



Clotex Trading House Trust Report

Industry Overview

The situation of a declining industry that I reported on in the 2004 report did not change in the period under review. In fact, if anything, the decline in the industry accelerated, with the exchange rate of the rand encouraging imports and discouraging exports. The total industry pipeline was under severe pressure from lower pricing, and this placed enormous pressure on the economic viability of the industry, with the SMME sector perhaps under the most price pressure due to their position in the pipeline. The final consumer has been the beneficiary of this price deflation, enabling more consumers to purchase increased volumes of new and fashionable clothing.

Trading House Activities

The Trading House management decided that a different approach was needed to help the SMME sector, and that the major retailers would be systematically targeted in an attempt to obtain business in their small volume orders. The first stage of the process involved identifying approximately 100 SMMEs who we felt had the potential to conduct business with the major retailers, and this group was then narrowed down to 35 manufacturers, each of which was personally visited by the Trading House management. This visit involved an in-depth discussion with the SMME owner, and then an assessment of the manufacturer was undertaken using an internally developed standard point scoring format. After the assessments, three targeted product groups were identified, with each group containing three of the best SMMEs for that particular product. A number of major clothing chains were then approached to try and obtain business, but with no success. The reasons for this failure will follow later in the report.

In terms of successes, we are very pleased to report that one of the SMMEs that we helped with marketing, bridging finance and production mentoring has now become an accredited supplier to two divisions of a major clothing retailer. This company created jobs, and for the past few months has not required any help from CLOTEX for its on-going operations. The Trading House started a joint venture with BONWIT, a major formal clothing manufacturer to tender for government uniform contracts. This has been a major breakthrough for the Trading House as the administrative and technical skills at BONWIT can only be of benefit to the Trading House and the SMME sector. We are confident that this venture will be of benefit to both BONWIT and CLOTEX. The commitment of BONWIT to the SMME sector is to be commended, and they have shown a willingness to help the Trading House as and when required.

Future Direction

Our experiences over the year indicated very succinctly those specific areas professionalism that have not been adequately resourced by the Trading House.

The major lessons learnt were:

Using a part-time out-sourced marketing function is not successful. The major retailers require constant marketing time and effort to ensure a regular flow of orders to any manufacturer. Orders for the major retailers require enormous follow-up effort and considerable sampling costs – a required support capacity is a necessity. The major retailers would have to make a serious commitment to support the SMME sector by seconding a full-time individual to support the administrative, manufacturing and quality inputs required to obtain orders from their buying divisions.

For the abovementioned reasons, the Trading House has decided not to actively pursue business with the major clothing retail chains as a priority, but to rather change the focus to smaller retailers/retail chains and corporate orders. These orders generally range from 100 to 500 units per order, and there is a great deal of economic activity in this sector of the market, which needs to be investigated, identified and assessed.

Two major conditions are required - that of the correct marketing as well as appropriate capacity for production and quality controls. The most logical approach with current levels of business is to outsource marketing on a commission basis, and enhance the Trading House capacity to control both the production and quality requirements. Both options are currently being explored by the Trading House.

Major Constraints to the Growth of the SMME Clothing Sector

From our experience the current constraints to economic growth and job creation in this sector are as follows (in no particular order of importance):

- Exchange Rate – the high value of the Rand is the same problem for all manufacturing in South Africa, except those companies using a high proportion of imported raw material in their production process.
- The sale of 'illegal' (dumped, under-invoiced, etc.) garments on the South African market, and SARS's inability to counteract this situation.
- The requirement to upgrade SMME manufacturers to world-class manufacturing standards, using benchmarking techniques and then training management to develop

their companies to become 'self-learning organisations'.

- The upgrading of equipment used in the SMME sector.

The Bargaining Council Issue

We dealt with this issue at length in the 2004 report, but we are constantly surprised by all the government press releases regarding the need to help small businesses, as these are the creators of new jobs, and yet the inability of the relevant departments to take action to implement these desperately needed initiatives in the clothing, footwear and textile industries.

The issue is very simple, until the Department of Trade and Industries and the Department of Labour start to work together to change the regulations so that the definition of a small business in this sector is as per the Small Business Act (less than 50 employees), not the current regulations in the industry (less than 6 employees), there will be no substantial and sustainable job creation in this industry.

The current regulations mean that economically most of the SMMEs cannot become 'compliant companies', and therefore are 'under the radar' and wish to remain 'hidden', even from a neutral organisation such as CLOTEX and its Trading House. Until the SMMEs can be assured that the legalising of their operations will not cause them Bargaining Council harassment, they are unable to properly make use of the facilities to upgrade their organisations, and consequently are not properly able to fulfil their economic role in the community and create jobs for the unemployed.

Industry Sector Survival and Growth

I have specifically made this the last part of my report – this sector can survive and grow in the current world-wide industry situation provided the following are implemented;

- The Bargaining Council issue for SMMEs is satisfactorily resolved.
- The industry makes a concerted effort to become a leader in short lead-time world class manufacturing techniques and technology.

The industry is already known for its ability to manufacture to small orders with short lead times – this foundation now needs to be built upon so that the local clothing SMME industry sector can become world class in this niche of current market requirements.



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