February 2010

NEWSLETTER

KZN CTC
KZN CLOTHING AND TEXTILE CLUSTER

1st Floor 8 Old Main Road
Hillcrest
Tel: 031 765 3870
www.kznctc.org.za

Feedback on recent events

Executive Seminar Series and Factory Tours: One of the key lessons emerging from the years of engagement with firms that have embarked on a lean journey is that any improvement initiative must be driven from the Executive team down through the organisation – while simultaneously building capacity from the bottom up.

If this does not occur, most improvements will be delinked, area efficiency gains which often do not translate into sustained bottom line results. In order to address this, the Cluster has re-introduced the Executive seminar and factory tour series.

The aim of the seminar and tour series is to ensure that there is a solid understanding of: WCM principles and tools for the Executive level, driving the importance to support top-level 'buy-in' from management.

Launched in February 2010, the first seminar was held at the **Makaranga Lodge on 04th of February 2010.** Here member firms were exposed to the changing retailer perception of manufacturer performance between 2006 and 2009. At this seminar, the challenges and advantages of fulfilling an 'Open-to-buy' requirement for retailers was presented. For a full analysis of this strategy, refer to the back of this newsletter.

The second seminar was conducted at **Zorbatex on the 10th February 2010**. This session introduced participants to the basic tenets of world class manufacturing, 5S and the eight wastes of manufacturing.

Following this, participants were provided the opportunity to attend a factory tour at **Defy** in Ladysmith. This enabled participants to observe the practical application of the above mentioned principles in a production environment. This tour was exceptionally interesting and provided an excellent opportunity for delegates to observe a firm starting their lean journey.

The third seminar, held at **Makaranga Lodge on the 24th February 2010**, provided the opportunity to engage with the foundational principles of: Just-In-Time; Continuous Improvement; and Total Quality Management. The afternoon session saw delegates conduct a factory tour of **Toyota Boshoku**.

The final seminar of this series, outlined Value Stream Mapping (VSM) as a key strategic management tool, highlighting ways in which VSM can assist the overall planning and execution of continuous improvement processes. This session was recently held at **B&M Analysts, on 04th March 2010.**

On behalf of the KZN CTC we would like to extend our thanks to all host firms for providing this fantastic learning opportunity for our senior executives.

KZN CTC AGM and Annual Celebration: On the **3rd December 2009**, the KZN CTC hosted its AGM and Annual Celebration, followed by a Cocktail function at Makaranga Lodge. This function was well attended by industry executives, allowing members to engage and reflect on the previous year's financial performance and the plans for 2010.

David Bowen, Keith Robson and Justin Barnes enjoy the festivities at the KZN CTC AGM and Annual Celebration

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The following firms received awards at the AGM:

- **Durban Overall** – **Kelvin Chetty** and **Johan Liebenberg** were 'Runners Up' for their lean projects.
- **Dyefin Textiles** – **Mario Marrier** and **Dean Button** received 'First Prize' for *Most Progress Made in Lean Projects*. On top of this achievement, the firm also received a 'Recognition Award' for the *Greatest Positive Change*.

Brenton Pooley, the Managing Director of Dyefin Textiles receives an award from eThekwini councillor Rabi Gobind

Factory tours:

In October 2009, three factory tours were conducted at: Durban Overall, Dyefin Textiles and Excel Clothing. This enabled members to observe firsthand the progress accomplished by firms participating in the WCM Upgrading Programme.

Manufacturer Retail Perception Survey:

At the request of the retailers, the Cluster conducted a Manufacturer-Retail Perception Survey. This survey inquired into the performance of three major retailers in response to the manufacturers' needs. These survey results are extremely interesting and have been presented to the retailers, corroborating some of their own perceptions. In 2010, this survey will be repeated – additional retailer members will be participating.

CTCIP Application Update:

The KZN CTC Application status quo: this application, submitted on behalf of the 11 members, is currently being reviewed. An IDC consultant will be visiting firms during the week of the 08th March in the next few weeks to complete a risk evaluation. A final recommendation will be submitted by the consultant to the IDC committee in late March.

For further information of the programme application guidelines, please visit www.kznctc.org.za and simply 'select' the 'News & Downloads' link.

Delegates on Factory tour to Dyefin Textiles

Important dates

- **17 March 2010 – Meet and Greet with Foschini**
- **18 March 2010 – Shop Steward Training**
- **26 March 2010 – Team leader Training**
- **26 March 2010 – Energy Efficiency Workshop**

For further details email: kznctc@bmanalysts.com

Member news

* NEW CLUSTER MEMBERS*

On behalf of the KZN CTC we would like to extend a warm welcome to three new members of the cluster. These include:

⇒ **Pall Mall Neckwear –** a well established tie manufacturer situated in Durban.

⇒ **Intercloth –** a manufacturer of knitted fabrics. The firm's factory is situated in Pinetown. For further information please visit their website: www.intercloth.co.za

⇒ **Towel and Linen** – a distributor of fine bed linen and towels to the hospitality trade. For further information please visit their website: www.towelandlinen.co.za

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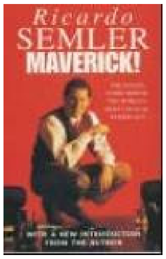
Book Review



Maverick is the autobiography of businessman Ricardo Semler, Chairman of Semco, now one of Brazil's now largest multinational companies. Semler, who was born in 1959 in São Paulo, is the son of an industrial pump making entrepreneur who reluctantly enters the family business but then undertakes radical change to transform it into a multi-billion dollar business empire over the period of two decades. Under his guidance, and despite uncooperative government and labour movements, revenue grew from US$4 million in 1982 to US$212 million in 2003, and his innovative business management policies have attracted widespread interest around the world.

What makes the story interesting are the unusual and sometimes radical approaches to engaging with labour, unions and executives, and what he perceives as unnecessary bureaucracy in organisations. Semler, expressing his understanding of a leader as "only the respect of the led creates a leader", created an environment of mutual respect within the organisation by reducing the hierarchical structures through many unique strategies. He views clock cards, dress codes, security searches, privileged office styles and prerequisites, along with other manifestations of traditional corporate culture as 'corporate oppression', and each are eventually done away with.

Where he sees excessive paperwork, he instigates methods to get rid of this, and refuses to authorise the purchase of filing cabinets to prevent paper build ups. Semco ultimately becomes an organisation constantly seeking to streamline and simplify processes and avoid complicated manuals. For example, the Semco company manual is a brief comic book.

Over a period of time he institutes full transparency in the business, allowing all employees unlimited access to the company's financials, training them to read financial documents, openly publishing salaries and ensuring all employees are involved in corporate decisions (such as diversifications and acquisitions). One of Semco's basic philosophies builds on participation and involvement and encourages all staff to give opinions, similar to the philosophy espoused in the ***Toyota Production System***.

Worker participation is extended to profit-sharing and flexible working hours set by employees, as well as employees decorating their workspace as they please. Admittedly the steely incentive is that there is no guarantee of employment and where executives refuse to change, he removes them from the business rapidly, firing half of the long-serving Directors within weeks of taking over the company for refusing to take change seriously.

The traditional hierarchy or organisational structures are done away with and structures are flattened, with decision-making devolved to teams. Semler, supported by carefully selected change-oriented executives, creates an environment where teams and individuals are encouraged to self-manage and be involved in the core business of the organisation. Each business unit is small enough so that those involved understand everything that is going on and can influence the outcomes. Semco eventually allowed its teams to set their own production quotas and found that employees would voluntarily work overtime to meet them. Profit sharing is practiced right down to factory floor level, instead of large bonuses only for senior executives.

This system naturally requires strong leadership and mentoring, and to assist this "bosses" are evaluated every 6 months by their subordinates and the results are publicly posted. Repeated failure by the boss in question inevitably leads to their resignation. As experienced at Semco, the presence of leadership at all levels creates an organisation able to adapt, learn and innovate. Semco doesn't have receptionists, secretaries or personal assistants, regarding them as unnecessary, and employees are involved in the interviews and decisions to hire new executives, their future superiors.

For the South African audience, there are key lessons in the similarities between the Brazilian macro-economic environments, (inflation, unstable exchange rates, government and labour often seen to be at odds with industry), the basic education levels amongst the workforce, the dominance of traditional manufacturing systems and methods of organisation/management, as well as the need to do things differently. Most important is the oft repeated central theme that manufacturing is about people and creating systems that support their participation, buy-in and mutual respect. Once again these ideas have been tested and proven to be true.

Focus Article: Developing World Class Retailers for a World Class SA Clothing, Textile and Footwear Pipeline

Whether we like it or not, the clothing, textile and footwear sector is buyer-driven pipeline – in other words it is the retailers who dictate the terms and conditions of trade within the value chain. In South Africa, close to 90% of the formal retail trade is dominated by seven retailers. In order to ensure the survival of manufacturing in South Africa, and hence job retention and creation, it is important that we analyse the development of global apparel retail, as this in turn informs the development of our local retailers, and by implication the development of the clothing, textile and footwear manufacturers.

The global apparel retail sector "run" appears to be over. It would appear as though the same is true for SA retailers with same store sales under pressure. Faced with these competitive pressures the retailer response has been one of two purchasing models:

Model A **- *Ever cheaper Asian purchasing model: This model is characterised by maximising input margins and reducing cost of goods of sale. Here price becomes the key factor underlying retailers' purchasing decisions – with the pressure to always look for cheaper supply in order to improve margins and profitability.***

Model B ***– Ever quicker quick response purchasing model: This purchasing model is aimed at maximising retained margins and increasing stock turns of "star" merchandise in order to maximise profits, while reducing risk associated with incorrect sales forecasts.***

The fundamental difference between these two models is that Model A does not permit in-season trading capability, while Model B does. In-season trading allows the retailers to react to trends and increase the proportion of high selling stock and reduce the proportion of low selling stock, thereby reducing the proportion of discounting and retaining margins. In essence in-season trading allows retailers to proactively deal with stock in order to maximise their profits. In Model A, however, should a retailer make the wrong call, there is very little they can do about it except force the supply chain to cancel or discount the stock.

Table 1 below demonstrates the most recent financial performance of a handful of leading global apparel retailers. Inditex (aka Zara) and H&M represent those retailers who have a combination of the two purchasing models and have continued to evolve their quick response capabilities and in-season trading capability. American Eagle, the GAP, FCUK and Next represent those global retailers which have focussed primarily on Model A. Overall the financial results indicate that Inditex and H&M's financial performance outperforms other retailers.

Table 1: Comparative Retailer Performance

	Inditex	*H&M*	*American Eagle*	*The GAP*	*FCUK*	*Next*	*AVG*
Report period	*2/8-1/9*	*12/7-11/8*	*2/8-1/9*	*2/8-1/9*	*2/8-1/9*	*2/8-1/9*	
Currency	Euros	SEK	US$	US$	GBP	GBP	
Sales growth: PFY-LFY	10.31	13.00	-2.16	-7.85	5.04	-1.71	2.8
L-L sales growth: PFY-LFY	0.00		-10.00	-12.00		-6.10	-7.0
L-L sales growth: LFY	5.00		1.00	-4.00		-6.50	-1.1
Gross margin: PFY	56.78	61.52	39.28	37.50	51.21	27.78	45.7
Gross margin: LFY	56.69	61.07	46.58	36.11	52.60	28.51	46.9
Operating margin: PFY	21.01	22.75	10.10	10.66	-2.78	14.61	12.7
Operating margin: LFY	22.78	23.46	19.61	8.92	0.59	16.13	15.3
Stock turn/sales: PFY	9.87	10.42	10.13	9.65	3.96	10.27	9.1
Stock turn/sales: LFY	9.37	9.83	10.66	10.01	4.45	10.43	9.1
Stock turn/COGS: PFY	4.26	4.01	6.15	6.03	1.93	7.41	5.0
Stock turn/COGS: LFY	4.06	3.83	5.70	6.39	2.11	7.46	4.9
GMROI: PFY	5.60	6.41	3.98	3.62	2.03	2.85	4.1
GMROI: LFY	5.31	6.00	4.97	3.61	2.34	2.97	4.2

The evidence is clear: Retailers that align their supply chains, engage in strategic long-term relations and create a quick response capability quickly gain market-share and withstand economic shocks more readily than those that retain a traditional retailing model. The implications for local retailers, particularly in such a concentrated market, should be of great concern to the shareholders with a longer-term view.

The in-season supply is characterised by the following factors, also outlined in the graphic below:

- Open-To-Buy retail merchandising strategy and budgeting on those items that are fashionable or change in season,
- Replenishment,
- Quick responses to same products based on sales trends, and
- Making product and style iterations on items that have low call-off rates to match those styles and product iterations with high call-off rates.

The challenge then, is if this is the direction in which World Class Retailing is moving – what does the SA clothing, textile and footwear value chain need to do to ensure that supply is highly efficient in terms of seasonal supply and has the ability to conduct in-season trading. And if this capability is created, are there more opportunities opened up offshore?