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**FINAL REPORT ON DESIGN HOUSES IN CLOTHING AND  
RETAIL VALUE CHAIN**

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Submitted by

**Gordon Fakude  
University of Natal: Industrial Restructuring Project**

**AGORA' 2000 S.r.l.  
Management Consultants  
Via Germanico, 172  
I-00192 Rome - ITALY**

**Tel.: +(39) 063 241 719 - Fax: +(39) 063 216 915  
E-mail: agora2000@uni.net**

**DRA-development cc  
Development Researchers & Policy Analysts  
59 Rosebank Avenue, Roseglen, Morningside  
Durban 4001 - SOUTH AFRICA**

**Tel.: +(27-31) 208-4112 - Fax: +(27-31) 202-8437  
E-mail: astavrou@iafrica.com**

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## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>3</b>
<b>1. INTRODUCTION .....</b>	<b>5</b>
<b>2. METHODOLOGY .....</b>	<b>7</b>
<b>3. THE SOUTH AFRICAN CLOTHING SECTOR IN THE CONTEXT OF GLOBALISATION .....</b>	<b>8</b>
<b>4. THE DESIGN FUNCTION IN SOUTH AFRICA'S CLOTHING VALUE CHAIN.....</b>	<b>10</b>
<b>4.1 Sources of design in S.A. clothing pipelines .....</b>	<b>12</b>
<b>4.2 Industry fragmentation and emergence of design houses .....</b>	<b>13</b>
<b>4.3 High fashion and designer range pipeline .....</b>	<b>15</b>
<b>4.4 Training and design skills in the clothing pipelines.....</b>	<b>16</b>
<b>5. CHALLENGES AND POLICY IMPLICATIONS EMERGING FROM THE STUDY.....</b>	<b>18</b>
<b>5.1 Constraints and potential threats .....</b>	<b>18</b>
<b>5.2 Opportunities and scope for upgrading .....</b>	<b>21</b>
<b>6. CONCLUSION.....</b>	<b>22</b>

## EXECUTIVE SUMMARY

This paper explores the current state and role of design in South African clothing value chains. The focus of the paper is on the role of design houses and centres in the manufacturing and retail of garments. By examining the state and role of design in South Africa's clothing value chain, the paper seeks to establish whether South Africa can increase its clothing exports through access to high value-added niche markets. This flows out of the likely role of supplying niche markets which have been identified as a viable strategy that can reverse the clothing sector's decline and put it on a sustainable growth path. Design and marketing capabilities are seen as central in this strategy of supplying niche markets with high value-added apparel products. The paper concludes that although there is enough expertise and talent in the value chain to develop capabilities to access niche overseas markets, a number of factors currently hinder attempts to fully utilise this potential. The major barrier seems to lie in access to marketing and distribution channels rather than in design *per se*.

This conclusion emerges from the study that involved primary research with 35 industry players and stakeholders including manufacturers with design capacity, large retail chains, representatives of an industry association, a representative of the sector's export council, the major trade union in the sector, two heads of design departments in design institutions, consultants and the government-sponsored manufacturing advisory centre pilot project. With regards to design and the role of design houses/centres in the clothing value chain, a number of issues arose in the study. Firstly, the importance of identifying the type of design skills that are required to service the demand for garments in the export markets. Secondly, that the choice between developing the capabilities of designing fashion / designer range items and focusing on core merchandise items, can determine the firms' abilities in accessing niche markets. Thirdly, that the idea of focusing on creating so-called original designs is in fact a myth in that it is almost unattainable in the South African context. In order for the industry to grow, designers should be able to convert buyers' specifications into required garments to satisfy demand from increasingly discerning consumers in global markets. At the same time they should be able to interpret current trends in western fashions to produce garments that will satisfy local consumers' preferences (which are shaped by those trends). The interest in South African curio and craft in the developed countries, poses a challenge to the country's designers to interpret such shapes and crafts into items for everyday use.

The study further reveals that although the training standards and design skills in tertiary institutions are on par with western standards, the courses offered do not adequately meet the requirements of industry. There seem to be too much emphasis on designs for fashions and less emphasis on commercial designs and fashion forecasting. In addition, funding difficulties seem to prohibit design institutions from installing adequate computer aided design (CAD) facilities needed to develop technical design skills to rapidly convert buyers' specifications into the required garment items. The study also draws attention to how the price war that is currently taking place in the domestic market, is posing a threat to the industry as it gradually erodes design skills. It is however, confirmed that exporting presents an alternative that can potentially enable the sector to regain its growth impetus. Both technical and creative design skills are, however, necessary if the industry is to successfully compete in the high value-added export markets.

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Finally, with regards to possible interventions to assist the clothing value chain, there are three policy areas that the DTI may need to focus on, and these are:

- in helping build pipeline linkages that will facilitate the linking up of industry players to the niche markets;
- in training and development of skills in the sector;
- in identifying marketing and distribution channels and facilitating access in the export markets; and
- in disseminating information on markets and available schemes to facilitate access to export markets.

## 1. INTRODUCTION

The era of trade liberalisation has had significant impacts upon many industrial sectors in South Africa, the effects of which are readily apparent in the structural changes that firms have undergone especially in the 1990s as the economy was opened up to world trade. South Africa's industries, which have long been protected by high tariff and non-tariff barriers from competition with world markets, are now having to compete with international suppliers in the domestic market as well as in neighbouring countries and abroad (Bhorat *et al.*, 2001:6). This means a steep learning curve for many of these firms which must learn to contend with the pressures of globalisation in their industries. The textiles and clothing sector, which had the highest levels of nominal protection under the previous import substitution trade regime, is one sector which has been crippled by the advent of imports in the trade liberalisation era (Bhorat *et al.*, 2001:17). A common perception in South Africa is that one of the key reasons for the general downturn in clothing and textiles is the influx of lower cost garments and fabrics which are imported primarily from low-cost producers in the Far East. South Africa's clothing and textiles industries are, however, long established and are thus mature industries with a vast resource of experience and expertise which potentially can be used to reposition the sector to contend with the competition.

Firms in the clothing industry are undertaking a variety of strategies to respond to the competitive pressures. The strategies include: contract labour; job casualisation and Informalisation; and increasing use of cheap imports. A common theme running through these strategies is intensified competition based on prices. In other words, a kind of price war has ensued in the industry, leading some industry analysts to refer to it as a "race to the bottom" (*see* House & Williams, 2000). On the retail side there has been significant consolidation over the past decades resulting from a spate of mergers and acquisitions. This has resulted in a concentration of retail power in a small number of clothing retail groups. Conversely, on the manufacturing side a trend of fragmentation has been observed in recent years as firms desperately attempt to survive the intense price-based competition. Alongside this trend of fragmentation has been the emergence of design houses in the industry. The emergence of design houses reflects a strategic positioning of *new* firms and a downsizing trend in *existing* manufacturing firms to maximise gains through focusing on the core function of design whilst outsourcing the less lucrative manufacturing and assembly functions.

The importance of improving the clothing sector's design capacity for the long term sustainability of the industry has been acknowledged by the industry, government and labour and was one of the key strategies proposed at the Clothing and Textiles Sector Summit last year (*Clothing and Textiles Summit Document*, 2000). This central role which design can play in the sector's repositioning in the global apparel value chain, has naturally generated interest among various stakeholders interested in understanding what the role of design is in the clothing value chain and identifying where potential lies for this function to lead the sector out of the doldrums that it currently finds itself in. The Department of Trade and Industry (DTI), through the European Union funded Policy Support Programme subsequently asked the Industrial Restructuring Project (IRP) of the School of Development Studies at the University of Natal, to undertake a study that would investigate the role of design houses / centres in the apparel value chain.

This report therefore focuses on this core function in the clothing value chain. It explores the current role and state of the

design function in the South African clothing value chain and attempts to locate the strengths as well as potential of this function in the value chain. After this introduction the report outlines the methodology that was employed in the study. Section Two of the report briefly discusses international trade in apparel which aims to place in context current developments and trends in South Africa's clothing sector. Section Three presents the key findings of the study while Section Four briefly examines the challenges posed by developments in the sector and the reality of globalisation which the sector must contend with. Policy implications drawn from the study are also presented in this section. The concluding section summarises the report.

It is important to note that as this was an exploratory study seeking to establish a baseline understanding of relationships with regards to the design function in the clothing industry, no firm conclusions are drawn in the report. The study, however, flashes out key issues in relation to the design function, which should be considered in interventions to help the sector upgrade its performance. The urgency to flash out such issues has been necessitated by the recent trends in the sector, in particular the emergence of design houses and the increasing importance of design centres within both manufacturing and retail. These trends call for investigations that would lead to a better understanding of the reconfigured relationships and organisational structures in an evolving sector such as the clothing industry.

This report focuses on answers to the following key questions:

- ◆ What is the role of design in the South African clothing value chain? Where do designs in the value chain originate? Where is design located in the value chain?
- ◆ How differentiated is design in the different market segments (i.e. upper or lower market segments; fashion or core merchandise items) and retail outlets?
- ◆ Which categories of design in the clothing value chain have growth potential?
- ◆ Is there scope for major upgrading in the sector? What role can design play in the upgrading efforts?

## 2. METHODOLOGY

The report is based on findings from primary research that was conducted through qualitative interviews with respondents<sup>1</sup> occupying leading positions in manufacturing; retail; Clofed (the industry association); the clothing industry's export council; the Southern African Clothing and Textiles Workers' Union (SACTWU) which is the major trade union in the apparel production industry; two heads of design departments in fashion and design institutions; and other stakeholders in the sector such as consultants (Jay and Jayendra, Perry and Associates and iti) and Dumac (a government-sponsored pilot manufacturing advisory center).

The sample consisted of representatives of 13 clothing manufacturers (full manufacturers with design capacity); 7 large retail chains; 6 boutiques and independent retailers; 3 design houses; and 6 key informants. Due to the qualitative nature of the study, an open-ended set of questions was used in the interviews. The interview schedules were adapted for each category of respondents. The interviews lasted between one to one-and-a-half hour. The objectives of the interviews were to investigate the role, current state and potential of design in the clothing sector. Interviews were conducted in and around the three main centres where clothing is produced in South Africa, i.e. Durban, Cape Town and Johannesburg, the former two being areas where most interviews were held.

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<sup>1</sup> Industry respondents included design managers, buying divisions managers, general and production managers, managing directors and owner managers of retail outlets and boutiques.

### 3. THE SOUTH AFRICAN CLOTHING SECTOR IN THE CONTEXT OF GLOBALISATION

South Africa's clothing sector is today a mature industrial sector that grew over the past half century under protection afforded by high tariffs and non-tariff barriers during the import substitution trade regime. It is apparent that the sector is presently a very unstable one as it attempts to survive the gale winds of competition in the 'open' trade regime of the post-apartheid era. While global patterns of trade were changing, South Africa's clothing sector was not as affected as other more open economies were. In the clothing sector, "the centre of gravity for the production and export of garments and apparel commodities has shifted to an ever expanding array of newly industrialising economies (NIEs) in the Third World" (Gereffi, 1999:37). This global shift in clothing production has been facilitated by a confluence of factors, which among others, include the export-oriented development strategies adopted by governments of the newly industrialising countries (NICs) (Gereffi, 1999:38). In addition, the interplay of the wage gap relative to transportation costs offered by the hitherto less developed regions, also contributed to this process by steering industry to the low wage countries (Krugman and Venables, 1995: 859).

International trade in apparel is characterised by the dominance of retailers, branded marketers and branded manufactures (Gereffi, 1999:44). To a large extent this derives from the nature of the clothing value chain, which, as a buyer-driven value chain<sup>2</sup>, allows the main leverage to be exercised by retailers, branded marketers and branded manufacturers "*through their ability to shape mass consumption via strong brand names and their reliance on global sourcing strategies to meet this demand.*" (italics added) (Gereffi, 1999:43). It is these global players who carry out the bulk of international trade in garments and apparel products and who, as a result have directly and indirectly influenced the global shift in clothing production and the creation of regional production networks to service demand in industrially advanced and newly industrialising countries, e.g. apparel industries in Mexico and the Carribean Basin supply the U.S. market while European retailers source garments from North Africa.

Profits in buyer-driven chains such as the apparel value chain, derive from unique combinations of high-value research, design, marketing, and financial services, which "allow the retailers, branded marketers, and branded manufacturers to act as strategic brokers in linking overseas factories with evolving product niches in the main consumer markets" (Gereffi, 1999:43). A crucial role in the generation of profits has historically been played by the creation of brands and their marketing through advertisements to create demand among consumers. Differentiation provided by design has always been central in the creation and management of brands, which ensures profitability for these players through strong brand name identification and consumer loyalty. The importance of brands in generating profits led to the separation of brands from manufacturing, a process that spawned the emergence of brand marketers since the mid-1970s. According to Gereffi (1999:46) these 'manufacturers without factories', were born global; their sourcing was carried out overseas and they were "instrumental in providing overseas suppliers with knowledge that later allowed them to upgrade their position in the apparel chain".

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<sup>2</sup> Buyer-driven value chains refer to those industries in which retailers, marketers, and brand controllers play the pivotal role in setting up production networks in a variety of exporting countries, typically located in developing countries (Gereffi, (1999). This contrasts with producer-driven commodity chains, e.g. automotives manufacture, which are controlled by large manufacturers at the point of production.

South Africa was not really affected by the above trends when they were playing themselves out in clothing chains in other parts of the globe. The reason lies largely in its relatively isolated position and the then high protection of her clothing and textile sectors. The advent of domestic trade liberalisation in a global context induced, with a lag, the above trends in the 1990s in South Africa. The trend of industrial fragmentation is witnessed in the proliferation of 'cut-make-and-trim' (CMT) producers (although these had emerged earlier on in the 1960s) and in the emergence of design houses as a specialist sub-sector. The next section of the report first locates design in South Africa's clothing value chain and thereafter discusses its role in the value chain.

#### 4. THE DESIGN FUNCTION IN SOUTH AFRICA'S CLOTHING VALUE CHAIN

In order to locate the design function in South Africa's clothing value chain, there is a need first, to distinguish between the two principal forms of design – *creative* and *technical* design. Creative design is concerned mainly with conceptualisation of styling, fashions, brands and labels through a combination of colours, fabrics and styles. In other words it is skill intensive, and creative skills tend to be more craft-intensive. Technical design on the other hand, is concerned mainly with interpretation of design specifications, and generating sample patterns through computer aids based on clearly defined patterns.

Creative design plays a key role in differentiating the garments and giving direction to brands. It is thus key in the marketing of brands. It is mainly associated with the creation and management of brands and styles in contrast to technical design, which is mainly associated with converting set specifications into garments. This distinction between creative and technical design has a bearing on location of the design function and the level of its content in various clothing pipelines. A firm making products for the lower market segments, which are less design intensive, would require lower levels of design skills (e.g. pattern makers) unlike one that is targeting upper market segments and niche (i.e. specialised) markets where a higher level of design skills is required.

**Fig.1: Design intensity in different market segments.**

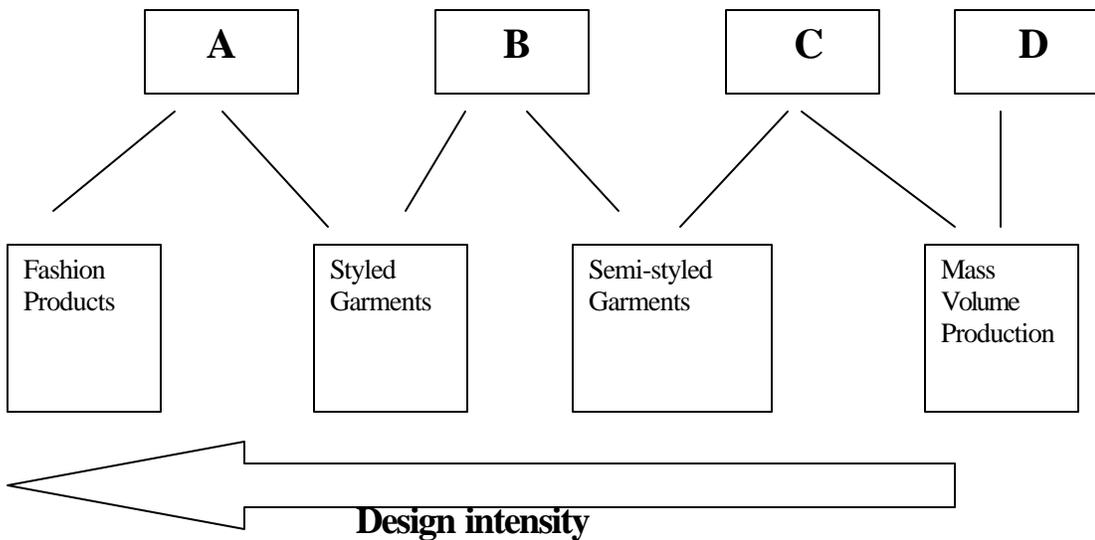


Fig. 2: The Flow of Design Information/Content in S.A. clothing pipelines

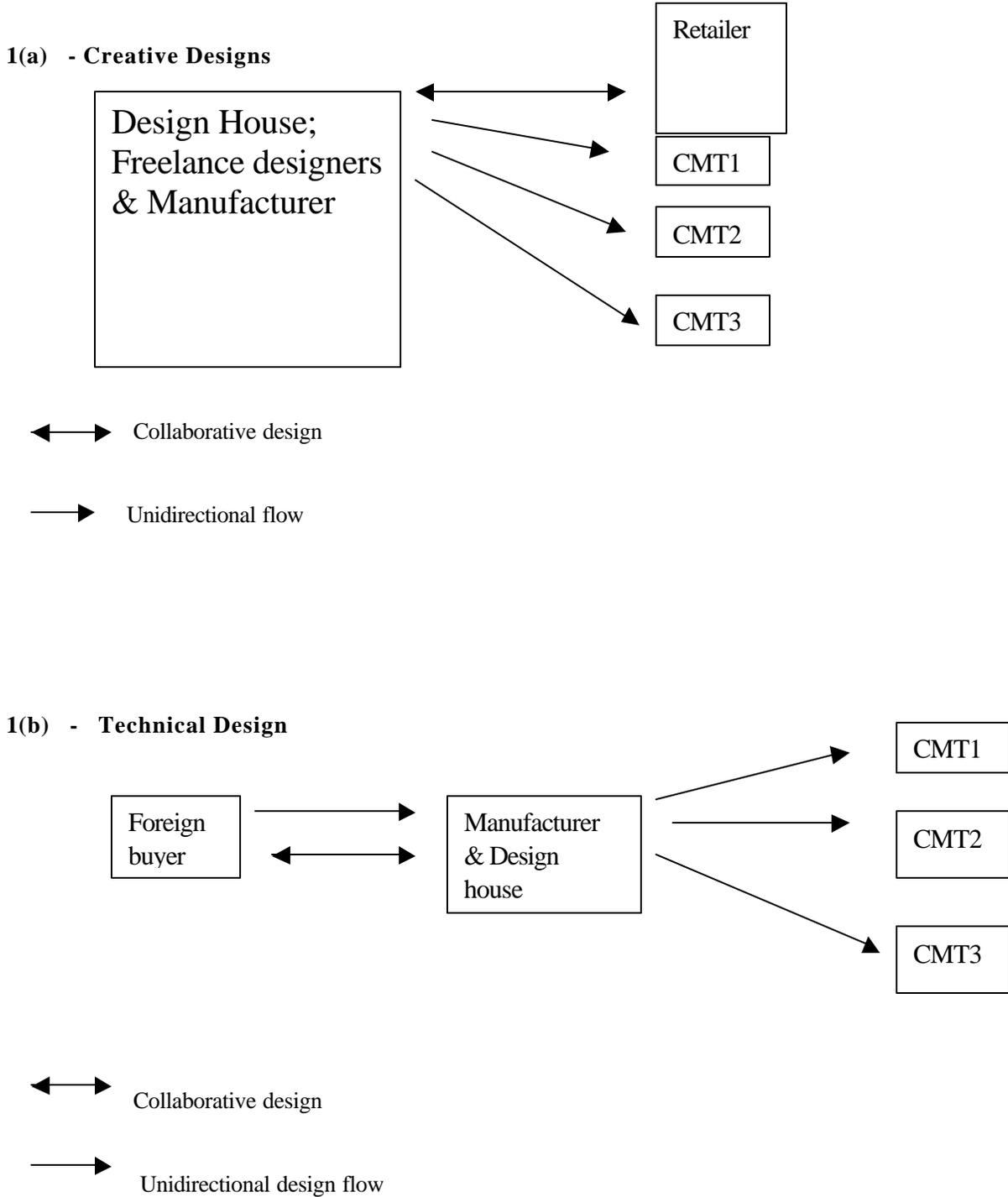


Fig. 1 above illustrates the direction of intensity in design according to the various market segments and the different types of garments dominant in each segment. The higher one goes up the segments from mass volume production of income category D, the more intensive design is required in the production of garment. Figure 2 on the other hand, locates the two principal types of design found in South African clothing pipelines. Garments supplied to foreign buyers in export markets normally require (predominantly but not exclusively) technical design skills as these are manufactured according to specifications of buyers. Garments produced by design houses and freelance designers for boutiques and designers' retail outlets tend to be more design intensive and thus require more creative design skills. CMT manufacturers generally produce according to specifications of either the manufacturers or design houses as they normally do not have any design capacity, whilst designers normally collaborate with the buyers and stylists in retail over design patterns.

Another distinction that should be made with regards to design is that found between designing *core merchandise* (i.e. commodity apparel products) items versus designing fashion items. Core merchandise items are standard garment items like T-shirts, underwear, etc., which do not change much, year to year. They usually have little design content, and tend to be fairly stable. Whereas high fashion items and designer range items change from season to season and require considerable design skills to manufacture. In volume terms, however, core merchandise items would tend to be produced in large volumes and involves longer production runs. Fashion and designer range items involves shorter production runs and is produced mainly for middle to upper market segments and also target exclusive customers. It is therefore apparent that the choice over what type of items to produce and for which market segment, has a bearing on the level of design skills required.

#### 4.1 Sources of design in S.A. clothing pipelines

A common practice among designers in both the dominant mass production and retail pipelines and the less dominant design intensive pipelines, is that of frequent overseas travels by designers and buyers to the major clothing markets and fashion centres in West European capitals and the United States of America (U.S.). Designers travel at least twice a year to trade shows and stores where they meet other designers and fashion people and get ideas on the latest fashion trends. They then bring samples and interpret ideas and trends in a particular way to suit domestic customers' demands, Stylists<sup>3</sup> in retail and designers in manufacturing usually work together to make changes both from a production and a marketing point of view (Dunne, 2000:14). Thus, most of the fashions and clothing styles found in South Africa are in fact adaptations of West European and North American fashions that were popular or fast-selling in these countries six months before they hit South African markets as South Africa is always a season behind these places fashion-wise.

Being a season behind the advanced West European and North American fashion trends somehow leads to the blunting of creativity among South African designers, especially those working to supply the large retail chains. On the other hand, this has the benefit that local retailers and suppliers get a chance to know in advance what sells and what does not sell. So they have a good idea in advance of what they are going to supply the following season. Occasionally though, they do

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<sup>3</sup> In retail chains stylists would be designers or people with some design training who are mainly concerned with garment styling and fashions, unlike designers in manufacturing who create designs from information sometimes acquired from stylists.

bring styles too soon and discover that South African consumers do not like them, thus resulting in garments not selling. Western Europe and the U.S. are therefore, the major sources of design for the South African clothing value chain. All manufacturers and retailers including designer boutiques' owners and independent storeowners in the sample confirmed during the interviews that this is a common practice in the industry. To emphasise, one retailer from a large clothing retail consortium commented:

“...[S.A.] retailers, manufacturers, everybody.... gets their designs from Florence, Milan, Frankfurt, London, Amsterdam, New York, Miami....you name them... We bring the garments to South Africa and make a few alterations.... but the look of the garment does not change.... We adapt it to the South African market, everybody does that...unless when it is a niche, high bracket market where an individual buys it because of the handwriting.”

Local designs play only a very minor role or have no role at all in the mainstream clothing value chain. They are found only in the niche designer markets that have emerged in the major cities and towns. Local design with ‘an African feel’ (or ethnic design) is still a relatively new concept in South Africa confined mainly to freelance designers who supply the flea markets and a small number of designer stores retailing such garments in metropolitan areas.

On the other hand, a lot of South African clothing manufacturers produce West European and North American brands and labels under license from the overseas branded manufacturers and brand marketers. A usual condition is that South African branded manufacturers producing under licence should not compete with similar brands and labels in overseas markets. These products are then supplied to local retail chains and independent stores to sell to consumers. In addition to these overseas brands large retail chains also have their own brands produced by suppliers contracted to them. This is yet another example of trends in industrially advanced countries being replicated in a South African context

#### **4.2 Industry fragmentation and emergence of design houses**

As briefly alluded to in the introduction, the trend of industry fragmentation in manufacturing that has been observed since the 1990s, can be said to be one of the industry’s responses to the intense competitive pressures it is facing. Firm restructuring is today a common feature among clothing manufacturing firms. Started mainly by small and medium-sized firms (as they were the first to bear the brunt of the price squeeze), the trend has spread to encompass even large firms. Initially large firms were able to absorb some of the negative impacts of trade liberalisation through the sheer scale of their operations<sup>4</sup>. The emergence of design houses relates mainly to this trend of industry fragmentation where some manufacturers realised that a feasible strategy to compete was to outsource manufacturing to CMTs and move away from production scheduling, planning and the hassle of labour costs. These firms retain the core functions of design and marketing and thus interface between CMT manufacturers and retailers.

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<sup>4</sup> One of the largest clothing manufacturers in KwaZulu-Natal province for instance, went into voluntary liquidation last year (2000) in order to facilitate the move to reconstitute itself principally as a retailer concerned mainly with marketing. (see Fakude, 2000 *Informalisation in KwaZulu-Natal’s Clothing Sector*. CSDS Research Report No. 37.

It emerged from a key informant in the interviews that a common practice among medium-sized and small firms in KwaZulu-Natal, was that the medium to higher levels of management and those closely associated with the design function, e.g. sample heads, pattern makers, and pattern graders, would be retained together with designers and fabric purchasers to establish the design house that emerges after the firm's restructuring. Lower management and supervisors, who are mostly 'hands-on' or closely associated with the sewing up of garments, i.e. manufacturing, are usually assisted by the firm to set up CMT operations through arrangement of easy payment terms for the machines. These CMT manufacturers then get the sub-contracted work from the restructured firm, which has become a design house. According to this key informant, CMT production accounts for more than half of all clothing production taking place in KwaZulu-Natal province (*Interview communication, March 2001*).

Although not all design houses currently operating in South Africa can be said to have emerged in this way (some design houses are small companies that have been formed by designers), it is fair to say that those which have evolved from manufacturing have emerged in this fashion. A key informant from an international trends consulting company which essentially services the clothing value chain with information regarding design, styles, etc., commented that:

“They may have started as full manufacturers and stumbled across a brand and then created design houses which then become the dominant part of the process. These design houses / branding centres then create designs which are sent to CMTs or may still be produced in house by manufacturers... The branded products are then sold to the independent stores, and not the big retail chains with the exception of one big retail chain which sells [local] brands.”

Another key informant in this study observed that for some of these firms:

“... design house is really a fancy name for a company which interfaces between the factory/ies and retailers. Getting the cheapest price and ensuring delivery is the main aim and in some cases supplying machinery and support to get the job done. Design is a very small part of this, but some do all the design and pattern making and then send this to various companies (CMT usually) to make up then deliver to the retailer.”

These companies nevertheless play an important role in that they have the financial muscle, which allows them to interface between retailers and CMT producers and thus provide a lifeline for these producers. CMT producers usually lack financial resources to be in a position to effectively service large volume orders of retail chains. The lack of working capital to sustain variable costs such as labour costs, is a particular constraint for these manufacturers, which the poor payment terms of the large retail chains (usually averaging 90 days), make access to the retail chains' large orders near impossible. In addition, retail chains usually prefer to deal with mainstream manufacturers because they need assurance that quality control mechanisms are in place. In contrast, design houses can take large orders from retail chains and sub-contract these to CMTs. By offering favourable terms of payment to the CMTs on the large orders, they further provide the CMTs desperately needed cash flow. Yet, these sub-contractual relationships lead to a further squeeze on CMT profit margins.

Design houses are closely associated with or linked to manufacturers and there are very few stand-alone design houses in the country. They should also be differentiated from design centres or fashion offices in large retail chains who often work as support groups to the buying divisions. According to one design manager in one of the country's largest retail groups, the main tasks of designers in retail chains' design centres or fashion offices is to provide consumer behavioural trends

analysis i.e. a seasonal brief or descriptor. Such an analysis outlines design themes such as where fabric is shifting to, what colours will consumers prefer, what printing patterns will be applied, etc. This trends analysis is thereafter workshopped to designers in the retail chain's manufacturing base who then interpret that brief into actual products (based on interview data).

In manufacturing for exports, while designers have to ensure that garment items produced conform strictly with the specifications given by the overseas buyers, a creative interaction between designers and buyers can result in improved competitiveness for a manufacturing firm. An example of such a positive outcome was given, in one interview, by the general manager of a firm that exports men's trousers and cotton shirts to the U.S. The firm designed a 'wrinkle-free' facility for cotton shirts' production, which subsequently led to an increase in volumes demanded by their overseas customers. According to the general manager, initially the firm had resorted to exports to complement domestic demand, but today it is utilising 70% of its capacity for export production, which has escalated over the last two or three years from 10% of capacity previously used for production for exports.

### **4.3 High fashion and designer range pipeline**

Boutiques and small designer retail outlets are supplied by either freelance designers or by design companies. The latter are focused on high market design-intensive garments usually produced for an exclusive clientele. To service this pipeline requires design skills that incorporate conceptualisation abilities at the level of creative design. Boutique-type businesses require an enormous amount of design because they are dealing with small volume (i.e. less than 20 items of a particular style), highly individualistic garments.

The growth of a local designer market in South Africa is, however, constrained by low economic growth (and the correspondingly declining disposable income). Although there is talent and potential in this pipeline, local designers face stiff competition from overseas designer ranges that are sold in many boutiques and designer retail outlets. Boutiques and designer stores in malls and shopping complexes in the cities and metropolitan areas are replete with famous West European and American designer ranges, whilst there is little or no local designs on sale. Local designs therefore, get very limited market exposure.

At present there is no mass market label synonymous with a particular local designer. However, there are initiatives by young designers which have begun to address this problem of limited market exposure for local designs and they seem to be doing well. One Cape Town based enterprising young designer has set up eight retail outlet stores<sup>5</sup> in Johannesburg and Cape Town for young designers to exhibit their wares. A similar initiative has taken off in Durban and it seems to have been inspired by the success of the Cape Town based one.

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<sup>5</sup> According to the director who founded this young designers' retail outlet chain, their success derives from their popularity in the youth market segment (16-25) they are targeting. This young designers' retail chain has opened a retail outlet in Dubai (Middle East) where it is targeting tourists and expatriates (*Interview communication* April, 2001).

A common perception among autonomous designers is that retailers are stifling design initiatives in South Africa because they prefer imports over locally made goods and do not promote South African designs. When asked about this a design manager in a large retail chain retorted that local brands generally do not carry any value added. According to this manager local designers are not doing enough to ensure their products meet the requirements of the target markets better than the rest. “Usually it is expected some form of investment has been made to communicate the attributes of the brand and why the customer should buy it (the theory being this would ensure goods move off the shelf). This is seldom the case or where investment has been made, the impact on the price of the goods is such that it no longer competes in the retailer’s QVA<sup>6</sup> formula”, the design manager added.

#### **4.4 Training and design skills in the clothing pipelines**

Much of the information concerning training and skills development in design was gathered from interviews carried out with heads of design departments in institutions as well as key informants in the industry. In general it was felt that the standard of design training in South Africa is on par with western standards. Retailers and manufacturers in the sample were generally satisfied with the level and standard of design taught in local institutions. Some local design schools have set up ties with international design institutions. However, some interviewees believed it would be a good idea to start exchange programmes with overseas colleges so that local students could get sufficient exposure to the fast moving American and West European design markets. An independent college in Durban which was part of the sample, revealed that as a cheaper alternative, it had set up an Internet based exchange programme where design students from South Africa can discuss design ideas with other designers from other parts of the world.

Despite design training standards in South Africa being on par with the leading standards in the world, there are some problems with the training. Manufacturers and retailers complained that design students are not trained in accordance with what the clothing industry requires, e.g. in buying, fashion forecasting and marketing or commercial design skills. Designers normally acquire such skills during in-house training in retail and manufacturing after they have been hired. One retailer commented that: “...many design institutions in the country tend to push quite strongly on the fashion aspects of design.” In addition, funding difficulties prohibit design institutions from installing adequate Computer Aided Design (CAD) facilities. Thus their graduates do not have sufficient technical design skills which the industry needs to access the large volume opportunities in exporting to industrially advanced countries.

A criticism of the training courses was that the syllabus is largely Eurocentric-based. In order for South African designers to establish their mark in the global design markets, it was felt that design-training institutions should encourage students to focus on unique South African design ideas. If this change in focus is not made, South African clothing industry will continue to be fashion followers mainly concerned with replicating West European and American styles. Thus South African designers will only be able to aspire to become technical designers reinterpreting designs imported from the west.

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<sup>6</sup> Retailers use the quality / value formula to determine if a new product is competitively priced given the new enhancements which may or may not increase the perception of the quality of the product (*personal interview communication with a design manager in a large retail chain*).

To emphasise the importance of generating unique South African designs one design manager in a large retail chain commented:

“Design is very much about creativity, a unique point of view and drawing from one’s culture and tradition to express the future. Interest in ‘things exotic’ by the developed world has led to the natural tendency to base design on cultural or traditional heritage. This has met with success in niche markets. And clearly South Africa is at an advantage as far as this is concerned” (*Interview communication, April:2001*).

## 5. CHALLENGES AND POLICY IMPLICATIONS EMERGING FROM THE STUDY

### 5.1 Constraints and potential threats

As far as design in the clothing value chain is concerned, its growth and development appears to be inhibited by several factors. These include lack of capital to engage in advertising campaigns to market local brands and labels internationally; declining disposable income in the domestic market which inhibits development of designer range markets; the excessive focus on price in the domestic competition which has resulted in a kind of “price war” in the clothing value chain; and lack of support for local designers in the face of intensifying competition from the influx of international designer brand stores. Although the industry has taken initial measures to address many of the challenges by holding the Textile and Clothing Sector Summit last year (2000), there has been no systematic follow-up as yet to some of the measures that were proposed, nor have clear mandates been given to existing structures on the proposed strategies.

A price war which has been referred to as a ‘race to the bottom’ (House and Williams, 2000), has engulfed South Africa’s clothing sector. This fierce price competition which arose out of the influx of cheap imports is inadvertently posing a serious threat to clothing manufacture in the country. Many clothing firms that could not withstand the competition have closed down resulting in job losses of significant proportions. As firms and manufacturers compete fiercely on prices, design and detail are sacrificed so that they can achieve the required prices. This price competition is therefore leading to a gradual erosion of design skills in the industry. Over and above that is the big problem that more and more retailers are resorting to imports as it is cheaper to buy ready made clothes in Asia than to have them produced in South Africa. Highlighting the danger faced by clothing manufacture in this country, one boutique owner commented:

“To survive in the clothing industry in South Africa, it is of utmost importance for us to look at exporting because if we don’t look at exporting, the clothing industry in the main centres is as good as dead.”

As stated earlier in the report, internationally the bulk of trade in garments and apparel products is done by big retailers, branded marketers and branded manufacturers. These international players know their markets and they also have their own design studios. They go out to low-cost producing areas, usually in the Third World, to source garments that will be manufactured according to their specifications. This implies that particular attention should be paid to the clothing manufacturing sector’s design capacity, in particular its capacity with regards to abilities to interpret and strictly conform to design specifications of the buyers. It can be argued that relatively speaking South Africa is in a position to meet this challenge, especially the large and medium-sized manufacturers who normally have up to date computer equipment that enables them to interpret such specifications. The challenge, however, lies in the ability to lower production costs sufficiently to compete with low-cost producers who are supplying the western markets

Lowering labour costs is not a viable growth strategy in the South African context as it carries risks of social turmoil. This effectively rules out price-based competition based on lowering labour costs by South African firms as they cannot compete with low cost producing countries. SA’s comparative advantage, rather, lies in the fashion-oriented segment of the apparel value chain. In this high value-added segment, design takes on a central role. The implication here is that a

judicious combination of both creative and technical design skills in manufacturing may be what is required for the South African clothing industry to effectively compete in leveraging orders from major retail chains in Europe and North America. South Africa's role in the global clothing value chain has been identified as being one of supplying niche markets. Design was identified in the sector's summit as critical for the industry to achieve competitiveness in global markets. The strategy of supplying niche global markets appears to be a logical answer to the challenge posed by the country's relatively higher labour costs (compared to low-cost producers in Asia) and the fact that the country is some distance from its major export markets.

South African clothing products will have to be design-intensive to differentiate them from the competition. This requires that a lot of effort and resources be directed not only to boosting the country's design capacity, but also to the marketing of such designs internationally. The need to build strong South African brands that can compete in global markets, has been identified by some firms in the industry. In recent years, some firms (mostly medium-sized) have begun to take advantage of this window of opportunity through supplying such niche markets with design-intensive products<sup>7</sup>. Some of these initiatives are, however, frustrated by lack of capital to realise the desired goals, as illustrated in the case study on the following page.

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<sup>7</sup> Two design houses in Cape Town,, reported success and promising prospects for growth in supplying niche markets overseas, mainly in the U.S. and the U.K. (*Interview communication*, March 2001).

**Constraint of Lack of Capital to the Expansion of Clothing Exports: A case study**

When it comes to skills development, a further threat is that there is not much scope in the current economic situation for young designers gain more experience in their chosen field. A student who comes out of a technikon for instance, with a fashion design certificate or diploma, has no chance of survival if he/she is not taken over by the main retail chains. To survive is a difficult exercise. Those who are taken up by the retail chains “basically become accessories to the buyers”, according to one boutique owner. Their own initiatives become minimal as they end up doing what is required of them.

## 5.2 Opportunities and scope for upgrading

Designers and manufacturers in this sample were quite positive about the prospects of exporting South African designed and manufactured garments. Their enthusiasm is fuelled mainly by the depreciating currency, which is allowing their products to compete favourably especially with products from the low-cost producing areas. These industry players are confident that South African garments are able to meet the quality standards demanded by the markets. Designers were also optimistic about the trends of increased consumer differentiation of preferences that have emerged in the advanced countries. According to designers this may signify demand for design-intensive garments, which are individually designed, will likely strengthen.

The Africa Growth Opportunities Act (AGOA) of the US presents a ‘window of opportunity’ especially for clothing manufacturers to leverage the large volume orders from the major retail chains in the US. As stated above, an implication for design flowing from this ‘window of opportunity’ is that design can lead such upgrading efforts by differentiating South African products and making them attractive for overseas buyers. This, however, calls for a closer relationship than is currently the case, between manufacturers and designers and marketers, to jointly work on strategies to improve their products. South Africa’s relatively advanced clothing retail sector will be particularly crucial in helping manufacturing firms upgrade their infrastructure (e.g. information technology (IT) infrastructure) and capacity (*see Moodley 2001, forthcoming*). The large retailers in the country already have IT infrastructure installed in their businesses and can therefore be catalysts in the industry by demanding that their suppliers be connected. Thus, having a relatively advanced retail sector in the clothing industry is a major plus factor as US retailers will likely demand a certain kind of IT infrastructure onto their suppliers.

With regards to niche markets, there is an opportunity for South Africans in woollen suits. A Cape Town based firm has been able to take advantage of this and has been supplying men’s wool suits to leading UK departmental stores for the past ten years. The share of exports sales of this firm has grown rapidly from 25% to 45% and is still increasing as the firm finds more niche markets for its products. Another definite opportunity for South African designs is in women’s outwear especially tailored garments for career women. There are prospects for this sub-sector to become a major growth area in South African clothing exports as women’s outwear comprise the major component in international trade in apparel.

On the other hand, South African designers need to build on the current record of South African arts and craft which are doing well in the overseas markets. The interest that has been shown in Ndebele beadwork for instance, presents designers with huge opportunities to display their creativity through drawing from the culture and tradition. According to one designer interviewed in the study, the challenge for South African designers is to provide ‘everyday’ products whose design content has interpreted those shapes and craft into labels which can ultimately be turned into brands with an African point of view without really being too craft and too curio. In all therefore, the liberalised trade regime of the post-apartheid era, presents South African designers with opportunities to access global markets and through that interaction, to help pull

the clothing industry out of the present predicament, characterised by a self-destructive ‘race to the bottom’ - competition based on prices.

## **6. CONCLUSION**

This exploratory study set out to investigate the role and state of design houses/centres in the South African clothing value chain. The study comes to a tentative conclusion that although design houses that have emerged from manufacturing play a middleman role of interfacing between retailers and CMT manufacturers, they provide an important lifeline for CMT manufacturers by sub-contracting orders from retailers. Through provision of the much needed cash flow, which enables the CMT manufacturers to have working capital, and also through provision of fabrics, the design houses help keep the CMT manufacturers in operation. But a possibility exists that these sub-contractual relationships may be imposing a further squeeze on CMT profit margins. Some design houses that have been set up autonomously from the manufacturers by entrepreneurial designers, are successfully accessing niche overseas markets, supplying these markets with design intensive garments. In so doing these design houses have opened a possible path to exporting apparel products by South African firms, and that is by enhanced products development in order to move to the high value-added chains. The study found that there is enough expertise and talent in South Africa’s clothing sector to develop capabilities to access niche overseas markets.

A number of factors currently hinder efforts to access niche export markets. Among these the lack of capital to create demand for South African designed garment items, seems to be the main stumbling block. Whilst the blame for the current woes of the country’s clothing industry is usually laid at the door of globalisation and trade liberalisation, these forces have at the same time opened opportunities that can see the sector recover and regain the impetus for further growth and expansion. The brief experience of exporting in the new era of liberalised trade has shown that possibilities exist for the South African clothing industry to grow through an export-led strategy and therefore generate the much needed income and employment opportunities.

A major limitation of this study though, was that its focus on design confined it to examining only one side of an issue that is both multi-faceted and complex. Design and marketing were for instance, found to be inextricably linked. The major barrier to South African clothing products accessing the high value-added chains in global markets lies more in inadequate marketing of South African labels and brands than in design per se. The lack of capital was flagged through most interviews as the main constraint with regards to marketing. Although this may be apparent, it should also be noted that to most people interviewed in the study, marketing South African designs was equated to competing with the famous European and American designers like Tommy Hilfiger, Calvin Klein, etc. To compete with such household names in design would require millions to be spent on advertising. Yet, by undertaking marketing campaigns that are targeted at niche segments through various marketing channels, the costs can be found to be not so prohibitive after all. This suggests that further investigations may be needed to identify possible marketing channels that can be used by South African firms to create demand and niche markets in order to link to the high value-added chains.

Finally, with regards to possible interventions to assist the clothing value chain, there are three policy areas that the DTI may need to focus on , and these are:

- in helping build pipeline linkages that will facilitate the linking up of industry players to the niche markets;

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME  
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- in training and development of skills in the sector;
- in identifying marketing and distribution channels and facilitating access in the export markets; and
- in disseminating information on markets and available schemes to facilitate access to export markets.

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