



Finance and Costing in Fashion Buying

MA Contemporary Fashion Buying, Term 2, Level 7
Product Development and Supply Chain Management
January 2020

Course Plan

ISTITUTO MARANGONI – Fashion and Costing in Fashion Buying - 2019 / 2020				
Course n°	Date	Time	Duration (H)	Section content
1			2,5	The World in 2019, Economic and Political Environment 2007-2012 Financial crisis and consequences Economic cycles : where are we ? Political environment : wave or foam ?
2			2,5	Introduction to Accounting and Financial Statements (1) What is accounting ? What is the purpose of financial analysis ?
3			2,5	Introduction to Accounting and Financial Statements (2) What are the main financial statements and their use ? Income statement ; balance sheet and cash flow statement
4			2,5	Measuring Financial Performance / Financial Analysis (1) Operating ratios Solvency ratios
5			2,5	Measuring Financial Performance / Financial Analysis (2) Pair analysis Applying financial analysis to stock market
6			2,5	Financial Planning, Budgets, and Variance Analysis. From hypothesis to budget Scenarios and variance
7			2,5	Cash Flow Forecasting. Assessment coaching by group
8			2,5	Foreign Exchange, Risk Exposure and Hedging. Foreign exchange market : prices & quotations Transactional currency risk Currency forward pricing



Finance and Costing in Fashion

Buying : course n°1

The World in 2019, Economic and Political Environment
2007-2012 Financial crisis and consequences

Economic cycles : where are we ?

The environmental situation

MA CFB T2, L7 - 10/01/2020

The World in 2019, Economic and Political Environment

This course start with a presentation of the economic and political context.

Lets start with question to students :

How would you qualifie the current economic situation ?

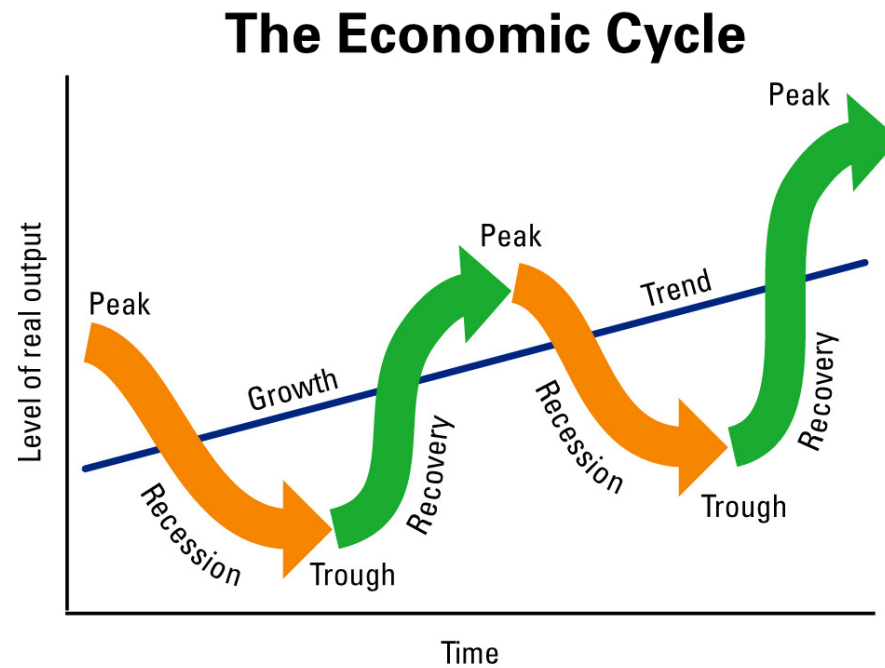
What is the most important : economy or politic ?

What are the most recent event (in the last 10 years) that impacted economy ?



Teacher personal view

- 1) There is still much poverty in our world, even in developed countries, BUT, overall, humanity is enjoying unseen prosperity.
- 2) From an economic cycle point of view : we are at a peak after 10 year since the last trough (in 2009)



Understanding Economic cycles

What are we measuring ? GROWTH ! Of what ? Of GDP !

Not a new concept !!

Clément JUGLAR, *Les crises commerciales et leur retour périodique en France en Angleterre et aux États-Unis*, 1862.

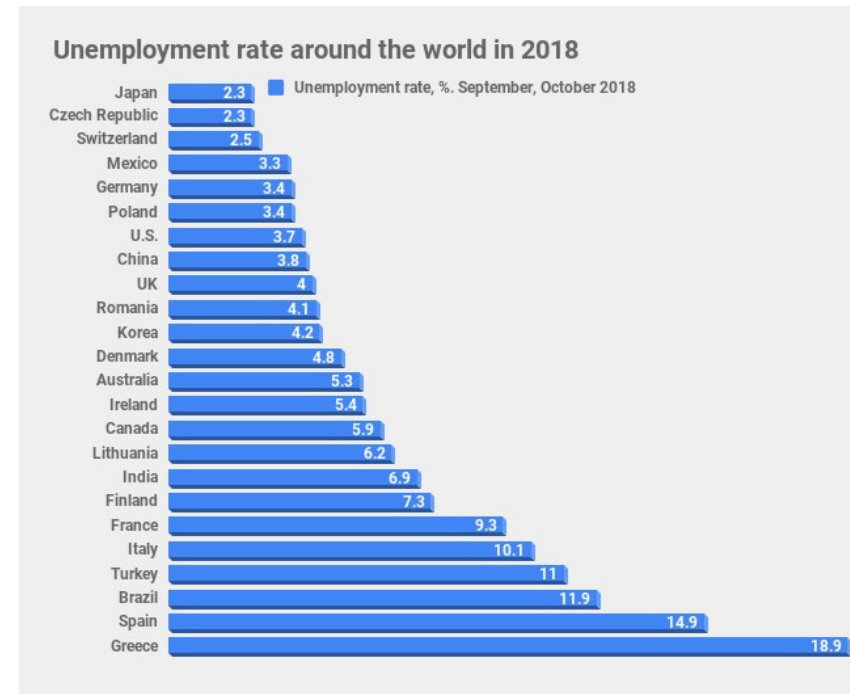
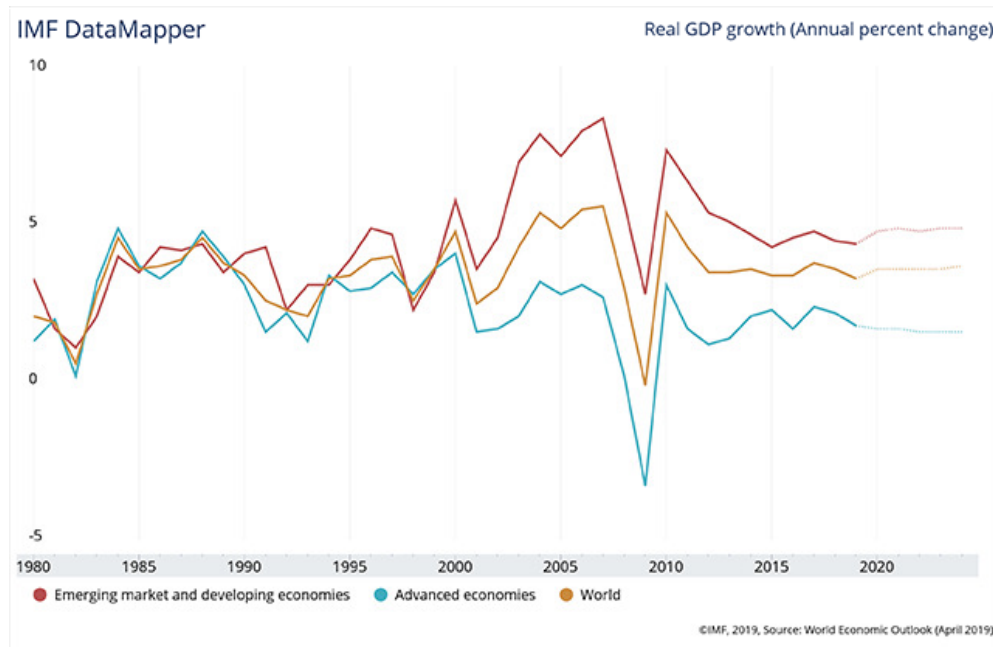
Length of cycles may varies : Kitchin (3 to 4 years) ; Juglar (8 to 10 years) ; Kuznets (15 to 25 years) ; Kondratiev (40 to 60 years).

Is that important for you ? Yes, because fashion and luxury in general is a very cyclical industry. Investment decision should rely on economic cycle studies.

Teacher personal view

3) Reason for the long lasting growth period is a mix of tech boom, cheap oil (« thanks » to shell gas) and low interest rate

4) A result of economic prosperity, unemployment is low in much countries.



Teacher personal view

5) 2 majors economic problems have been overcome : the final crisis and the price of oil.

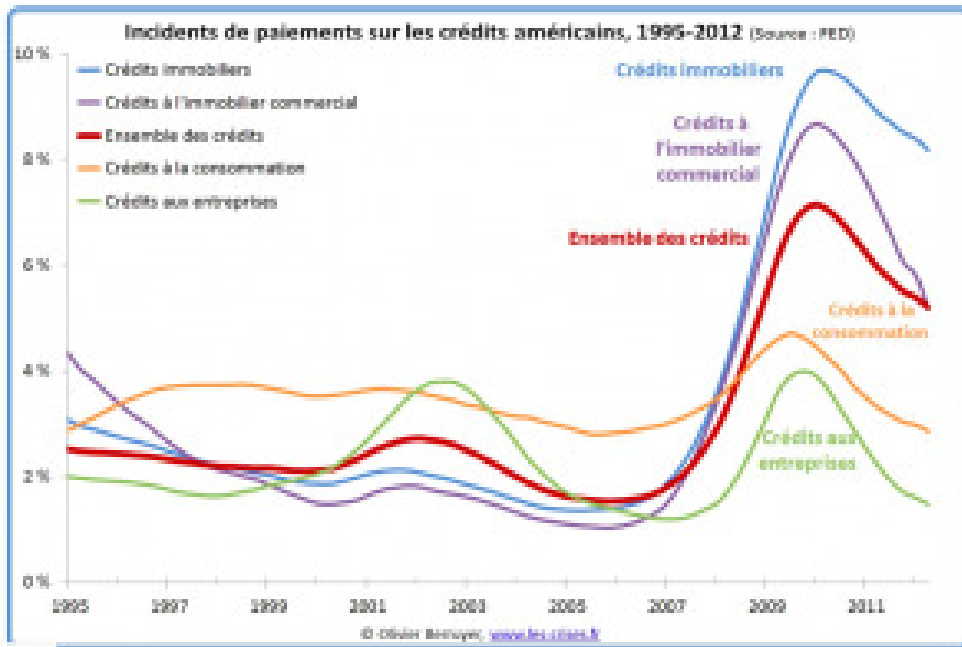


2008-2012 Financial Crisis

Have you heard about it ?

Must know for general culture.

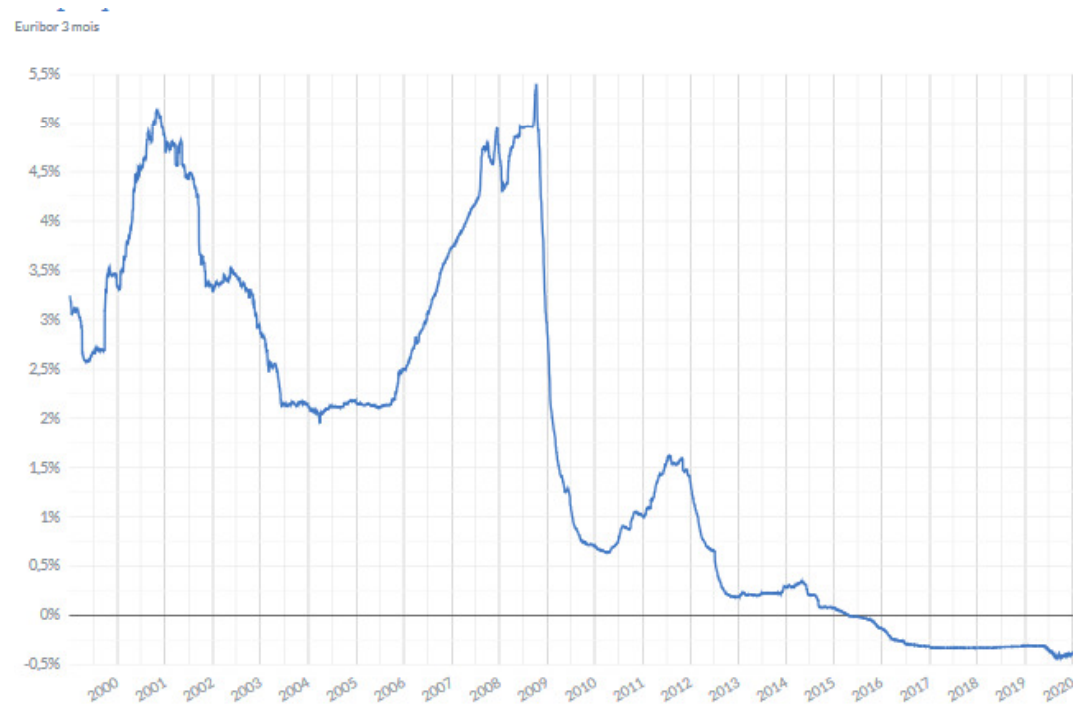
Cause : Subprime are bad loans engineered in USA and sold over the world under AAA rating. Put is simply : that was a giant scam, loans where granted to insolvent people but this wasn't a problem for the lender because he resold those loans, mostly transformed into securities. Chart bellow shows sharp increase in default rate, especially for real estate (mortgage) loans from 2% to 10%.



Teacher personal view

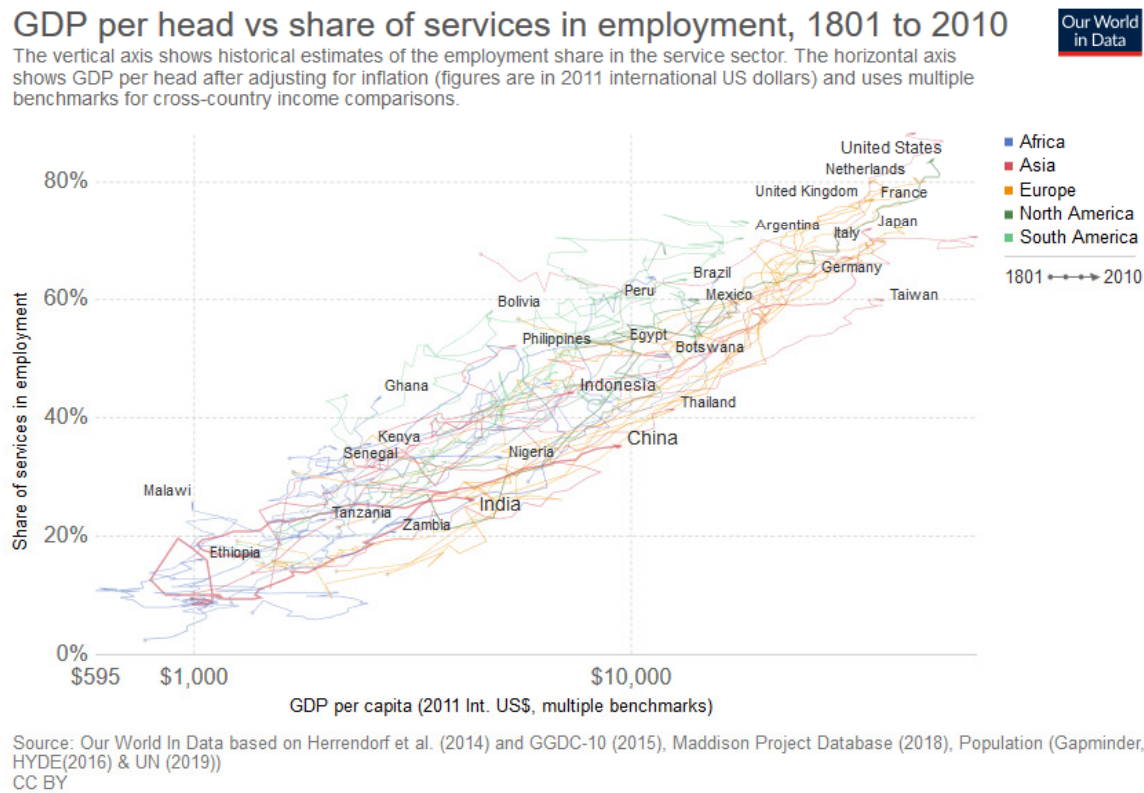
6) Interest rate as extremely low and even negative in Eurozone and a few other countries (Switzerland, Denmark....)

7) Everything is done to fuel economic growth



Economic General evolution

More and more services in total part of GDP, a key for developpement



Economic General evolution

As a result, biggest companies are not more heavy industrial companies but services or « marketing companies » (the customer pays for marketing in a larger part than production cost).

For example, Total was for many years the biggest company in France in term of **market capitalization** (value of the company measured with price of share x number of shares), but is now overtaken by L'Oréal and LVMH.

Market cap : Total 130 B€ ; L'Oréal 147 B€ ; LVMH 214 B€ (as of 10th January 2020).

Shampoo is beating oil !!



Economic General evolution

Stock prices historical graph



Political situation

On the economic side, the liberalism is dominating, except for countries that can resist to USA (China only).

This is called Washington consensus.

People in Europe start to question if this wild liberalism is their best interest, for example with Trump, Brexit, no to European constitution (France 2005)

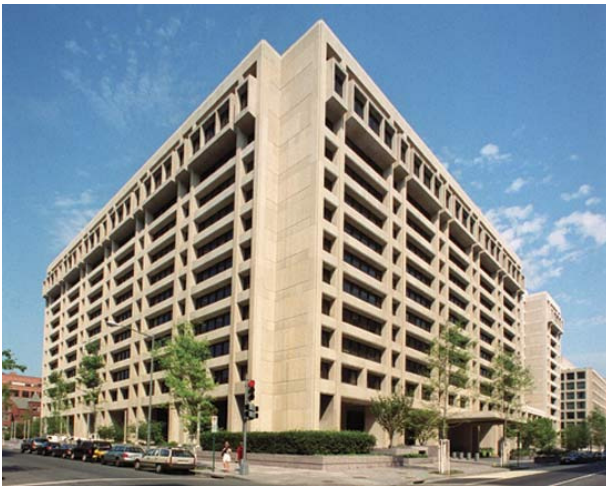
In France, people still expect everything from the state (*Gillets Jaunes* movement).

On the political side, democracy is stagnating for exemple in Middle East (Syria, Lybia, Algeria) or Turkey, Russia or asia.

Some positive signs in Honk Kong, Bolivia, Lebanon ?

Washington Consensus

The Washington Consensus is a set of 10 economic policy prescriptions considered to constitute the "standard" reform package promoted for crisis-wracked developing countries by Washington, D.C.-based institutions such as the International Monetary Fund (IMF), World Bank and United States Department of the Treasury. The term was first used in 1989 by English economist John Williamson. The prescriptions encompassed policies in such areas as macroeconomic stabilization, economic opening with respect to both trade and investment, and the expansion of market forces within the domestic economy.



Washington Consensus : 10 points

- 1) Fiscal policy discipline, with avoidance of large fiscal deficits relative to GDP
- 2) Redirection of public spending from subsidies ("especially indiscriminate subsidies") toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment
- 3) Tax reform, broadening the tax base and adopting moderate marginal tax rates;
- 4) Interest rates that are market determined and positive (but moderate) in real terms ;
- 5) Competitive exchange rates;
- 6) Trade liberalization: liberalization of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs ;
- 7) Liberalization of inward foreign direct investment ;
- 8) Privatization of state enterprises ;
- 9) Deregulation: abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudential oversight of financial institutions ;
- 10) Legal security for property rights.

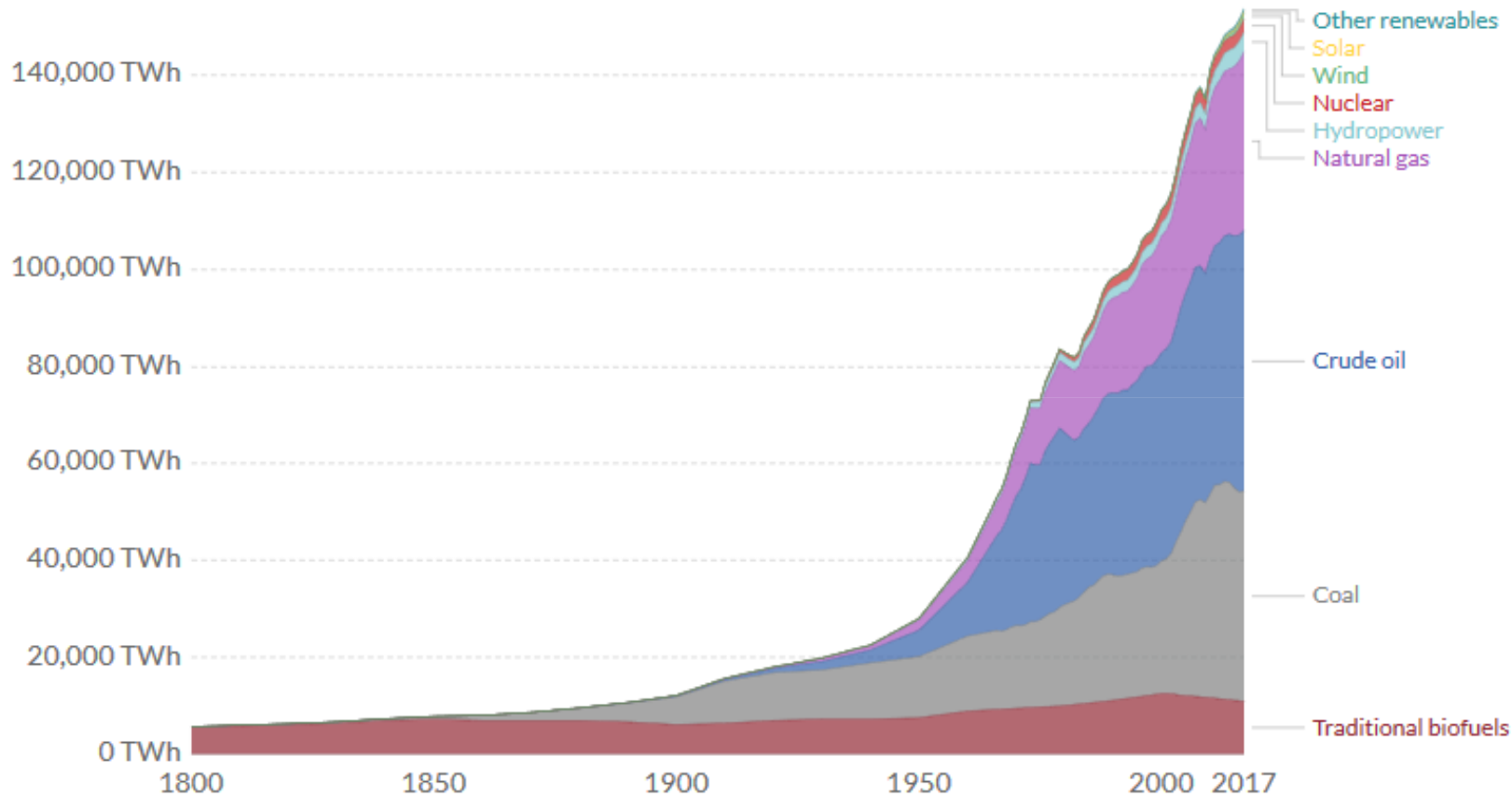
Washington Consensus : disambiguation

More recently, the expression « Washington consensus » is used in an other sense, not related to economy at all.

From early 2008, the term "Washington Consensus" was used in a different sense as a metric for analyzing American mainstream media coverage of U.S. foreign policy generally and Middle East policy specifically. Marda Dunsky writes, "Time and again, with exceedingly rare exceptions, the media repeat without question, and fail to challenge the "Washington consensus"—the official mind-set of US governments on Middle East peacemaking over time."

Global primary energy consumption

Global primary energy consumption, measured in terawatt-hours (TWh) per year. Here 'other renewables' are renewable technologies not including solar, wind, hydropower and traditional biofuels.



Source: Vaclav Smil (2017) and BP Statistical Review of World Energy

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The environmental situation

Are we dancing on a volcano ?

The environmental situation

Currently there are commitment (COP 21) but they are not respected.

Left side : politician proud of themselves at COP 21 in Paris (2015) ; right side : polar bear dies of heat wave in Argentina



The environmental situation

Do you know what are COP 21 objectives ?

They are super simple : limit global warming to +2 C° in 2100 compared to pre-industrial period (référence période is 1861-1880)

Each countrie is taking commitment.

See https://fr.wikipedia.org/wiki/Conf%C3%A9rence_de_Paris_de_2015_sur_les_changements_climatiques here :

(english wikipedia doesn't even descripte commitments lol)

The environmental situation

What will be the future ?

The sooner the reaction the better, but is it in human nature to be egoistic and short term focused.

Left picture : "The whole thing goes : The future's not set. There's **no fate** but what we make for ourselves." *Terminator 2 : Judgment Day* (1991)

Right picture : *Mad Max 2* (1981) : its is too late, nearly everything is distroyed, let's kill each other for the late drop of oil.

What do you think ?

