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AND INDUSTRY**



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Study
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**AN ASSESSMENT OF TEXTILE PRODUCTION IN A
DECENTRALISED LOCALITY**

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INTRODUCTION

Since its readmission into the global economy, South Africa has undergone a number of critical changes with regard to its economy. The new political dispensation has made it possible for the government to negotiate trade agreements with bodies such as the World Trade Organisation (WTO), The European Union (EU) and the Southern African Development Community (SADC). Apart from the pursuit of free trade agreements, there has also been the need to project an image of being “responsible” towards the global capital markets in the hope of attracting investment. The net impact of these processes has been the rapid liberalisation of South Africa’s economy.

On the ground, liberalisation has tended to manifest itself in the form of new forms of industry support measures (i.e. the so-called supply-side support measures) and the restructuring of the country’s trade barriers. Apart from these changes, there have been some unforeseen pressures as well. The rapid growth in the trade of illegally imported goods and the Rand’s steady decline in value are good examples of these. As a result, how industry and firms respond in the face of such rapid change becomes a critical issue of concern. Indeed, apart from wanting to project a good image to global capital markets, reforms to the economy have often been presented as something that will benefit the overall competitiveness of industry and firms. Given such a scenario, it has become imperative that an understanding of industry responses to such challenges be generated.

The objective of this report is thus to present the findings of a survey that was conducted by the IRP into the South African textile industry. The survey was structured to capture the trends that are prevalent in the textile industry. More specifically, the IRP was interested in determining the impact of liberalisation upon firms. In this respect, the survey concentrated upon three key areas:

1. The profile of the industry: i.e. ownership patterns, firm sizes and product profiles.
2. Market dynamics: i.e. to establish how the textile market has changed, and how firms have responded to these changes.
3. Firm level performance: i.e. to establish how these changes have impacted upon the performance of firms in terms of output, profit and other factors such as employment.

METHODOLOGY

This report summarises findings from a survey into the textile industry that was conducted between October 1998 and January 1999. The survey covered a total of 50 textile firms located in the Western Cape and KwaZulu-Natal.

Firms were identified by referring to a number of registers that listed textile firms. These included the Department of Trade and Industry's list of DCC (Duty credit Certificate) beneficiaries, Texfed's (Textile Federation) 1998 directory of member firms and the Braby's directory of industries. These firms were first contacted telephonically, whereupon an appointment to visit them would then be negotiated. On average, each visit lasted about two hours.

The IRP ensured that each firm-level interview was undertaken with a member of senior management. The respondents typically held positions such as Financial Director, General Manager or Managing Director.

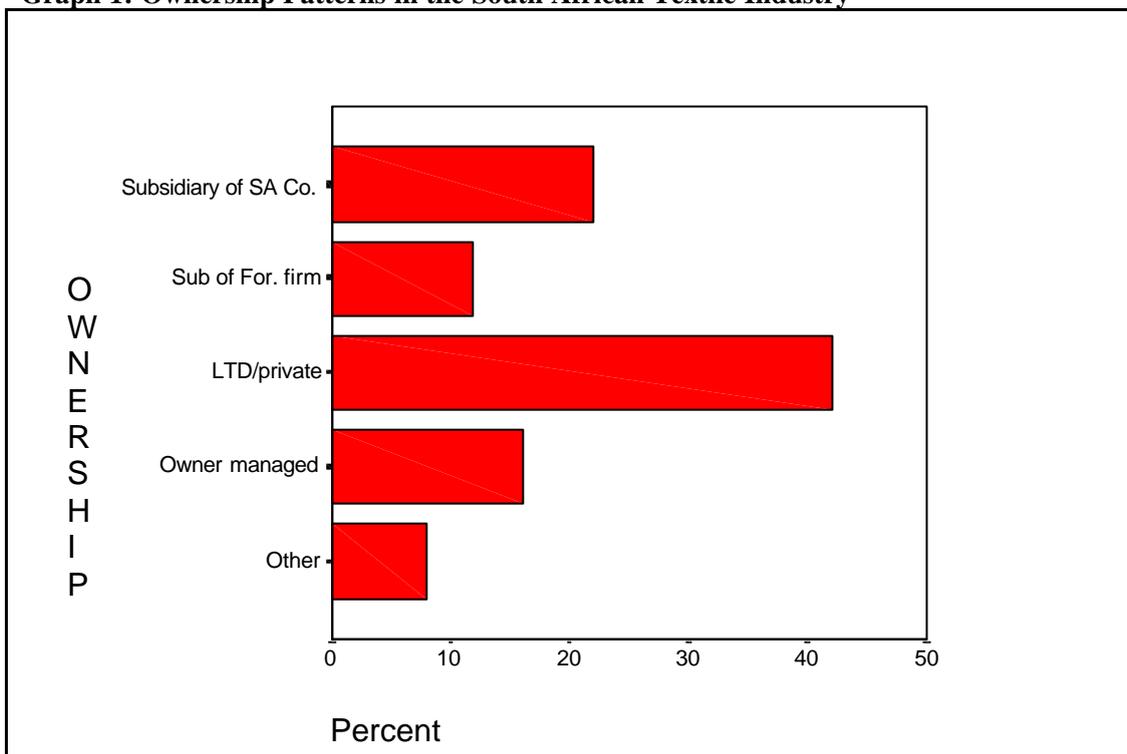
The selection of firms was made according to availability and not through any formalised sampling procedure. However, the IRP ensured that an equal number of firms were captured from both the Western Cape and KwaZulu-Natal. As a result, 25 firms were surveyed in each region.

SECTION 1: INDUSTRY PROFILE

1.1 Ownership patterns

Current ownership patterns in the textile industry indicate that the majority of the firms in the sector are domestically owned and controlled (Graph 1). According to the survey results, only 15% of the firms were subsidiaries of foreign firms. On the other hand, 40% of the firms were limited holdings or privately owned by South African interests. The rest of the surveyed firms were either owner-managed (18%) or subsidiaries of other South African firms (23%). These trends indicate a high level of local ownership within the sector. Furthermore, there are indications that this trend is not being radically restructured despite the onset of liberalisation policies (Graph 2).

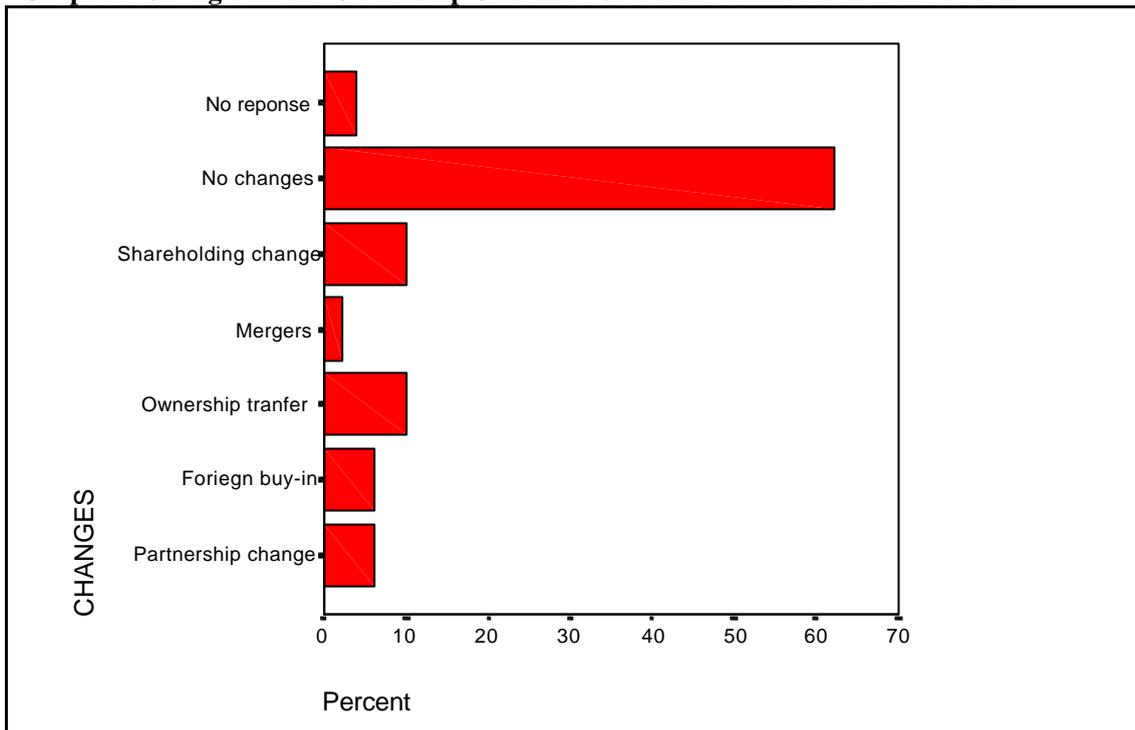
Graph 1: Ownership Patterns in the South African Textile Industry



1.2 Changes in ownership patterns

The majority of the respondents (60%) indicated that their firms had not experienced changes to their ownership structures within the past five years (i.e. since 1993). Of those firms that had experienced changes in this regard, this tended to assume the form of a total transfer of ownership to a domestic party or changes to a firm's shareholding structure (10% in each case). Furthermore, a smaller proportion of the firms experienced equity acquisition by foreign firms and a change of partners (about 6%). These trends indicate that despite a number of high profile transactions involving foreign firms, the textile industry is still primarily dependent on local capital.

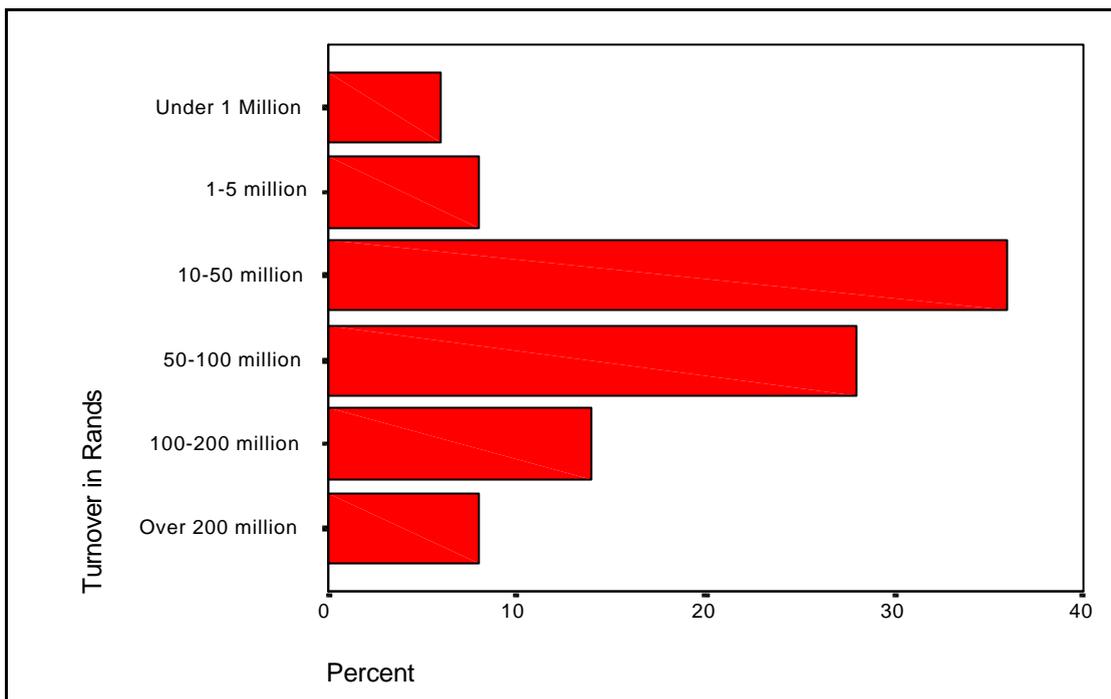
Graph 2: Changes in the Ownership Structure of Textile Firms Between 1993-98.



1.3 Firm sizes according to turnover

As can be expected from a survey of the textile sector, there were very few small and micro enterprises in the sample (Graph 3). Firms with turnover levels of under R1 million accounted for fewer than 10% of the surveyed firms. The majority of the respondents had turnover levels of R10-50 million (37%) and R50-100 million (37%). Respondents with turnover levels of R100-200 million accounted for 15% of the sampled firms, while those with turnover levels that exceeded R200 million comprised under 10% of the sample. The survey process did not capture any firms with turnover levels that ranged between R1-5 million. Trends relating to changes in turnover levels are discussed under the section that deals with performance trends with the industry.

Graph 3: The Size of Firms According to Turnover Levels.



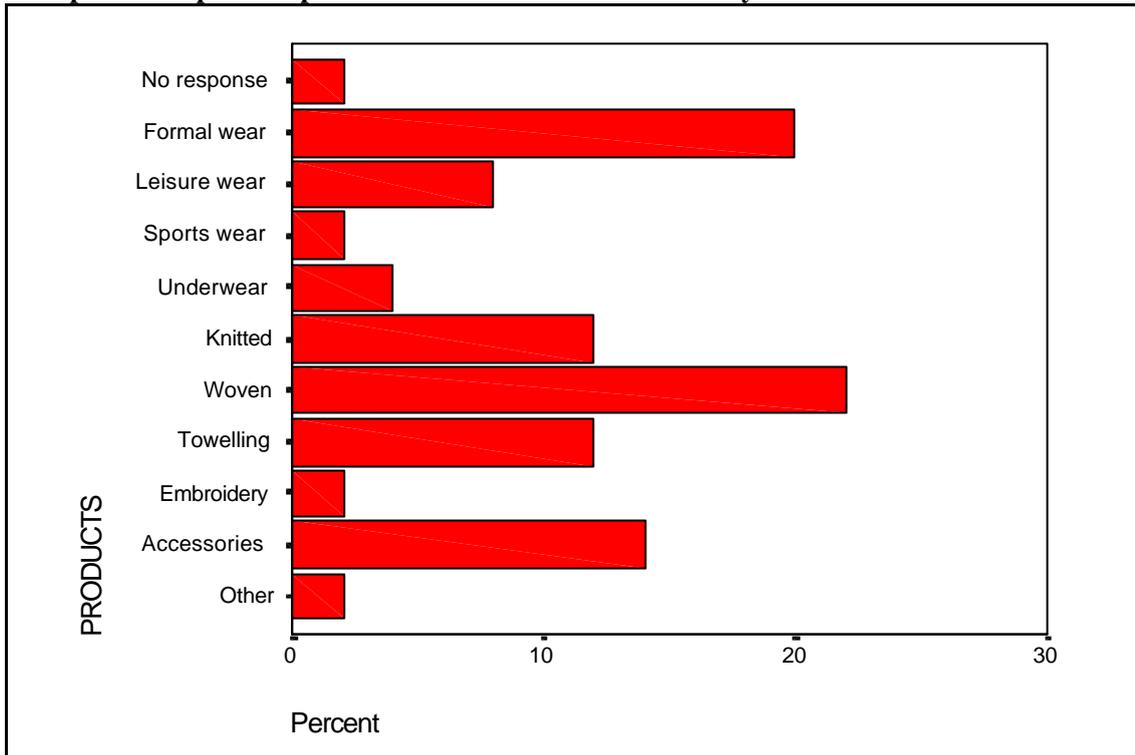
1.4 Product profile

According to Graph 4, the most significant products being produced by the sampled firms are for the formal wear apparel market (20%) and woven textiles (23%). Other significant products that were being manufactured were knitted and household textiles (i.e. towelling) which accounted for 13% of the sample, while clothing and textile accessories accounted for 15%. The high proportion of textile firms that were producing finished products seems to suggest high levels of vertical integration that may still be prevalent in the local textile industry. This lack of differentiation among the sampled firms is a legacy of two trends:

1. Pre-liberalisation era production techniques that are obviously taking a long time to restructure.
2. Inaccurate classification by industry registration institutions whose data was partly relied upon to identify textile firms. Inspections by the IRP of some of these firms' production processes suggested that they were not always producing traditional textile products such as yarn or fabrics, as a result they should have been classified as apparel producers rather than textile manufacturers.

Minor production activities were directed towards the underwear market (5%), sports wear (5%) and embroidery (5%).

Graph 4: The product profile of firms in the textile industry



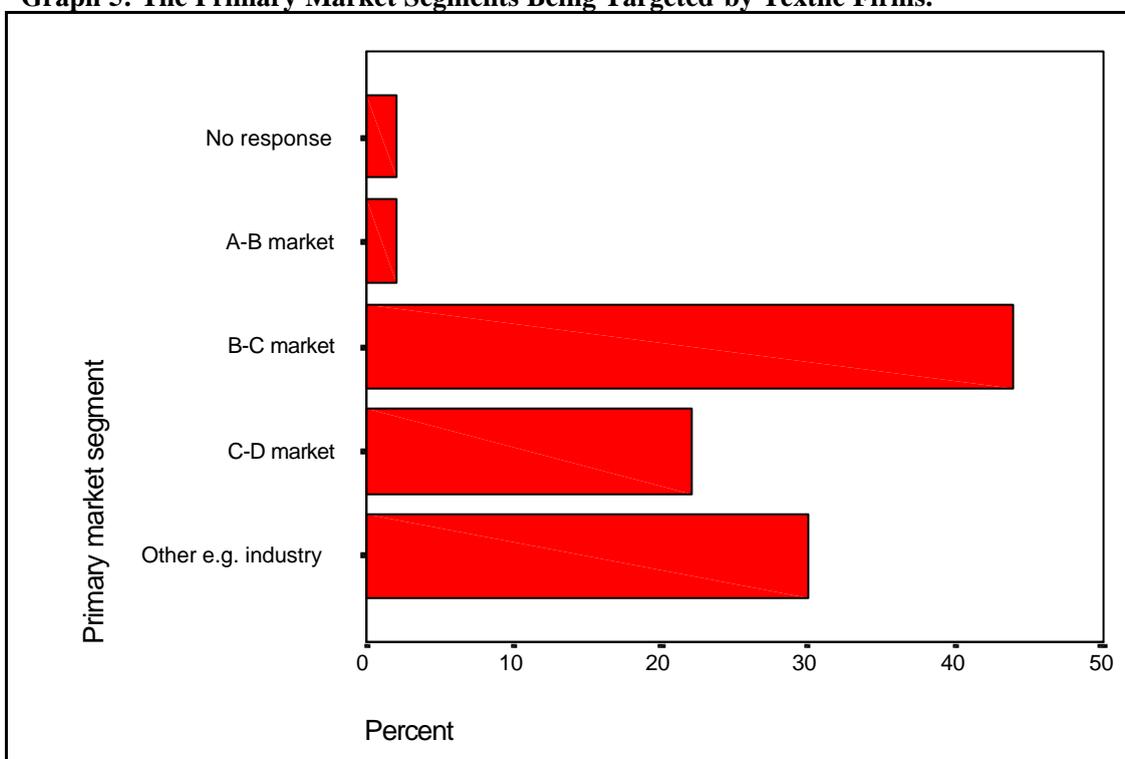
In conclusion, the survey responses indicate that the textile sector in South Africa is still dominated by firms with relatively high levels of turnover. The sector is still largely dominated by local interest despite a number of high profile foreign acquisitions. Furthermore, changes in ownership patterns have been quite a rare occurrence within the industry. As far as the profile of products being produced is concerned, formal wear, woven fabrics, knitted fabrics, textile and apparel accessories as well as textile goods are still the mainstay of the textile sector.

SECTION 2: SECTORAL AND MARKET DYNAMICS

2.1 Primary target markets

The majority of textile firms in South Africa appear not to cater for the high end of the market (i.e. the A-B market). This market is typically comprised of small niches that place a high premium on good quality performance, delivery reliability, research and development capacity product variety plus reasonable pricing. According to survey responses (Graph 5), less than 5% of the firms cater for this market. A larger proportion (i.e. over 20%) of the sample cater for the lower end of the market, or the C-D market. Internationally, the C-D market is typically very price sensitive and is thus characterised by the over-consideration of price factors above other competitiveness factors. Firms that find themselves trapped in this market segment thus have a less diversified competitive platform. Due to stringent competition from other developing countries with lower wage cost structures, this attribute can become a significant handicap in international markets.

Graph 5: The Primary Market Segments Being Targeted by Textile Firms.

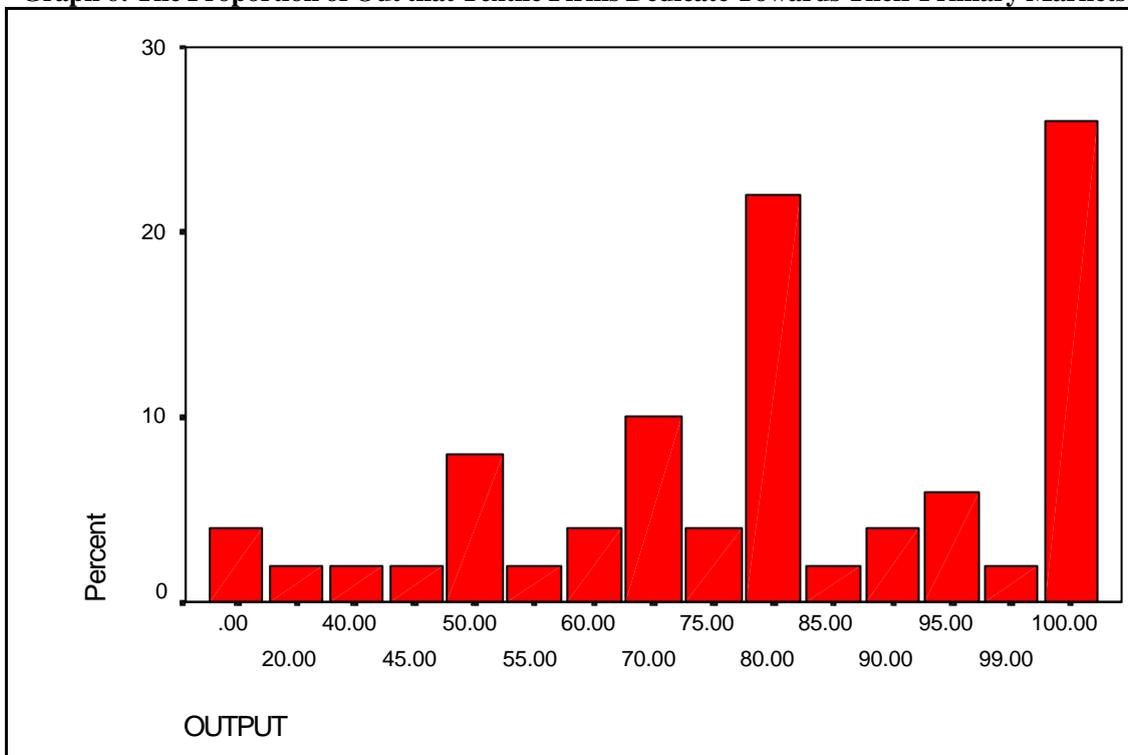


Encouragingly, the majority of the firms in the sample are located within the intermediary B-C market segment (about 45%). Although this market does not match the A-B market with regard to the diversity of demands being placed upon manufacturers, it nonetheless indicates that local manufacturers derive competitiveness from a wider range of factors than simply their cost structures. This attribute could become critical in the drive to improve the local industry's export performance towards the lucrative but demanding markets of North America and Western Europe. Thirty percent of the sample catered for industrial markets (e.g. furniture and automobiles). These market segments also tend to place high performance demands upon firms (especially in the case of automobiles).

The percentage of output that firms direct towards primary markets

Equally encouraging, a high proportion of firms tended to dedicate most of their output towards their primary market (Graph 6). This is significant as it suggests a strong market focus by the manufacturers and hence a greater potential for the development of core competencies in line with particular market demands.

Graph 6: The Proportion of Out that Textile Firms Dedicate Towards Their Primary Markets.



Most of the firms in the sample dedicated over 50% of their output towards their primary markets. In fact, this proportion of firms accounts for close to 80% of the sample. Furthermore, over 25% of the respondents were dedicating 100% of their output towards their primary markets.

2.2 Changes to the primary markets of textile firms

This sub-section discusses how levels of output that are dedicated towards the primary markets of firms have changed recently. According to Table 1, firms in the textile industry have been experiencing a high level of change in this instance. A high proportion of surveyed firms (80%) indicated that between 1994 and 1998, they had been compelled to restructure the proportion of output that goes towards primary markets. A number of factors were responsible for this change. These factors ranged from increases in market demand (16%), increasing levels of competition (28%), the changing material and design specifications of products (14%) and decreasing demand for products (10%). As far as the total sample is concerned, increased demand as a source of change accounted for 20% of the responses. Increased competition accounted for 32%, while the proportion was 18% in the case of changing product specifications.

Table 1: Changes to the Primary Markets of Textile firms (1993-98)

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Changes: Primary Market	Source of Change						
	No Response	Increased Demand	Competition	Illegal Goods	Product Specs	Decreased Demand	TOTAL
No Response	4	4	4	-	2	-	14
No Change	4	-	-	-	-	-	4
Change Has Occurred	6	16	28	6	14	10	80
Changes to Products	-	-	-	-	2	-	2
TOTAL	14	20	32	6	18	10	100

Minor sources of change for the overall sample included both illegal goods (6%) and decreased demand (10%).

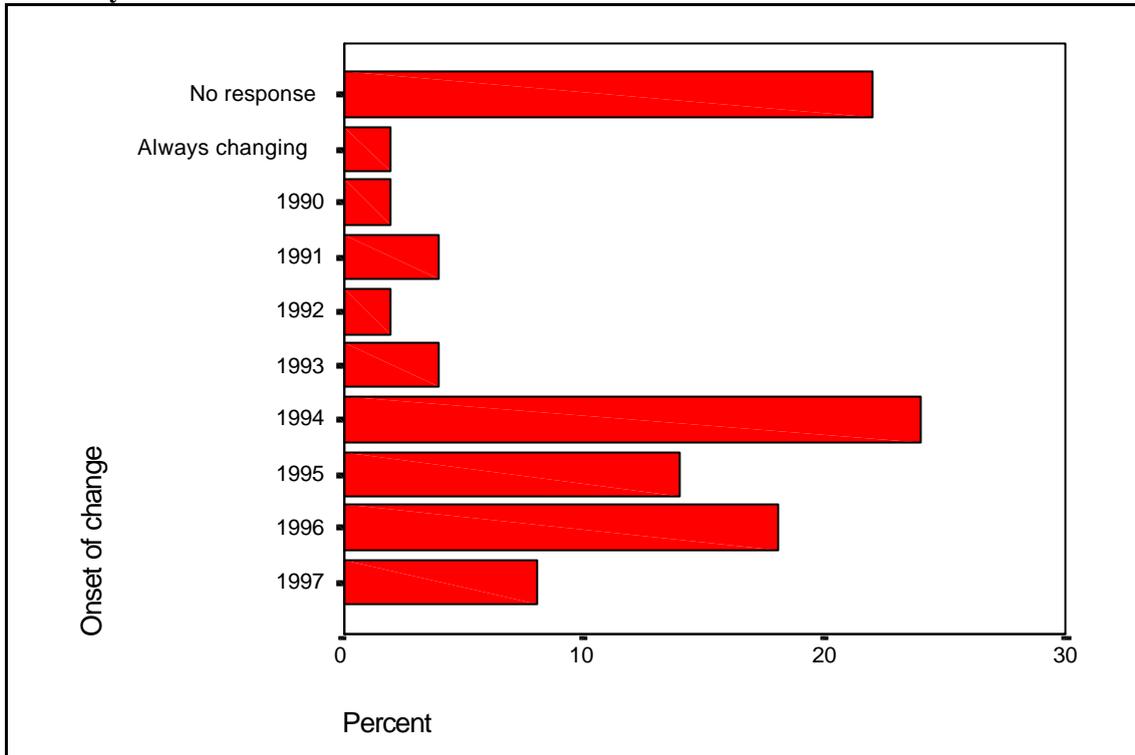
The overall conclusion that can be derived from these trends is that firms in the local textile sector have been very responsive to changing market demands. Furthermore, since most of the firms were not operating in the low end of the market, the levels of protection that higher value-added market segments offer in relation to cheap illegal goods are also clearly apparent¹.

The onset of change regarding output directed towards primary markets

According to the survey respondents, most of the change regarding levels of output that go towards the primary markets of firms has come about since 1994 (Graph 7). In fact a total of 64% of the sample indicated that they experienced change in this regard after 1994. Furthermore, the respondents indicated that 1994 and 1996 were the most significant years as far as changes to output going towards primary markets are concerned. These years accounted for 24% and 18% of all the responses respectively.

¹ NB: This assertion does not intend to imply that firms have responded to changing market condition by shifting to higher market segments. In fact, the chances are that the sampled firms may have always operated within their current market segments. However, it is still important to note that they operate within markets with higher barriers to entry. This condition can be relied upon to offer better protection from cheaply imported goods.

Graph 7: Years Marking the Onset of Change Regarding Levels of Output Going Towards Primary Markets.



The post 1994 period is significant because it marks the period during which rapid changes to the economic structure of South Africa occurred. These changes tended to come in the form of the liberalisation of the economy as a result of changing government policy regarding industry support measures and tariff structures.

In conclusion, firms in the textile sector appear to be achieving relatively high levels of specialisation with respect to the markets that they target. Furthermore, although the proportion of firms that cater for the high end of the market is low, the majority of the firms appear to target markets that are still relatively demanding. This characteristic appears to have afforded the textile sector some measure of protection against illegal imported goods. These trends may also be significantly affected by the possible demise of firms that were located within the low end of the market (i.e. these firms are not around and thus they could not be surveyed). Most of the firms also indicated high levels of change regarding the levels of output that are directed towards primary markets. Responses suggest that these changes have come about as a result of the competitiveness pressures that have materialised because of trade liberalisation.

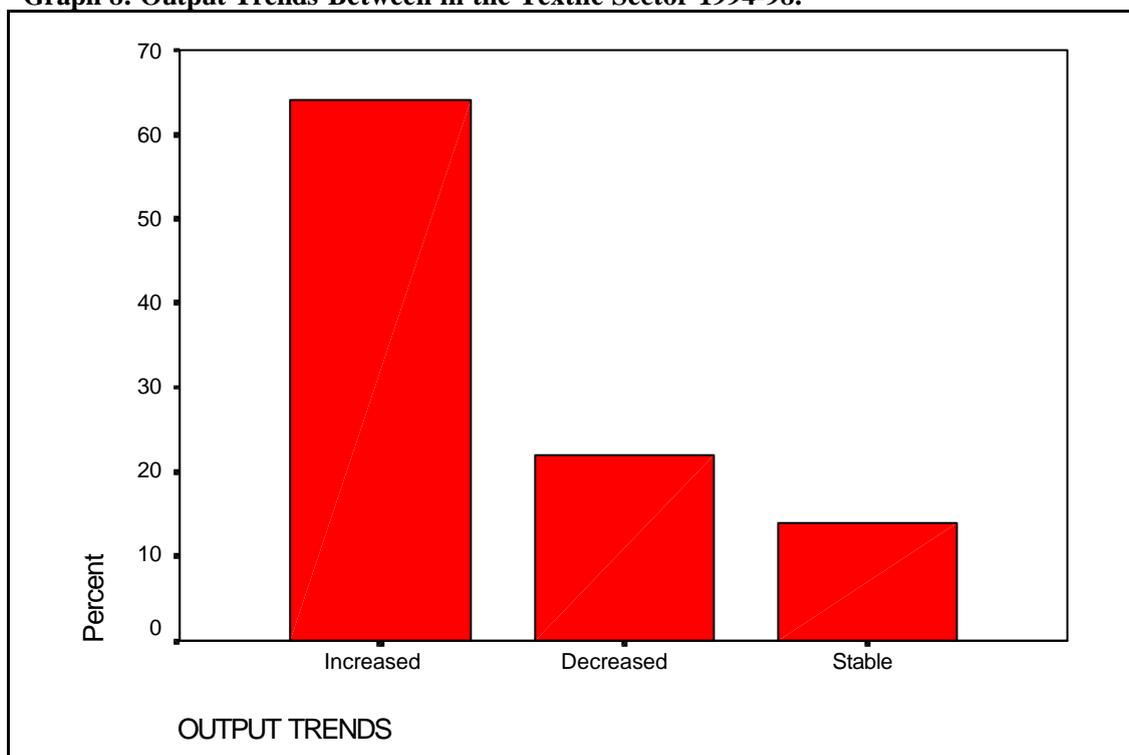
SECTION 3: TRENDS REGARDING THE PERFORMANCE OF FIRMS

As a result of the changes that have impacted upon the textile industry (especially with regard to markets) between 1994 to 1998, it is essential to establish the impact that they have had upon the financial performance of firms. This section is thus dedicated towards establishing how firms have coped with change.

3.1 Output Trends

Output levels in the textile sector have tended to increase significantly between 1994 and 1998 (Graph 8). Sixty-five percent of the surveyed firms indicated that they had managed to improve their output levels. The number of firms that experienced a deterioration in output levels totalled only 20%. Firms that did not experience changes to their output accounted for 15% of the survey. If the fact that firms had been forced to institute changes regarding the proportion of output that goes towards primary markets is considered, it would appear as if those strategic decision have had a positive impact upon output performance.

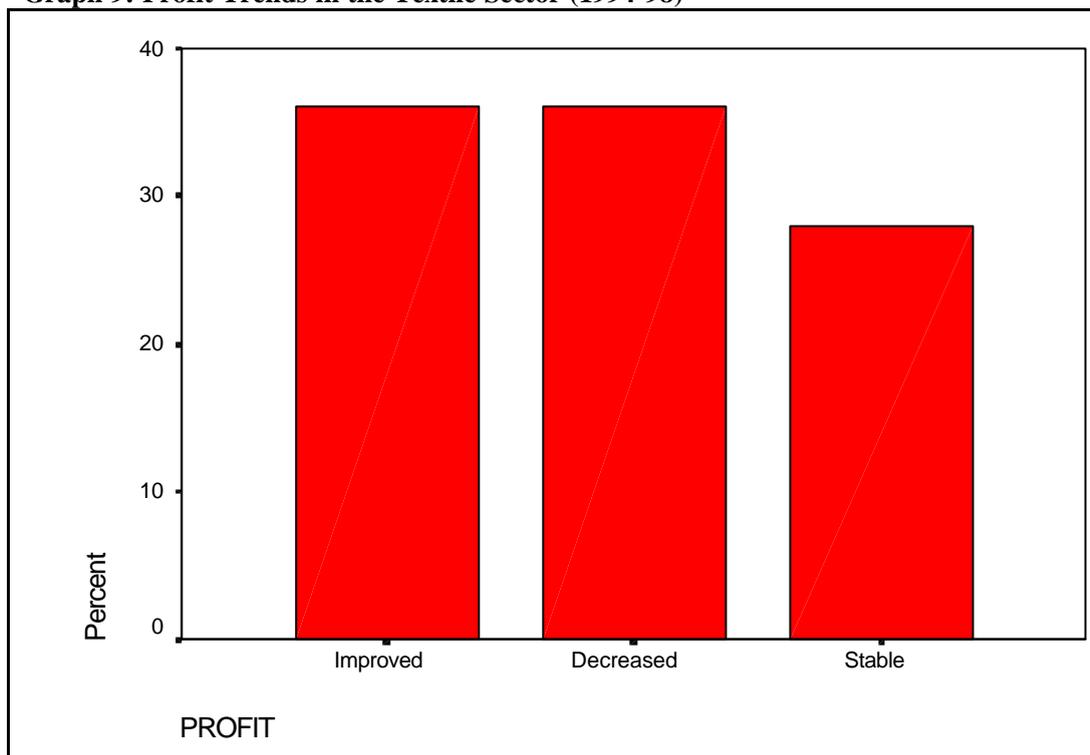
Graph 8: Output Trends Between in the Textile Sector 1994-98.



3.2 Profit performance

Although the profit performance of the sampled firms has not improved as much as their output performance, it still instructive to note that the industry has been able to adapt to new market demands without too significant a profit sacrifice (Graph 9). The proportion of firms that increased profitability was evenly matched by those that experienced a deterioration (about 35%) in their profitability. However, the proportion of firms that increased profitability levels, together with those that kept profit levels stable accounted for close to 65% of the total sample.

Graph 9: Profit Trends in the Textile Sector (1994-98)



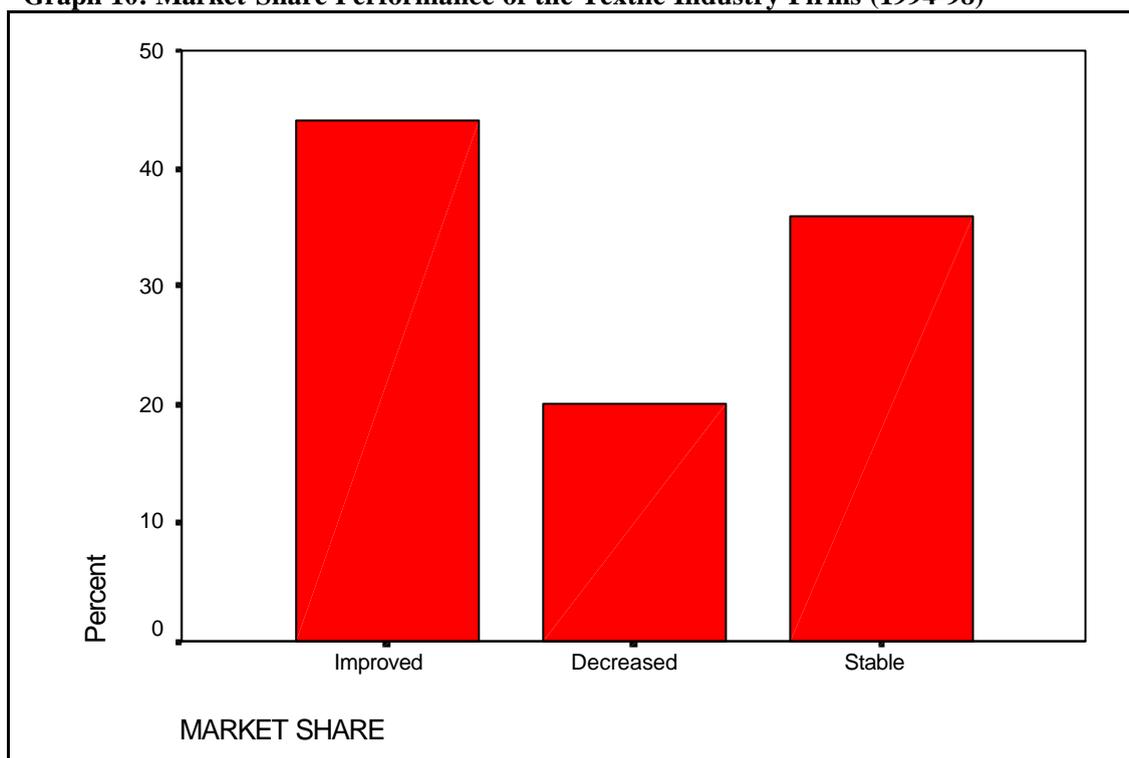
The discrepancy between profit performance and output performance could also be a temporary phenomenon. It is unrealistic to expect firms to realise the fruits of restructuring efforts, with this being instantly translated into improved profit performance².

3.3 Market share (domestic and export)

Significantly, only 20% of the surveyed firms have experienced a deterioration of their performance with regard to market-share (Graph 10). The proportion of firms that improved performance in this regard totalled about 45%, while those that kept performance stable totalled about 35%. Once again, these trends indicate that the strategic decisions that firms took with regard to the output that they directed towards primary markets has been beneficial.

² The result of a cross-tabulation calculation between output and profit trends is interesting in this regard. Out of the 32 firms in the sample that experienced an improvement in output, 16 of them experienced improved profit margins as well. Therefore, out of the 18 firms that were experiencing improved profit performance, 16 were those that had improved their output out as well.

Graph 10: Market-Share Performance of the Textile Industry Firms (1994-98)

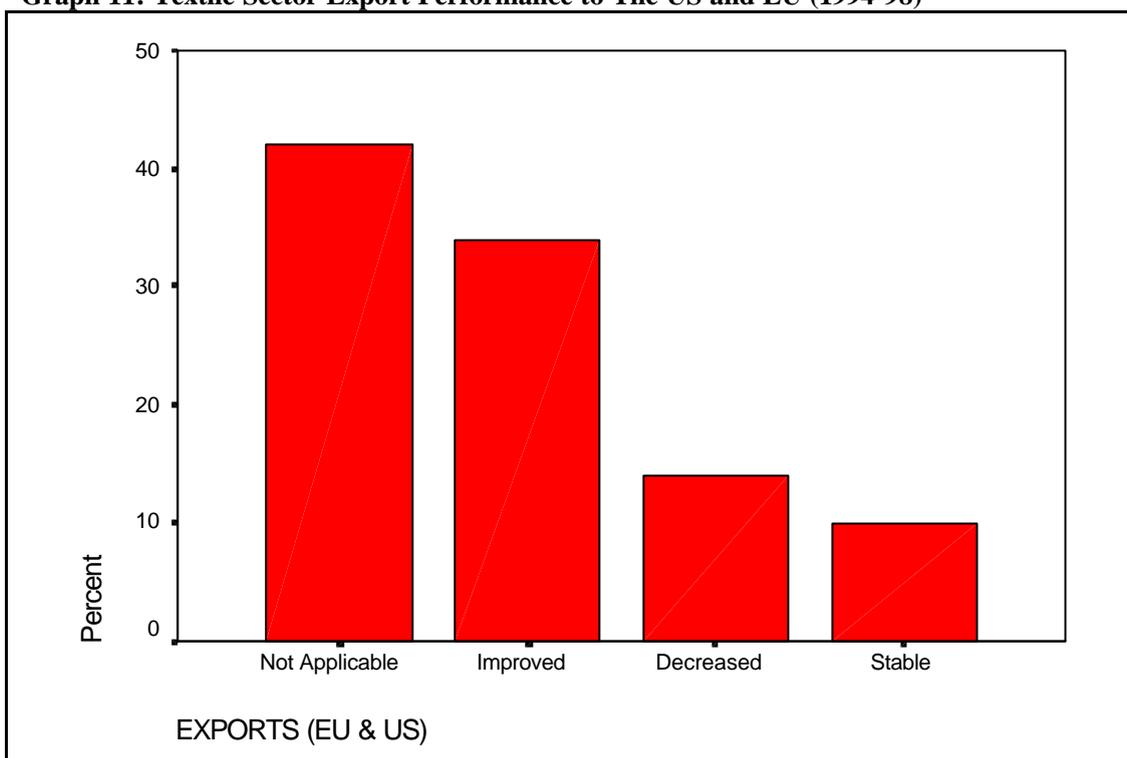


3.4 Export performance

The penetration of export markets is still a major challenge facing firms in the textile industry. In the case of exports to the lucrative but highly demanding markets of the United State and the European Union, the proportion of firms that were not targeting these markets was the most pronounced in the sample (Graph 11). These firms accounted for about 43% of the responses³. Nonetheless, about 35% of the respondents have experienced a performance improvement in this regard (although this is in most cases from a low base). A further 10% of the respondents experienced stable performance with regard to exports to these markets. On the negative side, about 15% of respondents experienced a decrease in their outputs. However, given the fact that local firms are very recent entrants to these markets, these trends are actually quite encouraging.

³ The proportion of firms that exported to SADC and Africa was too insignificant to warrant analysis in this report.

Graph 11: Textile Sector Export Performance to The US and EU (1994-98)

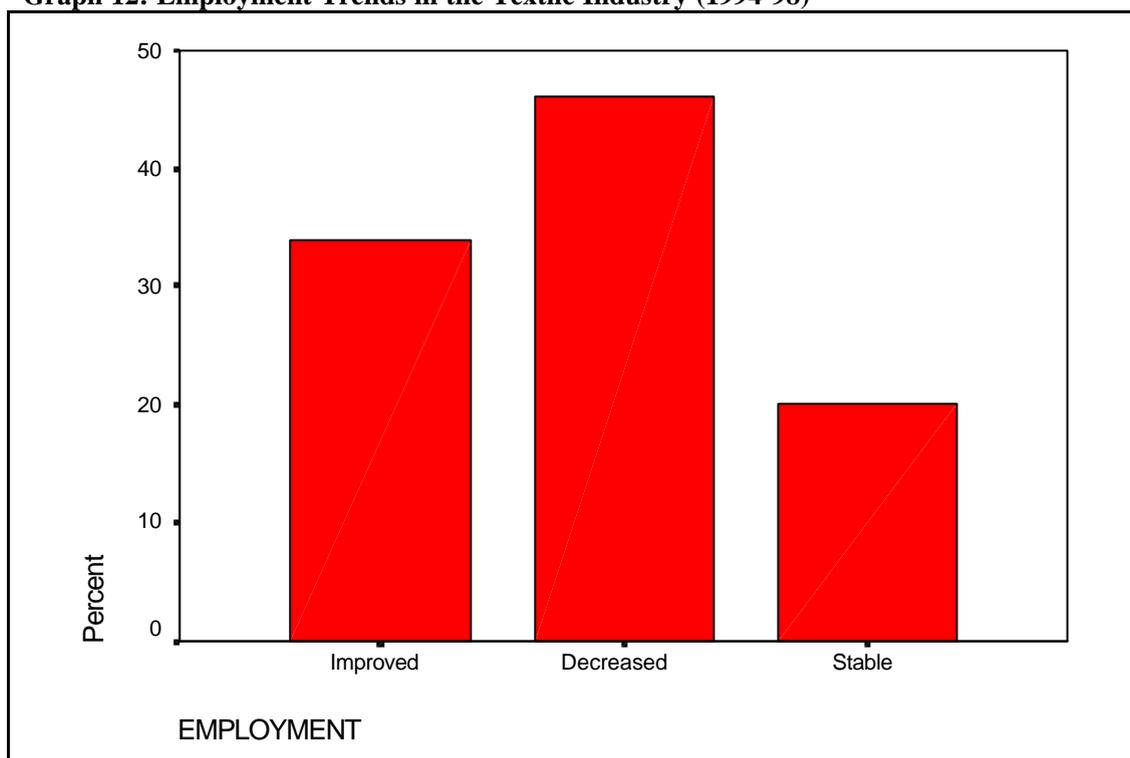


3.4 Employment performance

Employment performance is the one area of performance that has failed to improve over the liberalisation era (Graph 12). Although a substantial proportion of respondents have experienced improved or stable employment levels (i.e. about 35% and 20% respectively), most respondents tended to experience falling employment levels (about 45%). These trends suggest that the shedding of labour is one of the strategies that firms may be employing to improve competitiveness⁴. Conversely, the increased pressure on employment levels may be a consequence of the increasing levels of focus being directed towards primary markets. Higher levels of output focus towards a select and smaller set of activities could result in the identification of key/core competencies by firms with a subsequent loss of employment once excess capacity (i.e. capacity to handle non-core activities) is shed.

⁴ This trend towards further employment contraction is unlikely to be a manifestation of the industry's corrective activity to shed excess labour and capacity. This trend was essentially undertaken and completed between 1991-1995 (see Reid (1998), An Assessment of how incentives and globalisation have impacted upon the viability of textile activity in Ladysmith/Ezakeni, Natal University).

Graph 12: Employment Trends in the Textile Industry (1994-98)

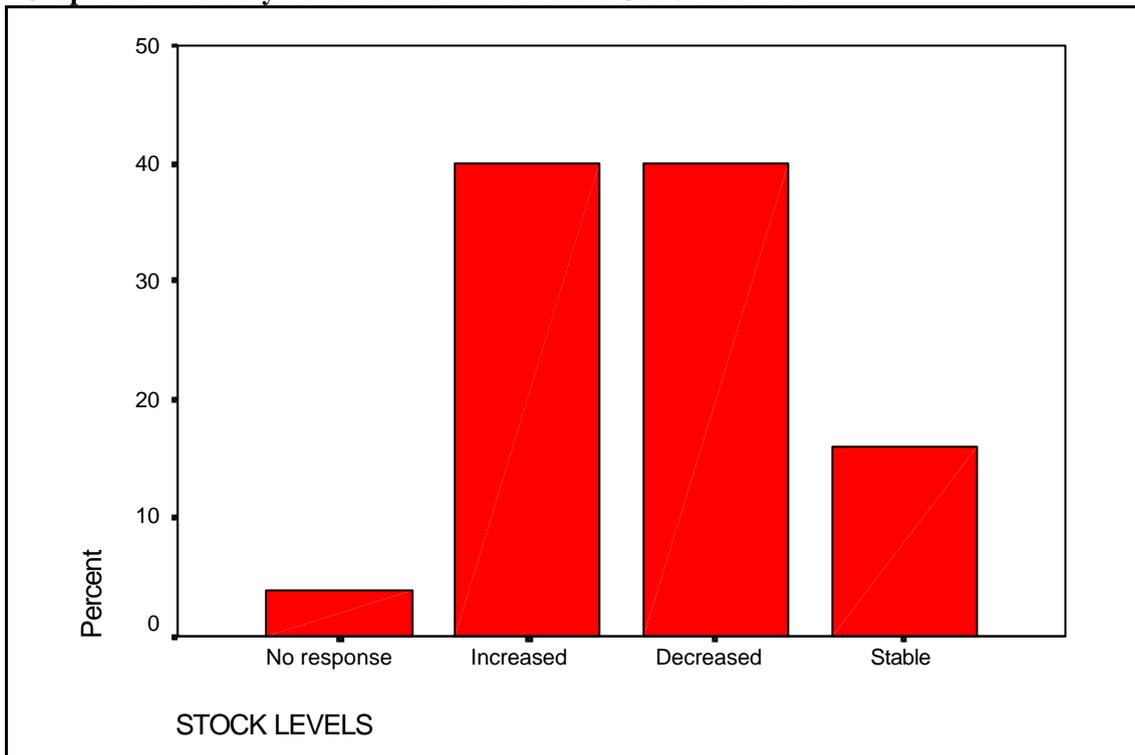


Internal efficiency performance figures: Inventory levels, Lead-Times, Internal defects and External quality

An assessment of the textile industry's internal performance measurements suggests that while the sector has been able to improve its performance in terms of output levels and market share, these changes are not being underpinned by an improvement in their internal performance. This can be established by assessing their inventory level, lead time and defect rate trends.

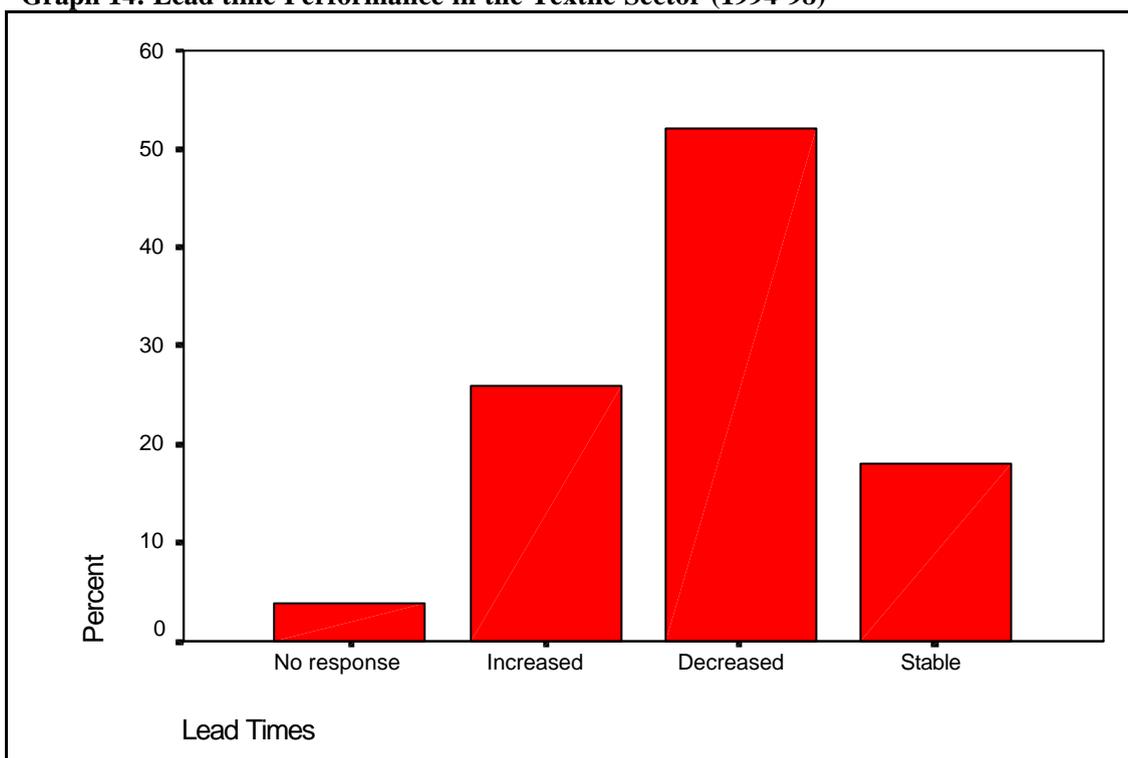
Inventory levels are a good indicator of internal levels of efficiency within firms. A firm with a sound system of organising manufacturing processes will typically have low inventory levels. The organisation of manufacturing needs to be optimal with respect to both internal linkages and external (or pipeline) linkages. In this regard (Graph 13), the surveyed firms tended to show mixed results. The proportion of firms that have managed to improve their inventory levels between 1994 and 1998 is the same as for those that have experienced a deterioration in performance (i.e. 40%).

Graph 13: Inventory Performance in the Textile Sector 1994-98.



Lead times are similarly affected by the nature of a firm's system of organising its manufacturing process. However, as Graph 14 indicates, over 50% of the firms in the sample failed to realise improvements with regard to this performance measurement between 1994 and 1998. Those firms that managed an improvement account for about 25% of the sample, while the proportion of firms that kept their lead times stable was below 20%.

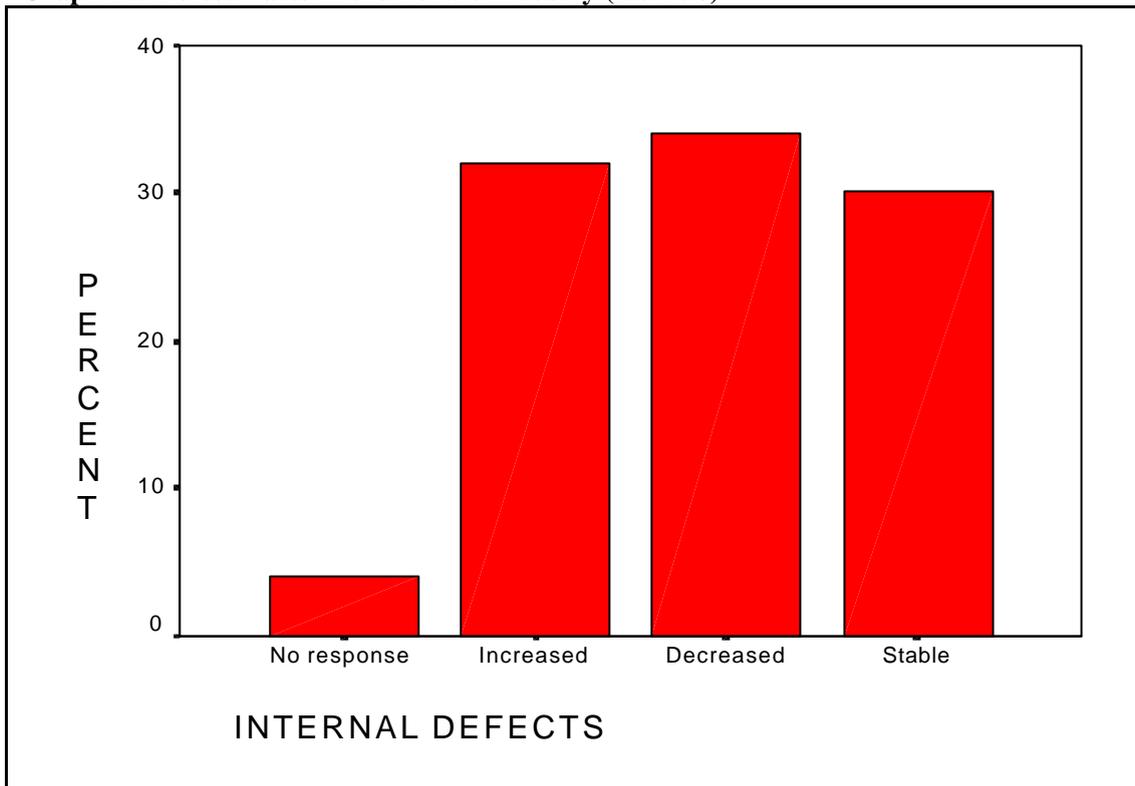
Graph 14: Lead-time Performance in the Textile Sector (1994-98)



Internal defect rates were almost evenly pegged between firms that showed improvements, those that deteriorated and those that kept performance stable (Graph 15). Thus the proportion of firms that experienced an increase (i.e. deterioration) in defect rates was marginally above 30%. Those that improved performance (i.e. decreased defects) was about 35%, while those that remained stable accounted for 30% of the sample.

There is a clear indication then that output and market share improvements in the textile industry are not being achieved through internal operational improvements. Furthermore, when the poor levels of performance regarding employment are taken into consideration, it would appear as if the industry is depending heavily upon the shedding of labour to underpin its efforts to improve competitiveness. This trend is disturbing because it suggests that significant segments of the industry still see labour as a cost to be minimised rather than a resource that can be developed to underpin improved performance in the market. Furthermore, this trend may also indicate that the sector still depends primarily on price to underpin its competitiveness in the market.

Graph 15: Defect Rates in the Textile Industry (1994-98)

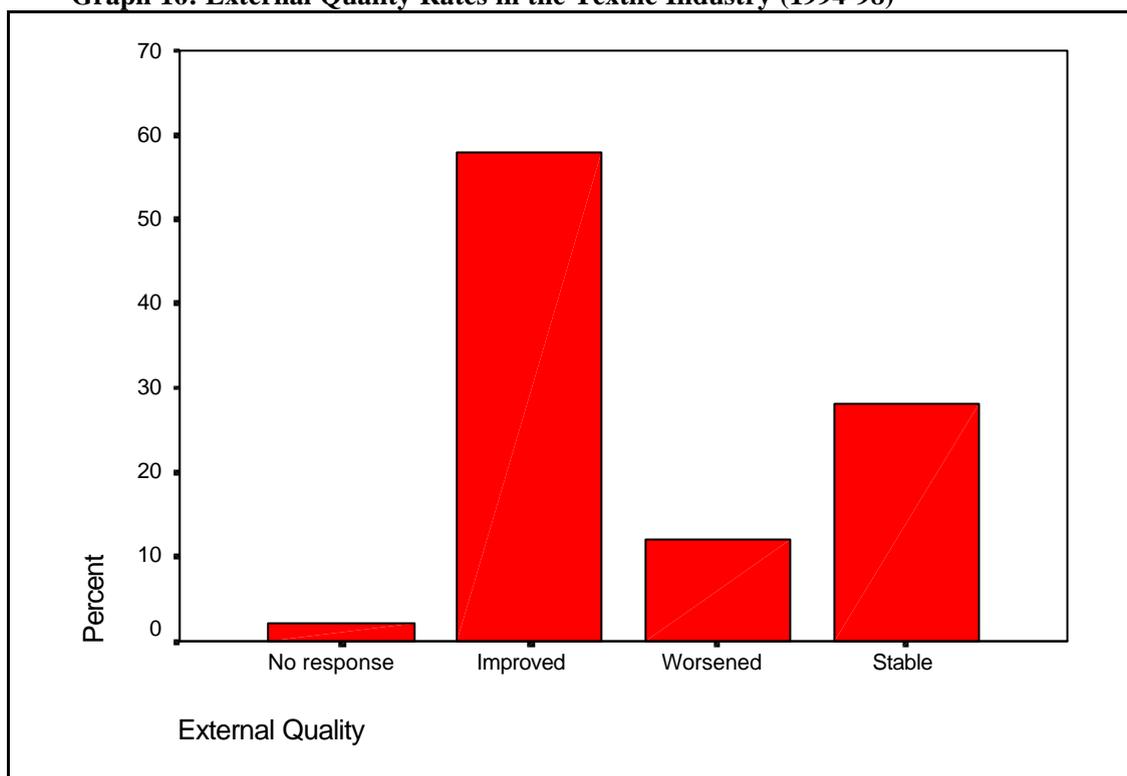


Another interesting trend that was detected was that although performance improvements with regard to internal defects had been unevenly realised by firms within the industry, there was a clear trend towards an improvement in the case of external quality. In fact, results from the survey indicate a clear trend towards an improvement to external quality levels in the industry (Graph 16). According to the survey results, the proportion of firms that have been able to improve their external quality performance is quite high (about 60%). The firms that experienced a deteriorating performance in external quality levels account for only about 10% of the sample.

This trend could be as a result of one of the following factors:

- Firms are meeting customer quality demands at a high cost to themselves (e.g. by generating higher levels of scrap and internal defects),
- Firms are becoming more advanced in their control of internal defects, or
- Firms are building quality maintenance into their production systems, as such defects get picked up inside the plant (as opposed to in the market).

Graph 16: External Quality Rates in the Textile Industry (1994-98)



A closer analysis of these results reveals further interesting trends. Firms that exported to the highly demanding markets of Europe and North America were more likely to experience an improvement in quality but a corresponding deterioration in their internal defect levels. On the other hand, firms that were not exporting to this market tended to show an improvement of both external quality and internal defect levels. However, the exporting firms were far more likely to improve their external quality performance than the non-exporters. As a result 70% of the exporters experienced an improvement in external quality (as opposed to 43% among non-exporters).

Table 2: The Impact of Exporting to the EU and US on Internal Defect and External Quality Performance

	No Response (i.e. Does Not export)	Increased	Decreased	Stable
DEFECTS	EXPORTS TO EUROPE & USA			
No Response	2	-	2	-
Improved	16	8	-	2
Worsened	6	20	6	2
Stable	18	6	6	-
E-QUALITY	EXPORTS TO EUROPE & USA			
No Response	2	-	-	-
Improved	18	24	8	8
Worsened	6	4	-	2
Stable	16	6	6	-

CONCLUSION

This survey of the textile industry had the objective of establishing trends that have unfolded within the industry between 1994 and 1998. This is a period characterised by rapid changes in the economy and the policy-making environment of South Africa. Given the rapid and far-reaching nature of these changes, it became critical to assess how this key industry was responding.

The survey yielded some important trends. With regard to the profile of firms, large firms still largely dominate the industry. Furthermore, ownership patterns are still heavily biased towards local interests. The liberalisation of the economy has not fostered an injection of foreign capital into existing firms. In fact, the survey responses suggest that there has been very little movement with regard to changes of ownership.

Most of the changes that have occurred within the industry are market related. Firms in the sector tended to respond to new economic challenges by refocusing the direction of their output. As a result, a high proportion of firms experienced changes with regard to their primary market focus in the post-1994 era. Furthermore, most of the surveyed firms were able to increase both their output and market share. Profit performance was also kept at reasonable levels.

However, employment levels decreased and internal efficiency levels also failed to improve. These trends may suggest that firms relied heavily on labour shedding to remain competitive, and little attention was paid to the critical area the organisation of manufacturing processes.

Therefore, the results of this survey indicate that policy makers are still not effective in their efforts to make restructuring to have an impact on the "black box" (i.e. the firm). It is clear from the results that firms have been able to improve output and market share. However, it is also clearly apparent that they have not been sufficiently induced to cover internal efficiency matters. The lack of dynamism at this tier of restructuring is an area that will have to be researched further, so that policy makers may have dependable information to inform their designs and formulations. As a result, the next phase of this research process will proceed beyond broad industrial trends to evaluate actual firm level performance indicators. The research that is to follow will also seek to gain a more nuanced understanding of the demands that the market places upon firms. This will be largely achieved by revisiting the market relations issue, and filtering it through a value-chain system of analysis. Such a conceptual shift will allow the market to be seen as a dynamic system and from the customer's point of view.