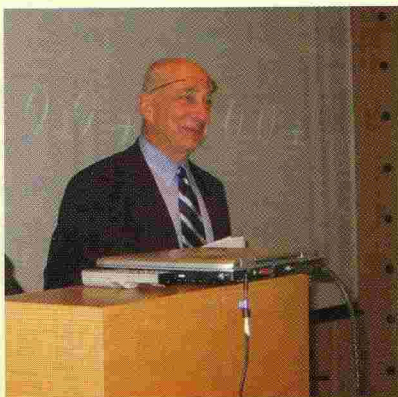


*During the period under review, the industry continued to experience very severe contraction due to the extreme high volumes of legal and illegal imports, mainly from China. It is quite apparent that much of the local industry is not globally competitive when prices are compared to legal imports, and the massive volume of illegal imports at distressed/dumped prices only exacerbate this situation, all of this compounding the decimation of the local industry.*



In a declining industry situation that has existed for more than three years, the inability and inactivity of the relevant central government departments dealing with the clothing and textile industries has contributed significantly to the job losses that have occurred.

The global pressure on lower prices has impacted negatively on the ability of both large and small manufacturers to survive and it has been extremely difficult for SMME's and CMT's to remain commercially viable and virtually impossible for them to grow and expand their businesses, not having the funds to invest in people skills and equipment to become more productively efficient and competitive.

With this as a background, the Trading House activities over the past year have had two very distinctive phases. The first part of the year the Trading House activities were very restricted, one of the main reasons being the lack of dedicated personnel to initiate and expand the potential of the opportunities that existed – this is a major lesson that must be addressed by management during next year.

The second phase of activities coincided with a number of changes in the South African pipeline that have potentially major positive opportunities for the SMME sector of the clothing industry;

- the reduction in capacity (employment) in the formal industry
- the long lead times for importing from China
- the low importance of the small volume South African orders when compared to global opportunities for Chinese/Asian manufacturers
- the realisation by a number of South African retailers that their percentage imports are at an optimum level for current market conditions

Parallel with this industry situation, the Trading House had an opportunity to substantially upgrade and review its operations. One of the outcomes of this review was the piloting of three clusters of SMME's/CMT's that have the capability to produce limited quantities of quality merchandise for both small and large retail chains – these opportunities are now being actively pursued with very positive response from the target market.

The export market is proving extremely difficult to penetrate, but we are persevering with our attempts to obtain export business.

It is very necessary to once again mention a situation that is negatively affecting the development of small businesses in this industry, and the consequent negative effect of employment opportunities for retrenched workers. The activities of the Bargaining Council still defy any form of commonsense logic, especially considering the extremely difficult economic conditions currently faced by manufacturers.

While we understand the issues around non-compliance, we believe that negotiations and repayment plans are always a better option than closure and job losses.

Of even greater concern is the current targeting of manufacturers with less than 50 employees to ensure 'compliance'.

The work conducted by Clotex with manufacturers over the past two years has convinced us that those with less than 50 employees are generally in a precarious financial position, with limited funds available for slack and downturn periods, - these companies survive from week to week on the basis of cash cheques every Friday from their customers.

Technically, once a clothing manufacturer in particular is able to increase employees above 50 people, the additional throughput increases cash flow to the level that enables Bargaining Council levies to be more easily paid, while still leaving some funds available for investment into the business.

Unless the Government changes the Textile and Clothing Industry Bargaining Council Regulations defining a small business (less than 6 employees) to be the same as the Small Business Act (less than 50 employees), the creation and sustainability of jobs in these industries will be so difficult as to not be worth the effort for emerging entrepreneurs.

While this is not the most encouraging of reports, the Trading House has had some success,- in the period January 2004 to June 2005 we provided bridging finance for R1,3 million worth of orders, delivered by eight small companies to eight different customers, ranging from a major chain store group to corporate clients.

Many opportunities exist for future business – corporate uniform tenders in conjunction with the formal industry (e.g. SAA), merchandise for the Soccer World Cup, short lead time and small orders for both local and export markets are all potential target markets for the SMME sector. What is required is the correct infrastructure, capacity and funding to take advantage of these opportunities.

  
Stuart D. Gottschalk