

KZN CTC BULLETIN 4TH QUARTER 2015

Welcome to the fourth bulletin of the KZN CTC for 2015. You can scan stories in the body of this email or click on any story link to download the full bulletin on the KZN CTC website. In our feature article we explore the viability of exporting into the British fashion apparel retail market.

Please forward this bulletin on to colleagues who you think would benefit and [sign up](#) to receive it if you don't already.

Articles in the quarter's newsletter are

- [Recent Events: KZN CTC Preproduction Skills Development Programme](#)
- [Feature Article: KZN CTC QR Export Viability Study](#)
- [Industry News](#)
- [Upcoming Events](#)

RECENT EVENTS KZN CTC PREPRODUCTION SKILLS DEVELOPMENT PROGRAMME

Over the last twenty years, the KZN Clothing, Textile, Footwear and Leather industry has lost important preproduction skills. With the slight increase in the demand for quick response goods from local manufacturers, skills such as range development, planning, raw material technology and pattern making are in short supply.



With the help of Ethekwini Municipality and the South African Fashion Council, the KZN CTC launched the preproduction skills development programme, which ran between August and October 2016. In total, 42 emerging preproduction professionals were trained during three modules focusing on raw material technology, pattern making and planning for production. Each module included four days of theoretical training and one day of practical exposure.

In the picture above, pattern making trainees surround trainer, Shamil Isaacs, from Cape Peninsula University of Technology (CPUT). Of the pattern making module, one trainee commented, "This course gave me clearer knowledge of ... current work methods. The discussions between all companies gave us solutions to the problems we face daily". Many trainees commented that the preproduction modules were potentially too short – pointing to the fact that a more intensive and long term approach to skill development might be required in the future.

The KZN CTC is funded by:



KZN CTC
member firms

Other recent events organised by the KZN CTC are as follows:

Date	Event
Executive	
21 Oct 2016	Exco Meeting
Skills Development Programme	
13,14,27,28 Oct 2015	Planning for Production Module Planning and Delivery

KZN CTC QR EXPORT VIABILITY STUDY – MAPPING VIABLE EXPORT LOGISTICS CHAINS

Despite the current challenges faced by the South African based Clothing, Textile, Footwear and Leather (CTFL) industry, KZN CTC members are slowly reclaiming domestic market space. This is evident in the benchmarking numbers indicating increased sales and employment, and further supported by indicators such as improved productivity, On-Time-In-Full reliability, quality, flexibility, product capabilities and exchange rate movements. Key drivers for this positive trend are support for retailer in-season trading requirements and Quick Response capabilities into the domestic market (42 days lead time).

KZN CTC believe that exports will be critical to the future of the KZN CTFL industry. It will contribute to trend alignment and global retailing between the Northern and Southern hemisphere further creating a counter-cyclical production demand profile. But perhaps even more importantly it will lead to increased production footprint (greater market access) and hence room for additional design and pre-production capabilities. The critical question is whether South African based CTFL manufacturers can use their current point of differentiation created in the domestic market to supply the North West European market such as UK, Belgium, Netherlands and Germany. In order to get a better understanding of these possible export opportunities B&M Analysts has carried out a research study focusing on export logistic chains and how viable they would be for South African manufacturers.

Four key requirements have been identified in order for the South African CTFL industry to engage in the global value chain and supply retailers in Europe. These include product alignment, price competitiveness, non-price competitiveness indicators such as quality, delivery, reliability, volume flexibility etc. as well as a lead time of 42-56 days from Purchase Order to store delivery. Based on this the research focused on exploring potential retailers for

The KZN CTC is funded by:



KZN CTC
member firms



Quick Response supply, as well as mapping the logistics chains (sea and air freight) into these retailers. Five retailers were identified and include Marks & Spencer, Next, New Look, River Island and ASOS. For the purpose of this article the findings relating to Marks & Spencer will be used as an example.

The KZN CTC is funded by:



**KZN CTC
member firms**

Marks & Spencer is a major British multinational retailer specialising in the selling of clothing, home products and luxury food products. The table to the right gives a snapshot of their store footprint and operating performance; product categories and fashion rating; opening price point; Quick Response/Fast Fashion evidence; and Supply Chain;

Marks & Spencer
Public listed company


Store footprint and operating performance				Product categories and fashion rating		
Growth trend → 0.00%	Gross profit margin 50.7%	Stock turns 2.1	GMROI 2.57	Ladies' casual wear	Ladies' formal wear	Plus sizes
Sales: €4 095 Cost of sales: €2 019 Gross profit: €2 076 <small>€BP million</small>				Men's casual wear	Men's formal wear	Kids' wear
				Footwear	Own branded product	Fashion rating
Number of stores 350		Major markets UK and Ireland, Russia, Netherlands, Poland, Belgium, ME, Ukraine		Opening price point		
Target groups Men and women, 18-40				Ladies' vest	€5.00	
				Men's lounge shirt	€19.50	
				Ladies' pump shoe	€15.00	
QR/FF Evidence		Supply chain				
Clear evidence of move towards QR/FF, e.g. Turkey study tour findings – c20% purchased on QR/FF model		DC Model	Single-centre			
		DC Location	Castle Donington, Leicestershire			
		Nearest port	Warrington			
		Nearest airport	East Midlands Airport			

The KZN CTC is funded by:



KZN CTC
member firms

A summary of the export logistics chain and lead times using sea freight (for bulk production) is presented in the two tables below. The table to the right illustrates that shipping to the UK will take between 28 and 33 days. The QR total lead time target is 56 days. The table to the left indicates that with a shipping lead time of 28-33 days the total lead time from preproduction through to product in store is 58-63 days. However, the lead time days provided are conservative estimates hence the target of 56 days are still achievable for South African suppliers.

Sea freight

Summary of export logistics chain

Target QR total lead time is **56 days**.

Logistics summary: QR Model with Sea Freight

Logistics phase	Lead Times (days)
Preproduction	14
Production	14
Shipping	28-33
DC -> Store	2
Totals	58-63



Stages	Preproduction	Production	Shipping	DC to store	TOTAL
Days	14	14	28-33	2	58-63

40

Marks & Spencer

Export logistics: summary



Logistics summary: Durban factory to Castle Donington Distribution Centre*

Logistics phase	Lead time (days)	Cost FCL 20'	Cost FCL 40'
Durban landside and port	3 – 5	R14 369	R15 704
Shipping (weekly)	22 – 23	R23 131	R30 358
UK port and landside	3 – 5	R14 490	R14 991
Customs brokerage	N/A	R12 486	R14 056
Totals	28 – 33	R64 478	R75 111



*GBP1/ZAR21, USD1/ZAR14.6. Cargo value R2.5m.

Durban to Castle Donington via London Gateway

Stages	Packing	Trucking to Harbour	Stacking	Shipping	Off loading	Stacking	Trucking to DC
Days	1	1	1-3	22-23	1	1-3	1

8

The KZN CTC is funded by:



KZN CTC
member firms

Marks & Spencer
Target pricing


With regards to estimating target prices for Mark & Spencer the research considered six different products including Opening Price Point (OPP) vest, vest+ (meaning better quality), OPP pump, pump+, OPP lounge shirt, lounge shirt+ and consequently worked out what the target price would be per item. The target price is calculated by deducting the shipping cost per item off the estimated QR purchase price. According to previous cost analysis done by KZN CTC the target price should be a realistic goal for South African retailers.

Item	RSP (incl. VAT)	RSP (ex VAT)	IMU est.	Purchase price (LC)	Purchase price	Est. QR prem (10%)	40' Shipping cost per item	Target price
OPP vest	£5.00	£4.17	72%	£1.17	R 24.50	R 26.95	R 1.56	R 25.39
Vest+	£6.00	£5.00	72%	£1.40	R 29.40	R 32.34	R 1.50	R 30.78
OPP pump	£25.00	£20.83	72%	£5.83	R 122.50	R 134.75	R 7.51	R 127.24
Pump+	£29.50	£24.58	72%	£6.88	R 144.55	R 159.01	R 7.51	R 151.49
OPP lounge shirt	£17.50	£14.58	72%	£4.08	R 85.75	R 94.33	R 3.41	R 90.91
Lounge shirt+	£19.50	£16.25	72%	£4.55	R 95.50	R 105.11	R 3.41	R 101.69

Assumptions

- Exchange rate: GBP 1=ZAR 21
- Input margin (IMU) estimated from financial reports
- QR premium estimated at 10% for in-season trade
- Shipping cost estimates based on 40 foot container capacity assumptions:
 - 48 000 vests
 - 22 000 shirts
 - 10 000 pairs of pumps
- Target price = estimated QR purchase price – shipping cost per item

11

The KZN CTC is funded by:


KZN CTC
member firms

The findings above together with the benefits South Africa enjoys through the duty-free access for clothes and shoes under the EU-SA Free Trade Agreement demonstrate that there is clearly sufficient evidence for the KZN CTC to pursue UK export opportunities and use this as a base for further new opportunities in the future. Additional work is however required and include:

1. KZNCTC export sub-committee to be established (subject to QR TSC approval)
2. Public sector stakeholder engagements to gauge support for Year 2 of the KZNCTC export programme; to facilitate:
 - Outbound engagement with retailers (small KZNCTC team and low cost)
 - Inbound retailer visits (high costs – requires government partnership)
3. Private sector stakeholder engagements
 - Capacity and capability development in support of exports
4. Logistics service provider engagements regarding lead time reduction, cost optimization and logistics consolidation options
 - Guarantee of shipping and transit times
5. Engagement with CCTC regarding shared regional export strategy

INDUSTRY NEWS

“CTRL click” the headline to view the full story on line.

[Clothing and textile industry shakes off cobwebs](#)

By Bekezela Phakathi, 18 December 2015

The Southern African Clothing and Textile Workers’ Union (Sactwu) says the clothing, textile, footwear and leather manufacturing industry is entering a period of greater stability and higher levels of growth.

[Clothing retailers’ sales pick up](#)

By Phakamisa Ndzamela, 15 January 2016

Retailers Woolworths, The Foschini Group and Truworths beat expectations but analysts warn macroeconomic drivers signal much tougher year ahead.

[Mr Price plunges on slower sales](#)

by Alistair Anderson, 18 January 2016

Mr Price Group disappoints investors with high growth expectations, sending shares down 18%.

The KZN CTC is funded by:



KZN CTC
member firms

UPCOMING EVENTS (JANUARY-MARCH 2016)

Date	Event
Executive	
17 Feb 2016	KZN Export Viability Presentation – Justin Barnes
17 Feb 2016	Exco Meeting
30 Mar 2016	KZN CTC AGM
World Class Manufacturing	
22 Feb 2016	Zara Tour Findings – Justin Barnes
22 Feb 2016	Managing the QR Supply Chain – Arzu Ensari (former Sourcing Director of a Major Turkish Design House)
Mar 2016	Benchmarking Data Validation Commences
Small and Medium Enterprises	
8 Mar 2016 (date TBC)	Retailer/Manufacturer Tour of Best Performers 2015
Skills Development Programme	
1 Feb 2016	Ladysmith TRACE Commencement

YOUR IDEAS

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

The KZN CTC
 031 764 6100 (office)
kznctc@bmanalysts.com

The KZN CTC is funded by:



KZN CTC
member firms