



# Annual Report: August 2008 – December 2009

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## 1. Introduction

Launched in 2006 after a pilot in 2005, the KwaZulu-Natal Clothing and Textile Cluster's entire focus is supporting local clothing and textile manufacturers in their efforts to manoeuvre through the global challenge of competition. Designed and driven by industry for industry, the focus is relentlessly about value addition for member firms and their employees, our government partners, and society at large. Membership of the KZNCTC constitutes approximately 30% of the provincial formal clothing and textiles industry – measured in terms of the employment of member firms relative to national Bargaining Council figures for the Province.

With support from five of South Africa's largest retailers, the Cluster has been able to establish and entrench programmes designed to grow local firms potential by accumulating economies of scale through group activities and shared resources. By combining both horizontal and vertical clustering content, firms are challenged to look both inwardly - revisiting "accepted" methods of organisation, management and production with a view to re-orienting the business, and outwardly – seeking complimentary relationships through the value chain that optimise the whole by developing mutually beneficial, long-term strategic relationships. The flexible, adaptable model of supply and retail that the Cluster is relentlessly driving is deemed the only viable alternative to the outdated mass production model, which is simply not suited to South African conditions. The KZN CTC is therefore driving an alternative developmental approach based on a "Triple A" value chain approach. The "Triple A" approach straddles **Alignment, Agility and Adaptability**, all cornerstones of quick response retailing. Each of the Cluster's core business plans (World Class Manufacturing, Value Chain Alignment and Human Resource Development) is aimed at this purpose.

Recognising that this re-orientation is no easy task, the contents of the KZN CTC have and will continue to evolve in line with new thinking and developments. As an example, the KZN CTC has supplied information into national government programme formulation relating to capital spending, a key input for textile firms in particular. Simultaneously, the Cluster has arranged for training of shop-floor workers on basic machine maintenance and set-up, acknowledging that the human capital deployed in manufacturing is the key to ensuring that capital equipment continues to work efficiently and local manufacturing has a chance of succeeding.

In 2010, the drive towards World Class standards will take a giant step forward as member firms are afforded an opportunity to secure specialised support for in-house projects aimed at institutionalising world class methodologies in their plants. Thus the benchmark reports, which identify the major opportunities for improvements in firms, will be of even further benefit as firms can now secure support to act on these findings. Those firms now undertaking their fifth benchmark are in an incredibly strong position to guide these

projects into critical areas, eliminating any guesswork and ensuring the best return on their investment.

The purpose of this report is to provide an overview of the highlights of the KZN CTC over the period August 2008 to December 2009. This unusual time period is due to a change in the financial year end of the Cluster during the period mentioned.

## 2. Programme Summaries

To date each of the KZN CTC's business plans have made significant progress, the highlights of which are outlined below. A full list of member firms and all activities and participants/beneficiaries are listed under Appendices A-D.

The section 21 company remains fully compliant with all legal and statutory requirements and continues to receive unqualified, clean audits from BDO Spencer Stewart, the appointed auditing firm. While all financial information presented here remains unaudited, the expectation is that the situation with regard to the health of the cluster will remain unchanged.

Under the guidance of the **Executive Committee**, the following highlights have been achieved:

- ✚ The KZN CTC has been supporting the formal C&T sector for 4.5 years
- ✚ The KZN CTC has 30 paying members from across the spectrum of the value chain, from machine suppliers to retailers. Excluding retailers this covers over 11 000 employees, a large chunk of the formal sector
- ✚ The KZN CTC reach's over 350 associate business members through our database, each of whom receives newsletters and other reports of value
- ✚ During the past financial year the Cluster has directly supported over 1 500 workers/staff through programmes designed to create manufacturing teams
- ✚ The website remains a strong brand and marketing tool, updated weekly with reports, information and notices of workshops
- ✚ Total revenue for the extended financial year (August 2008-December 2009) is R1.91m, with expenditure equal to this
- ✚ In 2010, the Cluster will be participating in the IDC CTCIP Grant programme, and is one of only two Cluster applications with the IDC at this particular point. The expanded programme will deliver shop floor support to participating members and will undoubtedly add value to them



The **WCM programme** has continued as the bedrock of the Cluster, with a strong focus on supporting upgrading amongst member firms. Highlights of this programme include

- ✚ Completed 75 KZN firm-level benchmarks
- ✚ Added over 40 international firms and 35 other SA based companies, building a formidable and unique operational database detailing economic, human resource, and

competitiveness trend data for individual firms, as well as the KZN clothing and textiles industries more generally.

- ✚ Delivered over 75 firm-level comparative benchmark reports against companies located in Colombia, India, China, Vietnam, Puerto Rico, Lesotho, Swaziland and Bangladesh
- ✚ Undertaken extensive training for participating cluster members on World Class Manufacturing (WCM) principles and practices in the WCM Training Programme
- ✚ Developed and disseminated five best practice newsletters outlining the critical lessons to have emerged from the best practice and expert workshops
- ✚ Facilitated a CEO Strategy Session to identify further clustering and short to medium-term growth opportunities for member firms
- ✚ Hosted a Hoshin Workshop which was facilitated by a WCM expert, Steve Baker
- ✚ All 4 newsletters were delivered on schedule



**The Human Resource Development** programme, aimed at supporting the most critical resources in factories - the people who work there – and globally recognized **the** key to successful manufacturing, went from being the central programme to a programme with no budget at the end of 2008 due to unannounced funding cuts. Despite this the Cluster managed to maintain some elements through innovative

partnerships with other organizations and was still able to deliver critical BBEE training to members. In 2010 this programme will be resuscitated through alternative funding channels.



The **Value Chain Alignment** programme, the vertical component of the Clustering initiative, has remained a key element in advancing the trading models being supported by the Cluster. Engagement with the country's largest retailers has provided insight into shifting market demands and challenges in developing new methods of delivering customer value. The retailers also remain core funders of the Cluster and are therefore vital to its ongoing sustainability. Key deliverables in this programme have included:

- ✚ The purchase of a trading model from the University of North Carolina. The model is an extremely complex and detailed set of genetic algorithms used to unpack performance according to the purchase and trade model deployed. Used in partnership with six of the country's largest retailers, based on actual orders, the model is able to predict (both forwards and backwards), the performance per order according to model used (order sequencing, lead times, GM, sales points and prices, mark-downs and discounts etc)

- ✚ Several training sessions with the buyers, merchandisers and executives from retail
- ✚ The development of a Quick Response, supplier development pilot project with Edcon and submission of a funding proposal
- ✚ Supplier Meet and Greet Session in July 2009, a marketing opportunity was created for cluster members. Three senior buyers from the Edcon group met face to face, one on one with selected manufacturers to discuss purchasing needs, design capabilities and profiles, volumes and prices for 2010. Manufacturers were afforded the opportunity to present their firm's capabilities according to merchandise profiles (knits, wovens and or textile outputs). Sample garments were presented in the forum to showcase South African design and manufacture capability. Twelve firms took part in this event which was held in Durban and the opportunity was attended by the most senior executives of the firms
- ✚ The third annual retailer benchmarks were written and delivered in December 2009
- ✚ A retailer supplier perception survey was undertaken in October 2009 at the request of the retailers. This tool is useful for retailers to corroborate their internal measurement, and hence buying intelligence systems

### 3. Impact

Over the period on question, the Clusters activities have had several quantifiable benefits for industry.

- ✚ The majority of the training participants (1 500 in total), were black (94%) and female (76%), ensuring transfer of skills and knowledge to the most vulnerable portion of the population. During this period, at least 300 jobs have been created. This translates to approximately 1 500 individuals benefitting from this household income. While jobs saved is more difficult to quantify, this is believed to run close to 1 000, thus ensuring 5 000 individuals were not tipped into poverty.
- ✚ From a business perspective, the following slide highlights the Rand value of saving amongst member firms over the period 2005-2008, equal to almost **R9million**.
- ✚ The total contribution to the local economy of members firms for the period 2005-2009 has been **R16,870,997,722.66**.

## Cost savings within clothing firms

Cost measure	KZN Clothing firms			
	Cost Savings (R)			
	2005	2006	2007	2008
Finished goods	R2,457,988	R2,121,883	R1,796,377.21	R2,116,010.30
Work in progress	R987,063	R1,126,909	R1,022,302.45	R939,645.60
Raw materials	R3,630,143	R2,242,683	R2,343,821.59	R2,299,398.54
Customer returns	R1,148,782	R1,266,183	R1,240,268.04	R1,264,701.03
Internal scrap	R994,213	R1,107,683	R834,263.92	R859,399.99
Downtime due to style changeovers	R12,345,449	R17,210,163	R9,184,342.13	R8,431,864.35
Downtime due to machine breakdowns	R3,306,032	R2,554,158	R2,221,375.59	R2,320,040.25
Downtime due to material unavailability	R3,833,240	R4,763,708	R2,440,524.75	R2,176,954.07
Downtime due to people unavailability	R3,174,230	R2,716,327	R2,629,789.94	R2,851,503.22
Absenteeism	R1,314,695	R1,194,895	R945,707.70	R939,552.15
<b>TOTAL</b>	<b>R33,191,835</b>	<b>R36,304,592</b>	<b>R24,658,773</b>	<b>R24,199,070</b>

## 4. Financials

	Actual - Unaudited			Budget Aug 08-Jul 09		Budget (Aug 09- Dec 09)		Total
	Yr to date Aug 08-Jul 09	Yr to date Aug 09- Dec 09	Yr to date Total	Yr to date	Total	Yr to date	Total	17 Months Budget
<b>Income and expenses</b>								
<b>Income</b>								
Government funding	900 000	-	900 000	900 000	900 000			900 000
Donations	130 000	-	130 000	130 000	130 000			130 000
Interest - SARS	-	-	-					-
Sundry income	85 000	-	85 000	211 000	211 000			211 000
Membership fees	587 167	192 008	779 175	480 500	480 500		215 000	695 500
<b>Total income</b>	<b>1 702 167</b>	<b>192 008</b>	<b>1 894 175</b>	<b>1 721 500</b>	<b>1 721 500</b>	-	<b>215 000</b>	<b>1 936 500</b>
<b>Expenses</b>								
Facilitation		-						
Administration	288 000	90 000	378 000	288 000	288 000	60 000	75 000	363 000
Publicity	36 500	700	37 200	30 000	30 000	-	-	30 000
Audit/AGM	31 558	-	31 558	40 000	40 000	-	-	40 000
Website development	6 750	10 250	17 000	12 500	12 500	-	-	12 500
Manufacturing competitiveness/WCM	653 509	208 559	862 068	688 101	688 101	201 526	251 907	940 008
Human resources/transformation	-	-	-	21 443	21 443	-	-	21 443
Ceo Strategy session	45 000	-	45 000					
Stakeholder interface/Value chain alignment	391 981	43 650	435 631	439 500	439 500	69 120	86 400	525 900
S Baker	83 194	-	83 194	-	-			
<b>Total consulting fees</b>	<b>1 536 492</b>	<b>353 159</b>	<b>1 889 651</b>	<b>1 519 544</b>	<b>1 519 544</b>	<b>330 646</b>	<b>413 307</b>	<b>1 932 851</b>
Interest - BDO	123	-	123	-	-			
Audit fees	8 563	-	8 563	-	-			
Bank charges	743	174	917	-	-			
<b>Total other expenses</b>	<b>9 428</b>	<b>174</b>	<b>9 602</b>	<b>-</b>	<b>-</b>			
<b>AMTP/PIP</b>								
Income								
Expenses	-30 939	-	-30 939					
<b>Net AMTP/PIP surplus/(loss)</b>	<b>-30 939</b>	<b>-</b>	<b>-30 939</b>	<b>-</b>	<b>-</b>			
<b>Net surplus/(loss)</b>	<b>125 307</b>	<b>-161 324</b>	<b>-36 017</b>	<b>201 956</b>	<b>201 956</b>	<b>-330 646</b>	<b>-198 307</b>	<b>3 649</b>

	Actual - Unaudited		
	Yr to date Aug 08-Jul 09	Yr to date Aug 09- Dec 09	Yr to date Total
<b>Income and expenses</b>			
Surplus - 2005/2006			
Normal cluster activities		400 547	
PIP		118 090	
<b>Total surplus b/f from 2005/2006</b>		<b>518 637</b>	
Surplus - 2006/2007			
Normal cluster activities		281 784	
PIP/AMTP		-65 669	
<b>Total surplus b/f from 2006/2007</b>		<b>734 752</b>	
Loss -2007/2008			
Normal cluster activities		-480 348	
PIP/AMTP		26 379	
<b>Total surplus b/f from 2007/2008</b>		<b>280 783</b>	
<b>Working capital</b>		<b>Actual</b>	
Debtors balance		17 859	
Cash in bank		268 548	
Creditors-BMA		-69 056	
Creditors- BDO		-	
Vat due to/from SARS		27 413	
<b>Net working capital available</b>		<b>244 764</b>	
<b>Cashflow for the year to date</b>		<b>Current</b>	
Cash on hand - beginning of the month		388 277	
Receipts from members		8 978	
Donations		-	
Receipts from Government		-	
Vat refund/(payment)		-	
Expenses paid		-128 707	
<b>Cash on hand - end of the month</b>		<b>268 548</b>	

**Appendix A: Members List**

<b><u>KZN CTC Members</u></b>	
1	Allwear
2	Apparel Industries
3	Celrose
4	Crossley Holdings
5	DB Apparel
6	Durban Overall
7	Dyefin Textiles
8	Eddels
9	Excel
10	Fashion World
11	Freudenberg
12	Frame
13	HYQ Clothing
14	Intercloth
15	Imraan
16	Mala Dyeing
17	Mediterranean
18	Ninian & Lester
19	Pall Mall Neckwear
20	Powerhouse
21	PMC Group
22	Prestige Apparel
23	Prilla
24	Spectrum
25	Texmate
26	Traffic Clothing
27	United Buttons
28	Zorbatex
29	Edcon
30	Mr Price

## Appendix B: List of Workshops and Dates

### HRD:

BBBEE (1)	29-Jul-08
BBBEE Preferential Procurement Strategies (2)	28-Aug-08
BBBEE Human Capital Strategies (3)	29-Sep-08
BBBEE - Verification Process (4)	17-Feb-09

### WCM:

Hoshin Workshop - Ladysmith	18 - 20 Aug- 08
WCM Training Programme: Management/mentoring meetings.	02 Feb, 03 Feb, 04 Feb-09 10 Feb, 11 Feb-09
WCM Training Programme: Module 1.	18 <sup>th</sup> – 20 <sup>th</sup> Feb-09
Executives Training Session	12-Mar-09
WCM Training Programme: Module 2 eThekwini area	16-Mar-09
WCM Training Programme: Management/mentoring meetings. Round 2	17, 18, 19 March-09
WCM Training Programme: Module 2 NKZN area delegates	23-Mar-09
WCM Training Programme: Module 3. eThekwini area	21-Apr-09
WCM Training Programme: Module 3 NKZN area delegates	24-Apr-09
WCM Training Programme: Module 4. All delegates	21 - 22 May 09
WCM Training Programme: NKZN area delegates Module 5	23-Jun-09
WCM Training Programme: Management/mentoring meetings. Round 3	31-June-09, 22 July, 27, 28, 29 July
WCM Training Programme - Factory Tour at Excel and Durban Overall	13-Oct-09
WCM Training Programme Factory Tour at Dyefin Textiles	29-Oct-09
WCM Training Programme: Management/mentoring meetings. Round 4th & final	19' 20 Nov-09

## VCA:

QBPF: Inside Edcon (1)	07-Aug-08
QBPF: Inside Edcon (2)	14-Aug-08
AMTP 2008: Mentor session eThekwini area	01-Sep-08
CEO Strat session	02-Sep-08
AMTP 2008: Mentor session NKZN area	04-Sep-08
AMTP 2008: Mentor session eThekwini area	23-Sep-08
AMTP 2008: Mentor session NKZN area	26-Sep-08
AMTP Mentoring Session s eThekwini Area	14-Oct -08
AMTP 2008: Mentor session NKZN	17-Oct-08
AMTP 2008: Mentor session eThekwini area	04-Nov-08
AMTP 2008: Mentor session NKZN area	07-Nov-08
QBPF: Mr Price DC	19-Nov-08
AMTP 2008: Mentor session eThekwini area	24-Nov-08
AMTP 2008: Mentor session NKZN area	28-Nov-09
Mr Price QBPF	08-Apr-09
Annual Imbizo	7 & 8 May 09
GMROI & CTCIP workshop	17 Sep-09