



## “Costing Practices and Profitability Analysis in Bangladesh’s Ready-Made Garments (RMG) Sector”

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### Abstract

The Ready-Made Garments (RMG) sector—responsible for more than four-fifths of Bangladesh’s export earnings—operates within a fiercely competitive global supply chain where accurate costing is crucial to preserving profitability. Even with export receipts topping US\$38 billion in recent years, factories continue to endure margin compression driven by increased pay commitments, heightened compliance requirements, changing raw material prices, and fluctuating logistical costs. This study examines how different costing strategies—from conventional absorption and standard costing techniques to more sophisticated methods like Activity-Based Costing (ABC), Cost-Volume-Profit (CVP) analysis, and integrated e-accounting or ERP systems—affect profitability results in RMG companies in Bangladesh. The research evaluates cost-allocation accuracy, overhead visibility, digital adoption, and managerial decision-making behavior by synthesizing insights from industry assessments, sectoral studies, and previous academic work using a qualitative thematic review technique. Evidence from the reviewed literature shows that relying too much on traditional costing models frequently results in poor pricing decisions, erroneous overhead distribution, and distorted order-level profitability. In contrast, factories that use ABC, ERP modules, and digital accounting frameworks offer superior tracking of production costs, enhanced control over wastage and rework, greater pricing precision, and more consistent margins. Nonetheless, adoption of these advanced technologies remains unequal, restricted by skill shortages, perceived implementation hurdles, inconsistent data standards, and organizational reluctance to transition away from established manual methods. Although thorough causation evidence is still lacking, profitability assessments from earlier research indicate that companies utilizing advanced costing systems typically produce greater gross and operational margins as well as improved returns on assets. By integrating these key findings, the report underlines the vital role modern costing

approaches play in establishing financial resilience, developing competitive pricing capacity, and enhancing operational efficiency in Bangladesh's RMG industry. The insights provided provide a platform for practical changes and policy focus aimed at upgrading cost management and boosting long-term profitability across the industry.

**Keywords:** Costing practices, Activity-Based Costing (ABC), ERP systems, profitability analysis, overhead allocation, RMG sector Bangladesh.

## **Introduction:**

The ready-made garments (RMG) industry is the cornerstone of Bangladesh's export economy, generating the greatest share of product exports and employing millions across urban and semi-urban areas. The sector's exports in 2024 were over US\$38.48 billion, highlighting its crucial importance in both national development and foreign exchange gains. Rising wages, erratic input prices, and frequent supply-chain disruptions put RMG companies under increasing cost pressure despite their strong overall performance. These factors compress margins and make precise cost control more crucial for maintaining competitiveness (BGMEA, 2024; The Daily Star, 2025). Thus, proper product pricing and daily cost control are important, but so are strategic choices about order acceptance, capacity planning, and process enhancement.. Traditional costing approaches such as absorption and standard costing remain widely used across Bangladeshi factories; however, both academics and practitioners have highlighted the potential advantages of more granular methods — for example, Activity-Based Costing (ABC), cost-volume-profit (CVP) analysis, and integrated e-accounting / ERP systems — to better allocate overheads and reveal process-level cost drivers (Begum, 2023; Rashid, 2024). Empirical studies relevant to Bangladesh's RMG sector demonstrate inconsistent adoption of ABC and mixed implementation of sophisticated cost-management technologies, with hurdles including data quality difficulties, low technical capacity, and perceived implementation costs. This study evaluates current costing techniques in Bangladeshi RMG enterprises and analyses their relationship with profitability measures. The research attempts to identify which costing approaches better explain margin fluctuation and operational inefficiencies by combining firm-level costing method surveys, ratio-based profitability analysis, and a few case studies on ABC and ERP usage. The results will offer concrete advice for factory managers, auditors, and policymakers trying to increase pricing competitiveness and financial resilience in a sector essential to Bangladesh's economy.

## **Literature Review:**

The Ready-Made Garments (RMG) sector of Bangladesh—contributing over 80% of national export earnings—has been widely studied for its cost structures, competitive dynamics, and profitability challenges, with substantial literature highlighting the increasing need for modernized costing practices to sustain global competitiveness (BGMEA, 2023; World Bank, 2022). Scholars contend that traditional costing techniques, especially absorption costing, frequently mislead product cost information in labor-intensive and highly diverse production contexts, despite the fact that these systems still dominate factory-level decision-making (Horngren et al., 2018). According to empirical research conducted in Bangladesh, a large number of factories use manual or semi-digital cost sheets. This results in inaccurate overhead allocation and poor visibility over production

costs at the batch level, which ultimately affects profitability estimation (Uddin & Akhter, 2019, *Asian Journal of Accounting Research*). According to a number of researchers, Activity-Based Costing (ABC) more accurately accounts for indirect costs related to supply-chain coordination, machine setups, quality inspections, merchandising operations, and compliance—activities that have increased dramatically as international buyers demand shorter lead times and more stringent compliance monitoring (Rahman et al., 2021, *Journal of Management Accounting Research*). However, adoption of ABC in the Bangladeshi RMG sector remains low, inhibited by limited expertise, absence of automated data collection, and perceived implementation difficulties, findings that mirror larger evidence from developing countries (Gunasekaran et al., 2017). Despite operating in a highly volatile market with fluctuating yarn prices, unpredictable freight costs, and growing wage obligations under the National Minimum Wage, many RMG manufacturers fail to systematically measure contribution margins, breakeven points, or sensitivity to price fluctuations, according to literature on cost-volume-profit (CVP) analysis (Khan & Mazumder, 2018, *International Journal of Business and Technopreneurship*). Studies analyzing the impact of Enterprise Resource Planning (ERP) and e-accounting systems further show that digitally integrated costing modules significantly improve cost accuracy, production planning, and profitability monitoring by enabling real-time tracking of wastage, rework, and line efficiency (Islam & Habib, 2020, *Journal of Accounting and Organizational Change*). However, adoption is still inconsistent, especially in small and medium-sized enterprises that have gaps in digital capacity and limited resources (IFC, 2021). Profitability analysis research shows that margin variations across factories often stem not only from buyer order characteristics and production efficiency but also from costing system sophistication; firms using more advanced costing tools exhibit stronger net profit margins, higher return on assets (ROA), and better cost control associated with fabric utilization, overhead management, and production lead-time optimization (Bhuiyan & Hossain, 2022, *South Asian Journal of Business Studies*). Furthermore, research on compliance-related costing shows that while expenditures in worker welfare, environmental audits, and fire safety increase overhead costs, they also boost long-term profitability by boosting consumer trust and minimizing operational disruptions (ILO, 2020). Inadequate costing procedures lead to price underestimation, delayed cost adjustments, and weak negotiating power with buyers, according to a recurrent theme in the literature. This is especially true in FOB-based pricing environments where accurate pre-costing and post-costing are crucial for maintaining profitability (Mia et al., 2019, *Management Accounting Quarterly*). When these strands are combined, the literature consistently comes to the conclusion that improving costing methodologies—through digital costing systems, structured profitability analysis, and ABC adoption—can improve strategic pricing, increase cost visibility, and strengthen the financial resilience of Bangladeshi RMG companies in a fiercely competitive global market.

## **Methodology:**

This study utilizes a qualitative thematic analysis methodology, relying primarily on previously published empirical and conceptual research to evaluate how costing procedures influence profitability within Bangladesh's RMG sector. Instead of creating original data, the study uses a structured document-analysis process to methodically examine peer-reviewed journal papers, industry reports, and institutional publications. A multiple-case analytical lens is utilized by combining evidence from studies that have evaluated costing behaviour in different categories of RMG factories—large exporters, mid-sized units, and SME clusters—as reported in sectoral

assessments by BGMEA, the World Bank (2024), and IFC (2025). To represent variation in buyer dependency, operational scale, compliance maturity, and digital adoption, published studies covering costing systems like absorption costing, standard costing, Activity-Based Costing (ABC), and digital ERP/e-accounting frameworks (Begum, 2023; Rashid, 2024) were purposefully chosen. The gathered literature was subjected to thematic analysis using Braun and Clarke's (2006) six-phase framework in order to find recurrent patterns that connected costing techniques with profitability metrics including operating margin, gross margin, and return on assets. Analytic memoing was used to identify logical links among research and to cluster findings into themes such as cost-visibility limits, data-quality concerns, pricing procedures, and managerial decision-making behaviour under highly volatile production contexts. Only high-quality sources—peer-reviewed journals, respectable publishers, policy reports, and acknowledged development institutions—were used to ensure credibility, and interpretive bias was reduced by triangulating data from several sources and comparing sample characteristics, methodological designs, and analytical results from earlier studies. By guaranteeing accurate portrayal, appropriate attribution, and context-sensitive interpretation of previous research, ethical considerations were upheld. This qualitative thematic-review strategy enables a deep understanding of how costing effectiveness is shaped by structural, managerial, and technological factors within the RMG industry, without collecting primary data, and provides a synthesized evidence base that reflects the complex operational realities emphasized in earlier scholarship (Hossain & Rahman, 2023; World Bank, 2024; IFC, 2025).

### **Analysis:**

#### **1. Sector context: scale of RMG and pressures**

Bangladesh's largest export industry is still the ready-made garment (RMG) industry. Export receipts are still quite high, according to statistics gathered by industry sources, highlighting the macroeconomic significance of the RMG sector and the necessity of effective cost and financial management across businesses. Because of RMG companies' scale and focus on exports, competitive pricing and margin control are essential.

#### **2. Prevailing costing practices: traditional methods and their limitations**

Empirical field-level research among Bangladeshi enterprises demonstrate that many continue to rely on traditional costing methodologies — such as absorption costing, standard costing, or other volume-based costing methods — for overhead allocation and product pricing. For example, a working paper studying management-accounting practices in Bangladesh's RMG sector found that conventional cost accounting remains dominant in many factories, primarily because it is administratively simpler and compatible with existing accounting staff skill sets and reporting requirements (Begum, 2023). However, in settings like RMG production, where overheads (set-up costs, merchandising, quality control, finishing, compliance) are significant and indirect, this dependence poses constraints. Conventional volume-based allocation frequently distorts actual order-level profitability and margin calculation by mis-allocating overhead costs.

#### **3. Advanced costing techniques and digital accounting systems: potential and partial adoption**

An increasing amount of research suggests that more sophisticated costing techniques, particularly Activity-Based Costing (ABC), Activity-Based Management, and Cost-Volume-Profit (CVP)

analysis, are more appropriate for the intricacy of the RMG industry. In order to improve allocation accuracy, ABC assigns indirect costs to cost objects (orders/products) based on actual activity drivers (set-up hours, inspection hours, batch count, etc.) rather than broad volume or labor-hour bases (Rashid, 2024). About 50% of 83 publicly traded Bangladeshi companies have adopted ABC to some degree, though frequently just partially, according to a recent exploratory study, and those with more intricate procedures and decentralized organizational structures were more likely to do so. Adjacent to ABC, studies concentrating on digital accounting systems — E-Accounting / Enterprise Resource Planning (ERP) — suggest that adoption of such systems enhances overhead cost tracking, production efficiency, and overall organisational effectiveness within RMG enterprises. For instance, a 2023 study on e-accounting in the RMG industry discovered that many RMG factories using e-accounting reported lower operational costs and improved overhead cost control. Moreover, a study on accounting information systems (AIS) in selected RMG companies in Chattogram demonstrated that efficient AIS deployment boosted decision-making, financial reporting accuracy, cost efficiency, and overall organizational effectiveness.

#### 4. Linkage between costing practices/e-accounting and profitability: evidence and gaps

Theoretically, the adoption of ABC, activity-based management, and digital accounting systems should lead to more accurate cost allocation, more reliable pricing decisions, improved order acceptance decisions, and better control of wastage and overhead — all of which should improve profitability, margin stability, and operational efficiency. The e-accounting—RMG study mentioned above demonstrated a statistically significant impact of e-accounting practice on lowering overhead costs and enhancing the financial performance of adopter enterprises, providing promising evidence from Bangladesh. Information-system adoption is also linked by the AIS implementation research to improved organizational performance, which would logically result in improved cost control and profitability. However, a consistent caveat emerges: while many case studies and firm-level investigations show improved cost visibility and overhead control after adopting advanced/digital costing methods, there is still a lack of large-scale, longitudinal studies that isolate the effect of costing system upgrades on profitability (after controlling for other variables such as firm size, product mix, export orders, global price volatility, and external shocks). In summary, there is encouraging cross-sectional and anecdotal data, but there is still insufficient causal proof.

#### 5. Constraints on adoption & external risk environment

The research points to a number of internal barriers that prevent RMG organizations from widely implementing advanced costing or ERP/e-accounting: (a) a lack of qualified accounting and IT staff with training in ABC or AIS; (b) the perceived high cost of system implementation, data collection, and maintenance; (c) managers used to traditional systems' resistance to change; and (d) the fragmented and frequently manual record-keeping practices found in many smaller and medium-sized businesses, which make it difficult to gather accurate cost-driver data (Rashid, 2024; Hossain & Rahman, 2023). Externally, the RMG sector in Bangladesh is susceptible to periodic supply-chain interruptions, global price volatility (raw materials, energy, shipping), shifting customer demand, compliance and regulatory expenses (safety, labor, environmental standards), which raise overhead unpredictability. Even the best costing system must handle volatility; yet few studies incorporate such external risk elements into cost/profitability evaluations. Research

frameworks in supply-chain management for RMG emphasize the necessity for integrated cost-and-risk management systems.

## 6. Implications for practice, policy, and future research

Based on the evaluated evidence, the following implications emerge: In terms of industry practice, RMG companies, particularly medium-sized and big export-oriented ones, should experiment with ABC-based costing (even partially) in areas with significant overhead volatility (compliance, finishing, merchandising, quality control), complemented by e-accounting or ERP modules. This hybrid strategy increases cost visibility while reducing implementation risk. Shared-services approaches, such as cluster-level accounting support, standardized cost-driver templates, and subsidized ICT for e-accounting, may help lower implementation obstacles for smaller businesses and SMEs. To increase sector-wide cost efficiency, transparency, and competitiveness, policymakers and industry associations (such as exporter associations and trade bodies) could support training programs, provide cost-management toolkits, and offer incentives for the adoption of contemporary costing and accounting systems. There is a strong need for large-sample, mixed-methods, longitudinal studies that evaluate the causal effect of costing-system upgrades (ABC/ERP/e-accounting) on profitability metrics (gross margin, operating margin, return on assets/equity), controlling for firm size, product mix, buyer profile, and external shocks. Also, future studies should integrate cost management with supply-chain risk, compliance expenses, and external volatility to match real operational realities.

### **Findings:**

1. Conventional approaches are prevalent but misallocate overhead. Most manufacturers still rely on absorption/standard costing; these systems are straightforward to operate but sometimes skew order-level margins since they assign indirect costs on blunt bases. (Begum, 2023; ICMAB/Rashid, 2024).
2. Where they are used, ABC and ERP/e-accounting increase cost visibility, but adoption varies. Studies show that adopters have better order-level costing accuracy and managerial decision support; SMEs typically utilize partial or manual hybrids, whereas larger exporters tend to use full ABC or ERP. (Hossain, 2022/2023; Rashid, 2024).
3. Digital modules reduce overhead leakages and improve monitoring. Evidence shows e-accounting/ERP modules help track labour time, fabric usage, wastage, and administrative overhead, enabling faster corrective actions that support margins. (Hossain & Rahman, 2023).
4. Profitability advantages are conceivable but under-quantified. Case studies show improved yield management and margins following costing/ERP interventions, but there are few large-sample causal estimates that isolate the impact on margins (controlling for company size, buyer terms, shocks). (World Bank, 2024; IFC, 2025).
5. Adoption is hampered by managerial and structural issues. Key restrictions are (a) lack of qualified accounting/IT professionals, (b) perceived high implementation cost, (c) inadequate operational data practices, and (d) managerial opposition to change – all documented in practitioner surveys and exploratory research. (Begum, 2023; Rashid, 2024).

6. External shocks heighten the need for flexible costing. Supply-chain disruptions, wage shocks, and compliance investments enhance cost volatility and make scenario/CVP tools and contingency reserves vital for resilient pricing. (World Bank; Reuters reporting on interruptions).

### **Recommendations:**

#### 1. Introduce phased Activity-Based Costing (ABC) and modular e-accounting systems

Phased or hybrid ABC models should be implemented by RMG factories, particularly SMEs, starting with one or two high-impact cost drivers and a small number of important cost pools (such as quality compliance, finishing operations, and merchandising overheads). This decreases the data-collection effort while producing early performance insights that warrant scaling up to full ABC or integrated ERP modules. Studies on incremental costing adoption in Bangladeshi manufacturing demonstrate that low-cost pilot models considerably enhance cost visibility and pricing accuracy (Rashid, 2024; Hossain, 2022).

#### 2. Establish cluster-level shared digital accounting and ERP service hubs

For SME factory clusters, BGMEA, BKMEA, and development partners like the World Bank and IFC should create shared-service centers that provide standardized ERP templates, e-accounting modules, and bookkeeping assistance. In line with the demands of global buyers for digital traceability, these shared platforms lower implementation costs per facility, guarantee uniform overhead allocation procedures, and encourage data harmonization among suppliers. Recent IFC CPSD (2025) and World Bank diagnostics (2024) have strongly suggested cluster-based digitization.

#### 3. Strengthen capacity development for cost accountants and production planners

Established, practice-oriented training programs should be intended to improve competencies in ABC, cost-volume-profit (CVP) analysis, ERP reporting, and budgeting approaches. To develop applied costing abilities, training providers (universities, ILO/Better Work, BGMEA Institute of Fashion & Technology) should incorporate practical exercises utilizing anonymized factory datasets. Research demonstrates that improving expertise in costing systems greatly enhances managerial decision-making in the RMG industry (Begum, 2023; ILO Better Work training reports).

#### 4. Integrate costing systems with formal risk and scenario-analysis tools

Order pricing should incorporate CVP sensitivity analysis, volatility-adjusted costing, and contingency planning. This helps producers predict problems connected to raw material changes, compliance upgrades, exchange-rate adjustments, and supply delays. Integrating costing with scenario modeling enhances resilience and safeguards margin stability, according to empirical CVP studies and global value-chain risk assessments (World Bank, 2024; current CVP study).

#### 5. Develop a large-scale mixed-methods impact evaluation of costing innovations

Universities, sponsors, and sector groups should collaboratively support a longitudinal, mixed-methods study comparing traditional costing users with ABC/ERP adopters. The assessment should quantify profitability outcomes—gross margin, operating margin, and ROA—while controlling for

variance in business size, buyer portfolios, digital maturity, and vulnerability to global shocks. The lack of a thorough effect evaluation is frequently cited as a significant evidence gap in the industry in IFC recommendations and earlier scholarly reviews (Rashid, 2024).

#### 6. Promote standardised overhead-allocation guidelines across the industry

A sector-wide technical guideline—developed by BGMEA in cooperation with accounting experts—should standardise overhead-driver choices (e.g., machine hours, labour minutes, line capacity utilisation) to avoid anomalies in costing sheets used for buyer talks. Inconsistent overhead allocation leads to underpricing and structural margin erosion, according to empirical research conducted in Bangladesh, Vietnam, and Sri Lanka (World Bank, 2024; UNIDO industrial productivity evaluations).

#### 7. Mandate digital traceability and costing transparency for export compliance

Policymakers should progressively require digital traceability for costing, compliance, and resource-use data in accordance with EU due-diligence criteria and international buyer sourcing norms. Such legislative nudges can promote ERP/e-accounting adoption and minimize information asymmetries between plant owners and buyers. Digital transparency standards greatly improve cost accuracy and financial discipline in supplier countries, according to data from IFC (2025) and OECD Due Diligence Guidance.

#### 8. Facilitate multi-stakeholder costing advisory units within BGMEA/BKMEA

To help manufacturers identify costing gaps, analyze ERP data, and revamp cost sheets for increased profitability, industry associations should set up specialized advising units manned by costing specialists, auditors, and digital transformation consultants. Advisory services boost adoption rates and improve financial outcomes for small and medium-sized clothing producers, according to earlier assessments of sectoral assistance programs in Asia, such as Better Work and GIZ industrial upgrading efforts.

### Conclusion

The study reveals that costing techniques play a critical influence in influencing profitability and long-term competitiveness within Bangladesh's RMG sector. Due to their administrative ease and compatibility with current skill levels, traditional costing systems continue to be widely used. However, they frequently misallocate indirect costs and distort order-level profitability, which puts businesses at a disadvantage in a sector where price sensitivity and narrow margins are common (Begum, 2023; Rashid, 2024). Modern costing techniques, especially Activity-Based Costing, CVP analysis, and ERP-integrated e-accounting systems, significantly improve cost visibility, production control, and strategic pricing, as the literature regularly demonstrates. Firms that employ such systems indicate gains in overhead tracking, waste reduction, budgeting accuracy, and overall margin performance (Islam & Habib, 2020; Hossain & Rahman, 2023). However, adoption is hindered by structural obstacles such as insufficient accounting and IT capability, fragmented data systems, implementation costs, and reluctance to organizational change. The necessity for costing methods that incorporate scenario analysis and risk-adjusted pricing is further highlighted by external volatility, which includes shocks to raw material prices, freight delays, and compliance expenses (World Bank, 2024; IFC, 2025). All of the information that has been evaluated suggests

that improving costing techniques is both a technological advancement and a strategic requirement for financial resilience. Strengthening digital adoption, implementing hybrid ABC models, creating sector-wide costing competencies, and supporting shared service platforms for SMEs will effectively reduce information asymmetries and increase competitive positioning. Moreover, there is a clear need for rigorous, large-sample empirical research to quantify the causal relationship between costs innovation and profitability across firm categories. Ultimately, modernized costing practices—embedded inside digitally connected systems and informed managerial processes—represent a critical road for assuring sustainable profitability, better negotiating power, and long-term growth in Bangladesh's RMG industry.

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