

KZN CTC BULLETIN 2ND QUARTER 2015

Welcome to the second bulletin of the KZN CTC for 2015 which overviews performance of KZN CTC members in the clothing, textiles and footwear industries within a South African context, as well as global trends and developments in trade.

Please forward it on to colleagues who you think would benefit and [sign up](#) to receive the bulletin on a quarterly basis if you do not already.

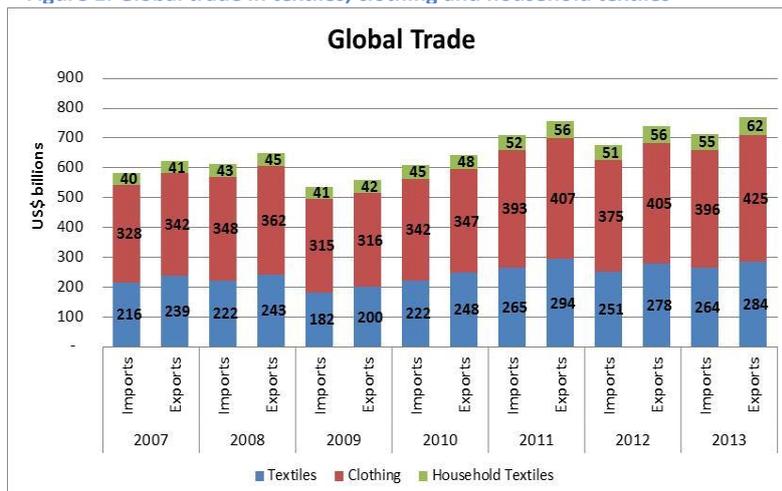
KZN CTC ROLLS UP ITS SLEEVES FOR IMPROVED COMPETITIVENESS, 2014 STATE OF THE INDUSTRY DATA REVEALS

The outlook for the local industry is increasingly positive, as benchmarking data shows significant improvements in sales performance, employment and operational data in 2014. The findings presented below bode well for KZN CTC members' continuing positive trajectory.

A PERSPECTIVE ON INTERNATIONAL TRADE

International trade in textiles, clothing and household textiles has grown notably since 2007, and by 2013, exports were approaching \$800 billion, as shown in **Error! Reference source not found.** The data show improved growth in 2013 relative to 2012, spurred predominantly by the clothing sector.

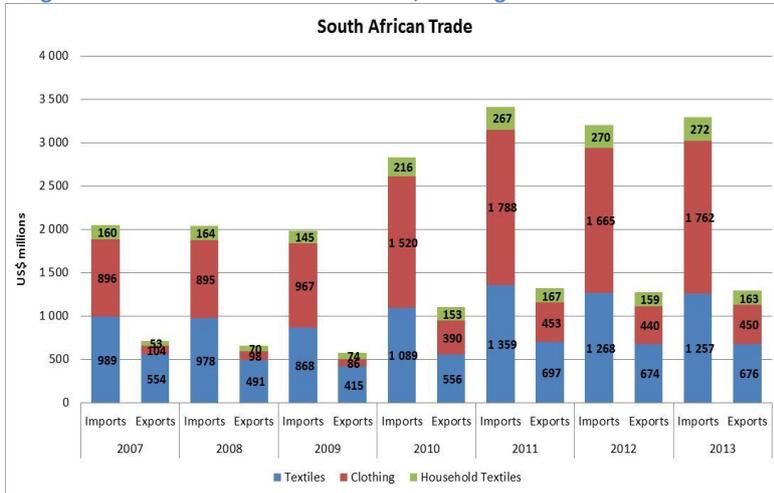
Figure 1: Global trade in textiles, clothing and household textiles



The KZN CTC is funded by:



KZN CTC
member firms

Figure 2: South African trade in textiles, clothing and household textiles


Whilst South African trade figures show the threat of imports of clothing, textiles and household textiles over the period 2007 to 2013, there has been some pleasing growth in exports. The step-jump in 2010 is due to the inclusion of trade with countries in the Southern African Customs Union (SACU), but subsequent to this there has been growth in all three categories into 2013. **Error! Reference source not found.** highlights the wide discrepancy between South African imports and exports; by 2013 imports in the three categories were approaching \$3.5 billion, while exports amounted to nearly \$1.3 billion, having experienced limited growth between 2010 and 2013. The resultant deficit speaks to the continuous challenge that local manufacturers face in respect of global competitiveness and abilities to capitalise on export opportunities. Addressing this challenge requires local manufacturers to identify and capitalise on particular areas of differentiation, with a dogged focus on improved productivity. The operational findings below suggest that this remains a core focus of KZN CTC firms, with some success in respect of firms' abilities to narrow this gap.

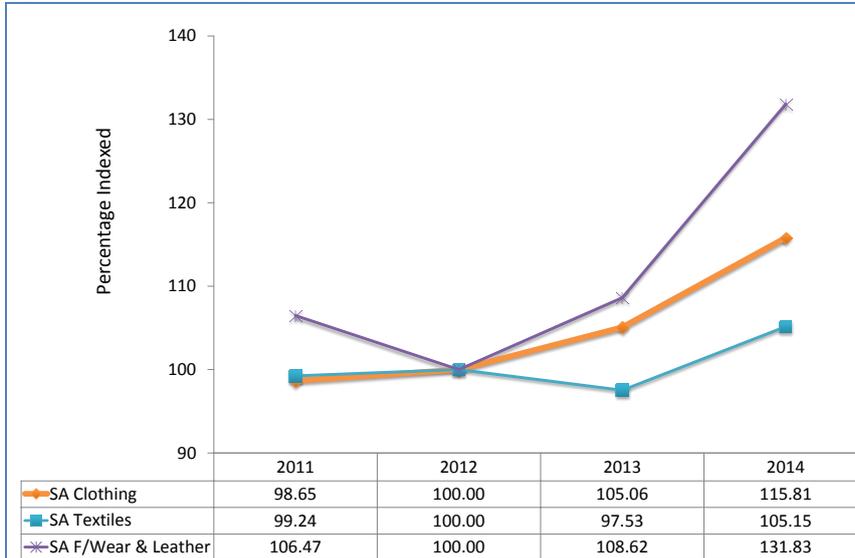
SOUTH AFRICAN INDUSTRY OVERVIEW

The 2014 financial year saw welcome improvements in national performance across the clothing, textiles and footwear industries, with national growth in revenue at 9%, 12% and 9%, respectively (Statistics South Africa, 2015). Significantly, an analysis of data collected via B&M Analysts' benchmarking activities in the industry for 2014 suggests that KZN CTC performance has outperformed the national average in the case of both clothing and footwear, although textiles firms lagged behind. Clothing sales revenue grew by 10.2% in 2014, up from 5% in the previous year; indicating revenue growth at an approximate 1.2% higher than the industry average.

The KZN CTC is funded by:



KZN CTC
member firms

Figure 3: Indexed sales growth trend from 2011 to 2014, for CTFL sectors


Similarly, footwear manufacturers in B&M Analysts' database recorded average revenue growth of 21.4% in 2014, up from 8.6% on the previous year. This higher than average performance of the KZN CTC can be attributed to supplier development initiatives through major local retailers, where a market driver approach to competitiveness improvements has impacted positively on operational performance. Whilst textile manufacturer performance has been less impressive (7.8% in 2014, versus the industry average of 12%), there is opportunity to improve on operational deficiencies relative to international benchmarks, indicated below.

Figure 4: Profile of clothing, textiles and footwear industries, categorised by annual revenue


Whilst the South African clothing industry reflects international industry patterns in respect of smaller and medium firm concentrations, significant disparities exist in respect of the proportion of

The KZN CTC is funded by:



KZN CTC
member firms

larger firms making up the market, as can be seen in **Error! Reference source not found.** This evidently affects textiles firms to a larger extent, with the international benchmark indicating a concentration of large firms that are able to leverage significant scale economies, relative to the South Africa firms. The local textiles industry is substantially skewed in favour of smaller firms, with implications for the related cost structures, scale efficiencies and general competitiveness.

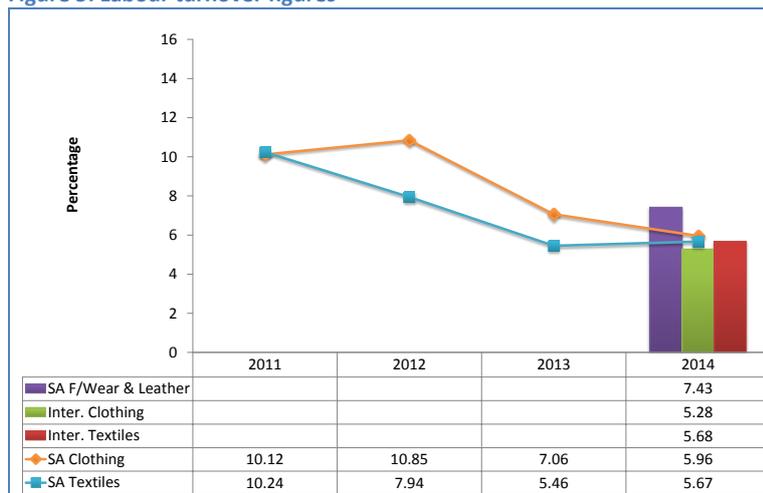
EMPLOYMENT

Employment among KZN CTC members showed very promising growth, particularly relative to national statistics that show a general decline. According to National Bargaining Council statistics, national employment levels in the clothing industry have declined from 57,528, to 52,035 over the 2011 to 2014 period (-9.5%), whilst KZN CTC member employment increased from 9 041 in 2011 to 9 821 in 2014 (8.6%). In the footwear and leather firms, KZN CTC firms employment similarly it increased from 864 in 2011 to 1 104 in 2014. Conversely, textile firms in the KZN CTC have seen a decrease in employment from 3 264 to 2 976. While the aggregate KZN CTC employment picture is positive, there is a clear deficiency in respect of textile manufacturing health that is incongruent with the performance of downstream clothing manufacturers.

LABOUR TURNOVER

An analysis of labour turnover indicates a promising trend in the industry, shown in Figure . Consistently from 2011 to 2014, the KZN CTC has shown decreasing labour turnover rates, dropping from 10.12% and 10.24% in clothing and textiles respectively, to 5.96% and 5.67%. This trend indicates growing stability in the industry, and the increasing ability of firms in the KZN CTC to retain staff – a particularly promising trend in terms of skills development and upgrading.

Figure 5: Labour turnover figures



The KZN CTC is funded by:

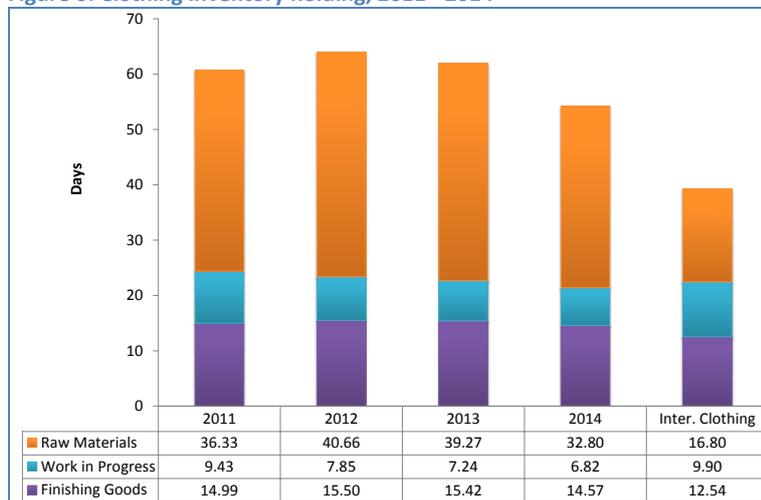


KZN CTC
member firms

OPERATIONAL PERFORMANCE

A key operational challenge for local manufacturers is the ability to compete with international benchmarks in respect of operational performance. The data for 2014 indicate that significant headway has been made in respect of competitiveness improvements in this regard. Clothing firms saw a pleasing reduction in raw materials holdings, which decreased from 36.3 days in 2011 to 32.8 days by 2014. This has been accompanied by reductions in the work-in-progress and finished goods holding times, as reflected in **Error! Reference source not found..** To this extent, clothing manufacturers compete with international benchmarks on WIP holding, although significant raw materials holdings point to concerns with supply chain reliability and a stubborn adherence to buffering strategies, also with regard to finished goods.

Figure 6: Clothing inventory holding, 2011 - 2014

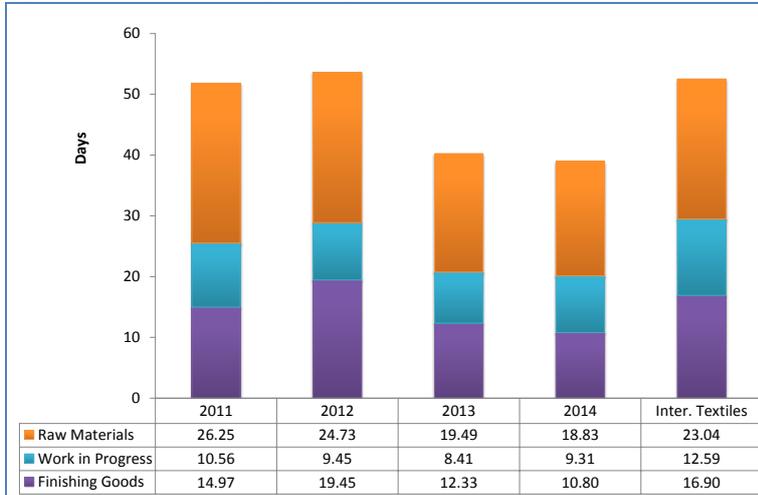


Textile firms in the KZN CTC have performed better than their clothing counterparts in terms of inventory holding, as highlighted in **Error! Reference source not found..** Raw material holding has decreased from 28.25 days to 18.83 days, while finished goods holding has decreased from 14.97 days to 10.8. Work-in-progress has shown a small improvement, down to 9.31 days from 10.56 in 2011. All of these measures are significantly below the international average for similar firms.

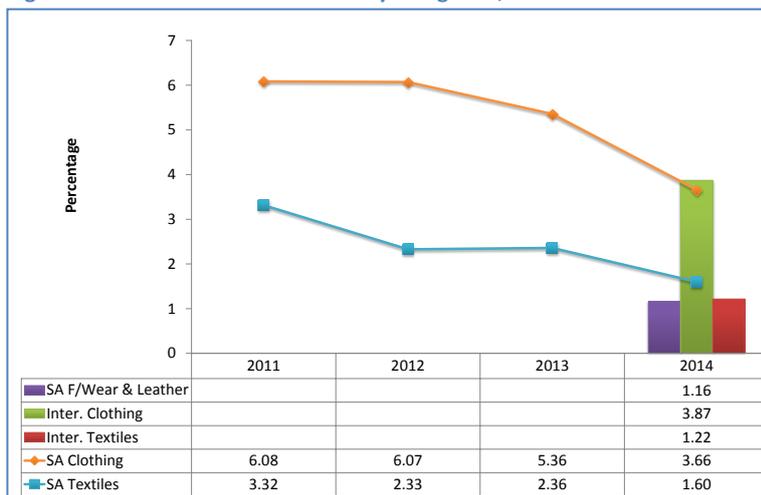
The KZN CTC is funded by:



KZN CTC
member firms

Figure 7: Textiles inventory holding, 2011 - 2014


Rework rates in the KZN CTC firms, as shown in Figure , reflect a pleasing trend. In the clothing firms, rework has decreased from 6.08% in 2011 to 3.66% by 2014. This is mirrored by the textiles firms, which have shown a decrease from 3.32% to 1.6% by 2014, suggesting some success attributed to World Class Manufacturing (WCM) interventions implemented in the member firms, aimed at reducing waste and improving quality. In addition, both clothing and textiles firms have experienced significant progress in reducing customer return rates – reflective of the impact of total quality management interventions implemented at the firms.

Figure 8: Rework rates across industry categories, 2011 - 2014


Reliability factors have, however, been more varied. The clothing and textile firms in the KZN CTC have seen divergent performance in terms of production time lost due to changeovers. The clothing firms have enjoyed consistent reductions in downtime, from 3.55% in 2011 to 2.7% in 2014; an indication of the successful implementation of single minute exchange of dies (SMED) principles.

The KZN CTC is funded by:



KZN CTC
member firms

Whilst textile firms have faced challenges in respect of downtimes increasing from 3.36% in 2011 to 4.42% by 2014, there nonetheless appears to be an improving trend back to 2011 levels.

Both clothing and textile firms have seen decreases in production time lost due to breakdowns. In clothing, time lost has decreased from 3.86% in 2011 to 2.45% in 2014. Similarly, textiles firms have seen a reduction from 3.85% to 2.86% by 2014. These reductions are heartening not only because they show a reduction of waste in terms of production time lost, but because they indicate the broader success of WCM interventions in terms of a proactive and preventative approach to maintenance in the firms. Indeed, in 2014, clothing firms in the KZN CTC were performing better than the international benchmark in terms of production time lost due to machine breakdowns.

Figure 9: Production downtime lost to changeovers, 2011- 2014



CONCLUSION

This review of the performance of firms in the KZN CTC shows encouraging performance, and promising opportunities. It is clear from the data that the implementation of WCM principles has proved effective in reducing waste and improving operational and financial performance. Importantly, the clothing sector has grown employment and turnover ahead of national industry performance.

The findings highlight the significant improvements in market performance achieved in respect of growing the size, and securing the stability, of the local industry. However, while the industry does face several operational challenges, these continue to provide opportunities for competitive improvement. As indicated above, a significant challenge relates to extending the process and productivity improvements that are evidently driving the development of the clothing sector, to upstream processors of textiles. This highlights a need for a greater focus on developing the competitiveness capabilities of the industry, which clearly experience greater challenges in respect of leveraging government incentives and industry opportunities to affect sustainable growth.

The KZN CTC is funded by:



KZN CTC
member firms



KZN CTC Bulletin 2nd Quarter 2015

YOUR IDEAS

If you have any ideas for improvement or would just like to get in touch, please contact:

The KZN CTC

031 764 6100 (office)

kznctc@bmanalysts.com

The KZN CTC is funded by:



**KZN CTC
member firms**