NEWSLETTER

October 2010

KZN CTC
KZN CLOTHING AND TEXTILE CLUSTER

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## FEEDBACK ON RECENT EVENTS

**International Benchmarking:** The Cluster is delighted to announce that one data set from a spinning firm and one from a knitting and assembly operation in Mauritius have been added into the benchmarking database. A further three sets of data from Tanzania are currently being screened for suitability.

**Energy Efficiency Club:**
As published in the previous newsletter the Cluster launched its very first Energy Efficiency Club (EEC) in March. The final session for the year took place at Ninian & Lester on 29th July which focussed on:

- Compressed Air #2: Compressors and compressor controls
- Steam Boilers: Efficient operation
- Eskom Presentation

**A big thank you** to Ninian & Lester for hosting the last two sessions; David Mercer from WSP for facilitating this club; as well as to Prashunt Lutchman, Distribution Key Customer Executive from Eskom for presenting at this final session.

A short summary of some of the results from the Club's activities are included later on in this newsletter.

For more information contact Kelley Rowe on:
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**Sea Freight Survey:** A survey of sea freight rates and routes was undertaken by the Cluster to assess opportunities for joint negotiation. Initial results reveal grossly varied fees paid per TEU, as well as the various handling contingency fees. On this basis there does appear to be scope for jointly negotiated rates. The report will now be presented to the KZN CTC Executive committee to decide whether or not this should be pursued further.

**Systemic Approach to Lean Manufacturing Series:** To assist organisations towards an enterprise-wide, lean level of thinking, the KZN CTC co-ordinated a Best Practice Seminar Series which focused on a 'Systemic approach to Lean Manufacturing'. Three consecutive seminar workshops, facilitated by Stuart Forbes, were designed specifically for the participation of Executives and Managing Directors of the Cluster's member firms. This final session took place on the **27th of October and was hosted by Smiths Plastics (Pty) Ltd,** New Germany. This factory tour session focused on the practical application of the 'systemic approach' to continuous improvement in organisations. A huge thank you to Peter Shadwell from Smiths for his hosting of the workshop and sharing his immense knowledge

**Technical Skills Workshop:** In collaboration with the DUT, a two-day *basic maintenance* training module was arranged for all Cluster firms. The session aimed at equipping the operator with basic machine knowledge to be used proactively, thus reducing sewing defects, increasing machine efficiency and decreasing the incidence of related downtime. This training was well attended and positive feedback was received.

**'Stitches and Seams' Workshop:** Following the 'Optimising Seam Performance' and the 'Threads: Cost vs Quality" workshop presented by Global Coats Retailer Services on the 26th of July, the Cluster arranged a 'Stitches and Seams' Workshop. This workshop was held at Celrose on the **21st of October.** This was presented by **EDCON** and ***Global Coats Retailer Services*,** and focused on **(1)** the recent changes to the Consumer Protection Act and the implications it will have on suppliers, **(2)** common stitching related faults from the retailers perspective, and **(3)** a technically oriented 'problem' solving session titled 'Stitches and Seams' which looked at problem solving techniques to improve the stitching and seam quality of garments produced. **Thank you** to Noel Paulson from Edcon and Ray Applegate from Coats SA for presenting, as well as Celrose Clothing for hosting this workshop.

**Manufacturer retail perspectives survey:** As governors of the value chain, the retailers' management and communication through their respective supply chains is increasingly recognised as central to enabling suppliers to meet their requirements. At the request of the retailers, a pilot study was undertaken in 2009 to determine if the major retailers' performance in this regard can be evaluated and compared; which retailers performance is perceived to be ahead/behind others'; and to identify opportunities for mutual improvement. This research also represents an important corollary to the retail best practice research which the Clusters conduct on an annual basis. The insights gained from the 2009 pilot were deemed to be sufficient interest to warrant a repeat survey in 2010. Five South African retailers agreed to participate in this study. However, sufficient responses were gathered to allow the inclusion of only four retailers' findings in the report. The intention going forward is to gauge the extent to which value chain alignment is being achieved, a key determinant of future success in the marketplace. **Thank you to all firms who completed this survey.** The final report is in the process of being edited and will be disseminated to all relevant parties shortly.

### CTCIP Application Update:

The Clusters CTCIP application has been approved. All the documentation has been organised, signed and sent to the DTI. The Cluster's first claim is currently awaiting approval.

For further information on the CTCIP and other PI related application guidelines, please visit www.kznctc.org.za

## WELCOME TO OUR NEWEST MEMBERS

We are **pleased to announce** that the following firms have joined the cluster:

- Ideal Fastener Corporation; www.idealfastener.co.za
- Saddler Belts & Leathercraft; www.saddlerbelts.co.za
- Bresan Footwear
- The Ubuntu Plakkies Company; www.plakkies.co.za

## IMPORTANT INFORMATION

Cluster members who have been members since the start of the Cluster will know that we usually hold our annual AGM in November/December each year. As we have changed our financial year to follow a calendar year we will therefore only **host our AGM in February 2011**, once we have been given our 5th year of a clean bill of health by our auditors. Watch this space for more information.

## INDUSTRY NEWS

### Reprieve on minimum wages for clothing industry:

At the end of September 2010, Economic Development Minister Ebrahim Patel provided 385 companies who are paying below the statutory minimum wages with a moratorium on their prosecution until the end of December. This was granted after a large number of clothing companies in Newcastle temporarily closed their doors in solidarity when the national bargaining council for the sector tried to shut two factories in the area. Whilst the firms indicated that their businesses are failing due to low-priced imports from the Far East and India, rising production costs and slow demand growth, the national bargaining council has indicated that these firms are undermining the competitiveness of those firms that do comply. With the end of December looming, the outcome of this important issue will create new precedents in an industry in dire need of change.

*Source: Business Day, Oct 2010*

### Cotton Prices reach 15 year high:

Cotton prices reached a 15 year high in September of this year. Prices reached $ 1.065 a pound, the highest level for a most-active contract since June 1995. These prices follow escalating concerns of global supplies that are failing to meet demand. The China Cotton Association has reported that domestic use exceeded output by 3.6 million tons at the end of August. As a result China has had to import more and has thereby driven up cotton prices. India, the second biggest grower of cotton has indicated that it will allow exports starting November the 1st. The prices have been further pushed by deteriorating crop conditions in the United States. *Source: Bloomberg, Sept 2010*

***We wish all our members the best for the next two months before shutdown. We know this is a busy time for members, and are sure the December shutdown will be welcomed by you all!***

**For further details email: kznctc@bmanalysts.com**

## EDITORS CHOICE


### [When You've Got to Cut Costs—Now](http://hbr.org/2010/05/when-youve-got-to-cut-costs-now/ar/1)

by Kevin P. Coyne, Shawn T. Coyne, and Edward J. Coyne, Sr.

You've been a good manager of a large department for some time now. You've run a tight ship. When possible, you've cut costs. But now an order has come down (from high enough above that you don't have the liberty of debating its wisdom or feasibility) decreeing that you must find an additional 10%, 20%, or even 30% in administrative cost reductions, severance aside. You just don't see how it can be done.

#### What's the Right Level of Overhead?

Further complicating your life are the limitations on your choices. Because you don't report directly to the CEO, you're not in a position to advocate strategy changes or pursue wholesale shifts like off shoring. Nor do your instructions allow you to push for large investments—in new technology, for example—that would enable you to replace other departments. No, you have to do this the hard way: one item at a time and in short order.

You are not alone. Over the past 30 years, across numerous organisations, experience has shown that administrative cost-reduction opportunities follow similar patterns virtually everywhere.

As you begin your quest for administrative cost savings, keep two key points in mind:
First, forget about finding a single idea that would radically change the cost structure of your organization or department, thereby solving your problem in one go. (If such an idea existed, it would most likely entail so much risk that the organization would never be willing to implement it.) Instead, you should plan to reach your goal with a combination of 10 or more actions.

Second, the degree of organisational disruption caused by your reductions will usually be proportional to the degree of cutting you do. Therefore, you should tailor the reductions you pursue to your savings goal. Incremental ideas with minimal impact on other departments can allow you to trim up to 10% of costs. Redesign or reorganization ideas often eliminate the lowest-value activities, with moderate impact on other departments, and can help cut expenses by up to 20%. Cross-department and program-elimination ideas are usually necessary when you're aiming for 30% or more, but they have the greatest potential to be organizationally disruptive.

#### Getting to 10%: Incremental Ideas

Most departments can cut up to 10% of costs without changing their interactions with the rest of the organisation. The following kinds of reductions are most common:

**Consolidate incidentals.**
Unless cost cutting is new to the company, you've already done away with most discretionary, comfort, and non-mission-critical perks and activities, such as holiday parties, event tickets, and tuition reimbursement. If that's the case, don't try to eliminate more—you probably can't. Instead, see if you can consolidate what's left. Combine activities like training days and celebrations into single events. Combine events across multiple departments. Cross-schedule the use of outside resources, such as facilities or trainers. You'll be surprised at the opportunities. For example, one university determined that Parents' Weekend and Homecoming were both far too valuable to eliminate—but found that it could save close to 40% of the combined cost by holding the two events on the same weekend.

Click on the below link to purchase this article from Harvard Business Review:
*http://hbr.org/2010/05/when-youve-got-to-cut-costs-now/ar/1*

## *Focus Article 1:*
## *Key Findings from Energy Audits within the Cluster*

*The energy audits of the clothing and textile companies of the cluster revealed that there is significant opportunity for savings within the industry. Importantly, much of these savings can be achieved at relatively low costs and given the increasing cost of energy, the importance of firms recognising this as an opportunity to maintain their profitability is becoming increasingly evident. The key findings from the audits are discussed briefly below.*

### *Tariffs*
Firm's within the cluster need to evaluate whether or not they are on the appropriate electricity tariff for their energy consumption. The energy audits revealed that some firms are not on the appropriate tariff as their energy consumption has changed, however their tariff has not been restructured accordingly. In order to find out whether or not your firm is on the appropriate electricity tariff, please contact the cluster, and they will ensure you receive assistance from Eskom in this regard.

### *Change Behavioural Patterns*
The energy audits revealed that one of the most important aspects of developing an energy efficient plant is by changing behavioural patterns. In order to do this it is vital to develop an awareness around energy efficiency. One of the ways in which firm's can achieve this is through the establishment of an energy forum with an energy champion from each department.

### *Lighting*
The majority of both clothing and textiles companies audited have a large amount of lighting which is still not energy efficient. Furthermore, there are many factories with a high number of lights which have blown, yet they have not been replaced and are conducting energy to the ballasts and are therefore still drawing power. The rule is DISCONNECT the ballasts if you do not intend to utilise the lighting or replace the light bulbs.

Many factories were also found to have lighting which is operated off centralised switches (for rows/areas/lines in factory). This results in uniform light distribution despite differential energy usage in the different areas. A high number of companies were also found to have lighting which is on when the areas are not occupied (includes administration offices and factory e.g. Lunch breaks, despatch). Motion sensors, decentralised lighting, task lights, and energy efficiency lighting are all opportunities for improvement here.

Mercury vapour high bay lighting was found to be one of the most common lighting sources being utilised amongst firms. Unfortunately, these utilise a great deal of energy (250w – 400w) and should ideally be replaced by high bay fluorescents/fluorescents on chains which are more energy efficient.

Not many factories were identified as utilising natural light to the full advantage. There are opportunities for firms to utilise 1) Clear translucent sheeting that is in place and also 2) To install more translucent sheeting.

### *Boilers and Steam*
Audit findings revealed that there is extensive piping around boilers and compressors in both clothing and textile firms with sub-optimal insulation. Importantly, not only should firms fit better insulation, but this should be refitted after maintenance has been done to equipment.

A number of firms were also found to have visible steam leaks. This results in high levels of wasted energy. Regular maintenance should be carried out on steam pipelines and equipment to prevent leakages which results in substantial energy losses.

### *Compressors/Compressed Air*

Some firms were found to have a number of compressed air leaks which were being masked by plant noise and escaping attention. As with steam leaks, these need to be attended to through regular maintenance. The energy audits also found that there is opportunity for firms to further utilise heat recovery systems to heat other processes. Some of the audits also revealed that some firms within the industry may benefit from the installation of modular compressed air systems. When coupled with a energy management system, a modular compressed air systems allows for better control of compressed air to match air requirements which allows each unit to operate within its best efficiency zone.

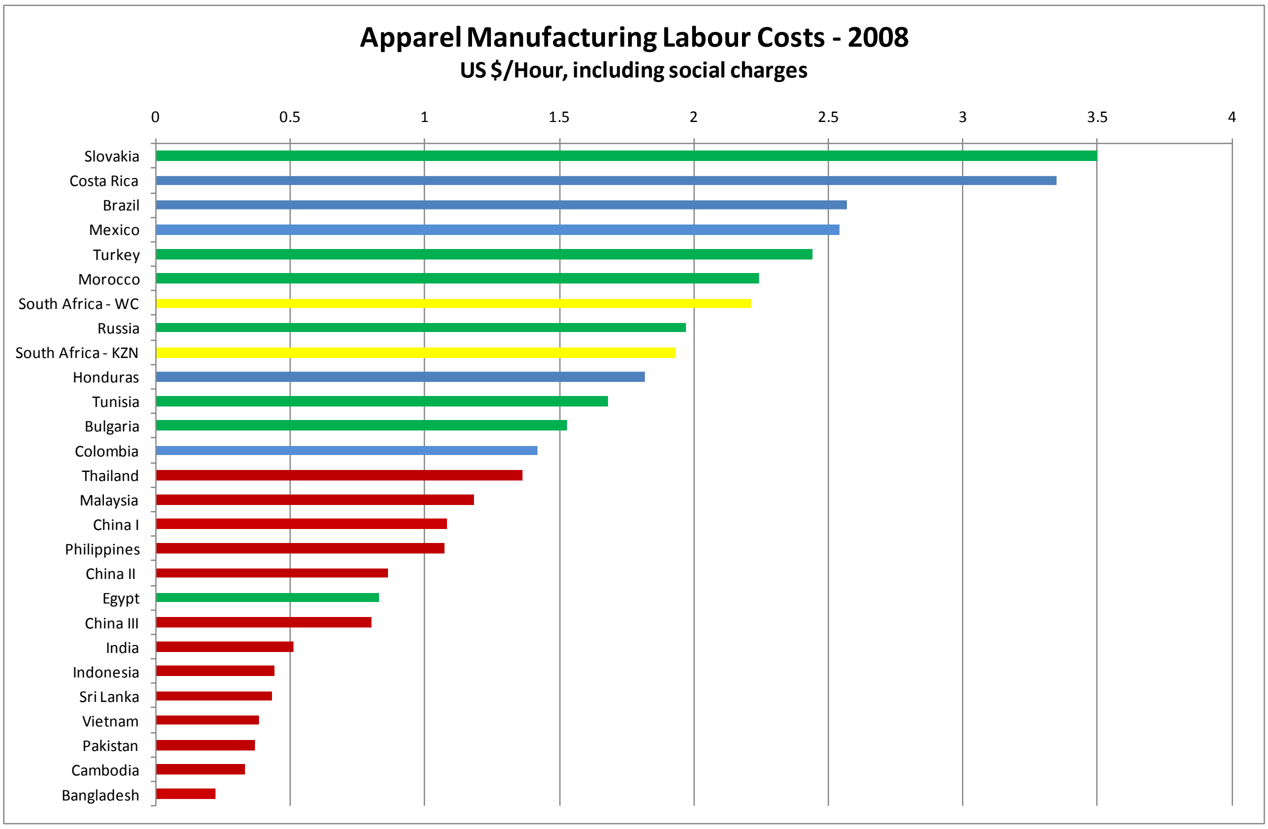
### *Motors*

As with lighting, many firms within the clothing and textile sector were found to have motors that are operational when they are not being utilised. Firms need to seek opportunities to switch these off where possible as these are high energy users. Energy audit findings revealed that there were only a few firms which have variable speed drive motors. Variable speed drives (VSDs) should be used in all processes where output and/or quality of product will not be compromised. VSDs provide significant process control opportunities and allow motors to run at variable speeds to suit process requirements. There is also opportunity for the improvement of maintenance practices in some firms. Regular maintenance of machines ensures better energy utilisation.

Whilst the majority of the clothing and textile firms that were audited were found to already have power factor correction, there are still a few firms which do not have this. The installation of power factor correction equipment assists to reduce electrical demand (kVA) which can provide for spare capacity on the electrical installation and reduce demand charges if applicable. Other opportunities for improving energy efficiency with respect to motors in the clothing and textile sector exist with the replacement or installation of motors with high energy efficient electric motors (Eff1 type) and replacing DC motors with AC motors which improves efficiency and reduces energy consumption.

# *Focus Article 2:*
# *Labour Cost Analysis In The Apparel Industry*

Labour costs have been a hotly contested issue in the South African apparel industry for many years. The recent events in Newcastle with firms not complying with the bargaining council requirements has brought the issue to a head. The Cluster recently received a document entitled *Global Apparel Manufacturing Labour Cost Analysis 2008 by the Jassin-O'Rourke Group.* Matching this document to the average minimum wages in 2008 from the South African national bargaining council for clothing manufacturers, one is able to rank South Africa from a labour cost perspective. Important to note is that the 2008 wage rates for Category B/Grade 1 employees has been taken into account only and that the "social" costs built into the council's requirements are not included for the South African rates, but are included for the comparative countries. The table below depicts the comparative results.

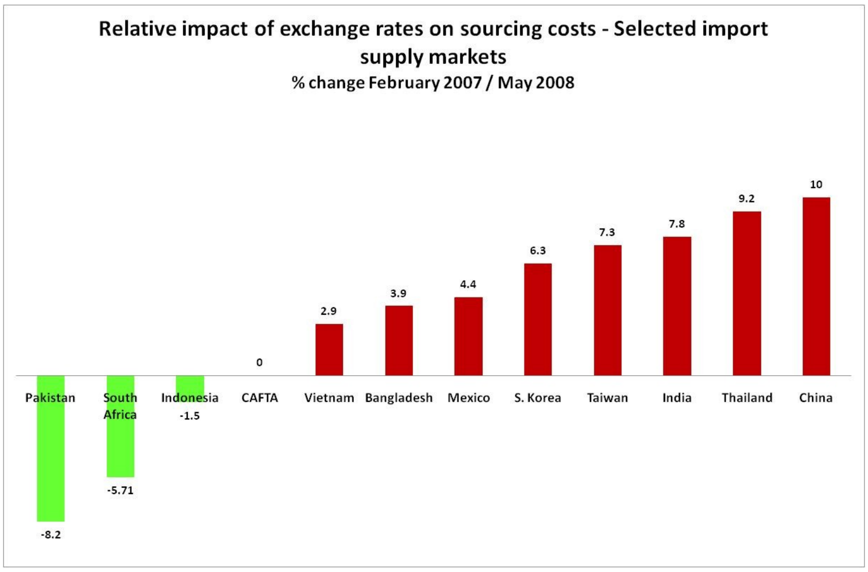



Overall, the table above highlights that South Africa's labour cost is highly differential according to the location of the firms. It is clearly evident that by in large the Asian manufacturers have a significantly lower labour cost and this is a competitive advantage which has greatly aided their industry's development in recent years.

It is however also important to note that hourly labour costs can vary substantially under various circumstances within a country. Generally these differences are less pronounced in very low wage countries and greater in absolute terms in the more industrialised countries. Individual companies will also vary as owners exercise choice as to premiums paid, and this can vary from firm to firm by as much as 100%, even in low wage countries like China and India. Costs also vary according to location within a country. Factors such as the difference between rural and metro rates, provinces and/or the formation of industrial zones within a country can also result in differential minimum wages within any given country. The age of the company and length of service of the workforce will also have an influence as some countries allow for a seniority premium.

Other factors cited as impacting on apparel manufacturing costs include: Labour productivity, which can range from 50% to 80% of international standards in some developing countries, quality of output; availability and reliability of electricity and other utility supplies; lead times, reliability of machinery and materials, materials input costs, and cost of freight and duties, amongst other factors.

The exchange rate also plays a critical role in sourcing decisions in both the clothing and textile sector in South Africa. The below graph tabulates the relative exchange rate impact on sourcing costs between February 2007 and 2008 and highlights the significant impact which an exchange rate can have on the short and long-term sourcing strategies. Over this period alone, the cost of sourcing from China increased by 10% as a result of the appreciation of the yuan. The exchange rate of other major Asian apparel manufacturers also increased the cost of sourcing from these destinations over this period.




While analysts and role players will no doubt draw their own conclusions as to what should happen with South African wages rates, the glaringly obvious conclusion must be that there is no single solution to assisting South African based manufacturers remaining competitive. Issues as wide ranging as tariff structures on inputs, infrastructure, wages and salaries, education, production incentives, financing, operational productivity and competitiveness all have a role to play as competing solely on the basis of wage input costs is not a realistic option. At the same time, the exchange rates of foreign and domestic currencies create further complexity and constant shifts in trade flows. There appears to be one certainty: Uncertainty is the only certainty in this global minefield through which South Africa has to navigate in order to sustain its economy.