

February 2009



KZN CTC
KZN CLOTHING AND TEXTILE CLUSTER

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Feedback on recent events

- **Latest research findings:** 'Fast fashion, lean retailing and associated supply chain management principles and practices'. These findings have been the focus of discussion at recent workshops with several of the large retail groups. A presentation for senior Executives will take place linking this to manufacturing excellence on the 12th March 2009. This report is now freely available to members. Snippets of the document appear on page 3 of this newsletter.
- **AMTP 2008:** All reports from both the Cape and KZN have been submitted and the final overall report will be released before the end of February. Some of the preliminary outcomes are extremely positive, with evidence of substantial savings through several of the projects undertaken. Well done to those who stayed the course! The winner of the best provincial project will be announced at the end of the month, so watch this space!

Before 5S



After start of 5S



- The **2009 World Class Manufacturing Training Programme** has kicked off with the senior management sessions. These sessions are used to confirm participation, identify champions, identify the pilot area to be focussed on during the programme and to explain the programme content. This year, under the revised format that is intended to focus more on implementation and accountability, the programme has secured participation of 9 members, namely: Allwear; Apparel Industries; Celrose; Durban Overall; Dyefin; Excel; Kenprint; Rushbury and United Buttons.

Important Dates

- **12 March 2009 (14H30 – 16H30): Executive Seminar:** Latest industry research findings focussing on supply chain management, fast fashion, lean retailing and world class manufacturing best practices - by Dr Justin Barnes (see page 3)
Venue: **Durban Country Club**
- **18th – 20th February (09H00 start) WCM Training Programme: Module 1**
Venue: B&M Analysts, Hillcrest

NEWSLETTER



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Member News

- **The Cluster Welcomes Texmate Textiles as our newest member.** Texmate Textiles was founded and registered on 1st September 2000. With offices in Johannesburg and Durban, the company is owned and run by Andrew Patterson, John Wood and Peter Grigoratos. Intexma Cape cc is a shareholder in Texmate Textiles. The partners have extensive experience in servicing the needs of the Southern African textile industry, having been involved with leading textile agencies over a total period exceeding 125 years!

For more information go to www.texmate.co.za

- **Dyefin completes relocation to Umbogintwini** Dyefin, who undertake commissioned dyeing and finishing have completed their relocation to Umbogintwini, just south of the Durban Airport. The move has resulted in substantially improved layout and flow of product, while increasing capacity. For more information contact Brenton Pooley on 031 904 1547 ext: 102

Industry News in Brief

International: Spanish fashion retail giant Inditex is better placed to weather the financial storm than archrival H&M because of its speed-to-market advantage and more diversified sourcing, according to industry analysts. Luca Solca, analyst at Sanford Bernstein, said Inditex's flagship chain Zara continues to benefit from "strong momentum" for its brand and an ability to supply stores with the "right merchandise and styles" faster than H&M and other rivals. This time-to-market advantage, achieved through a very tight supply chain, will help Inditex boost sales at a time when consumers are tightening their wallets around the world.

Right now, people are only going to spend on the right product and Inditex is better at supplying the right styles and products than rivals," Solca said. Zara's inventory costs will also fall below those of H&M, which sources 70% of its merchandise from Asia compared to 35% for Inditex, the analyst said.

As the US dollar appreciates against the Euro and the kronor, buying dollar-traded Asian apparel has become increasingly expensive. Other analysts agreed with Solca. In a research report, JP Morgan said Zara will fare the expected recession better than H&M, helped by its lower inventory costs. *By Ivan Castano-Freeman, Source: Just-Style.com November 2008 (edited by KZN CTC)*

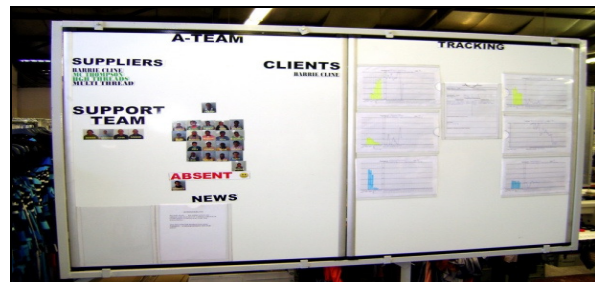
Interestingly, these findings are totally aligned with the findings of the Clusters' own best practice supply chain research findings.

Domestic: Cut, Make & Trim Operation upgrades: Natashas CMT, based in Cape Town, recently embarked on an upgrading programme supported by the Cape Cluster.

By applying problem solving techniques and placing the problems onto a pareto, plant layout and flow were identified as major hindrances to productivity improvement. Communication and employee empowerment were also identified as weaknesses. By re-organising the plant layout and extending the floor space slightly, the cutting room was relocated to the same floor as prep, assembly and finishing. Ironing was included on the line instead of being a separate department. These changes reduced bottlenecks and WIP, hugely improving flow and reducing the distance the garments had to travel from 97 meters to 31 meters.

Visual boards were installed to enhance communication with teams, and the canteen was extended to create a more pleasant employee environment.

Finally, machine availability has been improved very systematically, effectively eliminating downtime due to changeovers and breakdowns. With further projects planned, Natashas will no doubt move from strength to strength.



'Eight week total lead time the key'

Findings from the Cluster's most recent report, titled *'Fast fashion, lean retailing and associated supply chain management principles and practices'*, confirms that those international retailers using fast fashion models continue to out-compete those retailers following a traditional fashion model. Central to their model is the use of a Gross Margin Return on Investment calculation (GMROI) to drive purchasing decisions.

$$\text{GMROI} = \frac{\text{Gross Margin} \times 100}{100 - \text{Gross Margin} \times 100} \times \text{COGS Stock Turn}$$

GMROI definition:

- GMROI is an important tool in analysing inventory, sales and profitability (also known as GMROI or Gross Margin Return On (Inventory) Investment)
- The GMROI calculation assists buyers in evaluating the gross margin being earned by products purchased, compared to the investment and risk in inventory required to generate the GM secured
- Essentially, purchasing decisions at leading retailers like Zara and H&M are determined by which suppliers secure them the highest GMROI, as opposed to GM only – the more traditional (and simplistic) purchasing measurement

As demonstrated by Pinnow and King (1997), when the true costs of the traditional 'gross margin' calculation are revealed and the more appropriate GMROI calculations are used, the advantage of securing speed to market, even off a higher cost base, become clear. Anywhere between 20-52% more can be paid to a supplier for a garment, provided total lead times are under eight weeks. Of course the additional benefit is the management of over or under-stock risk, enabling the retailer to sell more product.

The benefits of this model become clearer when one considers South African retailer performance over the past 4 years. The correlation between year-on-year sales growth and GMROI is striking, and almost identical to the evidence generated internationally.

	Avg. Y-o-Y sales (04-08)	Gross Margin	Stock turn (sales)	Stock turn (COGS)	GMROI
Retailer 1	20.2	54.6	10.9	5.0	5.9
Retailer 2	17.9	37.7	9.0	5.6	3.4
Retailer 3	15.0	41.6	5.6	3.3	2.4
Retailer 4	15.7	39.4	7.2	4.4	2.8
Average	17.2	43.3	8.2	4.6	3.6

Clearly speed to market and its associated benefits require having quick-response manufacturing capability in close proximity. However, in order to better understand this opportunity, SA retailers need to develop a more sophisticated calculation of break-even points when sourcing from locations with different lead times, as current models are clearly inadequate. As such landed price, seasonal forecast accuracy, seasonal length, service levels, markdowns, stock turns and GM vs GMROI all need to be considered.

While a new measurement calculation is needed, the advantage will only be secured when there are genuinely competitive suppliers capable of short production lead times, as opposed to holding finished goods on behalf of SA retailers. The key to success appears to be an eight-week total lead time from placement of order. This requires the adoption of world class manufacturing techniques such as JIT, TQM and CI methods, thus enabling waste to be removed from the system and speed achieved. Supply chain partnerships to ensure fabric availability are also required, thus allowing the eight-week lead time to be achieved.

Please join us at **14H30 on the 12 March at the Durban Country Club** where the full study and the critical links to manufacturing capability will be presented by Dr Justin Barnes.

