ornico KNOW HOW TO GROW

Publication		
FINANCIAL MAIL		
Page	Date	AVE (ZAR)
34-35	Thurs 18 Apr 2019	117157.63

Claire Bisseker bissekerc@fm.co.za

SA'S FASHION FIX

Quick-response manufacturing by global clothing retailers such as Zara and H&M is putting the local industry under pressure. To compete, SA needs to look beyond price and labour costs

There is a major opportunity for the local clothing, textile, footwear and leather industry to displace imports into SA by competing not on the basis of low wages or prices, but on greater speed and flexibility.

To achieve this will require a significant upgrading of local supply chains, but the industry has little alternative – leading global clothing retailers such as Zara and H&M have perfected quick-response (QR) manufacturing and are putting local firms under pressure.

The QR model seeks to minimise the lead time between the retailer's purchasing decisions and those of customers, enabling retailers to observe what's selling and offer customers more of it. Fashion produced in this way has a higher rate of sale, which allows for increased margins through reduced markdowns and stock-outs (when consumers want a product but there's no more stock).

Over the past decade, domestic retailers that have followed the traditional route – scouring the Far East for the cheapest source of supply and ordering garments on a 180-day lead time – have tended to perform the worst, especially in high-fashion market segments. This is because, in the fickle world of fashion, it's hard to predict too far in advance what consumers will want.

Zara is the global leader in QR fashion. The QR model allows it to produce about 12,000 styles a year, compared with about 3,000 for other major retailers. Because of this, a typical Zara customer visits the store 17 times a year, compared with just three times for the average retailer. Unsurprisingly, Zara has maintained double-digit annual sales growth over the past 30 years.

Locally, QR-focused retailers such as TFG – which has pioneered the model in SA – have typically performed the best, achieving not only higher sales growth but also higher profits, despite incurring higher input costs.

The implications are significant for the SA economy because such retailers' success suggests the country can still be competitive in low-wage, labour-intensive manufacturing. In fact, the narrative that SA is not competitive because our wages are too high is manifestly false.

"First, our wages are competitive and, second, wages are by no means the sole determinant of competitiveness," says Jake Morris of the industrial development consultancy B&M Analysts.

At $266 a month, SA's nonmetro clothing sector wages are low compared with countries that have a similar cost profile and successful clothing industries. Take Turkey, where the industry's average monthly wage is $517, but the sector supports more than 1.4-million people, compared with just 230,000 here. Turkey has penetrated the EU market by competing on the basis of speed and flexibility rather than on price.

"The reason the SA industry employs comparatively fewer people is due to non-wage factors like the flexibility of working hours, competence of management, supply-chain practices, raw-materials availability and customs enforcement," explains Morris.

In 2013, TFG – which operates 20 local brands, including Foschini, Markham and Totalsports – produced 3-million garments via its supply chain, TFG Design & Manufacturing (TFG D&M), very few of which were made on a QR basis.

Last year almost 60% of the 9-million garments TFG D&M produced were on a QR timeline.

Ideally, it takes just 56 days to generate a QR garment, from conceptualisation to shelf. The industry gold standard, set by Zara, is 21 days for garments sourced from its regional suppliers in Spain, Portugal and Morocco.

"Even though these countries (with the possible exception of Morocco) have far higher labour costs than Far East Asian countries, this is evidently more than offset by the positive impact the short lead time has on sales," says Morris.

However, going the QR route isn't cheap or easy.

"If it were easy everyone would have already done it, and it would not represent a significant factor of differentiation in an increasingly crowded market," says Morris. "It's a strategy to be planned, invested in and executed over many years which, when done well, can yield very positive results."

And yet, SA retailers no longer have a choice, given the inroads being made by international retailers, which are competing locally on speed and flexibility, as well as price.

"The competition is only becoming faster, leaner and increasingly on-trend," says Morris. "For those who are put off by the challenge, be warned: those who are not quick will ultimately be dead."

Graham Choice, the head of TFG D&M, agrees that QR capabilities are "a strategic requirement". But the group's QR journey has been "incredibly challenging and costly" and it has taken about eight years to reach a scale that provides real value.

The group has invested more than R250m to develop its QR supply chain. This has included spending R88m on a design centre that creates more than 4,000 local designs annually; R55m on building one of

the most technologically advanced apparel manufacturing plants in SA, in rural Caledon; and more than R64m on local supplier development. In the process, it has created more than 1,000 additional jobs at various local factories.

TFG expects the demand for its locally made clothing and footwear to more than double over the next five years, and the QR component to increase substantially above 60%.

For those who are put off by the challenge, be warned: those who are not quick will ultimately be dead

Jake Morris

"We see the Western Cape and KwaZulu-Natal job-creation numbers within our local supply chain increasing by thousands over the next four to five years if we are to meet our retailers' demands for our proudly SA fashion apparel," says Choice.

TFG's success shows the QR model can be profitable for SA retailers if executed correctly. In its full-year results to March 2018, TFG's sales grew 21.4% to R28.8bn and profit before tax was up from R3.2bn to R3.38bn – at a time when Edcon has narrowly avoided being placed in business rescue and Woolworths seems to be slipping. The latter reported a 2% decline in sales at its SA clothing operations in the 26 weeks to December 23, a month in which TFG achieved turnover growth of 8.3%.

To revitalise SA's clothing, textile, footwear and leather industry, the department of trade & industry (DTI) commissioned B&M Analysts in 2017 to develop a long-term vision and strategy for the sector, much as the consultancy has done for SA's automotive industry.

B&M has run numerous cluster initiatives in the automotive and clothing sectors to raise the competitiveness of these value chains by spreading world-class manufacturing practices and management techniques. It has also been closely involved in assisting the development of TFG's QR capabilities.

Consensus is still being built around the proposed clothing "Masterplan to 2030", but the consultative process and research undertaken have revealed important insights.

First is that despite competitive wages and among the highest tariff protection in the world, the sector's production capabilities have atrophied over the past decade. Exports are insignificant but import values are high, resulting in an annual loss of about R27bn in gross value added to the SA economy, and more than 100,000 jobs forgone.

However, the Masterplan research concludes that the sector need not pursue a costly export strategy to achieve growth, as "a major opportunity" exists for local clothing manufacturers to displace cheap imports by competing on the basis of speed and flexibility, not price.

In its best-case scenario, the Masterplan research estimates that if SA retail continues to grow by 3% a year but local clothing manufacturers' sales to these retailers grow by 5.5% a year (only 2.5% higher than the status quo), the industry could boost employment to 320,000 jobs by 2030 – an increase of 52%.

This would take the locally made portion of SA retailers' total purchases from 44.7% now to 62.5% by 2030, or from R31.2m to R66.1m.

However, this will require "a fundamental shift" in managerial and technical skills at each link in the value chain to boost productivity by 20%. It won't be enough to install the latest equipment to shorten lead times; the industry will have to embrace advanced manufacturing methodologies too.

It will also require that government comes to the party, as importing scarce skills and attracting new foreign direct investment are other key Masterplan recommendations. The proposal points out, for instance, that fabric-supply bottlenecks could be eliminated if an international textile firm opened a plant here (SA has few local textile firms and nothing that is on the required scale).

But possibly the biggest contribution the government can make is to clamp down on customs fraud. The plague of underinvoicing has reached huge proportions, allowing cheap imported clothing to enter the SA market with impunity.

Despite TFG's relative success, other local clothing firms, which have lived through 20 years of hard times, are likely to struggle to embrace the opportunities outlined in the Masterplan. Though some retailers are catching on, there is little evidence that the QR model is being embraced rapidly in SA.

More's the pity. It's becoming clear that investing locally on a QR basis, with all the productivity and value-chain enhancement this entails, is key to growing and future-proofing the industry.

"In short, local manufacturing is not going to grow if it competes with imports purely on the basis of price," says Morris.

"If it's not China, it will be Bangladesh, Vietnam or Madagascar that will offer lower prices. SA needs to differentiate itself, and the major opportunity is on the basis of speed and flexibility." ✖

123RF/Kosamo Gilmalo