0.0%         | 0.0%         | 0.0%          |
| North Africa & the Middle East          | 29                  | 31.0%               | 41.4%        | 13.8%        | 13.8%         |
| Sub-Saharan Africa                      | 3                   | 66.7%               | 33.3%        | 0.0%         | 0.0%          |
| Europe                                  | 29                  | 3.4%                | 24.1%        | 24.1%        | 48.3%         |
| United States and Canada                | 33                  | 1.3%                | 12.8%        | 30.8%        | 55.1%         |
| Mexico, Central America & the Caribbean | 78                  | 0.0%                | 9.1%         | 24.2%        | 66.7%         |
| South America                           | 13                  | 0.0%                | 30.8%        | 53.8%        | 15.4%         |
| <b>Total</b>                            | <b>1220</b>         | <b>13.1%</b>        | <b>34.7%</b> | <b>36.1%</b> | <b>16.1%</b>  |

*Note: Data represents fiscal year and includes factories producing Gap Inc. branded product that are part of our monitoring program and that were active during either the full or partial year 2012. Partial-year factories include those that began or stopped working with Gap Inc. at some point during the fiscal year.*

## Appendix V.7: Code of Conduct

Although the detail of the buyers' Codes of Conduct varies from buyer to buyer, it is often based on the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work and the UN Convention on the Rights of the Child. It also stipulates that local legislation must be observed. Besides the different versions of each buyer there are common key elements, which are thought in different extent included in all of them:

- No child labour
- No forced labour
- No discrimination
- Payment of minimum wages
- Regulated and reasonable working hours
- Freedom of association
- Humane treatment and disciplinary practices (no harassment and abuse)
- Adequate health and safety measures
- No/ limited subcontracting
- Environment

To help the suppliers to understand the Code of Conduct and the buyer's expectations, buyer's provide implementation guides for the suppliers. In order to be able to have control over the production processes, it is mostly stated that manufacturers need to inform the buyer at all times where each product is being produced, including subcontracting and homework and that it is not allowed to subcontract orders without the knowledge or authorisation of the customer. Although many suppliers have unified the manufacturing processes under one roof, such as production with printing and embroidery facilities, at times there are special processes some suppliers cannot carry out or in times of capacity overbooking, the customer needs to authorise them to be carried out by other specialised companies. Most of the violations of codes of conducts happen exactly in this intersection and the forwarding to subcontractors, which are mostly not visible for the buyer unless something happens e.g. a delay in delivery.

### Sources:

- H&M (2009): "Code of Conduct", <http://sustainability.hm.com/en/sustainability/commitments/choose-and-reward-responsible-partners/code-of-conduct.html>
- Lesotho Textile Exporters Association (n.y.): "Codes of Conduct", [http://www.lesothotextiles.com/Pages/Codes-of-Conduct.asp?linkPath=3&IID=3\\_2](http://www.lesothotextiles.com/Pages/Codes-of-Conduct.asp?linkPath=3&IID=3_2).
- Mango (2012): "Sustainability Report 2012", [http://www.mango.com/web/oi/servicios/company/US/empresa/rsc/english\\_2012.pdf](http://www.mango.com/web/oi/servicios/company/US/empresa/rsc/english_2012.pdf)

### Appendix VI.1: Exhibitions

| Exhibition                                     | Dates            | Costs of full stay <sup>53</sup>   |
|--|------------------|--|
| Bread and Butter (Berlin, GER)                 | July. 08-10 2014 | Return Flights: \$1,355 p.p.<br>Accommodation***: \$1,085<br>Transportation: \$35<br>Costs daily activities: \$300 |
| Premium Intl. Fashion Trade Show (Munich, GER) | Aug. 9-12 2014   | Return Flights: \$1,333 p.p.<br>Accommodation***: \$840<br>Transportation: \$40<br>Costs daily activities: \$300   |

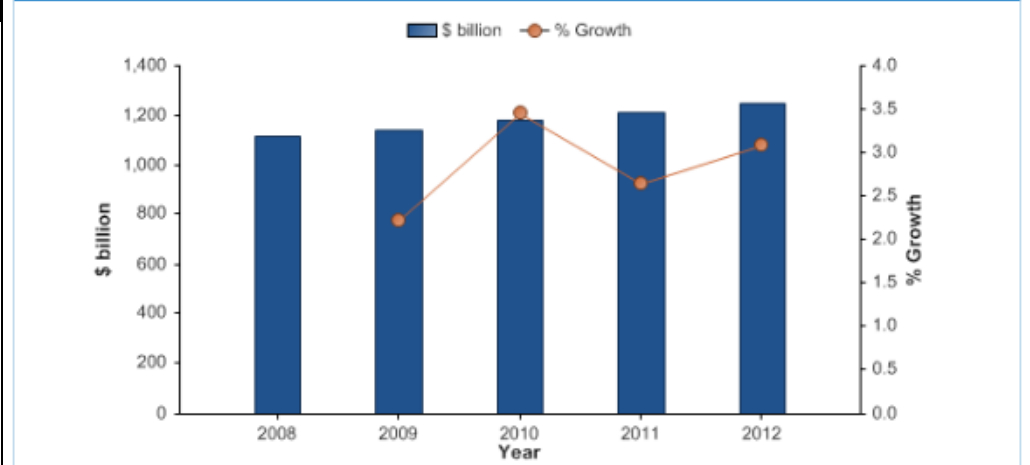
Source: Flight and accommodation costs: <http://www.skyscanner.es/>

### Appendix VI.2: Growth of Apparel Industry

Table 1: Global apparel retail industry value: \$ billion, 2008–12

| Year          | \$ billion | € billion | % Growth |
|---------------|------------|-----------|----------|
| 2008          | 1,116.5    | 802.6     |          |
| 2009          | 1,141.3    | 820.4     | 2.2%     |
| 2010          | 1,180.7    | 848.7     | 3.5%     |
| 2011          | 1,211.9    | 871.1     | 2.6%     |
| 2012          | 1,249.3    | 898.0     | 3.1%     |
| CAGR: 2008–12 |            |           | 2.8%     |

Figure 1: Global apparel retail industry value: \$ billion, 2008–12



Source: Market Line Industrial Profile: Global Apparel Retail:  
[http://api.ning.com/files/VzgFwBdBjDXddqTNg5gkT1fLJSmlJvuNMwg2eYaMBFOF5ebXT17-rZzkgK1Br-ClDeZA8jU1\\*7sCE02YFKawLu-P1IgbMlz5/GlobalApparelRetail.pdf](http://api.ning.com/files/VzgFwBdBjDXddqTNg5gkT1fLJSmlJvuNMwg2eYaMBFOF5ebXT17-rZzkgK1Br-ClDeZA8jU1*7sCE02YFKawLu-P1IgbMlz5/GlobalApparelRetail.pdf)

**Appendix VII.1:** Sales Forecast

|                           | Sales forecast – Basic shirtsleeve |      |                  |      |                   |       |                   |       |                   |
|---------------------------|------------------------------------|------|------------------|------|-------------------|-------|-------------------|-------|-------------------|
| Sales forecast (in units) | Year 1                             | Δ    | Year 2           | Δ    | Year 3            | Δ     | Year 4            | Δ     | Year 5            |
| Best                      | 238.044                            | 22 % | 290.414          | 30 % | 377.538           | 40 %  | 528.553           | 45 %  | 766.401           |
| Most likely               | 238.044                            | 14 % | 271.370          | 20 % | 325.644           | 25 %  | 407.055           | 30 %  | 529.172           |
| Pessimistic               | 238.044                            | 10 % | 261.848          | 5 %  | 274.941           | -10 % | 247.447           | -20 % | 197.957           |
| Sales forecast (in USD)   |                                    |      |                  |      |                   |       |                   |       |                   |
| Sales - best              | \$ 736.901                         |      | \$ 899.019       |      | \$ 1.168.725      |       | \$ 1.636.215      |       | \$ 2.372.511      |
| COGS                      | \$ 669.910                         | 22 % | \$ 817.290       | 30 % | \$ 1.062.477      | 40 %  | \$ 1.487.468      | 45 %  | \$ 2.156.828      |
| <b>Gross Profit</b>       | <b>\$ 66.991</b>                   |      | <b>\$ 81.729</b> |      | <b>\$ 106.248</b> |       | <b>\$ 148.747</b> |       | <b>\$ 215.683</b> |
| Sales – most likely       | \$ 736.901                         |      | \$ 840.067       |      | \$ 1.008.080      |       | \$ 1.260.100      |       | \$ 1.638.130      |
| COGS                      | \$ 669.910                         | 14 % | \$ 763.697       | 20 % | \$ 916.437        | 25 %  | \$ 1.145.546      | 30 %  | \$ 1.489.210      |
| <b>Gross Profit</b>       | <b>\$ 66.991</b>                   |      | <b>\$ 76.370</b> |      | <b>\$ 91.644</b>  |       | <b>\$ 114.555</b> |       | <b>\$ 148.921</b> |
| Sales - pessimistic       | \$ 736.901                         |      | \$ 810.591       |      | \$ 851.120        |       | \$ 766.008        |       | \$ 612.807        |
| COGS                      | \$ 669.910                         | 10 % | \$ 736.901       | 5 %  | \$ 773.746        | -10 % | \$ 696.371        | -20 % | \$ 557.097        |
| <b>Gross Profit</b>       | <b>\$ 66.991</b>                   |      | <b>\$ 73.690</b> |      | <b>\$ 77.375</b>  |       | <b>\$ 69.637</b>  |       | <b>\$ 55.710</b>  |

## Appendix VII.2: Product Calculation

### Texwork/MANGO/Joy Inspires



|                    |                         |
|--------------------|-------------------------|
| Style #:           | Joy.Inspires.Ladies.Tee |
| Agent:             | Tishat LCC              |
| Vendor:            | Opal Int'l Co. Ltd.     |
| Factory:           | Opal Int'l Co. Ltd.     |
| Country of Origin: | Myanmar                 |
| SWN#               |                         |
| Date:              | 10-May                  |

|  |                    |  |     | Opal Int'l Co. Ltd. |          |                   |             |
|--|--------------------|--|-----|---------------------|----------|-------------------|-------------|
| Piece Goods  | Mill               | Quality #  | CW  | Yield /KG           | USD /KG  | Allowance/Wastage | Total Price |
| Main Body  | Taiwan fabric mill | SJY 5021   | 56" | 0,145               | \$6,40   | 2,00%             | \$0,95      |
| Collar; Sleeves Inner shell                        |                    | 100% Cotton Single Jersey “Enzyme Wash”<br>160 gr/m2 x 56” | 56" | 0,015               | \$5,70   | 2,00%             | \$0,09      |
| Total Fabric cost EXCLUDING handling Charge        |                    |  |     |                     |          | \$1,03            |             |
| Total fabric cost INCLUDING handling Charge<br>5%  |                    |  |     |                     |          | \$1,09            |             |
| Trim Item:   | Supplier           | Part #   |     | Quantity            | FOB Px   | Allowance/Wastage | Total Price |
| Three Colors Poly tape H.1Cm<br>Grey/White/Dk.Blue | Angga Supplier     | Along collar band  |     | 0,26Y               | \$0,115  | 5%                | \$0,0314    |
| Sewing Thread SP Tex60                             | COATS              | Topstitching   |     | 120                 | \$0,0005 | 5%                | \$0,0668    |
| Sewing Thread SP Tex18                             | COATS              | Overlocks  |     | 150                 | \$0,0004 | 5%                | \$0,0630    |
| Main Label MANGO BSH 013                           | Nilorn             | Inside Back Neck   |     | 1                   | \$0,04   | 15%               | \$0,0426    |
| Care Label   | Bintang Timur      | At inner left side seam wearer                             |     | 1                   | \$0,017  | 5%                | \$0,0179    |
| MANGO Tag  | Nilorn             |  |     | 1                   | \$0,12   | 15%               | \$0,1346    |
| Hologram Sticker                                   | Hologram Company   | On Tag   |     | 1                   | \$0,03   | 15%               | \$0,0357    |
| Tissue Paper                                       | Bintang Timur      |  |     | 1                   | \$0,008  | 5%                | \$0,0088    |
| Polybag PP Printed '30x40'                         | Mitra Sejati       |  |     | 1                   | \$0,035  | 5%                | \$0,0366    |
| Barcode Sticker '3.5 x 7.5Cm'                      | Bintang Timur      | On Tag   |     | 1                   | \$0,024  | 5%                | \$0,0249    |
| Carton Box '60x40x40'                              | Local              | @30Pieces in A Carton Box                                  |     | 1                   | \$0,035  | 5%                | \$0,0366    |
|  |                    | Total Trim   |     | \$0,50              |          |                   |             |
|  |                    | Print waterbase 40cms 'JOY' at Front Body                  |     | \$0,45              |          |                   |             |
|  |                    | TONAL Embroidery MANGO at Chest                            |     | \$0,08              |          |                   |             |
|  |                    | Total Fabric Cost+Trims+Wash+testing Charge                |     | \$2,11              |          |                   |             |
|  |                    | CMP  |     | \$0,70              |          |                   |             |
|  |                    | Total FOB  |     | \$2,81              |          |                   |             |
|  |                    | Margin 10%   |     | \$0,28              |          |                   |             |
|  |                    | Selling price FOB  |     | \$3,10              |          |                   |             |

## Appendix VII.3

| Appendix VII.3                        | Income Statement (in USD) |         |          |         |         |          |         |         |          |         |         |          |         |          |           |            |            |
|---------------------------------------|---------------------------|---------|----------|---------|---------|----------|---------|---------|----------|---------|---------|----------|---------|----------|-----------|------------|------------|
| Most likely scenario                  | Year 1                    | Jan     | Feb      | Mar     | Apr     | May      | Jun     | Jul     | Aug      | Sep     | Oct     | Nov      | Dec     | Year 2   | Year 3    | Year 4     | Year 5     |
| Sales                                 | 736 901                   | 184 225 |          |         | 184 225 |          |         | 184 225 |          |         | 184 225 |          |         | 840 067  | 1 008 080 | 1 260 100  | 1 638 130  |
| CoGS                                  | -669 910                  | -64 981 | -102 496 |         | -64 981 | -102 496 |         | -64 981 | -102 496 |         | -64 981 | -102 496 |         | -763 697 | -916 437  | -1 145 546 | -1 489 210 |
| Gross Profit                          | 66 991                    | -64 981 | -102 496 | 184 225 | -64 981 | -102 496 | 184 225 | -64 981 | -102 496 | 184 225 | -64 981 | -102 496 | 184 225 | 76 370   | 91 644    | 114 555    | 148 921    |
| Rent/Year <sup>1</sup>                | -36 000                   | -3 000  | -3 000   | -3 000  | -3 000  | -3 000   | -3 000  | -3 000  | -3 000   | -3 000  | -3 000  | -3 000   | -3 000  | -36 000  | -36 000   | -36 000    | -36 000    |
| Payroll <sup>2</sup>                  | -25 200                   | -2 100  | -2 100   | -2 100  | -2 100  | -2 100   | -2 100  | -2 100  | -2 100   | -2 100  | -2 100  | -2 100   | -2 100  | -25 200  | -25 200   | -25 200    | -25 200    |
| Payroll Expenses                      | -6 000                    | -500    | -500     | -500    | -500    | -500     | -500    | -500    | -500     | -500    | -500    | -500     | -500    | -6 000   | -6 000    | -6 000     | -6 000     |
| Car rental & petrol <sup>3</sup>      | -6 000                    | -500    | -500     | -500    | -500    | -500     | -500    | -500    | -500     | -500    | -500    | -500     | -500    | -6 000   | -6 000    | -6 000     | -6 000     |
| Cell Phone Top up/costs <sup>4</sup>  | -744                      | -62     | -62      | -62     | -62     | -62      | -62     | -62     | -62      | -62     | -62     | -62      | -62     | -744     | -744      | -744       | -744       |
| Internet <sup>5</sup>                 | -769                      | -64     | -64      | -64     | -64     | -64      | -64     | -64     | -64      | -64     | -64     | -64      | -64     | -769     | -769      | -769       | -769       |
| Public Relations (Fairs) <sup>6</sup> | -3 372                    | 0       | 0        | 0       | -2 023  | 0        | 0       | 0       | 0        | -1 349  | 0       | 0        | 0       | -3 372   | -3 372    | -3 372     | -3 372     |
| Advertisement/Promotion               | -548                      | -548    | 0        | 0       | 0       | 0        | 0       | 0       | 0        | 0       | 0       | 0        | 0       | -548     | -548      | -548       | -548       |
| Travel Expenses <sup>7</sup>          | -2 740                    | 0       | 0        | 0       | -2 192  | 0        | 0       | 0       | 0        | -548    | 0       | 0        | 0       | -2 740   | -2 740    | -2 740     | -2 740     |
| Webhosting (maintenance)              | -2 700                    | -1 600  | -100     | -100    | -100    | -100     | -100    | -100    | -100     | -100    | -100    | -100     | -100    | -2 700   | -2 700    | -2 700     | -2 700     |
| Div. Office Equipment                 | -600                      | -50     | -50      | -50     | -50     | -50      | -50     | -50     | -50      | -50     | -50     | -50      | -50     | -600     | -600      | -600       | -600       |
| Others <sup>8</sup>                   | -2 400                    | -200    | -200     | -200    | -200    | -200     | -200    | -200    | -200     | -200    | -200    | -200     | -200    | -2 400   | -2 400    | -2 400     | -2 400     |
| Company Foundation <sup>9</sup>       | -1 311                    | -1 311  | 0        | 0       | 0       | 0        | 0       | 0       | 0        | 0       | 0       | 0        | 0       | 0        | 0         | 0          | 0          |
| Visa costs <sup>10</sup>              | -888                      | 0       | -148     | 0       | -148    | 0        | -148    | 0       | -148     | 0       | -148    | 0        | -148    | -888     | -888      | -888       | -888       |
| Bank Charges/Interests <sup>11</sup>  | -3 204                    | -139    | -545     | 0       | -379    | -342     | 0       | -358    | -379     | 0       | -358    | -404     | -300    | -3 800   | -4 500    | -5 550     | -7 125     |
| Total Expenditures                    | -92 476                   | -10 074 | -7 269   | -6 576  | -11 318 | -6 918   | -6 724  | -6 934  | -7 103   | -8 473  | -7 082  | -6 981   | -7 024  | -91 761  | -92 461   | -93 511    | -95 086    |
| Operating profit/loss                 | -25 485                   | -75 055 | -109 766 | 177 649 | -76 299 | -109 414 | 177 501 | -71 915 | -109 600 | 175 752 | -72 063 | -109 477 | 177 201 | -15 391  | -817      | 21 044     | 53 835     |
| Depreciations                         | -528                      | -44     | -44      | -44     | -44     | -44      | -44     | -44     | -44      | -44     | -44     | -44      | -44     | -528     | -528      | -528       | -528       |
| EBIT                                  | -26 013                   | -75 099 | -109 810 | 177 605 | -76 343 | -109 458 | 177 457 | -71 959 | -109 644 | 175 708 | -72 107 | -109 521 | 177 157 | -14 863  | -289      | 21 572     | 54 363     |
| Corporate Tax (25%)                   | 0                         | 0       | 0        | 0       | 0       | 0        | 0       | 0       | 0        | 0       | 0       | 0        | 0       | 0        | 0         | -5 393     | -13 591    |
| Net Income                            | -26 013                   | -75 099 | -109 810 | 177 605 | -76 343 | -109 458 | 177 457 | -71 959 | -109 644 | 175 708 | -72 107 | -109 521 | 177 157 | -14 863  | -289      | 26 964     | 67 954     |

|  |  |
|--|--|
| <sup>1</sup> Rent:                     | 60m <sup>2</sup> *\$50/m <sup>2</sup> ; fully furnished, incl. Utilities (gas, water, electricity) |
| <sup>2</sup> Payroll:                  | 3 FTE*\$700.-/month based on Yangon standards  |
| <sup>3</sup> Car Rental & Petrol:      | 0.65€*60l*2*12*1,37 (Exchange rate €/€); Car rental = \$ 400/month                                 |
| <sup>4</sup> Top Up Costs:             | 7.55€*3 Pers.* 2 Re-Charges*12 month*1,37  |
| <sup>5</sup> Internet:                 | 0.13€/h*12*30*12*1,37  |
| <sup>6</sup> Fair Booth                | 4sqm booth=1686€*2Exhibitions  |
| <sup>7</sup> Travel:                   | 2*643€/flight+ 714€ Misc. *1,37  |
| <sup>8</sup> Office Equipment:         | Cell Phones 113€*3*1,37; Computer 387€*3*1,37; Printers 197€*1*1,37                                |
| <sup>9</sup> Company Foundation:       | 1311\$   |
| <sup>10</sup> Visa:                    | 54€per70 days*4Pers* 5times*1,37   |
| <sup>11</sup> Estimated interest rate: | 4 %  |



| Appendix VII.4                   | Cash Flow Statement (in USD) |                |                 |                 |                |                 |                 |                |                 |                 |                |                 |                 |                |               |                |                |
|----------------------------------|------------------------------|----------------|-----------------|-----------------|----------------|-----------------|-----------------|----------------|-----------------|-----------------|----------------|-----------------|-----------------|----------------|---------------|----------------|----------------|
| Most likely scenario             | Year 1                       | Jan            | Feb             | Mar             | Apr            | Mai             | Jun             | Jul            | Aug             | Sep             | Oct            | Nov             | Dec             | Year 2         | Year 3        | Year 4         | Year 5         |
| Accounts Collected               | 736 901                      | 0              | 0               | 184 225         | 0              | 0               | 184 225         | 0              | 0               | 184 225         | 0              | 0               | 184 225         | 840 067        | 1 008 080     | 1 260 100      | 1 638 130      |
| CoGS - Fabric (38.8%)            | -259 925                     | -64 981        | 0               | 0               | -64 981        | 0               | 0               | -64 981        | 0               | 0               | -64 981        | 0               | 0               | -296 315       | -355 577      | -444 472       | -577 813       |
| CoGS - Labor (61.2%)             | -409 985                     | 0              | -102 496        | 0               | 0              | -102 496        | 0               | 0              | -102 496        | 0               | 0              | -102 496        | 0               | -467 383       | -560 859      | -701 074       | -911 396       |
| Operation expenses               | -89 461                      | -10 124        | -6 724          | -6 576          | -10 939        | -6 576          | -6 724          | -6 576         | -6 724          | -8 473          | -6 724         | -6 576          | -6 724          | -87 961        | -87 961       | -87 961        | -87 961        |
| Rent                             | -36 000                      | -3 000         | -3 000          | -3 000          | -3 000         | -3 000          | -3 000          | -3 000         | -3 000          | -3 000          | -3 000         | -3 000          | -3 000          | -36 000        | -36 000       | -36 000        | -36 000        |
| Payroll                          | -25 200                      | -2 100         | -2 100          | -2 100          | -2 100         | -2 100          | -2 100          | -2 100         | -2 100          | -2 100          | -2 100         | -2 100          | -2 100          | -25 200        | -25 200       | -25 200        | -25 200        |
| Payroll Expenses                 | -6 000                       | -500           | -500            | -500            | -500           | -500            | -500            | -500           | -500            | -500            | -500           | -500            | -500            | -6 000         | -6 000        | -6 000         | -6 000         |
| Petrol                           | -6 000                       | -500           | -500            | -500            | -500           | -500            | -500            | -500           | -500            | -500            | -500           | -500            | -500            | -6 000         | -6 000        | -6 000         | -6 000         |
| Cell Phone Top up/costs          | -744                         | -62            | -62             | -62             | -62            | -62             | -62             | -62            | -62             | -62             | -62            | -62             | -62             | -744           | -744          | -744           | -744           |
| Internet                         | -769                         | -64            | -64             | -64             | -64            | -64             | -64             | -64            | -64             | -64             | -64            | -64             | -64             | -769           | -769          | -769           | -769           |
| Public Relations (Fairs)         | -3 372                       | 0              | 0               | 0               | -2 023         | 0               | 0               | 0              | 0               | -1 349          | 0              | 0               | 0               | -3 372         | -3 372        | -3 372         | -3 372         |
| Advertisement/Promotion          | -548                         | -548           | 0               | 0               | 0              | 0               | 0               | 0              | 0               | 0               | 0              | 0               | 0               | -548           | -548          | -548           | -548           |
| Travel Expenses                  | -2 740                       | 0              | 0               | 0               | -2 192         | 0               | 0               | 0              | 0               | -548            | 0              | 0               | 0               | -2 740         | -2 740        | -2 740         | -2 740         |
| Webhosting maintenance           | -2 700                       | -1 600         | -100            | -100            | -100           | -100            | -100            | -100           | -100            | -100            | -100           | -100            | -100            | -2 700         | -2 700        | -2 700         | -2 700         |
| Div. Office Equipment            | -600                         | -50            | -50             | -50             | -50            | -50             | -50             | -50            | -50             | -50             | -50            | -50             | -50             | -600           | -600          | -600           | -600           |
| Others                           | -2 400                       | -200           | -200            | -200            | -200           | -200            | -200            | -200           | -200            | -200            | -200           | -200            | -200            | -2 400         | -2 400        | -2 400         | -2 400         |
| Company foundation               | -1 500                       | -1 500         | 0               | 0               | 0              | 0               | 0               | 0              | 0               | 0               | 0              | 0               | 0               | 0              | 0             | 0              | 0              |
| Visas                            | -888                         | 0              | -148            | 0               | -148           | 0               | -148            | 0              | -148            | 0               | -148           | 0               | -148            | -888           | -888          | -888           | -888           |
| <b>Operating Cash Flow</b>       | <b>-22 470</b>               | <b>-75 105</b> | <b>-109 220</b> | <b>177 649</b>  | <b>-75 920</b> | <b>-109 072</b> | <b>177 501</b>  | <b>-71 557</b> | <b>-109 220</b> | <b>175 752</b>  | <b>-71 705</b> | <b>-109 072</b> | <b>177 501</b>  | <b>-11 591</b> | <b>3 683</b>  | <b>26 594</b>  | <b>60 960</b>  |
| Equipment Sold                   | 0                            | 0              | 0               | 0               | 0              | 0               | 0               | 0              | 0               | 0               | 0              | 0               | 0               | 0              | 0             | 0              | 0              |
| Equipment Purchased              | -2 634                       | -2 634         | 0               | 0               | 0              | 0               | 0               | 0              | 0               | 0               | 0              | 0               | 0               | 0              | 0             | 500            | 500            |
| Other Investment in-/outflow     | 0                            | 0              | 0               | 0               | 0              | 0               | 0               | 0              | 0               | 0               | 0              | 0               | 0               | 0              | 0             | 0              | 0              |
| <b>Investment Cash Flow</b>      | <b>-2 634</b>                | <b>-2 634</b>  | <b>0</b>        | <b>0</b>        | <b>0</b>       | <b>0</b>        | <b>0</b>        | <b>0</b>       | <b>0</b>        | <b>0</b>        | <b>0</b>       | <b>0</b>        | <b>0</b>        | <b>0</b>       | <b>0</b>      | <b>500</b>     | <b>500</b>     |
| Equity                           | 50 000                       | 50 000         | 0               | 0               | 0              | 0               | 0               | 0              | 0               | 0               | 0              | 0               | 0               | 0              | 0             | 0              | 0              |
| Credit line                      | 588 583                      | 27 878         | 109 766         | 0               | 36 294         | 109 414         | 0               | 40 122         | 109 600         | 0               | 46 033         | 109 477         | 0               | 698 069        | 823 721       | 1 015 647      | 1 202 075      |
| Payback credit line              | -588 583                     |                |                 | -137 644        |                |                 | -145 708        |                |                 | -149 722        |                |                 | -155 509        | -698 069       | -823 721      | -1 015 647     | -1 202 075     |
| Bank charges/interests           | -3 204                       | -139           | -545            |                 | -379           | -342            |                 | -358           | -379            |                 | -358           | -404            | -300            | -3 800         | -4 500        | -5 550         | -7 125         |
| Taxes Paid                       | 0                            | 0              | 0               | 0               | 0              | 0               | 0               | 0              | 0               | 0               | 0              | 0               | 0               | 0              | 0             | -5 393         | -13 591        |
| <b>Financing Cash Flow</b>       | <b>46 796</b>                | <b>77 739</b>  | <b>109 220</b>  | <b>-137 644</b> | <b>35 915</b>  | <b>109 072</b>  | <b>-145 708</b> | <b>39 764</b>  | <b>109 220</b>  | <b>-149 722</b> | <b>45 675</b>  | <b>109 072</b>  | <b>-155 809</b> | <b>-3 800</b>  | <b>-4 500</b> | <b>-10 943</b> | <b>-20 716</b> |
| Beginning Cash Balance           | 0                            | 0              | 0               | 0               | 40 005         | 0               | 0               | 31 793         | 0               | 0               | 26 030         | 0               | 0               | 21 692         | 6 300         | 5 483          | 21 634         |
| <b>Net Cash Flow</b>             | <b>21 692</b>                | <b>0</b>       | <b>0</b>        | <b>40 005</b>   | <b>-40 005</b> | <b>0</b>        | <b>31 793</b>   | <b>-31 793</b> | <b>0</b>        | <b>26 030</b>   | <b>-26 030</b> | <b>0</b>        | <b>21 692</b>   | <b>-15 391</b> | <b>-817</b>   | <b>16 151</b>  | <b>40 744</b>  |
| Ending Cash Balance              | 21 692                       | 0              | 0               | 40 005          | 0              | 0               | 31 793          | 0              | 0               | 26 030          | 0              | 0               | 21 692          | 6 300          | 5 483         | 21 634         | 62 378         |
| <b>Financial deficit/surplus</b> | <b>21 692</b>                | <b>-27 878</b> | <b>-109 766</b> | <b>40 005</b>   | <b>-36 294</b> | <b>-109 414</b> | <b>31 793</b>   | <b>-40 122</b> | <b>-109 600</b> | <b>26 030</b>   | <b>-46 033</b> | <b>-109 477</b> | <b>21 692</b>   | <b>-15 391</b> | <b>-817</b>   | <b>16 151</b>  | <b>40 744</b>  |