



KZN Clothing and Textile Cluster Manufacturing Competitiveness Newsletter

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On behalf of the KwaZulu-Natal Clothing and Textile Cluster (KZN CTC) I would like to wish everyone a happy and prosperous 2007! This is the second Manufacturing Competitiveness newsletter for the 2006/7 year.

The beginning of 2007 marks one and a half years since the inception of the KZN CTC. It is this juncture that provides us with the opportunity to review the strategic direction of our domestic firms to ensure that they are in line with best practice and the increasingly onerous market demands!.

It is to this end that this newsletter reviews the importance of the C&T industries to KZN. Some macro figures are then presented outlining recent market trends, followed by an unpacking of market demands. The actual performance of the clusters firms are then outlined, reflecting upon some of the challenges we face in upgrading the competitiveness of the cluster firms.

This information should assist firms to identify the appropriate interventions to take advantage of market opportunities, and thereby creating growth by delighting ones customer base.

“Strategy is the gentle art of re-perceiving...Move away from what is known by clearing the mind, clearing the place, and clearing the beliefs.”

***John Kao, Professor,
Stanford Business training School***

Finally, the newsletter also contains a short News Brief on the progress of the KZN CTC's Manufacturing Competitiveness programme, which ensures members are fully up-to-date with regards to its progress.

*If you have any queries regarding this newsletter, please e-mail: Michele Ardé (michele@bmanalysts.com).
Enjoy the read!*

Focus article...

Repositioning the Clothing and Textile Industries in KwaZulu-Natal: Challenges and Opportunities.

Introduction

The KZN CTC has recently co-hosted the Provincial Imbizo with the MEC for Economic Development. This has provided the appropriate opportunity to take a step back from the day-to-day drive to improve competitiveness and re-evaluate the broader strategic environment in which we operate – and then ask those ever important questions of:

- Where are we?
- Where can we get to?
- Where do we want to get to?
- How do we get there? and
- When do we know when we get there?

to ensure that each of us have an appropriate strategy to address the ever changing and more challenging environment in which we operate.

In order to provide some assistance in this activity, this newsletter first outlines the importance of the CTFL industries to the province of KwaZulu-Natal in terms of economic contribution. Some macro economic figures are then presented highlighting the challenge but also massive opportunity for our domestic firms. It then outlines the recent performance trajectory of the firms within the KZN CTC and asks the hard question of what is being done internally and externally to drive the necessary changes through the industries. In conclusion we evaluate what the opportunities are for local clothing and textile manufacturers. This should assist firms in the development of strategies that are in line with best practices and with their customers' demands.

The Importance of the Industry to KwaZulu-Natal

Despite a falling contribution to the provinces economy, the CTFL industries remains an important **economic contributor** to KZN as a province, as it contributes almost 10% of all manufacturing output (nearly three times the national average). This whilst the importance of the clothing and textiles industries may be debatable within a South African context, this is most certainly note the case when considering their position within KwaZulu-Natal.

Similarly, despite falling **employment levels** in the industries, they still contributed 5.66% of all employment within the province in 2005. Given the high rates of

unemployment in the province, combined with relative labour intensive nature of the industries as well as the fact that the labour force is dominated by African women, the importance of the CTFL industries are once again highlighted.

Market Trends

Data from the DTI indicates that the national **domestic clothing and textile market** was valued at R45bn in 2005, up 34.5% in real terms from R29 887 million in 2001. Of this, textiles make up R26 800 million (58.7%) and clothing R18 834 million (41.3%). Given the latest trends in sales, one may conclude that the combined formal domestic market is probably currently worth over **R53 billion per annum**.

The **total sales** by South African clothing and textile manufacturers in 2005 was R31 638 million. This consisted of R28 459 million into the local market and R3 179 million of exports. Once adjusted for inflation, these figures indicate an actual decline in value over the four year period from 2001. KwaZulu-Natal is estimated to produce about 40%¹ of all clothing and textiles output in the country, suggesting production was close to R12 655 million in 2005. Despite the growth in the domestic market, it is clear that local producers, on average, have struggled to maintain or grow their market share in the face of aggressive global exporters. However, these aggregated figures do hide major variations in the performance of certain firms which have managed to maintain and even grow market share. For example, technical textiles sales have increased dramatically in nominal terms, underscoring the importance of moving into those market segments with greater barriers to entry.

While the exact accuracy of the above figures may be debated in the context of illegal and under-invoiced imports, the nature of the informal sector and data collection challenges, they nonetheless indicate that domestic manufacturers have been unable to take advantage of well over R16 billion worth of growth in the market in the past few years.

Market Demands

It has been clearly and repeatedly articulated that South African manufacturers cannot compete on a global footing in terms of mass production techniques. While the domestic market is significant, it is increasingly segmented and demanding and insignificant compared to the scale of China or India.

Similarly, with a cost base equivalent of a medium-developed economy, South African manufacturers cannot compete on the basis of being the lowest cost producer, which is in any case an undesirable position in which to try and develop a competitive advantage as it only encourages a "race to the bottom". However, there is clear evidence that with the increasing market segmentation and demands from the man or women on the street, those operations which can offer high quality, small, highly flexible runs, rapid response, minimal stock holdings but rapid replenishment and therefore increased stock turns for their retail customer have a significant and real advantage over the global exporters. As such positioning oneself as a "best cost" manufacturer can offer significant opportunities.

This is for the simple reason that the vast majority of the R16 billion of imported products have to travel at least three weeks by sea freight before being landed, thus giving local manufacturers supplying the domestic market an inherent competitive advantage. Similarly once landed, quality problems cannot be quickly resolved, non-sellers have to be marked down to move the product and rapid replenishment on the basis of actual sell-offs is impossible.

¹ See Barnes J and Esselaar J (2005), Customised Sector Programme Report: Clothing and Textiles, compiled for the Department of Trade and Industry (17 May 2005).

Given the increased adoption of these rapid fashion models internationally and the success of the retailers leading this trend (Zara, H&M), combined with statements of our own retailers that this is the future of retail, it is clear that this is the approach to adopt as a customer oriented manufacturer.

Unfortunately simply stating that ones strategy is to fulfil the quick response requirements of ones customers is insufficient if it is not backed up by the development and nurturing of appropriate the manufacturing capability and the people to drive the system, as well as the creation of desirable products. The following section reflects on some of the key indicators that reflect on the drive to develop these aspects of the cluster member firms.

Firm Level Competitiveness Analysis

Capital expenditure: CAPEX levels are a strong indication of investment at firms, and hence their future competitiveness capabilities. And yet these levels remain low, with South African clothing firms generally investing at insufficient levels to develop their future capabilities. Investment levels of 2.5% are, for example, only 60% of the international firms' 4.1% average. While the textile firms have also under-invested in new capital in recent years, 2006 data suggests a significant improvement, potentially correcting past under-investment, but also in response to new opportunities emerging following a period of contraction and re-organisation.

Recent under-investment is evident in the KwaZulu-Natal clothing firms' average age of capital equipment (10.7 years) being higher than the International clothing firms (5.6 years). The 2005 data reveals that the KwaZulu-Natal textile firms' average capital equipment age is 14.6 years, compared to the SA average of 13.9 years.

Cost Control: Total inventory holding is an important proxy for firm-level cost control, insofar as it indicates how effectively firms convert materials into finished products. The less inventory held, the more efficient a firm's conversion processes and hence the greater its ability to control costs. Interestingly, while average inventory holding increased from 2004 to 2005 at clothing and textile firms, all but the KZN textile firms have managed to improve their performance through 2006. International clothing manufacturers remain the strongest of all the comparator groups, holding an average of just under 36 days of inventory. The KZN averages do however hide some very strong clothing and textile performers in the province, operating on only 8 and 14 days of total inventory respectively – truly world class levels.

Quality: While cost control impacts directly on the price of the final product, the ability to compete on price is a minimum entry requirement in most clothing and textile markets. The historic trade off between price and quality is diminishing rapidly, with customers expecting good quality products at ever lower prices. Quality may be analysed from two perspectives: internal and external. Internal quality determines the cost at which a product is being manufactured for a customer, whilst customer returns measure the extent to which customer quality requirements are actually being met. KwaZulu-Natal clothing manufacturers fall short of their South African (0.46%) and international competitors (0.47%) with regard to customer returns, with an average return of 0.74% in 2006. The data also indicates that KwaZulu-Natal clothing firms incur the highest cost in achieving customer quality demands, with the highest rates of internal rejects (4.67%) and internal reworks (6.59%), although their scrap rates (2.56%) are ahead of the South African (4.44%) and international averages (5.83%). Again, these averages mask the fact that the clothing firm with the lowest internal rejects (0.1%) is located in the province. The KwaZulu-Natal textile firms' external quality performance, at 0.26% customer returns, is stronger than the 0.88% average for South African firms in the database.

Reliability: The competitive advantage gained through an ability to provide good quality products at global prices are further enhanced through strong on-time and in full (OTIF) delivery to customers, as well as rapid response capabilities, represented in the form of short lead times. From this perspective, the strongest performing South African clothing and textile firms are both located in KwaZulu-Natal with OTIF delivery performance levels of 100% and 98.4% respectively. However, when comparing averages it appears that KwaZulu-Natal, South African and international

clothing firms all perform equally well, whilst the KwaZulu-Natal textile firms in the database marginally outperform their South African counterparts.

Flexibility: The average lead time performance of the KwaZulu-Natal clothing firms (no finished goods) is 24 days, which is comparatively stronger than international firms supplying their own domestic markets (33 days). South African textile lead time averages are 30 days to domestic customers from no finished goods. Again these averages hide significant outliers, with strong performers reporting lead times of only 2 days. However, it is evident that supplier lead times are problematic in that they are, on average, ten days longer than the international firms' supplier base.

Human Resource Development: There are four dimensions to a firm's ability to develop its competitiveness: manpower, machines, materials & methods. Whilst these dimensions are related, the first determines capability to deal with the others. As many proponents of world class manufacturing will state *"it's all about the people"*. It is therefore important to analyse whether firms are generating worker commitment and fostering their participation, while also investing in their employees.

- **Employee commitment:** An unhappy labour force is often unproductive, with this evident in the form of low value productivity and high levels of absenteeism and labour turnover. The average absenteeism rate among the KwaZulu-Natal clothing firms, at 7.29% is therefore of some concern, particularly as it has not improved over the past three years. This is marginally higher than the South African clothing average of 7.08%, and almost 30% higher than the international clothing firm average. Both labour and management turnover rates in KwaZulu-Natal are also comparatively high relative to the South African average, at 8.9% and 5.1% respectively. However, these rates remain lower than evident internationally. In contrast to the clothing data, absenteeism and labour turnover averages amongst the KwaZulu-Natal and South African textile firms in the database appear healthy.
- **Training investment:** The average percentage of workers within the KwaZulu-Natal clothing firms with an education equivalent to Grade 4-6 or higher is 63.6%, compared to 69.9% in the province's textile firms. The South African clothing firm average is 75.8% while the SA textile average is 77%. All of these averages remain well below the international clothing average of 84.3%. Given these figures, the current levels of training spent are inadequate to even maintain the current skills base, let alone develop it to a world class level. All of the comparator groups within South Africa invest less than their international counterparts, whilst training spent in 2006 actually declined on 2005 levels. Again the averages do camouflage some world class performance levels in the province in relation to skills development.

Despite the need to enhance the skills base underpinning the industries, output per employee in the KwaZulu-Natal clothing industry increased to an average of 17.5% from 2004 to 2006, compared to only 12.0% nationally and 8.2% internationally, although this was predominantly off the back of downsizing interventions.

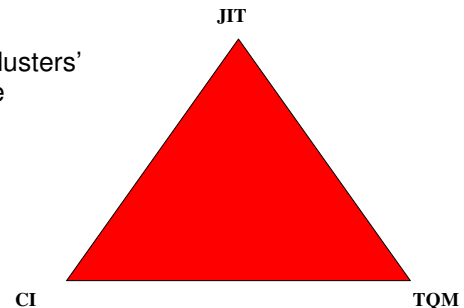
Design and development: In line with international trends, design and development is increasingly being concentrated among retailers. Manufacturers then either customise the design for the manufacturing process or simply run the product under a supply agreement (predominantly in textiles). However, a common criticism of the industry by the retailers is the lack of new product development and product modification capacity. It is therefore striking that benchmarked KwaZulu-Natal clothing firms invest, on average only 1.37% of their sales in product design and development, compared to almost 6% at the benchmarked international clothing manufacturers. These figures do however vary significantly depending on whether the KwaZulu-Natal firms are located in centralised or decentralised areas.

Where to from here?

There is little doubt that the KwaZulu-Natal clothing and textile industries are under enormous pressure to improve their competitiveness in the face of growing international competition. Notwithstanding the difficult economic period experienced by the industries as a result of these pressures, the firm-level data reveals that the province continues to offer significant opportunities to clothing and textile manufacturers as well as potential investors. Despite the rapid ascent of these global heavyweights and the acceleration of imports since the end of the multi-fibre agreement in 2005, many KZN firms have managed to remain competitive. Considering that the clothing industry is considered to be one of the least developed industries in relation to the move towards the adoption of world class principles, the potential within the industry is massive, with the rewards quite clear -16 billion of them to be precise!

As such the way forward is increasingly clear, and at the core of this is the relentless drive towards World Class Manufacturing and the three core elements thereof - Just-in-Time, Total Quality Management and Continuous Improvement.

As such these elements will remain the central focus of the Clusters' WCM activities over the period 2007-2010, building on a base of WCM base training and enhancing these through WCM implementation workshops.



Manufacturing Competitiveness News...

Progress report update

Having had a welcome respite in the annual shut-down period between December and January the KZN CTC has gotten off to a busy start in 2007. The KZN CTC has had reasonable success in its efforts to expand the international textile database. Rob Stewart and Douglas Comrie visited India in January in an effort to forge relations with a consultancy in India. Encouragingly, relations have been established and the firm is currently collecting textile data on our behalf. In addition the second round of **firm-level benchmarks** for each clothing and textile member is currently being undertaken.

Best Practice Workshop & Factory Tour Series

In line with the more practically orientated WCM training through 2007, the KZN CTC hosted the first **Best Practice Workshop & Factory Tour** focussing on introducing Just-In-Time producing systems into the clothing and textiles industries.

The workshop was held on the 15th and 16th of February 2007. The theoretical component of the workshop was held at B&M Analyst's office in Hillcrest and the practical component at Celrose Clothing in Tongaat. The feedback that we received from those in attendance was very positive.

Thank you note:

On behalf of the KZN CTC we would like to extend a warm thank you to all at Celrose Clothing for their willingness to allow participants' access to Celrose and therefore ensuring the development of the practical application of JIT in the clothing and textile industry.

Value Chain Alignment expansion.....

Owing to the success of last year's value chain alignment activities, as well as the agreements that were forged at the retailer-clothing-textile Imbizo at Devondale in 2007, the Value Chain Alignment component of the Manufacturing Competitiveness programme has metamorphosed into a full programme. This programme has taken on the few remaining Stakeholder Interface programme objectives and the Stakeholder Interface TSC has been bolstered with members from the retailer sector to form the new Value Chain Alignment TSC, which will govern this programme's activities.

Upcoming activities

Activities being planned for the Manufacturing Competitiveness Programme include:

- **The Continuation of the Firm-level Benchmarking**
- **The TQM Best Practice Workshop and Factory Tour (May)**
- **The CI Best Practice Workshop and Factory Tour (June)**

For more information on the KZN CTC contact Tamlyn Williams on 031 765 3870 or tamlyn@bmanalysts.com.