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UNDERSTANDING THE SOUTH AFRICAN CLOTHING MANUFACTURING SECTOR FROM THE PERSPECTIVE OF LEADING SOUTH AFRICAN CLOTHING RETAILERS

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1 INTRODUCTION

The important role that buyers can play in upgrading manufacturing capabilities has been widely recognised in the academic literature (see for instance Gereffi 1996, 1999; Schmitz & Knorringa 1999). Most of this literature examines cases where buyers have taken an active role in improving the performance of their suppliers. However, even when buyers fail to take on this responsibility, they still have an important role to play in setting the parameters for manufacturing upgrading. In fast changing markets customer responsiveness is key to competitiveness, and in many industries contact between manufacturer and the end customer is mediated by their retail customers. As well as transmitting end customers demands to manufacturers, retailers also bring to the table their own demands and expectations of manufacturing performance. If manufacturers are to upgrade their performance to keep abreast of rapidly changing market demands, then they need to be keenly aware of the expectations of their leading retail customers.

The South African clothing sector is dominated by a small number of large retail groups, each comprising a number of chains focusing on different customer groups and operating in various subsectors of the Clothing, Footwear, Textile and Accessories (CFTA) market. Together these groups wield considerable power in the market place, particularly given the relatively dispersed nature of clothing manufacturing in South Africa. It is the retail chains that to a large extent govern the apparel value chain in South Africa. These retailers are therefore well placed not only to articulate the demands being placed on the manufacturers supplying them, but also to comment on changes in the structure of the clothing sector in general. This is important on two front: from the DTI's perspective the retailers can contribute a useful perspective on recent and anticipated shifts in the clothing sector. They have useful information to offer on recent changes in market demographics, on the role of imports and the impact of both illegal imports and the informal sector on clothing retailers and manufacturers in South Africa. More importantly, however, retailers can provide useful information to guide the upgrading of South African clothing manufacturers. It is important for South African apparel manufacturers to understand domestic retailer perceptions of their strengths and weaknesses, and particularly, areas of performance where local manufacturers might develop a competitive advantage over those foreign manufacturers, particularly in Asia, who are viewed as a threat to the local clothing manufacturing sector.

This report seeks to understand the South African garment manufacturing sector from the perspective of the country's leading CFTA retailers. The report will begin with a brief discussion of the methodology used for the study. The first part of the report will look at the retailers and their market. Some information will be provided on the market focus of the retailers interviewed before taking a broader look at recent shifts in their market. Key issues in this regard are changes in the overall South African clothing market, shifts in market focus and market share amongst the retailers in question, and the role of illegal imports, and the informal sector. The second part of the report will focus on suppliers, that is, on the manufacturers supplying the retailers in question. The section will begin by trying to characterise the supply base – the role of national versus foreign suppliers, full manufacturers versus Cut, Make and Trim (CMT) producers and the impact of location on manufacturing activity. The report also examines the practical arrangements between retailer and manufacturer that determine responsibility and the type of relationship – who is responsible for design and fabric purchase, what are the ordering and delivery arrangements, how is quality controlled, and what is the nature of communication between retailers and suppliers? Retailer perceptions of the performance of South African suppliers will be examined, as will retailer experiences of imports and their perceptions of import performance. Importantly, this study builds on previous IRP research, completed in September 1996, in which a number of the leading retailers in South Africa were interviewed (Harrison and Dunne 1998). Wherever possible this report will refer back to this earlier work to explore changes over time, and the extent to which changes anticipated by retailers at that time have in fact materialised.

2 METHODOLOGY

The report is based on interviews conducted with leading South African clothing retailers in March 2000. The interviews were based on a loose interview schedule. Questions aimed to draw out information around a number of issues identified as key by the DTI's Clothing, Textile and Footwear Directorate, as well as by the IRP's past work in the clothing sector, and ongoing work in other manufacturing sectors. While a large part of each interview was qualitative in nature, with issues being explored as they were raised, the interviews did include a quantitative element. Quantitative questions were particularly asked around the performance of suppliers, where retailers were asked to rate supplier performance.

Given the high level of concentration in the clothing retail sector in South Africa it was decided to focus the study on retail chains within the leading clothing retail groups, and to exclude smaller independent chains and boutiques. While this methodology might be criticised for failing to reveal the true diversity of demand from clothing retailers, the sheer magnitude of the market share of these chains justifies the approach. Given the number of independent retailers we might be expected to find, conducting a similar number of interviews from this category of retailer would fail to offer nearly the same level of representativity and hence reliability. All five of the retail groups within which interviews were conducted are listed on the Johannesburg Stock Exchange.

A total of nine face-to-face interviews were conducted in Cape Town, Durban and Johannesburg. As one individual might be responsible for more than one retail chain within a group, the total number of chains covered by these interviews was eleven. Most respondents were either planners or merchandisers within their chains. Where possible the aim was to speak to someone in ladies' wear, partly because this can be regarded as the largest and most fashion responsive market segment, and partly as a means of getting more comparable information. The chains included in the survey target consumers from across the income spectrum, although it is difficult to definitively assign chains to certain income brackets. Only one retailer declined to participate in the study.

3 SECTION ONE:

4 THE CLOTHING RETAIL MARKET IN SOUTH AFRICA

As we have mentioned, the clothing retail sector in South Africa is extremely concentrated. The following table outlines the structure of the industry:

Table One:

Leading South African Clothing Retail Chains [1]

5 GROUP	CHAIN	NO. OF STORES [2]	TARGET MARKET
6 Edcon	Edgars	189 + 9	Middle and upper middle income families
	Sales House	97+3	Lower middle market families
	Jet	107	Young South African family, discount clothing
	Smiley's Wearhouse	49	Middle income consumer
Pepcor	Pep Limited	873 + 328	LSM[3] 2-5
	Ackermans	188 + 23	Middle to lower-end (LSM 4-6)
	Stuttafords	11	Top end
Wooltru	Woolworths	120+	Traditional and classic fashion
	Truworths	200+	Youthful and fashionable customers
	Topics	170	LSM 4-6, some LSM 7-8
Speciality	Mr Price	260	Week-end fashion wear for younger customers
	Hub	10	LSM 5,6 &7
	Milady's	163	LSM 6-8; better-end fashion follower
Foschini	Foschini	330+	6.1.1.1.1 Not available
	Markhams	180	Men's fashion
	Exact	85	LSM 1-6

Source: Information obtained from retail head-office, from retail chain web-sites (edcon.co.za, pepkor.co.za, woolworths.co.za, truworths.co.za, foschini.co.za) and from interviews with buyers.

While confidentiality agreements with the respondents prevent the identification of those chains that were interviewed, it is possible to say that information was collected for eleven retail chains across the four groups. Four of these eleven chains also had stores in neighbouring countries. Less common were stores in other African countries, or in the Middle East. Some groups also have separate chains operating in developed country markets such as Australia and the UK.

[1] Most of the clothing retail groups have a wider interest than simply clothing retailing. Various groups include manufacturing units, sourcing agents, footwear retailers, jewellery retailers, grocery stores and sporting goods stores, as well as small in-store divisions. For the purposes of this table only the major clothing retail divisions are listed.

[2] Where two figures are given this represents the *number of stores in South Africa* + the *number of stores elsewhere* (mainly other parts of Africa)

[3] LSM groups are a market segmentation tool used to categories consumers into eight bands depending on product usage, access to amenities and degree of urbanisation. An example of categorisation is as follows: LSM 8 (highest) – progressive affluents, LSM 7- established affluents, LSM 6 – emerging market, LSM 5 – young aspirers. (www.witness.co.za/stats.htm)

Chains tend to offer a very wide range of wares from across the CFTA category, including ladies', men's and children's wear, household textiles, footwear and accessories (jewellery and cosmetics). However, clothing retail chains do tend to focus on specific market segments as defined by income. Focus is also increasingly being placed on the "character" or "lifestyle" of the customer, particularly age group and fashion demands (such as smart casual, high fashion, classic fashion, fashion follower or leader etc.). The issue of market focus is clearly one that is receiving an increasing amount of attention in an increasingly competitive market. Chains were critical of past attempts to supply "bits of everything" and to " be everything to everybody".

As early as 1996 it was clear that political and economic changes in South Africa were having a profound impact on the clothing retail sector (Harrison and Dunne 1998). This finding has been borne out by the current research. Social and cultural changes in the country have lead to huge changes in the market place. Global exposure has increased, and this has had a major impact on customer demands and the awareness of fashion trends. Customers are more mobile, and have access to more information through advertising and the media. Quality, choice and image are becoming more important. Chains are increasingly reluctant to identify their customers by race, although clearly the demographics of South Africa mean that targeting specific income groups does have certain race implications. Chains that target the lower income group are generally aware that the majority of their customers are black. However, it is equally true that account facilities at the more upmarket chains tend to broaden consumer access considerably. As a respondent from one such chain pointed out: "The size of our chain dictates that a large proportion of our customers are black". Changes in the market have meant that focusing on the race of a customer is no longer a favoured, nor a successful strategy. Several respondents focusing on the low end of the market commented that the changing character of their customers had implications for where stores were located. In the apartheid era there was a tendency for retailers targeting the low income consumer to be located near to stations and taxi ranks. However, the low income consumer is increasingly venturing into major shopping centres, and stores targeting this market are having to shift their location accordingly. Several chains from across the income spectrum pointed out that a failure to adequately read and respond to recent cultural and demographic changes had negatively impacted on their market share.

While opinions varied, most chains felt that the market is extremely tough at the moment, and has been shrinking. This is attributed partly to general economic conditions, and partly to growing levels of competition in the clothing retail sector. Most of the respondents felt that general market conditions in the clothing retail sector were poor at the moment. At the same time, 50% felt that their chain was losing market share. Within these tight market conditions, price is becoming increasingly important as the basis for competition. This is very much in line with findings in 1996 which showed that KwaZulu-Natal clothing manufacturers were increasingly being forced to sacrifice profit for turnover in order to remain competitive (Harrison and Dunne 1998). In all segments of the market price is critical for competitiveness, and price pressure is variously reflected in increasing levels of imports, aggressive buying policies and diminishing margins. Local suppliers are under pressure to maintain or lower their price levels. At the same time, customers from across the income spectrum are demanding greater "value for money", that is, lower prices without a sacrifice of quality. At the upper end of the market particularly, design, fabric types and quality are all becoming increasingly important, alongside direct cost concerns. This trend was already apparent in 1996, and seems set to become one of the driving pressures in the clothing sector (Harrison and Dunne 1998). At the same time retailers have had to pay more attention to their strategy regarding both the market they aim to serve and relationships with suppliers. Chains are recognising that they have to become more customer focused, and to read their customers needs more clearly.

7 ILLEGAL IMPORTS AND THE INFORMAL SECTOR

Two of the most frequently talked about developments in the South African clothing sector are the growing impact of the informal sector and of illegal imports.

The informal sector is an extremely complex concept, referring to low end, mass market and exclusive, upper end activities, and to both manufacturing and retailing activities. The retailers interviewed were obviously more concerned with informal retailing activities than with informal manufacturing, although to some extent these do overlap. At the low end of the market informal retailing involves street vendors, or hawkers, while at the upper end it involves home-based designers as craft markets, with middle and lower end clothing also sold at flea markets. While retailers recognise the informal sector as a threat, competition from the low end of this sector is constrained by the fact that hawkers have limited facilities and offer a narrow range of products. What *does* present a threat are "organised" hawking activities, where hawkers sell for an agent who imports clothing, either legally, or more worryingly, illegally. One retailer pointed out that it was nearly impossible for an independent hawker purchasing from a wholesaler to out-price a large retailer. At the upper end of the market informal retailing is again not seen as a significant threat. Here the informal sector is a reflection of a certain status increasingly attached to purchasing outside of the formal mass retail sector. At the same time craft market type retailers are often very innovative in their designs, and can respond quickly to market changes. Retailers recognise that there is little that they can do to actively counteract the effects of informal retailing. One low end retailer explained that individual store managers could lower prices on specific items to match or beat the price offered by hawkers (for instance, on a pair of socks). Avoiding stocking very simple products (such as canvas shoes) was also identified as a strategy. Store location is also an issue. The tradition of locating low end stores near stations and taxi ranks tended to place these stores in more direct competition with the informal sector. At the upper end of the market focusing on quality and design was cited as the best defence against informal activities, while credit facilities also serve to differentiate retail chains from informal retailers[4].

Clearly the problem of illegal imports is viewed much more seriously by leading retail chains in South Africa. Retailers claim that it is fairly obvious to insiders when an item is priced too low to have been imported legally[5]. A concern raised by the retail chains is the fact that the customer only focuses on the low price, without concern for how this low price came about. It is obviously difficult to ascertain whether leading retailers are in any way involved in illegal importing. One retailer expressed the view that illegal importing by major retailers is unlikely for the simple reason that the risks of getting caught and potential for scandal were so high. This view is perhaps explained by the comment of another retailer who pointed out that another chain had been implicated in an illegal import case that in fact involved "import irregularities" on the part of its import agent. Retailers generally felt that there was very little that they could do to fight illegal imports, and that this was largely the responsibility of the government. Only one retailer noted that
it had a policy of actively supporting the activities of Customs and Excise. It is felt that there has been some success in blocking loopholes that allowed imports to come through Malawi and Mozambique, but that Preferential Trade Agreements remain a problem, as does corruption.

8

[4] In her PhD thesis on concentration in the South African furniture industry, Manning (1996) highlights the provision of consumer credit as an integral part of the business of the large furniture retailing chains, which, as with clothing retailers, strongly dominate retail sales in their sector. She presents evidence to suggest that the principal commodity sold by these retail chains is finance, rather than furniture, with the principal source of profit being credit provision, rather than the mark-up on furniture sold.

[5] As of September 1999 ad valorem duties on clothing were 60%. Duties are being phased down annually to September 2002, when the duty on clothing imports will be 40% (CLOFED 2000).

9 SECTION TWO:

10 GARMENT SUPPLIERS

All of the retailers interviewed sourced nationally, rather than regionally. That is to say, each manufacturer that they procure from produces garments that are sold in stores throughout the country, rather than simply in the vicinity of that manufacturer. Domestic suppliers are located in three centres in South Africa – KwaZulu-Natal, the Western Cape and Gauteng. Most suppliers appear to be located in KZN followed by the Western Cape. On average retailers stated that 52% of suppliers were in KZN, 35% in the Western Cape, and the remainder in Gauteng. Only one Cape Town-based retailer stated that the majority of its suppliers were located in the Western Cape. Opinions about the importance of the proximity of suppliers to retail headquarters were mixed. Most retailers felt that proximity did offer advantages, speeding up the purchasing process, making delivery easier, and making it easier to deal with any problems that might arise. Proximity was also felt to allow production to be "more specification driven" – "the market is moving very fast and you can't always wait three days for a sample to arrive from Johannesburg when a local supplier could be at your desk in half an hour". At the same time, when asked to rate the importance of various competitive criteria when choosing a supplier, the location of suppliers was considered to be of such *relatively* low importance that many retailers simply declined to assign it a rating. As one retailer pointed out, scanners, digital cameras and e-mail make communication across distance very easy, and "in a crisis it is easy to simply get on a plane", so overall proximity was not a major consideration. Where location obviously had more impact was in the case of imports. But even here, the ability of foreign retailers to provide desired products at lower prices often overcame the concerns about distance.

The supply base of the leading retailers interviewed tends to be quite concentrated. Although most retailers have a fairly high number of suppliers (between thirty and sixty ladies' wear suppliers), a high percentage of sales are sourced from a few leading suppliers. On average 18% of sales were sourced from the top supplier, and 35% from the top three suppliers.

The fact that retailers prefer to refer to "suppliers" rather than "manufacturers" is telling. The retailer builds a relationship with a particular supplier, who is ultimately responsible for delivering the agreed upon garments. Retailers are fully aware, that not all suppliers manufacture in-house. Most suppliers are assumed to use Cut Make and Trim (CMT) operators to some extent. CMT manufacturers are provided with fabric and patterns, and cut, assemble and finish garments on behalf of the lead supplier. From the IRP's 1996 study of the KwaZulu-Natal clothing industry it is know that CMTs tend to be much smaller than full manufacturers, are more likely to be family-owned, and have lower levels of formal business skills (Harrison and Dunne 1998). The study showed that while there had been a net *loss* of jobs at surveyed full manufacturers from 1990 to 1996, there had been a net *gain* amongst surveyed CMT firms. The role played by CMTs in the South African clothing sector was summarised as follows:

> **"The flexibility of CMTs is closely associated with their employment trend, with the number of workers employed by CMTs fluctuating more within the course of a year that is the case with full manufacturers. CMTs are considered footloose, opening and closing depending on orders, creditors and seasons" (Harrison and Dunne 1998).**

The continued importance of the CMT sector to South African clothing manufacturing is confirmed by the current study, although retailers did not have accurate figures on the prevalence of CMTs. One retailer was aware that out of thirty ladies' outerwear suppliers only five manufactured fully in-house, and other retailers supposed a high level of CMT involvement. Suppliers were seen by the retailers as being increasingly averse to factory involvement as they tried to avoid "the hassle of labour". However, at least one retailer observed that they preferred suppliers to own their own manufacturing operations, as CMTs are associated with a loss of control, particularly over quality. Only one of the retailers contracted directly with CMTs. Most retailers felt that they simply did not have the infrastructure to control supply in this way. Where CMTs were used, this was organised through the retailer's in-house sourcing division. A few retailers insist that suppliers use CMTs that they have approved. Approval revolved around issues of legality, quality and management. In the case of most retailers, however, they had little or no interaction with the CMTs used by their suppliers, provided the necessary quality standards were met.

A small number of the retail chains interviewed had access to manufacturing units within their own group. In-house manufacturers were not necessarily dedicated suppliers. In some cases in-house suppliers were given no special preference, and in at least one case also supplied a competing retailer. Another strategy is to "own space" at an independent manufacturing operation, that is, to purchase a production line on a limited time contract. Another strategy was to have a relationship with independent, dedicated suppliers, who are closely involved in the retailer's strategy.

Retailers are keenly aware of the benefits to be derived from closer relationships with their suppliers. Only one retailer stated that they paid more attention to locating new, low cost suppliers. However, even this supplier acknowledged the importance of having good relationships with suppliers "especially if any problems arise". Eighty-six percent of the retailers interviewed said that they were, or had been, following a strategy of consolidating their supply base. The logic for narrowing the supply base was remarkably similar between retailers, and revolved around economies of scale and forming partnerships with suppliers. Some of the comment made by retailers in this regard are quoted below:

- "If a company's business becomes more meaningful to its suppliers, then suppliers become more meaningful to the company, which leads to better service"
- "It's about being more important to less suppliers"
- "We are trying to become more meaningful to our suppliers"
- "It's about being more important to less people"
- "We want to build better relationships and keep things simpler. The more suppliers there are, the more complicated things become. It is more effective to work more closely with fewer suppliers."
- "We are trying to build more meaningful relationships with suppliers".

Interestingly, Harrison and Dunne's (1998) findings suggested that the consolidation of South African retailers' supply bases, which was already underway in 1996 was a bi-product of increased imports. The shift to viewing a smaller supply base as a proactive strategy for improving performance seems to be a more recent phenomenon.

Apart from this consolidation, the supply base tends to be fairly stable. While retailers are always on the lookout for new suppliers, many core suppliers have been used for years. Consistency is recognised as important if quality, service and delivery performance is to be high. At the same time, not all suppliers have the capability to provide the range of garments needed, so the supply base cannot contract too far. Depending on too few suppliers was also seen to increase risk substantially.

11 THE LOGISTICS OF SUPPLY RELATIONS

For the purposes of the industry outsider the interaction between retailer and supplier can be divided into a number of phases. The first phase would involve the design of a garment, the next the ordering process, followed by the manufacturing of the garments. Quality control tends to occur at a number of stages, but the bulk of quality procedures occur prior to the final phase, the delivery of the completed order. In order to understand the practical issues surrounding the relationship between retailer and supplier this section will consider each of these “phases”, and will also analyse the nature of communication between retailer and supplier.

It is unusual for South African retailers to have dedicated design centres. Most design is done collaboratively between suppliers and retail buyers, with the latter's primary function being buying rather than designing. Both suppliers and buyers make trips overseas to get new design ideas. Often garments are purchased overseas for local suppliers to copy. The fact that the North American and European fashion season is six months ahead of South Africa makes this system a useful one in the South African context. Both buyers and suppliers come up with the ideas for new designs, then work together to make the changes necessary both from a production and a marketing point of view. In addition, some retailers retain consultants in Europe or the USA to advise them of fashion developments around colours and trends. While design skill tends to lie with the supplier, retailers are more aware of the likes and dislikes of their customers. Fabric selection is likewise done jointly, although fabric purchase is almost always the responsibility of the supplier. One retailer suggested that his company might intervene with a local mill in order to get a better price for fabric. Although it was difficult to get accurate estimates, it seems that a high percentage of fabric is imported. Quality and price are both reasons behind fabric imports, as is the non-availability of certain fabrics locally.

Orders are finalised with suppliers up to six months in advance. Most retailers break the year up into four or more “seasons” for buying purposes. These generally include a summer and winter season and two transitional seasons. The main summer season is often broken up into two seasons, sometimes designated a high summer and holiday summer season. While it was difficult to get consistent information on lead times, it appears that they are generally rather long in this industry, at anything from three to six months for a local order. It is generally agreed however, that most of the lead time is the result of waiting for fabric (with both imported and domestic fabric purchases involving long lead times) and scheduling production. Production itself was estimated to begin about five weeks prior to delivery. Shorter lead times were felt to offer huge advantages, with JIT production seen as ideal. Local manufacturers surprisingly seem to offer only slightly shorter lead times that imports, with overseas lead times estimated at between four to six months.

Quality control is viewed as an ongoing process in the clothing industry. Although specific procedures differ between retailers, the system of multiple checks at various stages of the buying process is in essence the same. Responsibility for quality control is shared by the supplier and retailer, and each has its own quality control personnel. The first quality check takes place before production actually starts. The supplier provides a sample, which if approved by the retail buyers is sealed and retained as a standard against which future quality samples can be compared. Suppliers are responsible for their own in-production quality checks, although most retailers do have quality controllers who travel to suppliers to undertake field inspections. A "bulk production" sample is usually provided from the production run. A final quality check is then made on delivery of the order. At this stage a sample is generally sent to the retail buyer to be checked against the original sealed sample. Garments are checked against specifications in terms of, for instance, weights and sizing. Retailers were vague about what level of rejects were acceptable. Quality problems were dealt with in various ways depending on the extent and severity of the problems. In some cases a system of financial penalties were instituted against the suppliers. In most cases suppliers were expected to rework rejects if possible, or to replace them. In extreme cases the entire order might be cancelled.

In all except one case deliveries are made by the supplier to the retailer's distribution centre, rather than to individual stores. In the case of some retailers suppliers are required to deliver to a distribution centre in the city where the retailer is headquartered, while in others they are able to deliver to satellite warehouses located in the three major manufacturing centres of Durban, Cape Town and Johannesburg. Most retailers aim to have goods delivered to their distribution centres pre-packed and shopfloor-ready.

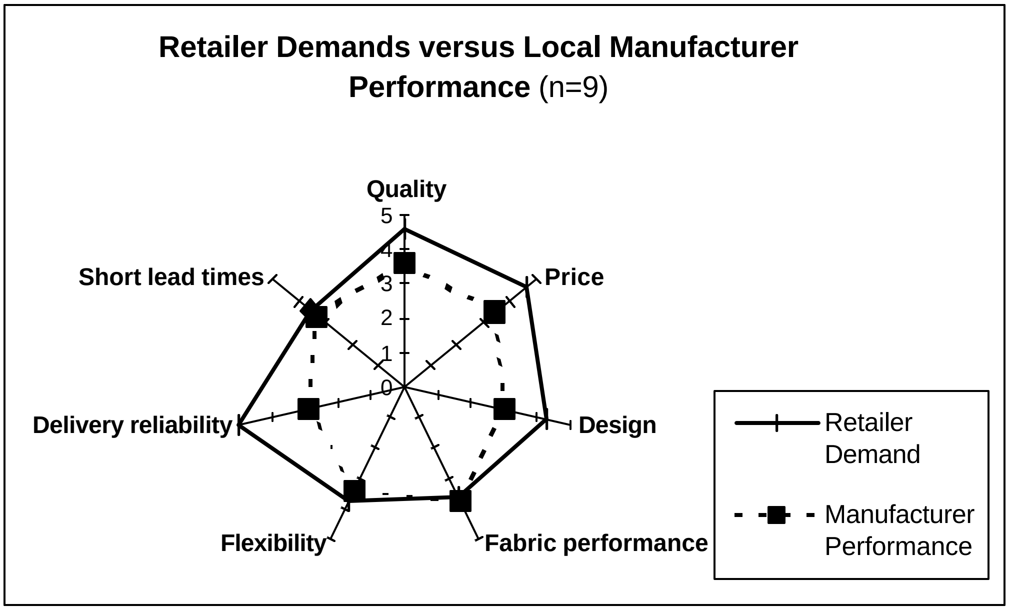
It was clear from the discussions with retailers that communication between retailers and suppliers occurs on a regular and ongoing basis. Buyers and planners communicate with suppliers when placing orders and arranging deliveries. Extensive communication also occurs around quality issues. The nature of communication around performance seems to vary between retailers, although it is clear that feedback on "what works and what doesn't" is regarded as important. Key suppliers appear to be much more involved in communication around feedback than are occasional suppliers. One retailer stated that some suppliers have agents based in the city where the retailer has its headquarters. Suppliers are encouraged to make store visits to gain a better understanding of the type of customer and garment that the retailer focuses on. Retailers are generally prepared to share sales figures with major suppliers, and are increasingly experimenting with online links with major suppliers, although this system could not yet be called widespread or firmly entrenched amongst South African clothing retailers. The advantage of information sharing, particularly through on-line links is that suppliers are able to get frequent and up-to-date information on sales. As well as making suppliers more aware of the type of product that sells well, this allows suppliers to plan ahead for trends and material purchases. One retailer observed that most communication still centres around poor performance (in terms of delivery and quality), and noted that ideally more communication should be taking place around strategic, rather than operational performance issues. It is clear that the trend towards smaller supply bases and closer relationships with suppliers is affecting the nature of communication and making it easier to offer feedback to suppliers.

12 RATING PERFORMANCE AGAINST EXPECTATIONS

Retailers were asked to rate the performance of their suppliers against their expectations. Retailers were asked to rate a number of criteria according to how important each criterion was when choosing a supplier. Or put differently, each criterion was rated according to how important it was for the retailer's market success. Criteria were rated on a scale of 1 to 5, where a rating of 1 meant that a criterion was not important for retailer performance, and hence unimportant when selecting a supplier. A rating of 5 meant conversely that the criterion was critical for market success, and therefore a priority when selecting a supplier.

Using the same set of weightings, retailers were then asked to rate the *actual performance* of their South African suppliers against their expectations. Once again the ratings were based on a scale of 1 to 5, where 1 meant that performance failed to meet demands, and 5 meant that performance fully met retailer demands. Finally, a similar exercise was carried out asking retailers to rate the performance of their overseas suppliers' actual performance. The resulting information can be usefully displayed in *radar charts* such as the one below. Radar charts clearly provide two useful sets of information. Firstly, they can be read to determine the relative importance of a particularly criterion, or the relative performance of a supplier in terms of a number of criteria. Secondly, they can be used to determine the *gaps* between retailer expectations and supplier performance, or as we shall see in the section on imports, the gaps between the performance of local and foreign suppliers.

Diagram One:



Interestingly, as Diagram One shows, on average South African retailers rate delivery reliability as the most important competitive criteria. While this is partly accounted for by the fact that there was greater variation in the ratings of other criteria than was the case for delivery reliability, it still indicates the critical importance of this often underrated aspect of competitiveness. One respondent went some way to explaining the importance of this criterion when he pointed out that promotions were planned around certain items, and depended upon those items being in the stores at a particular time. Quality, and the related criterion of fabric performance were rated as next in importance, with price in fourth place. Interestingly, quality ratings showed less variation than did price ratings, indicating that retailers are putting pressure on suppliers to lower prices without necessarily compromising on quality demands. This was borne out by the interviews which suggested that customers, although extremely price conscious, were becoming increasingly discerning, and hence placing greater demands on retailers.

Short lead times was the next most important competitive criterion from the retailers' perspective, followed by flexibility and design. As we have seen, South African retailers depend heavily on trends established in the USA and Europe, and it is perhaps not surprising that design therefore rates as relatively unimportant. The least important criterion was supplier location, and this issue was discussed in some depth in an earlier section.

The radar chart also shows the relative performance of South African manufacturers in terms of the criteria in question. South African manufacturers are thought to be performing best in terms of quality and the related criteria of fabric performance, followed by price, manufacturing flexibility and short lead times. The worst performance is in the area of delivery reliability.

Perhaps more important than absolute ratings of performance are the gaps between retailer expectations and manufacturing performance. The biggest gap is in the area of delivery reliability where retailers are clearly far from happy with the performance of their South African suppliers. Significant gaps between demand and performance also exist in the areas of design, price and quality. Several retailers complained about the poor quality of South African manufactured garments, with one stating that quality is "definitely not First World". It is of real concern that manufacturers fail to meet the demands of their customers in three of the four most important areas determining competitiveness. While gaps also exist in terms of flexibility and short lead times, these are very small, and South African manufacturers are for all intents and purposes meeting the requirements of their customers in this regard.

21 IMPORTS

It is clear from the interviews at the retail chains that legal imports are undeniably growing. On average imports stand at 19%, with the lowest level of imports being none (followed by 4%), and the highest 43%. Price seems to be the leading reason for retailers to source offshore, with the phasing out of import tariffs of critical importance in making imports more attractive to retailers. Garments that are particularly labour intensive are the most likely to be imported. At the same time, certain products are imported simply because they cannot be sourced locally. This generally refers to some knitwear, and to fabric types that require particular machinery or skills to deal with.

Imports come predominantly from the East, notably, Malaysia, Indonesia, China, India, Taiwan and Thailand. Other imports come from Portugal and Turkey. There appears to be very little importing from neighbouring countries, largely because of quality problems associated with such imports. It was noted, however, that some local manufacturers do have factories or CMTs in Lesotho and Mozambique, and possibly other neighbouring countries. It was suggested that past claims of "imports" from other neighbouring countries was largely a reflection of import regulation loopholes. Most retailers import through an agent in the East, although this by no means suggests that they are unaware of the source of their imports. Retailers tend to visit the foreign manufacturers to satisfy themselves about quality and other performance issues. Agents help to introduce retailers to foreign manufacturers, consolidate orders prior to shipping, and relieve retailers of some of the burden of dealing with foreign manufacturers.

Diagram Two:

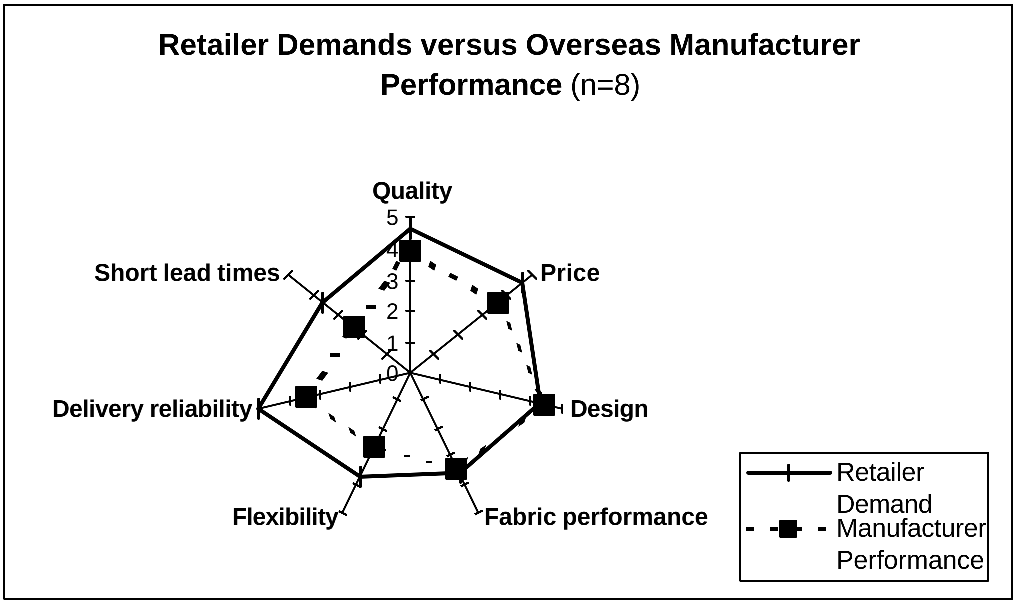


Diagram Two compares retailer expectations with the performance of overseas suppliers. Overseas suppliers perform best in the areas of design, quality and price. The lowest performance ratings are in the areas of flexibility and lead times. Clearly flexibility and lead times problematic in the case of imports, in the former instance because the difficulty of communication over distance makes changing specifications more difficult, while in the latter instance delays in sending samples and in transportation can be problematic.

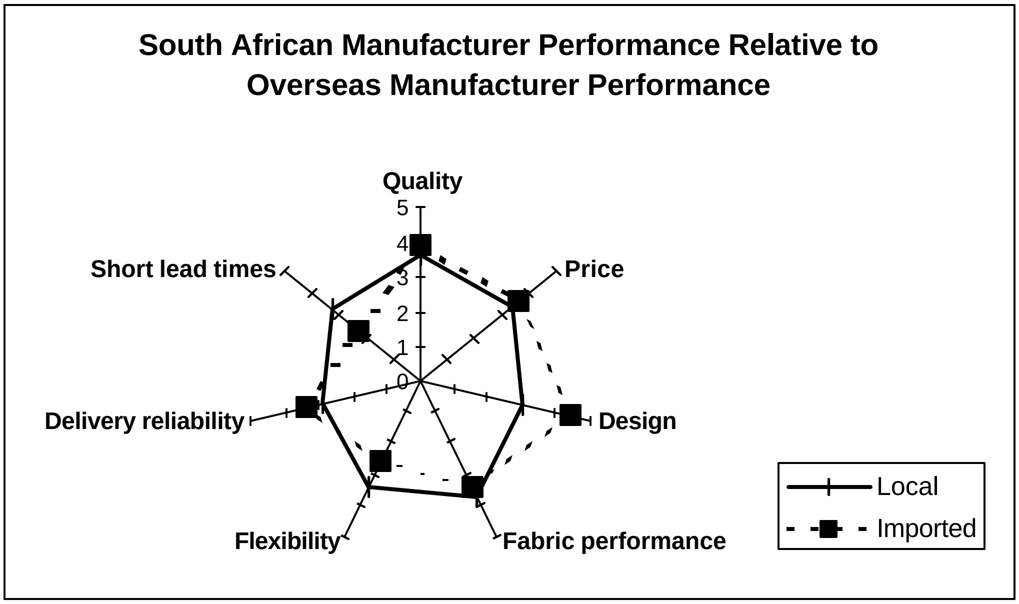
Imports meet retailer demands in terms of fabric performance and design, and come close to meeting quality demands. Although the quality of imports from the East are often publicly slated, the relatively small gaps in the areas of quality and fabric performance suggest that South African retailers are generally fairly happy with the quality of imports. Despite the fact that price was given as the leading reason for importing, South African retailers are clearly still not happy with the price of imports. The biggest gaps between expectations and performance lie in the areas of delivery reliability, lead times and flexibility. This has interesting implications for South African suppliers, a this is obviously an area where distance works against performance, and where South African suppliers are at a potential advantage.

Opinions on whether South African manufacturers have tried adequately to meet new demands are mixed. While price is a criterion on which few retailers expect South African manufacturers to ever be able to compete with imports, it is generally agreed that sourcing from local manufacturers *should* be advantageous for local retailers, once the obvious price problems are excluded. However, in truth there are frequent complaints not just about the price, but also the quality and general service performance of local manufacturers. Retailers are not without scruples regarding the issue of importing, and many profess to favouring local producers, either as a matter of policy or preference. However, such policies are ultimately regarded as unrealistic when the consumer, even at the upper end of the market attaches a premium to price. At the same time, it was suggested that imports could have a positive impact on South African manufacturers to the extent that they force upgrading.

Diagram Three, below, compares the performance of South African and overseas suppliers. The results show a mixed picture, with overseas suppliers outperforming their South African counterparts in some areas, and South African suppliers performing better in others. It is not unexpected that imports perform better than locally manufactured garments in terms of price. However, it is far more worryingly that imports are also rated better in terms of design and quality. One retailer pointed out that while the finish on imports was much better, the adherence to specifications was worse. With locally manufactured garments it is much easier to follow up on specifications, so performance tends to be better. While there are a number of variables affecting price which remain outside the control of local suppliers, the quality issue is one which can, and should be addressed by local manufacturers. Perhaps of greatest concern is the fact that overseas suppliers outperform local suppliers in terms of *delivery reliability*! While part of the explanation no doubt lies in the fact that retailers have lower expectations in terms of the delivery performance of imports, it remains astounding that South African suppliers are failing to capture a competitive advantage which is so readily available to them. This is even more so given the obvious importance attached to this criterion by South African retailers. Of course, it remains true that the poorer performance of South African garment manufacturers does not rest solely on the shoulders of the manufacturer. Value chain issues are equally important, and improved performance on the part of domestic textile manufacturers would both relieve the need to import textiles and might have an impact on fabric performance ratings.

As the diagram shows, South African suppliers do have areas of strength. South African suppliers show an advantage over their overseas counterparts in terms of both flexibility and lead times. It is in the areas of flexibility, delivery reliability and short lead times that distance necessarily works against overseas suppliers, and likewise, it is in these areas that South African suppliers are most likely to be able to build a competitive advantage. This argument was supported by comments of retailers who felt that it was in the areas of flexibility and quick response where South African clothing manufacturers had the greatest advantage. Finally, South African suppliers also surpassed their overseas counterparts in terms of fabric performance.

Diagram Three:



Expectations about future import trends depend very much on the target market. While retailers operating at the lower end of the market are sure that imports will increase, retailers at the upper end of the market seem to expect less substantial increases. Nonetheless, imports are likely to remain a fact of life for the South African garment sector. This is partly because the price differential makes a failure to consider imports a potentially risky strategy for retailers, and partly because imports offer a diversity that is lacking in the small South African garment manufacturing sector. This echoes the IRP's 1996 study, which states:

> **"It is envisaged that in the future production and sourcing will increasingly move off-shore, with designing houses and distribution centres located domestically" (Harrison and Dunne 1998)**

However, the situation seems less dire than predicted in the above report: while imports have grown, retailers still seem to see production as being closely integrated with other supply chain activities. There is no move to the CMT-type production arrangements suggested above whereby the retailer fully controls design and fabric purchasing, as well as marketing, and simply outsources production to a low wage country. Rather South African retailers continue to work closely with manufacturers, both locally and overseas around such issues as design and fabric selection. Given this situation, all retailers agreed that there will always be scope for local manufacturers. Imports can be a logistical nightmare, and quality is difficult to control over great distances. At the same time imports mean longer lead times, less flexibility and greater risks. Generally it is thought to be easier to control the "service element" of supply locally, and for many retailers that is clearly just as important as price.

Finally, it should be noted that the level of imports is extremely difficult to accurately estimate. Most retailers point out that that their suppliers are (or may be) importing themselves. Manufacturers are increasingly thought to be subsidising their own manufacturing with imports. Similarly, some imports come through a local wholesaler, and for records purposes would be viewed as having been sourced locally.

22 CONCLUSION

Although it is most often the woes of the South African clothing manufacturing sector that are publicised in the media, it is clear that both the retail and manufacturing sector are feeling the effects of globalisation through increased consumer demands and increased levels of competition. Retailers are having to redefine their focus to compete in increasingly pressurised markets, and at the same time are having to take cognisance of customer demands for better prices and quality, all this within an environment of greater consumer awareness of rapidly changing global fashions. While it might be convenient for manufacturers to distance themselves from this particular storm, it would also be both short-sighted and foolhardy. It is only though intimately understanding how consumer expectations are translated into retailer demands that manufacturers can adequately respond to meeting these needs.

At the same time, globalisation is having a significant impact on clothing manufacturers themselves. Garment manufacturing seems to be outsourced to an ever increasing range of low wage countries, and there seems little indication that this trend is likely to be reversed soon. With the end of Apartheid, South African manufacturers have abruptly been exposed to forces that have been apparent in the world's garment industry for some years. The local garment industry has felt the pressure to adapt to the new circumstances, and this has obviously been an enormous struggle, with 22 000 jobs lost in the past two years (Finance Week, 31 March 2000). A related study by the IRP, just completed, examines the complex issue of informalisation, often sited as one of the strategies by which the garment sector is dealing with new competitive pressures (Fakude 2000). The reality is that, given the current global trade regime, coupled with the existence of low wage producers in Asia, South African clothing manufacturers are never going to be able to compete in certain market segments. However, as this report has shown, it is equally true that Asian suppliers will never be able to fully meet the demands of local retailers. Imports will always entail higher risk, lower flexibility, longer lead times and a certain level of uncertainty surrounding delivery dates. What remains to be seen, however, is whether South African suppliers are prepared to take advantage of these inherent weaknesses of overseas suppliers, and make a concerted effort to outperform imports in these areas. As this study shows, the efforts of South African suppliers have been patchy at best in this regard. With a better understanding of the importance of such competitive criteria to South African clothing retailers it is hoped that local manufacturers will be better armed in their battle to retain space for local clothing manufacturing efforts.

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