Material hurdles remain

For a short while, some time around 2014, it looked as if the clothing, textile, footwear & leather (CTFL) sector was beginning to recover after almost 20 years of crippling pressure from East Asian imports.

©Dmitriy Shironosov via 123RF

But just as the industry was getting on its feet came the double whammy of dismally low economic growth and the spread of international clothing retailers through the country's upmarket shopping malls.

The biggest and fastest-growing of them - H&M and Zara - do not source any of their products from SA, a policy they appear to have little or no intention of changing.

It's a bitter blow for the SA Clothing & Textile Workers' Union (Sactwu), which has fought valiantly to hold on to every single one of its members' jobs. Part of that fight has involved working with retailers and government to switch to local sourcing by developing areas of competitive strength to protect and grow jobs. The combined effort achieved significant progress and managed to staunch the job losses - for a while.

From a low of about 20% a few years ago CTFL retailers now get just over 30% of their product from SA manufacturers. Sactwu's long-term target is around 40%, which it's sticking to despite the grim economic conditions and the influx of the European retailers.

There's not much the union can do about low economic growth, but it says it can do something about the European retailers, and it is trying to persuade them to tweak their business models so they are more in tune with local conditions.

This is why, a few weeks ago, the union reverted to its more traditional tactics, launching limited protest action at outlets of retailers H&M and Zara in some of the bigger shopping malls. Australia-owned Cotton On is off the hook for now, because it has shown an interest in engaging with Sactwu to explore local sourcing opportunities.

The protest action involved only shop stewards and was intended merely to create some public awareness around the issue. But it's easy to assume it will be ratcheted up if the two powerful European retailers don't make some concessions.

The unions want the companies to commit to a portion of local sourcing in their products. The signs aren't good. Despite several interactions with midlevel management over the course of a few years, Sactwu has failed to get access to senior procurement staff in either company.

"We have written to both Zara and H&M, welcoming their investment in SA, congratulating them on their successes to date but indicating our concern that their successes are leading to the substitution of locally made products (sold by SA retailers) with more imported products," Sactwu general secretary Andre Kriel tells the Financial Mail

"We've indicated that we wish to find a remedy to this problem, as it is leading to job losses and factory closures."

Kriel says the longer the issue of local sourcing by international retailers remains unaddressed the more jobs will be lost. The union is also concerned that the situation will deteriorate exponentially as struggling local retailers, such as Stuttafords, are replaced by powerful, well-resourced foreign entities.

"Our manufacturing industry will find itself increasingly locked out of channels to the domestic retail market," Kriel says.

A major concern is that, though still comparatively small, H&M and Zara are making significant inroads into product lines that have been the focus of much of the local development efforts. "Their pricing on these lines is remarkably low; none of the local retailers can match them," says one industry player, who does not want to be identified, expressing a common suspicion that with global supply chains these groups have scope for predatory pricing.

"The concern is that they're selling into SA from their global warehouses at low prices that take advantage of preferential EU import duties."

Sactwu's gritty determination to protect the local industry should be seen in the context of a sector that once employed 220,800 people. That was back in 1996, before China became a member of the World Trade Organisation and started to flood the global market with clothing that could be sold stunningly cheaply because of cheap labour, cheap funding and generous subsidies on electricity and other costs.

The Chinese were assisted, albeit unintentionally, by an ANC government that agreed to reduce its clothing, textile, footwear & leather tariffs faster and to a lower level than required by the international General Agreement on Tariffs & Trade (the precursor to the WTO). Shareholders of local clothing retailers were the main beneficiaries of the flood of Chinese imports, as profits surged on the back of increased sales and higher margins.

Some, such as Mr Price and Pepkor, did considerably better than others.

#Homesewn: K-Way's lean local manufacturing machine

Lauren Hartzenberg 10 Jul 2017

Inefficient manufacturers, who had been protected for decades, were quickly put out of business, but so, too, were many efficient producers. By 2014 employee numbers had shrunk to 91,816. Thanks largely to the switch to local sourcing the numbers held at these levels until December 2016. But by June 2017 the figure had dropped to 87,057, with a 5,000 drop in clothing jobs more than wiping out small gains in footwear.

Michael Lawrence, executive director of the National Clothing Retail Federation, describes how, in recent years, the source of pressure has shifted from China and Asia to Europe.

He confirms the benefits of efforts involving government, retailers, manufacturers and Sactwu, and seems particularly impressed by the quality of the department of trade & industry's engagement.

Government's investment has been a critical part of the drive to make manufacturing more competitive. Garth Strachan, deputy director general at the department, says the entity is mindful of the problem of global retailers posing a threat to local outlets because of their global supply chains.

"It is for this reason we have just embarked on a clothing retail study in collaboration with the private sector to further improve the clothing and textile competitiveness programme and secure stronger localisation and collaboration across the retail value chain," he says.

Lawrence, who says retailers are extremely apprehensive about any co-ordinated efforts because of the competition authorities, says government engages on a very regular basis and provides feedback on what does and doesn't work. The retailers are able to give an indication of volumes needed, which makes planning significantly easier.

Lawrence says most of the retailers (Pep and Ackermans are not involved in the local sourcing initiative) are pushing for a more responsible corporate citizen agenda, but he acknowledges that the push to local production also reflects a changing business model aimed at protecting and growing profits.

Lawrence Pillay, head of sourcing at Woolworths, says that at present 53% of the group's clothing purchases are procured from Southern Africa, which includes SA, Mauritius, Madagascar, Lesotho, Swaziland and Botswana. He says 29% of the group's purchases at cost are specifically sourced from SA.

He says the intention is to grow this, and the group has several initiatives in place to support local manufacturing by building capacity along the supply chain.

One major challenge is product availability. "Certain complex products are not easily available locally," he says. Another is the need to import most woven fabrics to make up the garments. The associated costs make local suppliers uncompetitive on certain products.

The key advantage to sourcing locally is speed and reaction time. "With retail becoming more nimble and quick in response to market trends, a local supply base allows us to react to changes in trends faster and provides better speed to market. This allows for better stock management," says Pillay. He adds that trading in rand with a local supplier also offers some protection from currency volatility.

Ironically, Zara can be credited with the much greater focus on speed and reaction time that has helped to push local sourcing. Zara's super-fast supply chain has been key to its dramatic global growth over the past 20 years, which forces competitors to copy it.

TCI Apparel unveils sustainable design centre
12 Jun 2017

One of the most enthusiastic supporters of the local sourcing drive is Edcon CEO Bernie Brookes. A few weeks ago he hosted a trendy fashion show in the Johannesburg CBD designed to showcase young up-and-coming talent. It was a celebration of SA talent as well as of corporate SA's commitment to resuscitating the local industry.

Proudly SA was effusive in its praise. Guest speaker of the evening, small business development minister Lindiwe Zulu, may not have been quite as effusive, but was certainly warmly encouraging.

The benefit of local sourcing is proximity of suppliers - which, Brookes tells the Financial Mail, allows stock to arrive in stores faster - resulting in increased flexibility and quick response. Brookes says using local design centres that better understand the buying brief is a considerable advantage and helps Edcon to react quickly to shifts in product trends.

The challenges of local sourcing include lack of both production and fabric capacity. Brookes says the local production landscape is fragmented, with a strong reliance on "cut-make-trim" factories, and it's not always clear they have the capability to produce the required quality. Edcon is working on a number of projects aimed at developing local facilities.

Even Mr Price has come to the party and is making concerted efforts to improve the quality and volume of its local sourcing.

Over at H&M the tone is considerably less encouraging. Anna Velikova, communications manager for the local operation, confirms that representatives of the management team at four of its stores had received Sactwu's protest memorandum.

"We will look into it and respond accordingly," she says. On the issue of local sourcing, Velikova says H&M has started test production of garments in Africa.

"In Ethiopia we produce hand-beaded items, denims and basics." The group is continuously looking into production in countries around the world, Velikova says. "We see great potential in the retail market in Africa."

Zara might be an even tougher nut to crack. Inditex, the company that owns the Zara brand, says it has told Sactwu that its manufacturing capacity is not linked to the company's commercial presence.

"Inditex has stores in 94 markets. It concentrates most of its production in countries close to its Spanish headquarters: Spain, Portugal, Morocco and Turkey," Inditex says in an emailed response to queries.

It does do some sourcing from 50 other countries "depending on specific and differential skills and specialisation". Suppliers have to comply with the company's code of conduct and with demanding conditions in terms of quality and sustainability.

"Inditex has also transmitted to Sactwu its complete openness to receiving and considering any supplier that would be willing to be part of Inditex's supply chain," says the e-mail.

Sactwu is not persuaded. It says that until the recent protest action it was consistently fobbed off by Zara's SA office.

All that's on offer now is an explanation of how local factories can apply to be suppliers. Sactwu is looking for a more strategic commitment that Zara could work on with the local industry.

Without it, the pace of job losses in the local industry is likely to pick up.

Source: Financial Mail