



**DEPARTMENT OF TRADE  
AND INDUSTRY**



**DEPARTMENT OF TRADE AND INDUSTRY  
POLICY SUPPORT PROGRAMME**

**International Competitiveness And Value Chains in Selected Manufacturing Sectors  
Study  
Code: A.1.001**

**AN ANALYSIS OF TEXTILE BUYER DEMANDS**

**DECEMBER 1999**

Submitted by

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**ACKNOWLEDGEMENTS**

The **European Union** through its **Department of Trade and Industry Policy Support Programme** provided the principal funding for this study. This financial support is sincerely appreciated and hereby acknowledged.

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## **INTRODUCTION**

Global shifts in the clothing and textiles sector exemplify many of the intractable issues facing today's world economy, particularly the tensions caused by rapid and sweeping trade liberalisation, increased international competitiveness, dumping, and illegal imports. The domestic household textiles sector's many years of relative isolation and protectionism ended with South Africa's recent reintegration into the world economy. The move to tariff liberalisation and the opening of potential export markets has been accompanied by a barrage of cheap imports (mainly from China), much of which is illegal. Geographical displacement and spatial reconfiguration of the industry, major restructuring efforts, closures, labour-shedding, and innovation are the primary responses of the SA household textile manufacturers to these unrelenting pressures being exerted upon them (Reid 1999).

Importantly, however, these pressures do not exist in isolation from market requirements. From a broad value chain perspective one needs to understand market determinants of firm level success, and how the South African manufacturers are responding to the ever changing requirements of their principal customers. What then of the retailers? How are they responding to the seismic shifts in the market? What are their perceptions of changes in customer demands, and are they coping with these changes? And then inextricably related to this, how well do the domestic household textiles manufacturers meet the changing demands of these retailers? These are the central research questions grappled with in this study.

This research report presents critical findings of a recent household textiles buyers' survey conducted by the Industrial Restructuring Project (IRP). This is not an isolated study, but rather an additional complementary research component of a broader South African textiles manufacturers' survey which tracked the major trends in the industry *vis-à-vis* market dynamics, a profile of the industry, and firm level performance. The earlier textiles manufacturers' survey (Reid 1999) revealed that the household textiles industry is an important market which warranted more intensive research effort. We were therefore particularly interested in capturing and reflecting the perceptions of the buyers (both large retail chains and smaller independent operators) in the household textiles industry.

This study, then, reports on the empirical results generated from the household textiles buyers' survey, which, in turn, emanates directly from the textiles manufacturers' survey undertaken as part of a previous set of Department of Trade and Industry Policy Support Programme (DTI PSP) deliverables. The next phase of the research process of the DTI PSP will focus on the clothing and apparel sector. In this way we intend to build our collective knowledge of the highly volatile, but economically important clothing and textiles industries.

This research report is divided into three sections. In *Section 1*, the research methodology employed in this study is briefly reviewed. *Section 2* contextualises the research by explicitly highlighting the links between the earlier textiles manufacturers' survey and the current household textiles buyers' survey. *Section 3* comprises the core of the report, and will present an empirical analysis of key findings emanating from the study. Finally, we conclude the research report by reviewing the major findings, and situating it within the broader IRP research framework.

**SECTION ONE: METHODOLOGY**

This report is based on a survey of buyers' perceptions in the South African household textiles sector. The survey was conducted by the IRP over a three month period, beginning mid September 1999. The population sample consisted of 12 retailers, of which four were large national chains and eight comprised smaller owner-managed independent operations. The firms were selected on the basis of their availability and their perceived representativity rather than through a formalised sampling procedure. Although the sample size is small, all of the major buying groups (that is to say the dominant players in the industry) were surveyed, together with *typical* small independent operators.

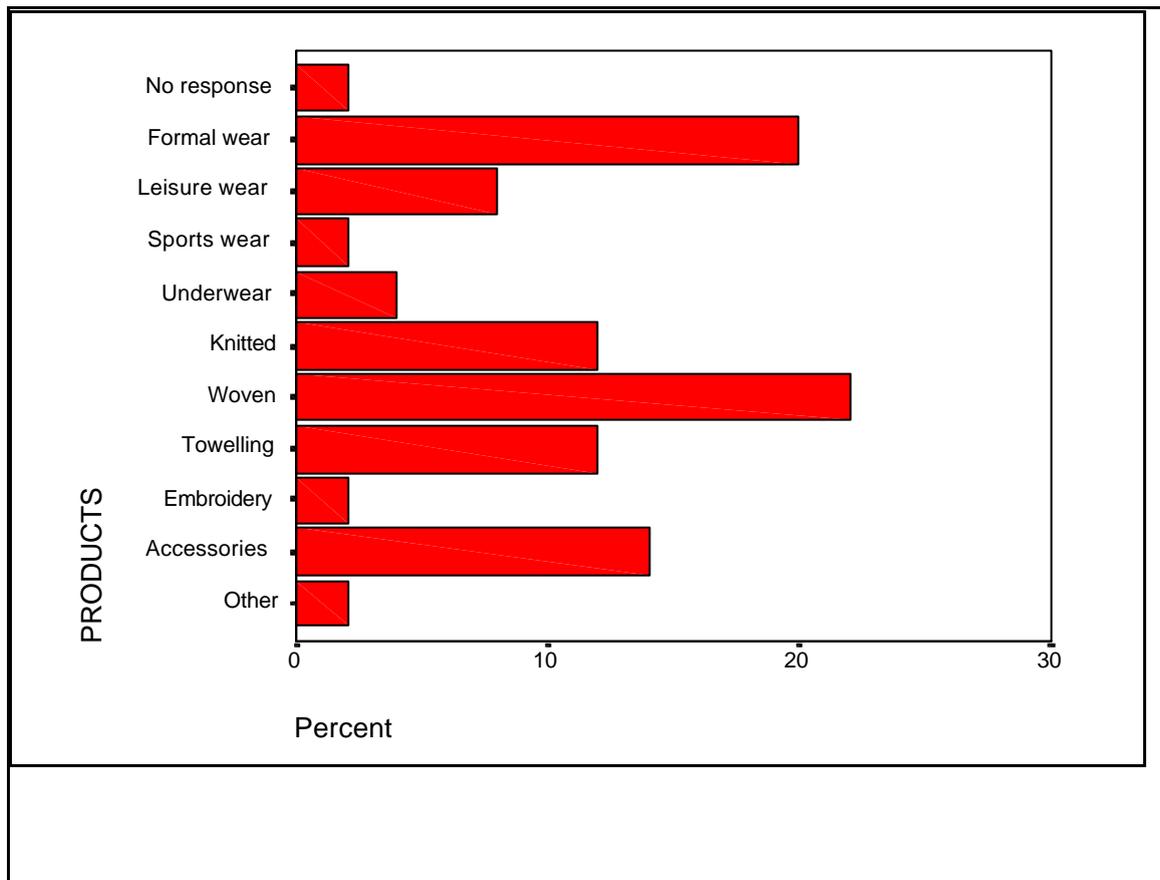
Care was taken to ensure that the geographic spread of the retailers was fairly even: five were selected from KwaZulu-Natal, four from Gauteng, and three from the Western Cape. An appropriate interview schedule was constructed to generate relevant qualitative and quantitative data. We focused on gathering subjective data (rather than hard inventory-type data) that clearly reflected buyers' perceptions. This study thus presents a snapshot of the key trends in the household textiles industry through the lens of the retailers. In total nine personal interviews and three telephonic interviews were conducted with a member of senior management or the owner of the company concerned. The duration of the personal interviews ranged between two and three hours, whilst the time-span of the telephonic interviews was approximately one hour. The basis of the information and analysis that follows is therefore the result of a series of interviews (comprising both open- and close-ended questions) with 12 household textiles buyers'.

**SECTION TWO: LINKS BETWEEN THE TEXTILES MANUFACTURERS' AND BUYERS' SURVEYS**

The textiles manufacturers' survey was completed for the DTI PSP earlier in 1999 with a sample size of 50 textile firms located in KZN and the Western Cape (see Reid 1999). The survey indicated that the household textiles market was the primary focus of a significant 13% of the sample. Thus household textiles constitute a very important market for textiles manufacturers (see Graph 1 below).

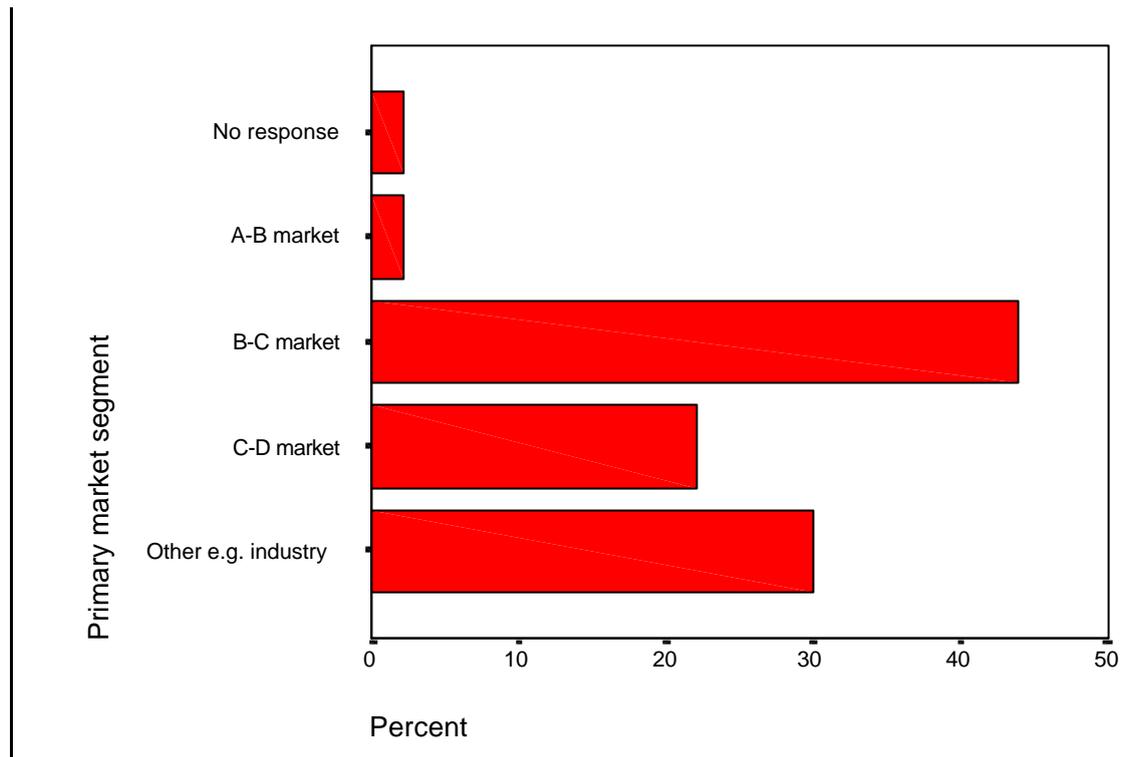
Yet, the household textiles retail sector which forms a critical part of the industry remains largely a "black box" in industrial research in South Africa, and it is this desideratum that the current study tackles.

**GRAPH 1: The Product Profile of Firms in the Textiles Industry**



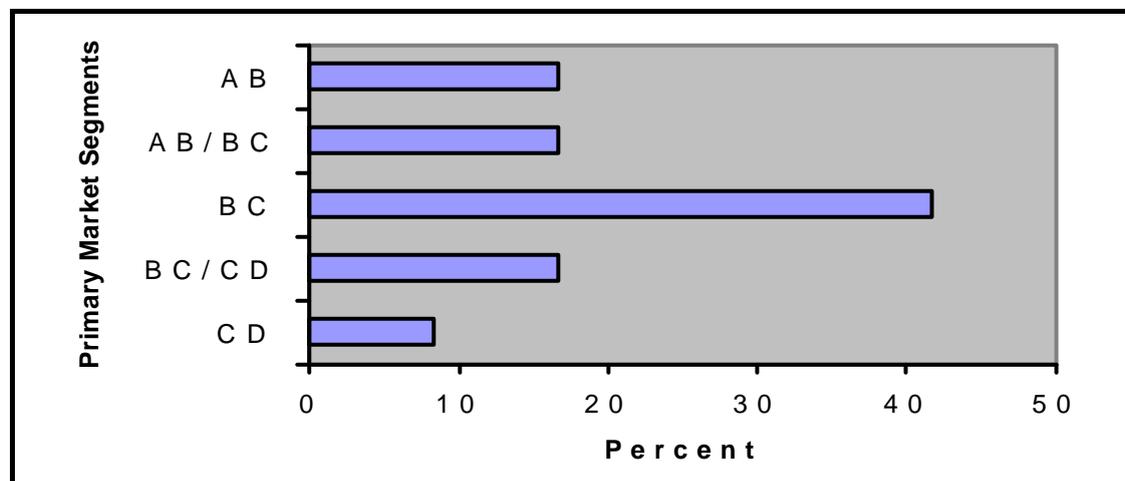
Source: Reid (1999)

**GRAPH 2: Primary Market Segments Targeted By Textile Manufacturers**



Source: Reid (1999)

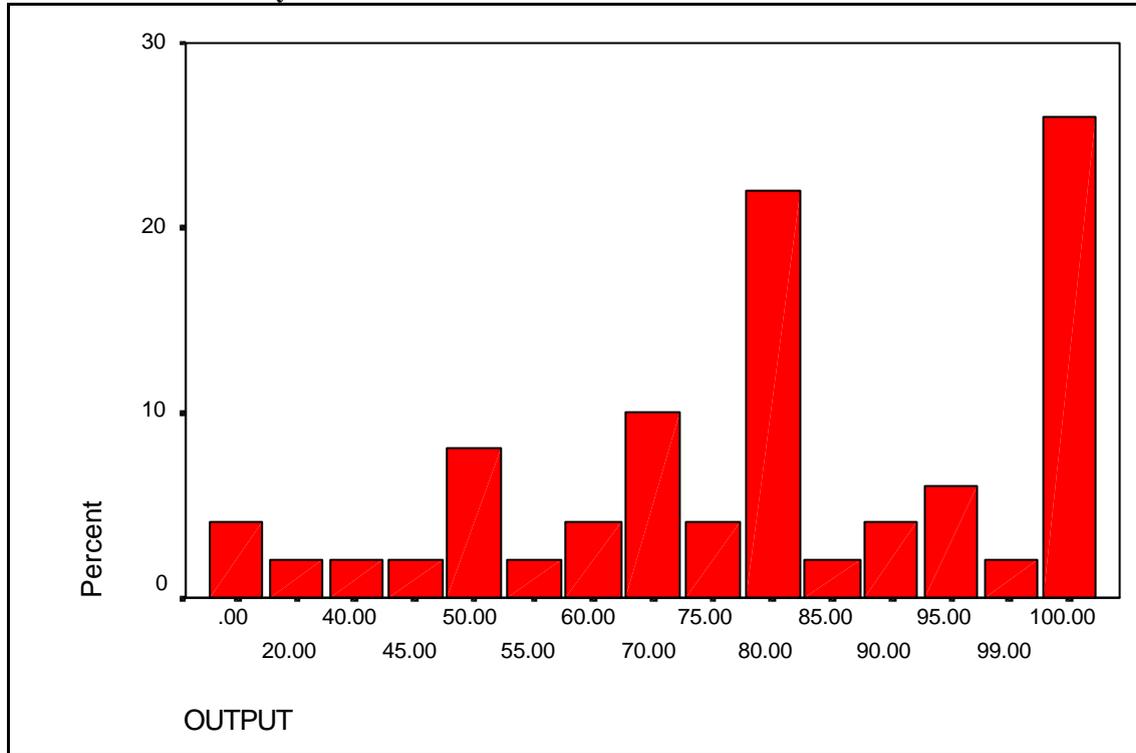
**GRAPH 3: Primary Market Segments Targeted by Textile Buyers**



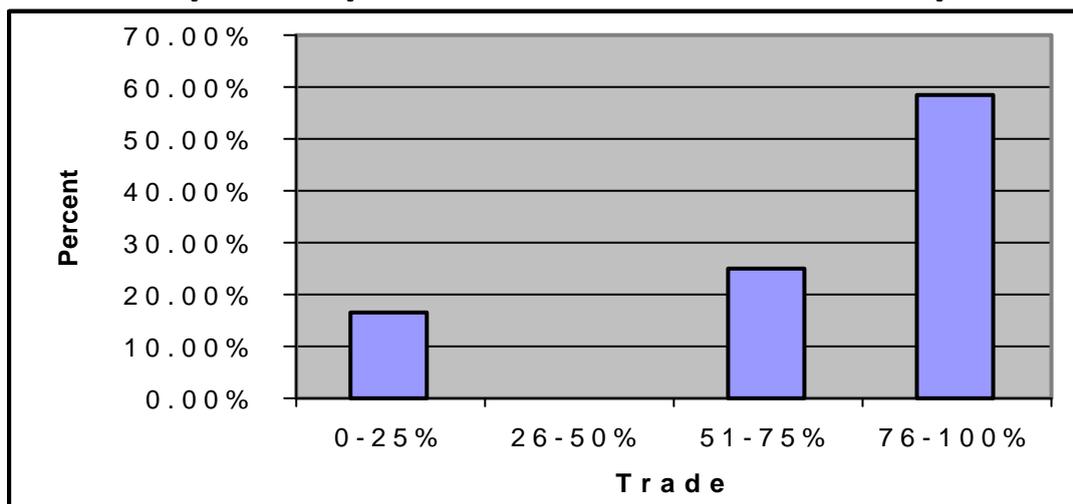
As illustrated in Graph 2, less than 5% of the textile firms included in the textile manufacturers survey catered for the high-end AB market, while slightly over 20% of respondents focused primarily on the price-sensitive low-end CD market. The largest proportion of firms (approximately 45%) were located within the intermediary BC market segment. Graph 3 indicates a similar market profile amongst the retailers in the buyers' survey. Most of the retailers are quite clearly clustered in the intermediary market segments. This is understandable, since retailers who operate exclusively in the lower-end of the market, where price rather than quality and service tend to be the elements of competition, face relentless pressure to survive or succeed. Those firms who continue to compete on the basis of price rather than quality will be badly affected by cheap imports. This is reflective of

an industry trying to survive since the erosion of highly protective quotas and tariffs. The highly concentrated purchasing power of the large retail chains gives them enormous leverage over household textiles manufacturers. Buyers are thus critical role players in the household textiles industry. Consequently, the clear propensity of manufacturers to focus on the BC market is primarily a reaction to the retail side of the market.

**GRAPH 4: Manufacturers' Survey: The Proportion Of Output That Textile Firms Dedicate Towards Their Primary Markets**



**GRAPH 5: Buyers' Survey: % Of Trade That Goes Towards Primary Markets**



Graph 4 reveals that a high proportion of firms surveyed in the textiles manufacturers study tended to dedicate most of their output towards their primary market. Most (i.e., 80%) of the firms in the sample devoted over 50% of their output towards their primary markets. This trend would appear to be strongly influenced by the retail sector. Graph 5 illustrates that retailers are becoming increasingly focused on their primary markets, with 83.3% of the sample firms indicating that more than 50% of

their trade is accounted for by their primary markets. Seven (58.3% of the sample) of the 12 retailers interviewed, responded that 76-100% of their trade is concentrated in their primary target markets. This suggests a high level of specialisation with respect to the markets that they target, and hence a greater potential for the cultivation of core competencies in line with particular market demands. There are thus, not surprisingly, strong linkages between the manufacturers and the buyers in the textiles industry in terms of markets targeted.

A high proportion (80%) of firms in the manufacturers' survey indicated that between 1994 and 1998 they have been compelled to restructure the proportion of output that goes towards primary markets. A number of factors were responsible for this change:

- increases in market demand (16%),
- increasing levels of competition (28%),
- the changing material and design specifications of products (14%),
- illegal goods (6%), and
- decreasing demand for products (10%).

Similarly, the buyers' survey found that seven (or 58.3% of the sample) of the 12 firms surveyed experienced changes within their primary markets during the 1993-1995 period of profound policy changes. The post-1994 period is significant because it marks the onset of rapid and sweeping trade and tariff liberalisation, and increased competitive pressure in an increasingly globalised world economy. Reasons for changes included:

- Shrinkage of the AB market due to low consumer spending, high interest rates, and migration (both overseas and to the Western Cape –highlighted by Gauteng retailers).
- An expansion of the BC market due mainly to a slippage of consumers from the AB market. Concomitantly, there has been a steep rise in the expectations of the BC market in terms of variety, quality, and design. AB consumers may have shifted away from their traditional purchasing patterns but they are still exceedingly demanding of retailer performance, thus raising performance requirements in the BC market.
- The CD market has changed as a result of the influx of cheap imports, donated goods, and very critically smuggled goods.

The net result of these various factors is that the retailers have to restructure and refocus their operations in order to respond flexibly, innovatively, and rapidly to shifting and splintering market demand. To recapitulate, the buyers' profile matches the manufacturers profile, suggesting representativity of the sample and clear links between the previous study (Reid 1999) and the buyers' analysis presented in the next section of the report.

### **SECTION THREE: KEY FINDINGS**

This section of the report will present the main findings of the household textiles buyers' survey. Of the seven firms which experienced changes within their primary markets, three replied that they were *not* coping with the changes. This was mainly because of:

- rising overdrafts,
- retrenchments,
- closures, and
- new initiatives having been shelved mainly because of lack of funds.

Four retailers responded that they were coping with the changes:

- by providing credit facilities for consumers,
- increasing their product variety,
- shifting down from the AB to the BC market, and
- through stringent cost control measures.

The seven respondents listed the following factors as constraining their ability to adapt to the changing circumstances:

- lack of skills for supply chain development,
- firms risk downgrading labels (i.e., the AB segment may improve),
- insufficient "good" manufacturers in South Africa,
- smuggling, and
- trade liberalisation.

The retailers interviewed indicated that the changes have impacted on domestic household textile manufacturers in a number of important and different ways:

- There has been a shakeout of the industry, as is evidenced by the closure of several firms that previously supplied to them,
- volume requirements from their traditional suppliers have dropped,
- manufacturers are undergoing processes of internal restructuring,
- geographical relocation into the Southern African region (*viz.*, Lesotho, Malawi, Mozambique, and Swaziland) has occurred,
- domestic supplier bases have been rationalised.

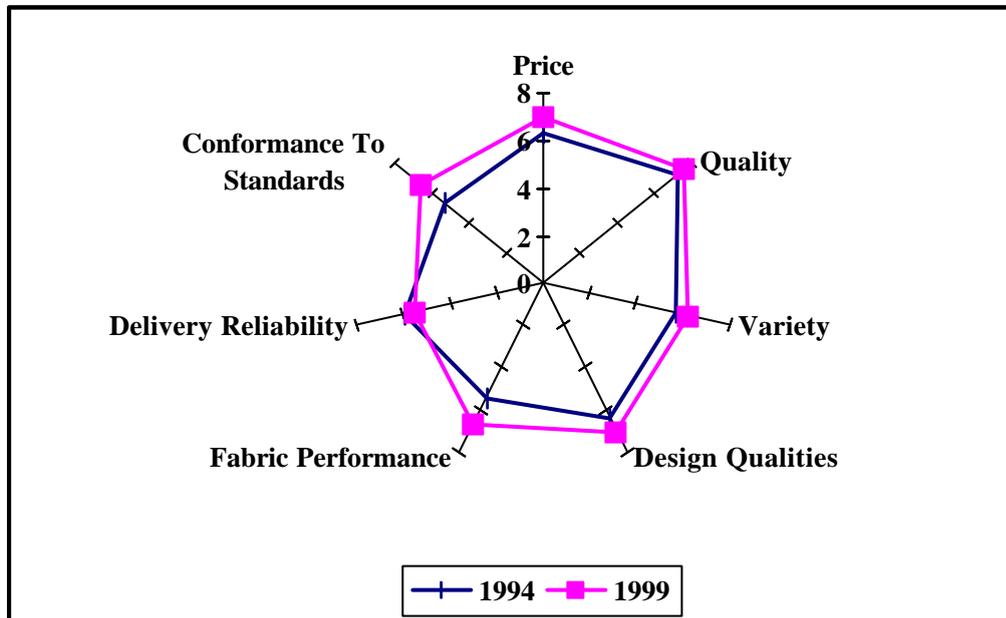
From the above it appears that manufacturers are faced with three stark choices: (1) They can *innovate* and move into higher value added niches; (2) They can *migrate* to other Southern African economies as a mechanism for sourcing cheaper labour inputs necessary for competing in the CD market segment, or (3) They can *evaporate* by closing their operations.

The respondents maintained that domestic manufacturers are struggling to adapt to the reconfigured market environment, mainly because:

- they are overly concerned with large retailer and export markets,
- their styling is often poor, with designs often copied rather than independently developed,
- they have failed to make new capital investments,
- they have high cost structures associated with old machines and weak human resources, and
- they offer poor after sales contact/service because they regard the supply of products as their sole mandate. The lack of follow-up mitigates against any long-term relationships developing between customers and suppliers. Active engagement at the critical interface between customers and suppliers is not taken seriously. This is a legacy of the past, and relates to the antagonistic

relationship stemming from Import Substituting Industrialisation (ISI) when retailers were compelled to buy from local manufacturers.

**GRAPH 6: Change In Customer Demands (All Retailers: 1994-1999) (N=12)**



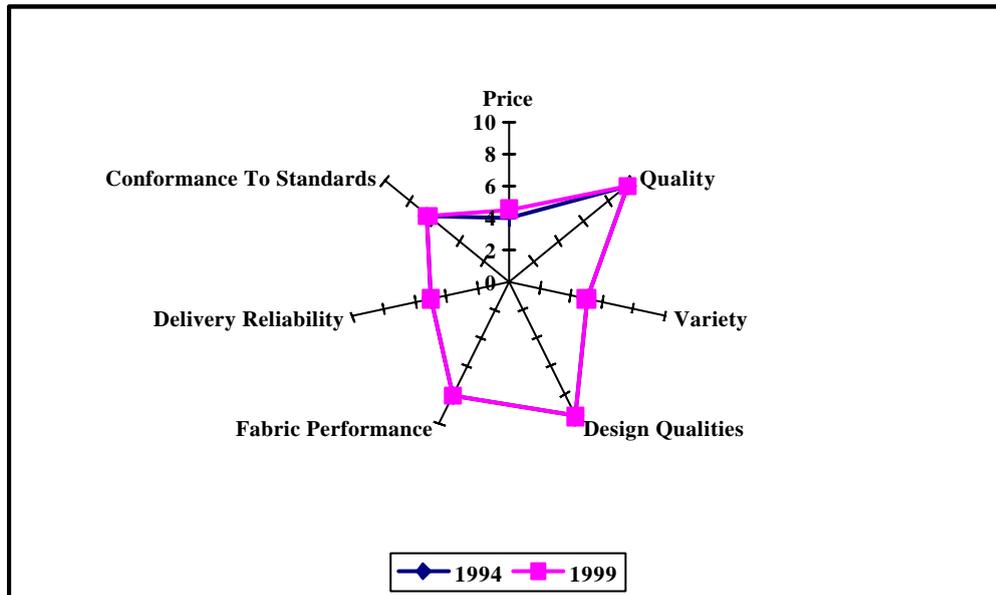
The respondents were asked to rate (on a scale of 1 to 10) how significantly their customers' demands have changed over a five-year period using pre-established indicators.<sup>1</sup> According to Graph 6, customers are currently placing a greater premium on price, quality, variety, design qualities, fabric performance, and conformance to standards than they have in the past. Delivery reliability is the only criterion on which customer expectations have declined somewhat during the 1994 to 1999 period, albeit by a very small margin. The more fastidious demands being placed by customers on retailers is largely the result of customers having higher expectations of retailers to provide a wide variety of quality household textiles at affordable prices.

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<sup>1</sup> Each respondent was asked to rate each indicator on a 1 to 10 scale in terms of their perceived degree of importance to customers. Trends were highlighted by comparing the given rating of each indicator at two pre-established points in time, viz. 1994 and 1999. The importance of an indicator declines as the rating decreases, and *vice versa*. For example, a rating of 8-10 implies that the particular criterion is of crucial importance to customers in that particular market segment

**THE AB MARKET**

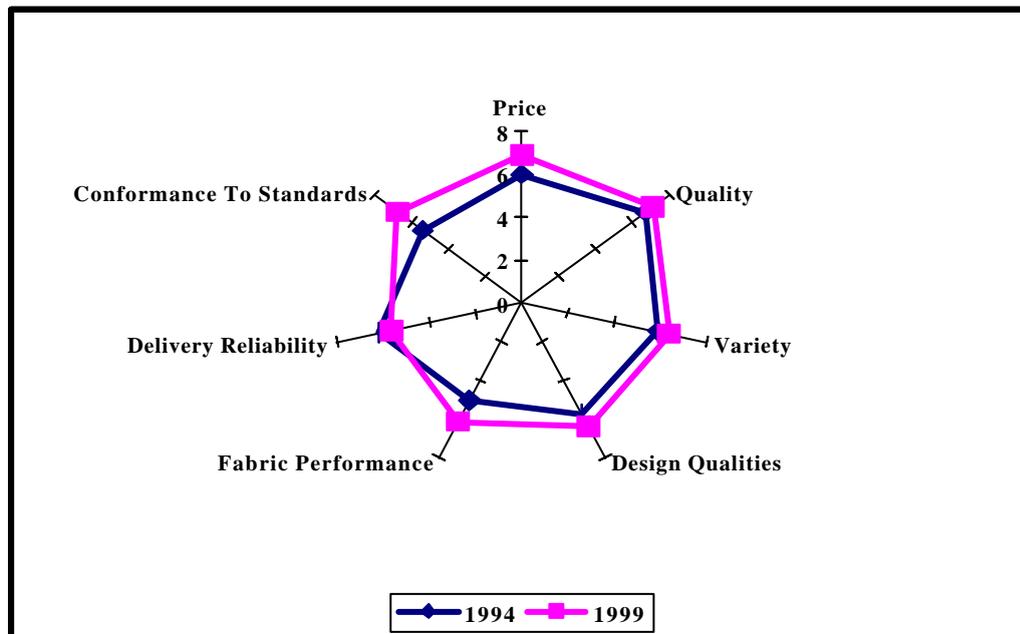
**GRAPH 7: Change in Customer Demands in the AB Market (1994-1999)**



It appears that customer demands in the AB market has remained fairly constant during the period 1994 to 1999 (see Graph 7). The only noticeable difference is the price determinant. Customers have become slightly more price sensitive that they were in the past. Unsurprisingly, quality, design qualities, and fabric performance continue to be important factors for the discerning AB customer.

**THE BC MARKET**

**GRAPH 8: Change in Customer Demands in the BC Market (1994-1999)**

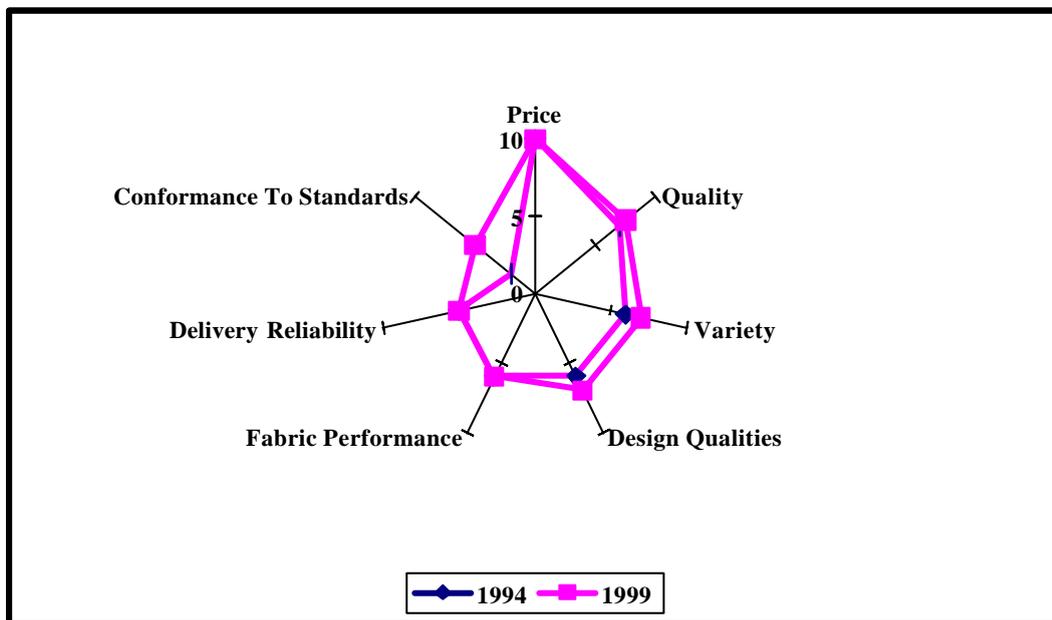


There have been numerous changes in customer demands in the BC market (Graph 8). Graph 8 clearly illustrates that customers in this market segment are becoming increasingly more exigent in their demands. This is so for the price, quality, variety, design qualities, fabric performance, and conformance to standards indicators. It is only on the delivery reliability indicator that there is a slight easing in the stringency of their demands.

Price, conformance to standards, and variety are much more important considerations in the BC market than it is in the AB market. A partial explanation of the increase in customer demands is the slippage of previously AB customers into the BC market. Another possible reason is that consumers in the BC market are simply becoming more circumspect and enlightened in their choice of household textiles, particularly given the availability of imported products.

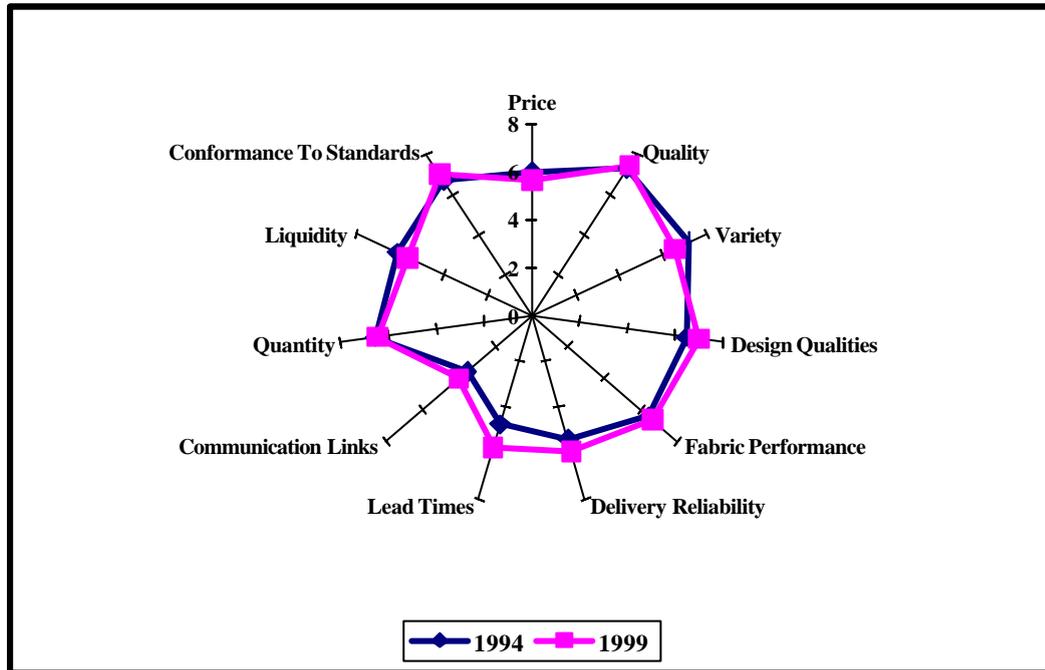
### THE CD MARKET

**GRAPH 9: Change In Customer Demands In The CD Market (1994 -1999)**



Price continues to be the key determinant of success in the CD market, as is evidenced by its maximum rating of 10 for both 1994 and 1999 (Graph 9). It is instructive to note, however, that CD customers are becoming more discriminating in their other demands, especially with reference to quality, variety, design qualities, and conformance to standards. However, customer demands *vis-à-vis* fabric performance and delivery reliability have remained constant.

**GRAPH 10: How Well Do Manufacturers Meet the Demands of Retailers? (Total Sample: 1994-1999) (N=12)**



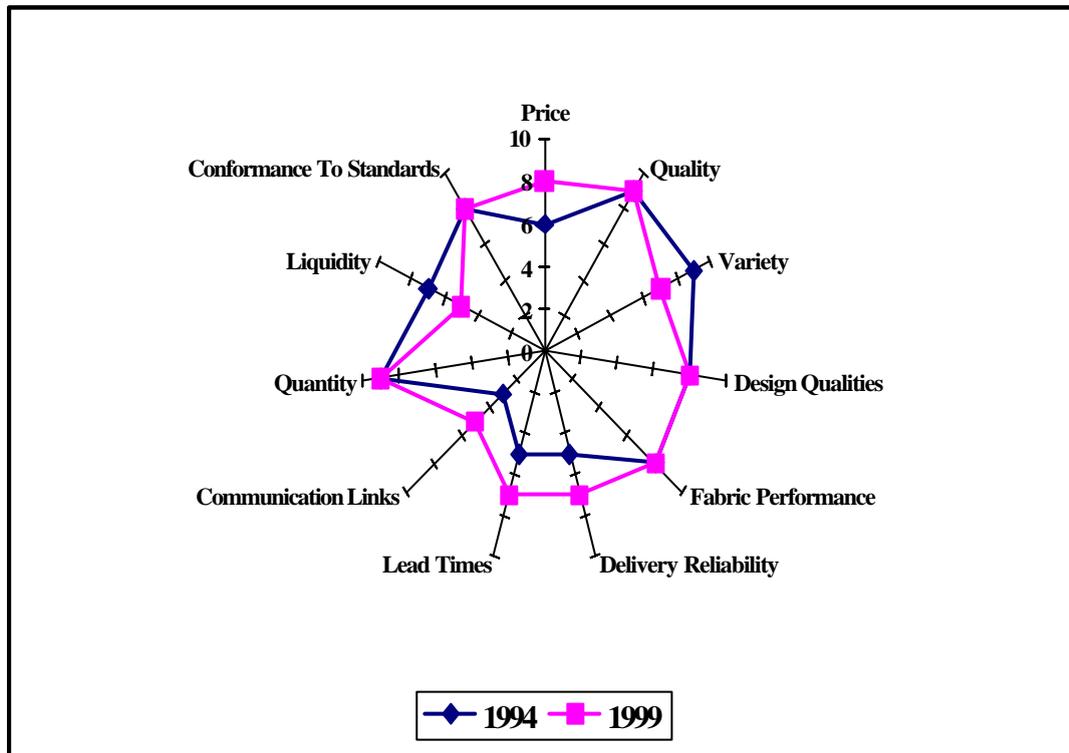
The household textile retailers interviewed were asked to rate (on a scale of 1 to 10) how well their suppliers are meeting their demands on a number of indicators (see Graph 10). Graph 10 indicates that the retailers perceive their suppliers as generally meeting their expectations satisfactorily. This perception is supported by the fact that most of the ratings fall in the 4-6 and 6-8 categories. The only exception is the communication links indicator, which is rated in the 2-4 category. This implies that manufacturers need to give urgent attention to improving their communications link with the retailers in their supply chain. The key trends that can be extrapolated from Graph 10 are:

- Manufacturers have improved their performance during the 5-year period on several indicators, viz., design qualities, fabric performance, delivery reliability, lead times, communication links, and conformance to standards.
- The quality and quantity indicators have remained fairly stable between 1994-1999.
- Suppliers are performing less well than they have in the past on price, variety, and liquidity.

Importantly, however, are these trends consistent across the market spectrum or are there discernible differences in each of the market segments that manufacturers supply into? As highlighted below these are important considerations, particularly given the significant variance in requirements for the different market segments.

THE AB MARKET

GRAPH 11: How Well Do Manufacturers Meet the Demands of Retailers in the AB Market (1994-1999)

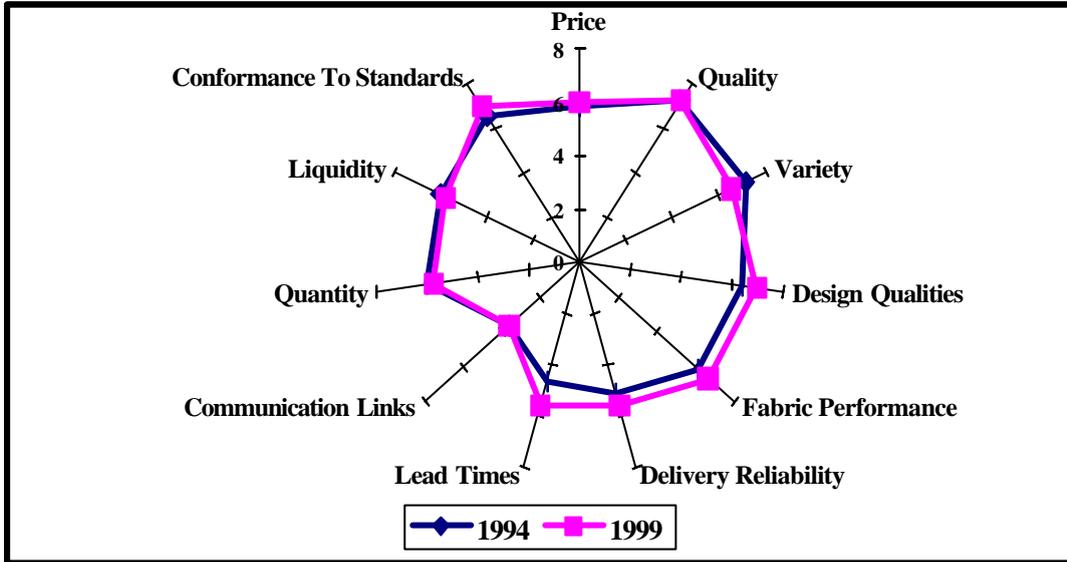


Graph 11 reveals that manufacturers are meeting the demands of the retailers quite well in terms of price, quality, design qualities, fabric performance, quantity, and conformance to standards. All these indicators were rated highly (8-10 segment). Retailers' demands as regards variety, delivery reliability, lead times are being met satisfactorily (6-8 segment) by domestic suppliers. Communication links and liquidity, however, were rated quite low (4-6 segment). The key trends that can be discerned over the 5-year period are:

- Performance on the price, delivery reliability, lead times, and communication links indicators have improved.
- The quality, design qualities, fabric performance, quantity, and conformance to standards indicators have remained constant over time.
- A perceptible decline in performance can be noted in the variety and liquidity indicators.

**BC MARKET**

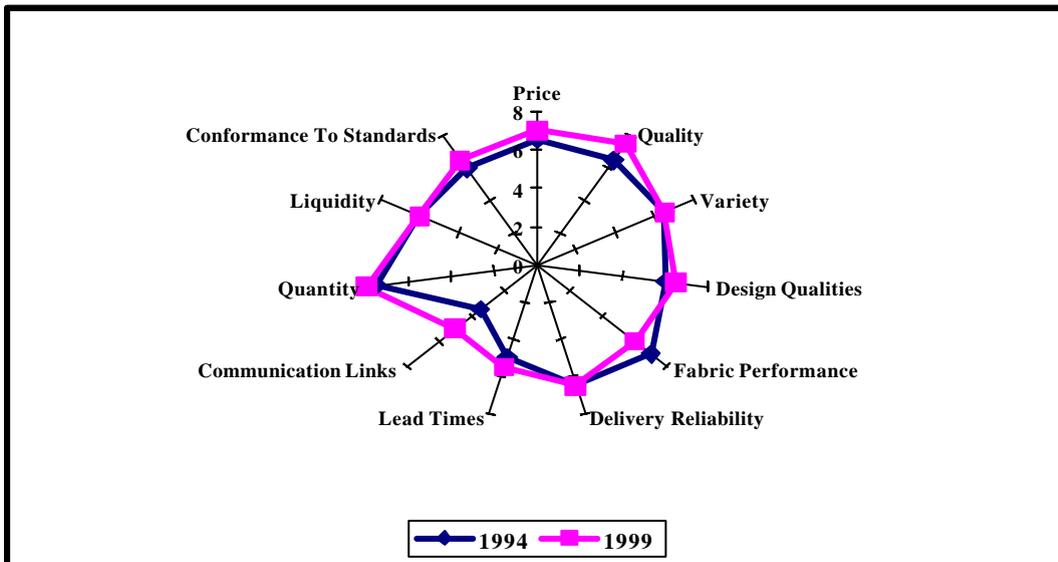
**GRAPH 12: How Well Do Manufacturers Meet the Demands of Retailers in the BC Market (1994-1999)**



By and large, it appears that suppliers in the BC market are not as effective in meeting the demands of retailers as those suppliers feeding into the AB market (compare Graphs 11 and 12). None of the indicators are rated in the “high” 8-10 category. The price, quality, variety, design qualities, fabric performance, and conformance to standards indicators were rated satisfactorily (6-8 category). Delivery reliability, lead times, quantity, and liquidity were rated in the mediocre 4-6 category, and communication links was unacceptably low (2-4 segment). Importantly, moreover, most of the important indicators remained relatively stable between 1994 and 1999. The only exception being lead times which showed a small improvement.

**THE CD MARKET**

**GRAPH 13: How Well Do Manufacturers Meet the Demands of Retailers in the CD Market? (1994-1999)**



None of the indicators were rated in the “high” 8-10 segment. The price, quality, variety, design qualities, fabric performance, delivery reliability, quantity, liquidity, and conformance to standards indicators were rated satisfactorily (6-8 segment). Lead times and communication links received a mediocre rating (4-6 segment). All of the indicators have remained relatively stable with the exception of quality (improvement), fabric performance (decline), and communication links (improvement).

## **CONCLUSION**

The household textiles buyers’ survey, which emanates directly from the earlier IRP textiles manufacturers’ survey, proved to be an extremely worthwhile undertaking. The objective of the survey was to highlight key trends that have unfolded in the household textiles retail sector between 1994 and 1999. There is a dearth of such studies in South Africa, and as such this survey contributes to bridging the current knowledge chasm. Much valuable information has been generated with reference to buyer reflections of changing market trends in the household textiles industry. The buyers’ survey is invaluable in that it complements previous IRP research on the clothing and textiles sector. Moreover, this study paves the way for the next phase of research which will concentrate on buyer perceptions in the clothing sector which is a much more volatile industry, being particularly susceptible to fashion trends.

The survey revealed some important trends. The retailers interviewed were increasingly focusing their trade on primary market segments in response to key drivers of change, whereas in the past they used to traverse a number of market segments. Likewise, the vast majority of manufacturers are increasingly concentrating their output in their primary market/s. A key shift noticed in the retail market was the flow of some AB customers into the intermediary BC market. Consequently, the increased focus of manufacturers on the BC market is primarily a reaction to the retail side of the market. Moreover, we found that the AB, BC, and CD markets have changed over the past 5 years mainly as a result of fundamental transformations in the political and economic landscape. Hence, the retailers and manufacturers have to restructure and refocus their operations in order to respond flexibly, innovatively, and rapidly to shifting and splintering market demand.

The results of the survey indicate that changes in customer demands in the AB, BC, and CD markets are putting pressure on retailers to deliver products that meet their customers evolving needs. Some retailers are rising to the challenge and are adapting to new market demands. Others, however, are experiencing great difficulties in responding to the new market demands. It appears that household textiles manufacturers are in many instances falling short of meeting the expectations of retailers on a number of performance indicators, this is especially so in the BC and CD markets. This is problematic, because it means that retailers in turn are constrained from fully catering to the demands of their clientele. Thus the whole supply chain is compromised with serious repercussions for both retailers and their suppliers.

Household textiles manufacturers have been compelled by the new market dynamics to make hard choices: either innovate, restructure their operations, migrate to cheaper labour locations, or to close down their firms. The challenges confronting the South African household textiles retailers and suppliers today are largely a consequence of past industrial policies (such as ISI, GEIS, complex tariff and duty structures, price and supply controls, etc.) of the government. These policies tended to “shelter” the household textiles sector from international forces that have resulted in major restructuring elsewhere. South Africa’s lax customs control makes the household textiles sector particularly vulnerable to cheap illegal imports. These lower cost household textiles, primarily from the East, are one of the key reasons for the general downturn in the household textiles industry. There exists, however, a reservoir of experience and expertise in this sector that *may* enable it to reposition itself, in the next few years, as a producer of higher value-added, high quality textiles.

The retailers interviewed tended to have a short-term vision, with the majority of independents operating in a survivalist mode. The large retailers have substantial negotiating power in determining prices to the manufacturer, delivery specifics, payment periods, etc. Yet, few retailers have taken full advantage of this opportunity. The present regulatory environment is making it increasingly difficult for these firms to succeed. Firm-based strategies will not be effective without restructuring throughout the *entire* household textiles pipeline. Hence, establishing meaningful relationships between suppliers, designers, producers, retailers, customers, and marketing agents is critical for the long-term survival of household textiles manufacturers.

This study by highlighting the nature and importance of the links between household textiles retailers and manufacturers has hopefully helped inform the DTI's understanding of these critical links. Policy generated for textiles manufacturers clearly cannot be separated from shifts at the retail end of the value chain. Importantly, moreover, the clothing buyer study to be undertaken in early 2000 by the IRP for the DTI PSP will further illustrate these inextricable linkages, thus contributing to knowledge of retail-manufacturing relationships in South Africa.