

IMPACT OF RECENT CHANGES IN INDUSTRY CONDITIONS
ON THE STRATEGIC MANAGEMENT PRACTICES OF AN
ORGANISATION

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CONFIDENTIALITY CLAUSE

25 July 2002

TO WHOM IT MAY CONCERN

RE: CONFIDENTIALITY CLAUSE

Due to the strategic importance of this research it would be appreciated if the contents remain confidential and not be circulated for a period of five years.

Sincerely,
Z Shaik.

DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed..... 25/07/03

Date..... 

This dissertation represents the original work of the author and has not been submitted to this or any other university. Wherever use was made of work of others, it was duly acknowledged in the text.

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ABSTRACT

This research evaluated the strategic management practices of the Kingsgate Clothing Group, which operates within the clothing and textile industry. The industry is undergoing dramatic changes since the opening up of the South African economy and the advent of globalisation. These changes have occurred within the political and economic spectrum and include factors such as trade and tariff agreements, changes in labour legislation, exports, illegal imports which has impacted on the organisation. A framework on strategic management was developed highlighting the factors necessary for strategy development, key issues in the external environment, strategic capabilities, organisational structure and culture and leadership issues. Various strategic management tools were used to analyse the Kingsgate Clothing Group's present strategy in the light of the changing industry conditions. These tools included value chain analysis, financial analysis and SWOT analysis. Based on the conclusions drawn from the analysis recommendations were made on the company's future strategy and the way forward in order for them to achieve sustainable competitive advantage.

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LIST OF ABBREVIATIONS

Adult Basic Education (ABE)
African Growth Opportunities Act (AGOA)
Black Economic Empowerment (BEE)
Board of Trade and Tarriffs (BTT)
Clothing Federation (Clofed)
Clothing, Footwear, Textile and Accessories (CFTA)
Commonwealth of Independent States (CIS)
Computer aided designing (CAD)
Computer Aided Designing (CAD)
Consumer and Production Price Indices (CPI and PPI)
Critical Success Factors (csfs)
Cut, Make and Trim (CMT)
Department of Labour (DoL)
Department of Trade and Industry (DTI)
Developing Country (DC)
Duty Credit Certificate (DCC)
Duty Credit Certificate Scheme (DCCS)
Electronic Data Interchange (EDI)
Enterprise Resource Planning (ERP)
European Economic Community (EEC)
European Free Trade Area (EFTA)
European Union (EU)
Export Marketing Assistance (EMA)
Foreign Exchange (forex)
Human Resource (HR)
Industrialised Country (IC)
Information Communication Technology (ICT)
Information Communication Technology (ICT)
Information Technology (IT)
Information Technology (IT)
International Development Corporation (IDC)
Joint Ventures (JVs)

LIST OF ABBREVIATIONS

Key Success Factors (KSFs)
Kingsgate Clothing Group (KCG)
Malawi, Mozambique and Zambia and Tanzania (MMTZ)
Management by Objectives (MBO)
Multi-fibre Arrangement (MFA)
National Bargaining Council (NBC)
National Productivity Institute (NPI)
New South Africa Garment Manufacturers (NSAGM)
New South Africa Garment Manufacturers (NSAGM)
North American Free Trade Area (NAFTA)
Organisation of Petroleum Exporting Countries (OPEC)
Research and Development – R&D
Sector Education and Training Association (SETA)
Small, Medium and Micro Enterprises (SMME)
South African (SA)
South African Bureau of Standards (SABS)
South African Clothing and Textile Workers Union (SACTWU)
South African Development Community (SADC)
South African Rand (ZAR)
South African Revenue Services (SARS)
Southern African Customs Union (SACU)
Strategic Business Units – SBUs
Structural Adjustment Programme (SAP)
Sub-Saharan Africa (SSA)
Supply Chain Management (SCM)
Total Quality Management (TQM)
Trade, Development and Cooperation Agreement (TDCA)
Trade, Development and Cooperation Agreement (TDCA)
TransNational Clothing Firms (TNCs)
Value Chain Analysis (VCA)
Work in Progress (WIP)
World Trade Organisation (WTO)

CHAPTER 1: INTRODUCTION

**Never doubt that a small group of thoughtful committed citizens can change the world.
Indeed, it is the only thing that ever has (Margaret Mead, Social Anthropologist).**

1.1. Introduction

Since the time of the international emerging market financial crisis, which also affected the South African (SA) economy, the SA clothing industry has experienced extremely difficult conditions. The industry has historically been focused on the domestic trading market and is thus extremely sensitive to general economic conditions within South Africa. Globalisation and trade liberalisation have compounded the situation. The industry is becoming more outward focused and developments such as the African Growth and Opportunity Act (AGOA) and the European Union (EU) free trade agreement present significant opportunities for future growth and a new paradigm.

This dissertation set out to analyse and evaluate the strategic management practices of the Kingsgate Clothing Group (KCG), a clothing manufacturer, with an aim to make recommendations, based on these changing economic conditions. Managing activities internal to the firm are not the only responsibility of the chief executive officer of the KCG. He needs to respond to the challenges posed by the firm's immediate and remote external environments. The immediate external environment includes competitors, suppliers, scarce resources, government agencies and their numerous regulations and customers with their changing preferences. The remote external environment comprises economic, social, political and technological priorities, all of which must be monitored, assessed, and incorporated into his decision making process.

The literature review will be supported by the research findings, which will attempt to identify future strategy recommendations to the organisation. Data from various sources, different strategic management tools and questionnaires will be evaluated in support of the findings.

During the last five years the clothing industry has witnessed dramatic changes in their business environment. Emerging from a historically protected environment, organisations have had to respond to the social and political mandates of national public policy, development of firmer and stricter labour policies, the rise of the trade union movement, issues of productivity and

globalisation. These changes have created new knowledge needs for the manager when evaluating strategic management decisions.

The trend towards complexity has increased the risk associated with strategic business decisions, making it more important to have a sound business strategy in place. There are several factors which have characterised the complex strategic business decision-making environment, which demand that managers have more and better information on which to base strategic decisions:

- There are more variables to consider in every decision.
- More knowledge exists in every field of management.
- Global and domestic competition is more vigorous, with many businesses downsizing to focus on primary competencies to reduce costs and make competitive gains.
- Government continues to show concern as part of their policy programmes with all aspects of society, becoming increasingly aggressive in protecting these various publics.
- Workers, shareholders and customers are demanding to be included in company decision-making.

It is therefore important for the management of the Kingsgate Clothing Group, not only to manage activities internal to the firm, but they also need to respond to the challenges posed by their immediate and remote external environments. According to Thompson and Strickland, "Every company encounters occasions in which it needs to adapt its strategy to shifting industry and competitive conditions, newly emerging buyer preferences and requirements, the initiatives of rival firms to grab increased market share, the appearance of fresh opportunities and threats, advancing technology, and other significant events which affects its business." (Thompson & Strickland: 2001: *Crafting and Executing Strategy*: page 16)

This dissertation sets out to undertake a "GAP Analysis" through a process of exploration, analysis and critical evaluation of the strategic decisions made by the Kingsgate Clothing Group. The dictionary defines the word "gap" in a number of ways:

- As a physical space between things.
- As a period of time when not involved in a particular activity.
- When something is missing that prevents successful completion of an activity.
- As a great difference between two things, people or ideas.

The analysis of all four of these forms of "gap" can be considered as gap analysis.

(Ambrosini et al: 1998: *Exploring Strategic Management*: page 220)

However, for the context of this dissertation, the GAP Analysis on the Kingsgate Clothing Group will take the following approach:

- Where is the organisation now? i.e. based on the last five year analysis of the industry environment and the organisation's strategy.
- Where do they want to strive to be? i.e. Based on the organisation's vision, mission and objectives.
- How can they get there? i.e. Recommendations on future strategy for the organisation and a plan and timeframe for implementation of future strategy.

A performance gap analysis will be undertaken based on the following:

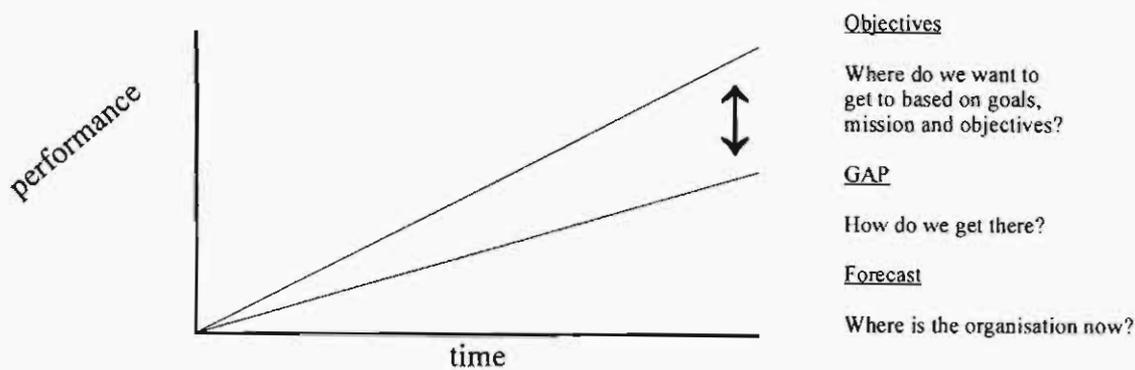


Figure 1.1 - Performance GAP Analysis (Adapted from Exploring Strategic Management: Ambrosini et al:1998: page 221).

1.2. History

The Kingsgate Clothing Group (KCG) of companies is one of South Africa's leading, privately-owned organisations employing a workforce of about 12 000 both directly within its in-house factories, and indirectly via its more than 95 cut, make and trim (CMT) factories. Under the name of A M Moolla Group, it was listed in the Clothing, Footwear and Textiles sector of the JSE Securities Exchange in October 1997 for a brief four-year period. With effect from March 2001, it was de-listed and reverted to its prior (1995 to 1997) trading name of Kingsgate Clothing Group. KCG is 100% owned by the A M Moolla family and now operates as an unlisted private clothing or apparel manufacturer.

Through its many divisional structures, subsidiaries and in-house manufacturing plants, products are manufactured, which cater for the full spectrum of South Africa's diverse market. Nationally, and throughout the neighbouring states, the group has long established, strong relationships with major chain stores, semi-chains, hawker wholesalers, independent retail stores and boutiques.

The group has become a major player in the export industry and has identified lucrative markets, regularly shipping substantial quantities of product. The group's success is based on a philosophy of continuously striving for excellence in products and the ability to service and satisfy needs of customers. More importantly, the group's key assets are the people whose efforts and hard work have allowed it to perform with ongoing success.

1.3. Background Review and Problem Statement

The South African business scene has generally been characterised by particularly difficult trading conditions over the past few years. In the clothing sector, this has been exemplified by reduced consumer demand, and exacerbated by tough competition from both local and international players. The South African Rand currency has been sensitive to lack of confidence and political uncertainty thereby creating exchange rate volatility. As a result of this, many chain stores and retailers are sourcing garments directly from overseas. The Department of Trade and Industry's (DTI) policy to phase down duty on fabrics and ready-made apparel further stimulated this trend. Labour productivity has decreased in the last five years whilst the unit labour costs have increased. The revisions on the Labour Relations and Skills Development Acts have also brought on new challenges. There has been an increase in smuggling and dumping of new and second-hand clothing, leading to a thriving underground economy. Various bilateral trade agreements between South Africa and the European Union have been negotiated. Although these have been successful in stimulating trade, however, operationally there seem to be some flaws.

Based on these industry conditions the management dilemma within the Kingsgate Clothing group are:

- Employment retention i.e. minimisation of job losses.
- Employment creation.
- Improving productivity.
- Ways to improve international and national competitiveness and to create a more export oriented strategy.
- Improve future profitability of the organisation.
- Restructure the management and organisational structure of the group through improved succession planning.

“What can be done to improve the strategic management practices of the organisation in light of the changing industry conditions”.

1.4. Motivation for the Research

Through a review of the strategic management practices of the Kingsgate Clothing Group, the study will aim to address the following questions:

- What changes are occurring in the market arenas where the organisation operates, and what implications do these changes have for the direction in which the organisation needs to move?
- What new or different customer needs should they moving to satisfy?
- What new or different buyer segments should they be concentrating on?
- What new geographic or product markets should they be pursuing?
- What should the company's business make up look like in five years?
- What kind of company should they strive to become?

1.5. Value/Benefits of the Research

There are numerous benefits from researching the problem statements that will accrue to the Kingsgate Clothing Group, namely, financial benefits and strategic benefits. Ultimately, the benefits accrued will be in- keeping with the organisation's vision mission and objectives. The following is a list of benefits to be achieved:

- Growth in revenues on invested capital.
- Higher returns on invested capital.
- Recognition as a "blue chip" company.
- A more diversified revenue base.
- Larger market share.
- Quicker design – to – market times than competitors – ability to get newly developed product ranges to market quicker.
- Higher product quality than rivals.
- Lower costs relative to competitors.
- Superior on-time delivery.
- Superior customer service and higher levels of customer satisfaction.
- Stronger export distribution and sales capabilities than competitors.

1.6. Objectives of the Research

The objective of the research report is to ascertain whether the strategy of the Kingsgate Clothing Group is in unison with the prevailing industry conditions and which strategic management decisions need to be reviewed in the light of these changing industry conditions. Prevalent within their industry and operating environments are numerous strengths, opportunities, weaknesses and threats. The objectives of the study are to formulate and implement strategies to develop a sound fit between the KCG's internal resources and its external situation and will be based on a "Gap Analysis" and is illustrated as a model as follows:

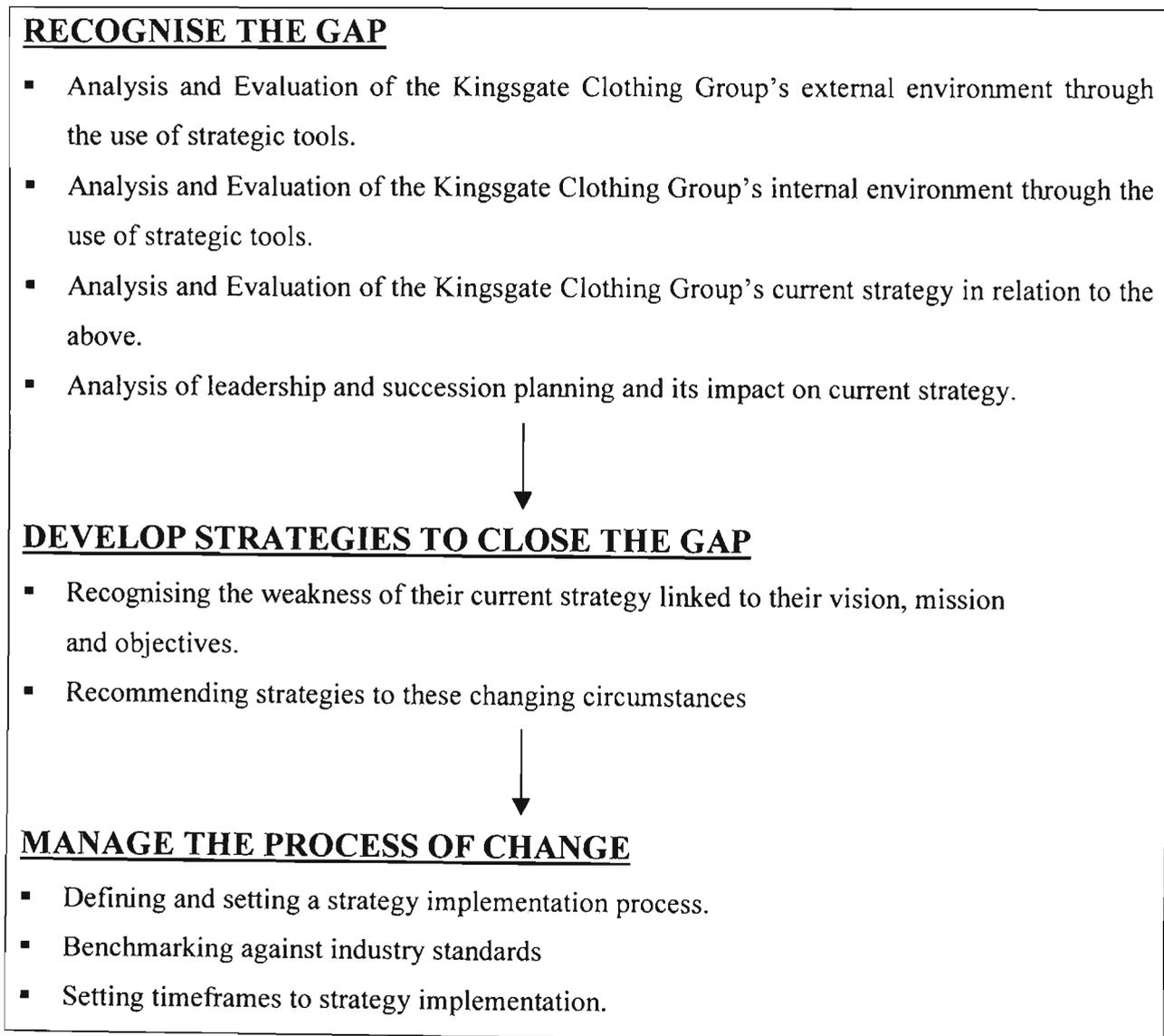


Figure 1.2 - Theoretical framework of "GAP Analysis" within the context of the Kingsgate Group's strategic analysis and evaluation.

1.7. Research Methodology

	<u>CATEGORY</u>	<u>RESEARCH DESIGN</u>
▪	The degree to which the research question has been crystallised	Exploratory Study
▪	The methods of data collection	Interrogation/ Communication Study
▪	The power of the researcher to produce effects in the variables under study	Ex post facto
▪	The purpose of the study	Descriptive
▪	The time dimension	Cross-Sectional Study
▪	The topical scope – breadth and depth of the study	Case Study
▪	The research environment	Field Conditions
▪	The subjects perception of research activity	Actual Routine

Table 1.1 – Description of the Research Design to be used in Study

- **Exploratory Study**

The dissertation will be a study posing questions but without a predictive hypothesis. Through exploration the researcher aims to develop concepts more clearly, establish priorities and develop operational definitions in order to clarify the dilemmas facing the management of the Kingsgate Group. Both qualitative and quantitative techniques will be used.

- **Interrogation/Communication Study**

Various people will be questioned and their responses will be collected by personal or impersonal means. Structured strategy related questionnaires will be sent to management of the Kingsgate Clothing Group and other key people.

- **Ex Post Facto**

There will be no control over the people to be interviewed therefore eliminating any form of influence of their decisions hence removing any form of bias.

- **Descriptive Study**

This dissertation will be a descriptive study and will have the potential to draw inferences. Such a descriptive investigation will have broad appeal to the management of the Kingsgate Clothing Group in terms of planning, monitoring and evaluating their strategy. In the context of the

dissertation, it will be related to how analysis addresses issues such as costs, efficiencies, effectiveness and adequacy.

- Cross-sectional Study

This dissertation will be a snap shot of one point in time. Hence, all conclusions will be made at the time the dissertation was conducted.

- Case Study

This case study approach used for this dissertation will be inductive in that the researcher will report on the particulars of the external environment of the clothing industry and then relate it specifically to the internal environment and strategic management practices of the Kingsgate Clothing Group. The contextual features could include:

- The history and location of the company: how it has developed over time to it's current position,
- Details of any similar case study research to help in the comparison of ideas and theory;
- An account of the national and possibly the global picture,
- The current management structure of the organization and it works on a "day to day" basis,
- The role and influence of government and other institutions,
- The role of currently accepted theory.

- Field Conditions

The research will be conducted under the actual environment and conclusions will be made thereof.

- Actual Routine

People will be aware of the research to be conducted.

1.8. Data analysis

A questionnaire will be used in the study to measure management and employees perceptions of how strategic decisions are made within the Kingsgate Clothing Group. Questionnaires will also be used to conduct a value chain analysis. According to Ambrosini et al (1998): "Strategic decisions are those which are characterised by large commitment of resources and deal with issues of substantial importance to the organisation, usually with longer rather than just short – term impact or significance; they usually involve more than one function and involve significant change."

1.8.1. Measuring Instrument

The instrument used will be a three page questionnaire and the responses will be evaluated according to the evaluation technique set out in Ambrosini.

1.8.2. Measurement

Questions asked in the survey will be clearly structured and closed ended. A Likert scale will be used as the primary measurement scale. A 7-point Likert-Type questionnaire has been developed. The overall scores will be summated to establish the research findings i.e. a score of 1 indicating a weak response and a score of 7 indicating an excellent response. The questions will be scored so that the higher the mean score for each participant, the more favourable is their perception of the company strategy.

1.8.3. Nature and form of results

This will take the shape of a web diagram outlining the variances in the findings. Upon the completion of the dissertation, it is hoped that adequate information regarding the various strategic management practices of the Kingsgate Clothing Group will emerge that will be useful to management.

1.9. Limitations of the Research

- The study is limited to the clothing industry only.
- The constructs to be used in the questionnaire are derived from the literature on strategy as well as from the critical incident techniques used in interviews.
- Underlying the research is that the questionnaire and prior research provides an exhaustive set of constructs relevant to the study.
- Response rate to the questionnaire could be low as members of the Kingsgate Clothing group may show reluctance in critically evaluating their organisation's strategy and will be restricted to top management only.
- Non- response bias may also pose a problem.

1.10. Ethical Considerations

Information will also be drawn from documents belonging to the company some of which maybe confidential. The researcher has been granted access to such information. However, based on this it is the wish of the management of the Kingsgate Clothing Group not to make public the results of the study. The researcher feels obliged to grant the confidentiality request.

1.11. Structure of the Dissertation

Chapter 1: Introduction

This chapter provides a synopsis of the entire dissertation and includes the background of the study, its purpose, its limitations as well as the structure of the dissertation.

Chapter 2: Review of Theory

This chapter discusses the all the relevant literature surrounding the theoretical framework of strategic management. The focus is on key strategy issues linked to the importance of vision, mission and objectives as a starting point for effective strategy analysis and development. This follows on with a discussion on the internal and external environments of an organisation. Crucial to effective strategy development and implementation are issues such as organisational structure, leadership and culture. Concluding this chapter, a model of strategy development is illustrated.

Chapter 3: Industry and Company Overview

This chapter sets the scenario of the clothing industry and the Kingsgate Clothing Group and highlights all relevant statistics on the industry and various aspects of the Kingsgate Clothing Group's business.

Chapter 4: Evaluation of Company Strategy

This chapter uses various strategic management tools and the strategy evaluation questionnaire to critically analyse and evaluate the current strategy of the Kingsgate Clothing Group.

Chapter 5: Recommendations and Conclusions

This chapter will draw final conclusions and recommend various strategy alternatives to improve overall company performance.

1.12. Conclusion

This chapter provides a framework to the research dissertation. It highlights issues pertinent to the clothing industry and the organisation under evaluation. The case study evaluation is depicted through the “Gap Analysis Model”. Based on the study, which is a corporate strategy review, various aspects of the strategic management literature according to leading authors will be discussed.

CHAPTER 2: UNDERSTANDING STRATEGY

Thriving on change or barely coping?

Business strategy is now the single most important management issue and will remain so for the next few years (Business Week, August 26, 1996).

2.1. Introduction

Organisations are constantly faced with challenges of strategic management; whether it is from a desire of introducing new opportunities or to overcome problems. The issue of strategic management and planning faces a turbulent period during the twenty first century. Companies are constantly under pressure in delivering shareholder value through fulfilling short and long-term objectives. Strategic planning is about achieving a balance between these two objectives. Carlson (1990) suggests that a company focusing on the near term is facing a rudderless ship. Managing principally for current cash flow and quarterly earnings improvements tends to mortgage the company's future and also produces an aversion to risk that dooms a business to stagnation. However, an over emphasis on the long term is just as inappropriate. Companies that overextend themselves betting on the future may penalise near-term profitability and cash flow to such an extent as to make long term planning academic.

Strategic management is about reconciling the conflict between long and short planning and objectives through balancing satisfactory financial performance with changes in the markets, technology, competition and economic and political factors. In this new decade strategic plans must deliver near-term results and provide a platform for longer-term value creation.

Pearce and Robinson (2000) define strategic management as "the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives". Based on this, the aim of this chapter is to build on a strategy framework to emphasise the role of strategy in organisations, which is fundamental to all business decisions made. The framework starts of by explaining how strategy is formulated within different business environments by looking at key strategic issues. Critical to this is the benefits and importance of a well-defined strategy to an organisation. A well-defined strategy evolves through a clear vision, mission, which includes broad statements about the organisation's purpose, philosophy and goals. An analysis of the company's external environment by assessing the different environments within which it operates, assists in evaluating and formulating

strategy. Through the identification of core competencies and resources, strategy is developed by matching strategic capability with the external environment. For strategy to be driven and directed successfully along its path, it needs to be enhanced by organisational structure, strong culture and leadership capabilities.

2.2. Nature of Strategy and Strategic Decisions

Most organisations are constantly faced with crucial decisions, some of which are strategic in nature, whilst others may be operational. Based on the above definition of strategy, strategic issues require strategic management attention and have the following dimensions:

- They are likely to be concerned with the long-term direction of the organisation.
- Strategic decisions are about trying to achieve competitive advantage and this may be done through effective positioning in relation to competitors by providing value-for-money products or services.
- Strategic decisions are concerned with the scope of the organisation's activities. The issue of scope is fundamental to strategy because it concerns the way in which those responsible for managing the organisation conceive the organisation's boundaries. This includes decisions on geographical coverage or product decisions. (Johnson and Scholes: 2002)
- Strategy can be seen as the matching of the resources and activities of an organisation to the environment in which it operates. This is regarded as 'strategic fit'. Porter (1980) describes strategic fit as "developing strategy by identifying opportunities in the business environment and adapting resources and competencies so as to take advantage of these". Based on this it is imperative for the organisation to achieve correct positioning, that is, the extent to which it clearly meets the identified market needs. This can include finding a particular niche in the market or investing in businesses, which have found successful market positions or have identified market needs.
- Hamel and Prahalad (1994) state that strategy can be seen as building on or 'stretching' an organisation's resources and competencies to create opportunities or to capitalise on them. Strategy development by 'stretch' is the leverage of the resources and competencies of an organisation to provide competitive advantage and yield new opportunities.

ASPECT OF STRATEGY	ENVIRONMENT – LED 'FIT'	RESOURCE-LED 'STRETCH'
Underlying basis of strategy	Strategic fit between market opportunities and organisation's resources	Leverage of resources to improve value for money
Competitive advantage through...	'Correct' positioning Differentiation directed by market need	Differentiation based on competences suited to or creating market need
How small players survive...	Find and defend a niche	Change the 'rules of the game'
Risk-reduction through...	Portfolio of products/businesses	Portfolio of competences
Corporate centre invests in...	Strategies of business units or subsidiaries	Core competences

Table 2.1 - Leading edge of strategy: fit or stretch – Adapted from Hamel and Prahalad

- Strategic decisions inevitably impact on operational decisions and are important for two reasons. Firstly, operational aspects of the organisation must be in line with the overall strategy or else they will not succeed. Secondly, strategic advantage can only be achieved at the operational level.
- Strategic issues require top-management decisions. Since these decisions overarch different areas of a firm's operations, they require the involvement of top management who has the perspective of understanding the impact of such decisions and the power to authorise the necessary resource allocations.
- Large amounts of the firm's resources in the form of people, physical assets, or money are required for strategic issues. These need to be secured from internal and external sources.
- The firm's long-term prosperity is often affected by strategic issues, which in turn have long-lasting effects on the organisation. Once a firm has engaged on a particular strategy pathway, its image and competitive advantages are usually tied to that strategy. Firms become known in certain markets, for certain products, with certain technologies. They would jeopardise their gains if they deviated from these markets, products or technologies by engaging in a radically different strategy.
- Strategic issues are based on what leaders and managers forecast, rather than on what they know and are therefore future-oriented. Therefore, emphasis is placed on future projections that will guide the organisation in selecting the most promising strategic options. In a competitive and turbulent environment a firm will only succeed if it anticipates change.

- Strategic issues have complex implications for most areas of the organisation i.e. multifunctional or multi business consequences. Decisions such as customer mix, competitive emphasis or organisational structure impact on the firm's strategic business units (SBUs), divisions and units through allocations or reallocations of responsibilities and resources that result from these issues.
- The strategy of an organisation is also affected by the values and expectations of those who lead and direct power within that organisation and is therefore a reflection of their attitudes and beliefs. External and internal stakeholders such as financial institutions, the workforce, buyers, suppliers and communities also have a more or less influence on strategy.

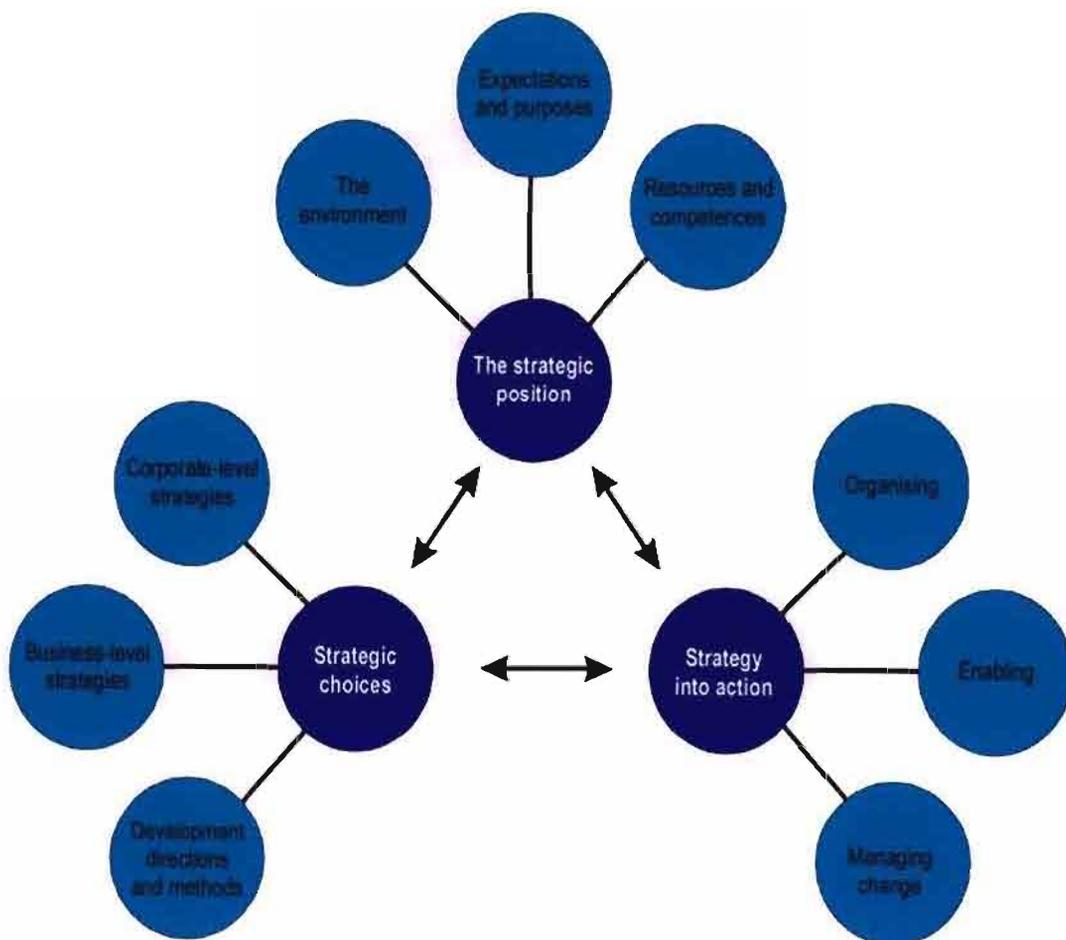


Figure 2.1 - A Model of the Elements of Strategic Management

2.3. Strategic Management in Different Contexts

Mintzberg and Quinn (1995) suggest that to a greater or lesser degree, strategic issues impact on all types of organisations, depending on their business context.

2.3.1. The Small Business Context

Small firms are most likely to be private companies who operate in single markets with a limited range of products or services. The operational issues of these organisations are less likely to be strategic in nature than large organisations. In these small firms the values and expectations of senior management, who are usually the owners themselves, influence and direct strategy. Barrow and Clark (1995) suggest that it is also likely that these firms, unless they are specialising in some particular market segment, will be subject to significant competitive pressures; and so issues of competitive strategies will be of significant importance for the small firm. However, decisions on competitive strategies are likely to be strongly influenced by the experience of those running the business. Challenges such as the ability to raise capital constantly face small businesses. Combined with the legacy of the founder's influence on choice of product and market, this may mean that choices of strategy are limited. The firm may see its position within the market as one of consolidation or growth. If it is striving for growth, then the ability to raise finance is critical and therefore the building and maintaining of relationships with financial institutions becomes a key strategic issue.

2.3.2. The Multinational Corporation

Here the organisation is likely to be diverse in terms of products and geographical markets. They may have a range of different types of business in the form of subsidiary companies within a holding company structure or divisions within a multidivisional structure. Strategic issues, which arise in these multinationals, are those of structure and control at a corporate level; and relationships between businesses and the corporate center. However, a significant strategic issue, which arises, will be the allocation of resources among the different business units based on their diverse and often competing demands and how this should be coordinated. This maybe of greater importance, when operational logistics have to be coordinated across countries. This requires sophisticated control systems and management skills far greater than the small business.

Goold (1994) states that the business units of multi business companies create value through direct contact with customers. They compete in their markets to satisfy customer needs and to generate revenues and profits. In contrast the parent company acts as an intermediary influencing

the decisions and strategies pursued by the businesses and standing between the businesses and those who provide capital for their use.

2.3.2. Manufacturing and Service Organisations

Service organisations such as insurance, management consultancies and professional services compete on the basis of the service that it provides. Here competitive advantage is based on the extent to which customers view less tangible aspects of the firm, for example, the value of advice given attitude of staff, prompt service delivery and ambience of offices. In manufacturing organisations competitive strategy is based on the physical product itself and services and merely supports the product (such as product information, back up service and so on). Brand image also plays an important role in achieving competitive advantage for both service and products.

2.3.3. The Innovatory Organisation

There an increasing number of organisations that claims to depend substantially on innovation for their strategic success, whilst others argue the importance of becoming more innovatory. According to Tidd (2001), “Innovation is seen as the ability to change the rules of the game”. The e-commerce revolution and the rapid rise in information technology have resulted in opportunities for organisations to conduct business in new ways. Another key feature of innovatory organisations is the need to see and act strategically in the short term. Innovation is also influenced by how people are managers and how they interact. For example, organisational structures that encourage interaction and integration, rather than formal divisions of responsibility, may encourage innovation.

2.4. Strategy Development



Figure 2.2 – Understanding Strategy Development

2.4.1. Strategy Development through the Strategy Lenses

Strategy development emerges through rational or analytical design, organisation's past experience or from the variety and diversity of ideas that emerge from the organisation. Chaffe (1985) suggests that strategy can be viewed from the strategy lenses, which include design, experience and ideas.

2.4.1.1. Strategy as Design

The design lens views strategy development as deliberate positioning of the organisation through a rational, analytic, structured, and directive processes, which involves the following:

- There are ranges of factors that influence an organisation's performance. Based on this, it is possible to predict future scenarios, which might affect an organisation. Therefore, strategy development can be viewed as a process of systematic thinking and reasoning.
- Through the matching of an organisation's strengths and resources with changes in the environment, the firm is able to overcome its threats and take advantage of the opportunities that prevail. Therefore, the strategy of an organisation is as a result of decisions made about positioning and repositioning within its markets.
- Strategy must first be developed and then filtered through the organisation to those who need to make it happen. Strategy formulation is separated from strategy implementation.
- Top management usually plans and guides the destiny of the organisation. Therefore, an organisation is considered a hierarchy with top management who make the decisions and middle and lower management who carry out the decisions.
- The strategy process is carried out logically. Clear and explicit objectives need to be set, a detailed analysis of internal and external factors to the organisation needs to be carried out which may impact on its future and finally strategic options are considered in terms of the future direction of the organisation. An optimal strategic decision is then made and the implementation of this decision through the organisation is then planned.
- The organisation is considered to be a rational system based on the complex decisions that manager's face; logical conclusions will be reached by a rational group of top managers.
- Strategy can also be controlled in a rational way through different control mechanisms such as budgets, variance analysis, and management by objectives and so on.

2.4.1.2. Strategy as Experience

Miller (1980) suggests that: "more typically, strategies develop in an adaptive fashion building on the existing strategy and changing gradually. Strategy is best understood in terms of continuity and momentum". Simply stated it can be said that the strategy of an organisation evolves from their original strategy rather than fundamentally changing direction. This can take

the form of a product launch or a significant investment decision, which establishes a strategic direction and can lead to the next strategic move, for example a merger or acquisition. The benefit is that the strategic direction of the organisation is consolidated and established over time. However, there could eventually be a significant deviation in strategy, but this would take place incrementally. This incremental change would assist in adapting to the continuously changing environment. Thus, the experience lens views strategy development as: “the outcome of individual and collective experience of individuals and the taken-for-granted assumptions most obviously represented by cultural influences”. (Johnson: 2002)

- Experience and Bias

Johnson (2002) states that: “individual experience can be explained in terms of the mental (or cognitive) models people build over time to help make sense of their situation”. Managers, therefore, handle problems in the same fashion based, on their past experience. This is an advantage in that they have comparisons to draw upon and can interpret a situation in the light of another or else they would handle each situation as if they were experiencing it for the first time. However, the shortcoming is that this could lead to bias.

- Organisational Culture

Organisational Culture is the: “basic assumptions and beliefs that are shared by members of an organisation, that operate unconsciously and define in a basic taken-for-granted fashion an organisation’s view of itself and its environment”. (Scott: 1995)

This suggests that strategy does not only evolve from individual experiences but also from a collective group and organisational experience. This emanates from organisational routines accumulated over time.

2.4.1.3. Strategy as Ideas

The ideas lens views strategy as the emergence of order and innovation from the variety and diversity, which exists in and around organisations. New ideas and therefore innovation may come from anywhere in an organisation, or indeed from stimuli in the world around it. (Hamel and Prahalad: 1998) The ideas lens draws on the previous lens of experience but differs to the extent that sensing of the environment takes place at all levels of the organisation, not just at the top. People interpret issues in various ways, based on their personal experiences, which results in a diverse range of ideas. The greater the diversity of ideas, this will give rise to innovation. Variety and diversity is fundamental to strategy development and exist in all organisations in the form of an ever-changing environment, different businesses within a corporation, different groups within businesses and a variety of individuals with different experiences and ideas. This may

exist at different and different forms and should be encouraged and stimulated rather than over-controlled.

STRATEGY AS:	DESIGN	EXPERIENCE	IDEAS
Overview / summary	Deliberate positioning through rational, analytical, structured and directive processes.	Incremental development as the outcome of individual and collective experience and the taken for granted.	Emergence of order and innovation through variety and diversity in and around the organisation.
Assumptions about organisations	Mechanistic, hierarchical, logical	Cultures based on history, legitimacy and past success	Complex systems of variety and diversity
Role of top management	Strategic decision makers	Enactors of their experience	'Coaches', creators of context and 'champions' of ideas
Implications for change	Change – implementation of planned strategy	Change incremental with resistance to major change	Change incremental but occasionally sudden
Underpinning theories	Economics; decision sciences	Institutional theory; theories of culture; psychology	Complexity and 3evolutionary theories

Table 2.2 – A Summary of the three Strategy Lenses

2.4.2. Understanding the Strategy Development Process

There are various ways in which the strategy of an organisation can be developed and managed.

An understanding of these is highlighted as follows:

2.4.2.1. Strategic Planning Systems

This is a carefully designed approach to managing strategy and involves highly systematised, step-by-step, chronological procedures involving different areas of the organisation. The overall advantage of strategic planning claimed within the literature is epitomised by Godiwalla, Meinhart, and Warde. This is that planning results in a viable match between the changing internal organisational conditions of the firm and its external environmental variables. The purpose of this match is to ensure that the plans continuously realign the firm's objectives and strategies to the changing conditions, to improve long run performance of the company. In addition to this overall advantage, several specific advantages are given in the literature, being classified into those concerned with the planning process and those concerned with the personnel involved in the planning. Writers such as Stern, Loasby, Hauser and Walker have extracted these from the literature as follows, from works. Strategic planning allows for the following benefits:

- Process Advantages

- Provides a structured means of analysis and thinking about complex strategic problems and therefore creates an environment for managers to question and challenge issues they take for granted.
- It can be used as a mechanism to control by frequently reviewing performance against set objectives.
- Provides a useful means of coordination between corporate and business unit strategy.
- Strategic planning allows for effective communication at all levels of the organisation.
- The identification and exploitation of future marketing opportunities.
- An objective view of management problems.
- Major decisions can be more effectively related to established objectives.
- Minimisation of effects of adverse conditions and changes.
- The utilisation of planning provides an advantage over competitors.

- Personnel Advantages

- Helps to integrate the behaviour of individuals in the organisation into a total effort.
- Provides a basis for the clarification of individual responsibilities, giving a contribution to motivation.
- Gives an encouragement to forward thinking on the part of personnel.
- Stimulates a co-operative, integrated and enthusiastic approach to tackling problems and opportunities.
- Encourages a favourable attitude to change.
- Gives a degree of discipline and formality to the management of a business function that would not exist without planning.

2.4.2.2. Strategic Leadership

The development and formulation of strategy is strongly linked to the individual. Johnson (2002) states that: "a strategic leader is an individual upon whom strategy development and change are seen as dependent." In some organisations these individuals are central to strategy formulation as they may be the owners or founders of the business, especially in privately owned or family businesses. It could also be viewed as an individual chief executive who has turned a business around during times of difficulty and therefore linked to the success of the organisation's strategy.

2.4.2.3. Organisational Politics

Strategy in many organisations is sometimes based on the outcome of the bargaining and power politics that go on between management. There is continual positioning amongst these

individuals to put forward their views and to control the resources necessary for future success. According to Buchanan and Boddy (1992), the political view of strategy development is, then, that the strategies develop as the outcome of processes of bargaining and negotiation among powerful internal or external interest groups (or stakeholders). This is the world of boardroom battles often portrayed in film and TV dramas. Such political activity may sometimes get in the way of thorough and rational analysis and can have a negative impact on strategy development.

2.4.2.4. Logical Incrementalism

In a study of major multinational businesses, Quinn (1995) concluded that the management process and strategy development could best be described as logical incrementalism. The idea is that managers see their organisations at a particular position in the future and try to attain this position incrementally. This is done through building a sound and secure core business and the experience gained from this is utilised in developing or experimenting with other ventures. Such experiments are a combined effort of top management, lower management and other subsystems of the organisation. Effective managers engage in constant environmental scanning and then make changes to strategy in small-scale steps. Mintzberg (1987) highlights this in his definition of logical incrementalism as: “the deliberate development of strategy by learning through doing or the crafting of strategy”.

This image is a collage of text boxes and illustrations. On the left, a man in a dark suit stands with his arms crossed. On the right, a woman in a blue suit walks. At the bottom right is a chessboard. The text boxes contain the following content:

- Blue box (top left):** "You know there is a simple strategy you can make. To move forward when you want, you create an intelligence, you learn forward and you don't know what is going to happen. Fortunately, you put a foot ahead of you and you protect your business. Well, that's what we're doing all the time, so it is never comfortable. (Interviews conducted by A. Bailey)"
- Yellow box (top right):** "The environment is very fast changing. You can set a strategic direction one day and something is almost certain to happen the next. We do not have a planning process, which occurs every two years because the environment is stable, but a very dynamic process, which needs to respond to the unexpected. (Interviews conducted by A. Bailey)"
- Light green box (middle left):** "We haven't stood still in the past and I can't see with our present set-up that we shall stand still in the future; but what I really mean is that it is a path of evolution rather than revolution. Some companies get a successful formula and stick to that rigidly because that is what they know for example (company x) did not really adapt to change, so they had to take what was a revolution. We hopefully have changed gradually and that's what I think we should do. We are always looking for fresh openings without going off at a tangent. (Extracts from G-Johnson, "Strategic change and the Management Process: 1987)"
- Light red box (bottom left):** "The analogy of a chess game is useful in this context. The objective of chess is clear: to gain victory by capturing your opponent's king. Most players begin with a strategic move that assumes a countermove by the opponent. If the countermove materialises, then the next move follows automatically, based on a previous winning strategy. However, the beauty of chess is the unpredictability of one's opponent's moves. To attempt to predict the outcome of chess is impossible, and therefore players limit themselves to working on possibilities and probabilities of moves that are not too far ahead. (From a manager on an MBA course)"

Figure 2.3 – Incrementalist Views of Strategic Management – Various Sources

From the above table we can conclude that managers perceive their jobs as ‘strategists’ who are continually and proactively pursuing strategic goals, monitoring the actions of their competitors and adapting to the fast changing environment, whilst not ‘rocking the boat too much’, in order to maintain efficiency and performance. Quinn (1980) himself argues that ‘properly managed, it is a conscious, purposeful, proactive, executive practice’.

2.4.2.5. The Learning Organisation

This theory of strategy development was popularised by Senge in the 1990s. He argues that uncertainty and complexity in organisations cannot purely be understood analytically. Traditional approaches to strategic management are not appropriate in that the environment in which organisations operate in are turbulent and unpredictable and that formalised strategic planning systems with predetermined objectives may take long periods of time to work through. The idea that top management can formulate strategies implemented by others is also negated because they are less in touch with the complex and turbulent environment than others in the organisation. The concept of the learning organisation believes that firms need to be pluralistic where different and conflicting views are welcomed through healthy debate and discussion. Experimentation should also be a practice. Informal working relationships need to be developed. Emphasis needs to be placed on networks of working relationships where new ideas constantly emerge rather than hierarchies. Rather than formal analysis, there should be more dialogue and even storytelling. There should also be a political process of bargaining and negotiation in order for conflict and disagreement to occur. This is generally an outcome of diversity and variety in organisations, which should not be regarded as a negative aspect of strategy development. According to Johnson (2002), the learning organisation is one capable of continual regeneration from the variety of knowledge, experience and skills of individuals within a culture, which encourages mutual questioning and challenge around a shared purpose or vision.

2.4.2.6. Imposed Strategy

This occurs when forces external to the organisation or agencies, such as government or regulatory bodies who may dictate a particular course or strategic direction, impose strategy. This may occur in multinational corporations operating in some countries and maybe subjected to certain governmental requirements or this may also happen through joint ventures or local alliances. An operating business within a multidivisional organisation maybe forced to follow the strategic direction of its parent and this can sometimes be also viewed as imposed strategy if there is no flexibility.

DOMINANT DIMENSIONS	CHARACTERISTICS	RATHER THAN	TYPICAL CONTEXT
Planning Incrementalism (Logical Incrementalism)	Standardised planning procedures Systematic data collection and analyses Constant environmental scanning Ongoing adjustment of strategy Tentative commitment to strategy Step-by-step, small-scale change	Intrusive external environment Dominant individuals Political processes Power groups	Manufacturing and service sector organisations Stable or growing markets Mature markets Benign environments
Incremental Cultural Political	Bargaining, negotiation and compromise amongst conflicting interests of groups Groups with control over critical resources more likely to influence strategy Standardised 'ways of doing things' Routines and procedures embedded in organisational history Gradual adjustments to strategy	Deliberate, intentional process Well-defined procedures Analytical evaluation and planning Deliberate managerial intent	Professional service firms (eg. Consultancy or law firms) Unstable, turbulent environment New and growing markets
Imposed Political	Strategy is imposed by external forces (eg.) Legislation, parent organisation) Freedom of choice severely restricted Political activity likely within organisation and between external agencies	Strategy determined within the organisation Planning systems impact on strategy development Influence on strategic direction mainly by managers within the organisation	Public sector organisations, larger manufacturing and financial service subsidiaries Threatening, declining, unstable and hostile environments

Table 2.3 – A Summary of the Strategy Development Process (Source: Cranfield School of Management – Based on a survey of perceptions of the Strategy Development Process.

2.4.3. Implications for Strategy Development

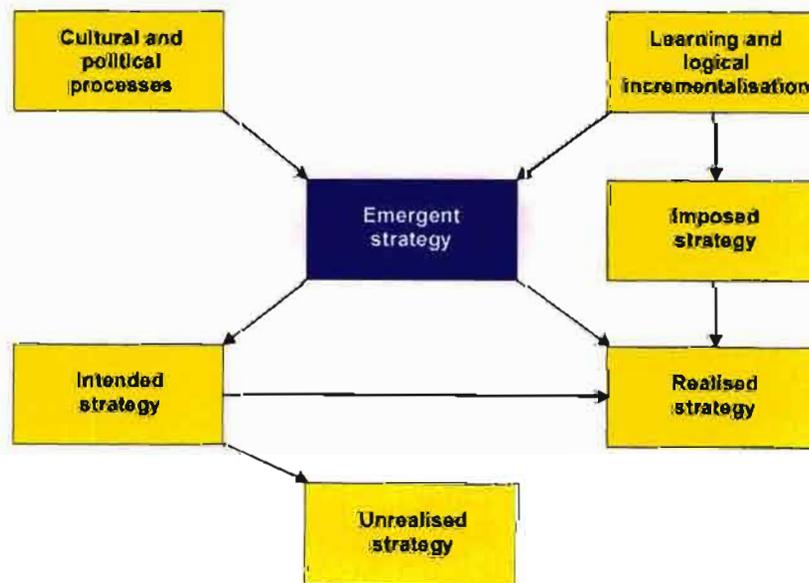


Figure 2.4 – Strategy Development Routes

2.4.3.1. Intended and Realised Strategy

An intended strategy is strategic direction, which has been deliberately formulated or planned by managers or by a strategic leader. The implementation of the intended strategy is also planned in terms of resource allocation, control systems, organisational structure and so on. Mintzberg and Waters (1985) stated that strategy here is conceived of as a deliberate, designed process of development and implementation. A realised strategy is the strategy actually being adhered to by the organisation.

- ROUTE 1 – Intended strategy as described by Mintzberg
- ROUTE 2 – An intended strategy much of which is does not come about or is only partially realised. This happens because people in the organisation do not believe in the strategy and it becomes unstuck, the plans are unworkable or due to changes in the enviroment the plan is no longer workable.
- ROUTE 3 - Strategies imposed on an organisation.
- ROUTE 4 – An emergent strategy exists when strategy is regarded as the long-term direction of the organisation and develops over time and is based on the experience of those involved i.e. individual or collective and organisational culture. Different views are reconciled through negotiation and political activity, or by doing things as they were originally done. Emergent strategy can also take the form of logical incrementalism or learning.
- ROUTE 5 – Through planning, the progress and efficiency of strategy can be monitored. It is a proactive way of influencing strategic direction.

Managers need to consider that a gap may arise between what top managers think the strategy is or should be i.e. the intended strategy and what should actually happen in practice as defined in the strategic plan .e. the realised strategy.

2.4.3.2. Strategic Drift

Historical studies of organisations conducted by Mintzberg and Waters have shown the prevalence of processes that lead to emergent strategy. There are long periods of relative continuity during which established strategy remains largely unchanged or changes incrementally, and then there are periods of flux in which strategies change but with no clear direction. When there is fundamental change in strategic direction but takes place less frequently, this is known as transformational change. Romanelli and Tushman (1994) state that: “A punctuated equilibrium arises when strategies develop incrementally with periodic transformational change”. The influence of the paradigm and ‘the way we do things around here’ implies that when the organisation is put under pressure due to changes in the enviroment, managers try to minimise any ambiguity or uncertainty by looking for things that are familiar.

Environmental change may not be gradual enough for incremental change to keep up with and if such incremental change lags behind changes in the environment then more transformational change is required. Another problem is that organisations may become complacent and react only to their environment and fail to create new opportunities or innovate. Strategic change may therefore become difficult to manage because it requires action outside the scope of the paradigm or culture. This will also entail that management will need to adjust their ways of doing things. Managers are more likely to deal with the situation in the way they understand it to be and under the existing paradigm. This is illustrated in the figure below.

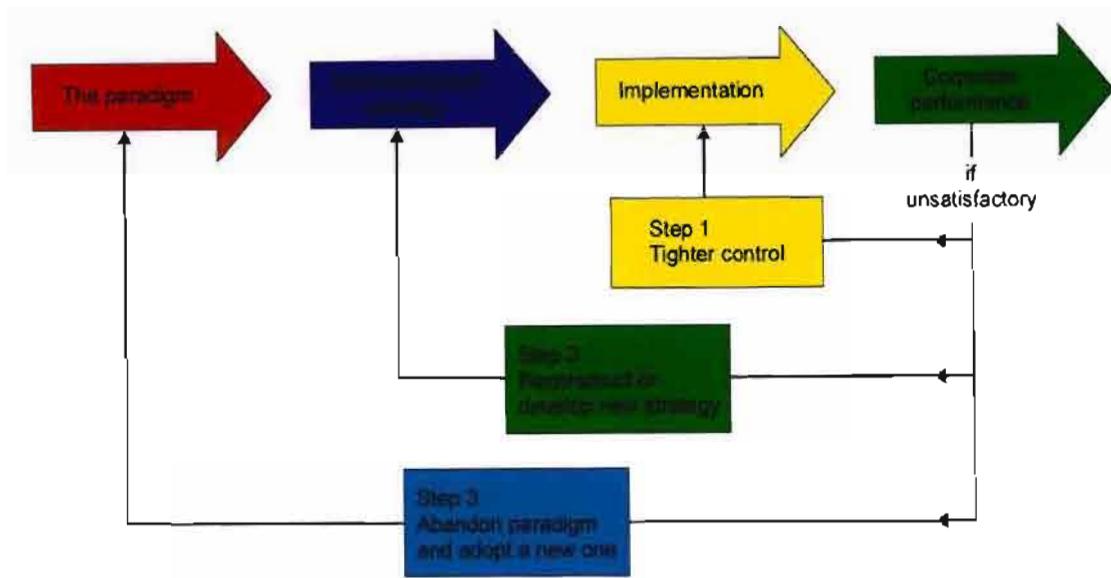


Figure 2.5 – The Dynamics of Paradigm Change (Source: Adapted from Grinyer,P & Spender,J.C. 1979 Turnaround: Managerial recipes for success. Associated Business Press. Page 203)

If managers are faced with a situation, such as decline in performance, they will follow a course of action to improve the implementation of existing strategy. They begin by tightening controls. If this does not work, they could then change the strategy, but still in keeping with the existing paradigm. For example, managers may seek to extend the market for their business, and assume that the conditions are the same as the existing market, and therefore control and manage it in the same way, Even though they realize they need to adapt, they maybe constrained by organisational routines, assumptions and political processes. This may continue until the existing paradigm becomes completely redundant. In such a situation, according to Miller (1990) strategic drift arises which occurs when the organisation’s strategy gradually moves away from relevance to the forces at work in its environment. There is a tendency, known as the Icarus Paradox - for businesses to become victims of the very success of their past.

2.4.3.3. Strategic Management in Uncertainty and Complexity

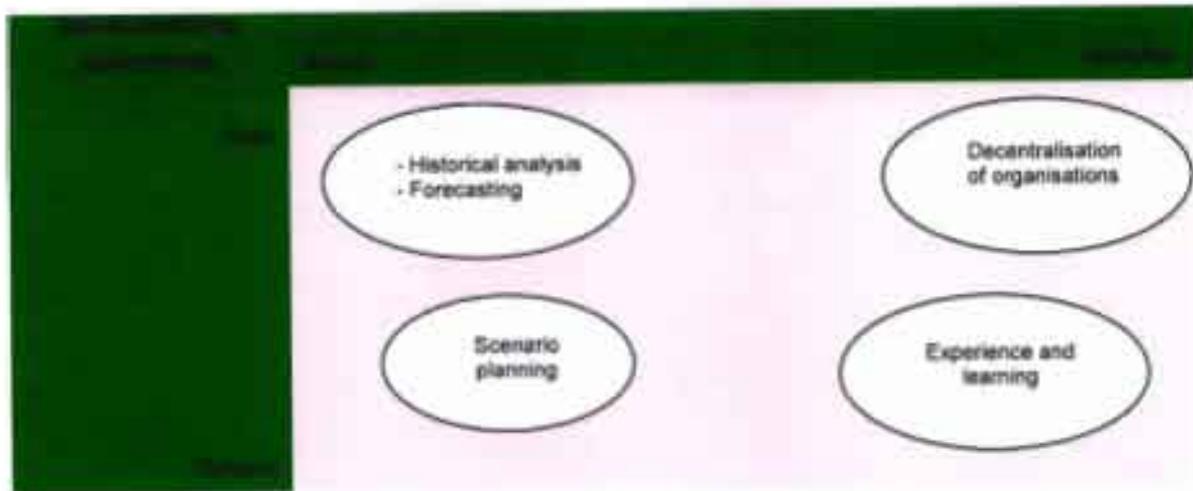


Figure 2.6 — Strategy Development in Environmental Contexts (Source: Duncan, R. 1972 Characteristics of organisational environments and perceived environmental uncertainty. Administrative Science Quarterly. Vol. 17, No. 3, page 313-327)

According to research conducted by Duncan (1972), since one of the main problems of strategic management is coping with uncertainty, it is useful to consider this issue in terms of organisations facing different contexts.

- In simple/static conditions, there is no significant change in the environment. Technology and processes are straightforward and, competition and markets remain the same. Environmental changes are usually predictable. Future conditions may be forecasted using historical data.
- In dynamic conditions, there is a high degree of uncertainty and managers need to consider the environment of the future not just the past. The future may be analysed in structured ways such as scenario planning. Change should be seen as normal and not caught in bureaucracies. Conditions necessary to stimulate individuals to be intuitive, creative and challenging in their outlook on possible futures such as the learning organisation.
- In complex conditions, organisations face environments that are difficult to predict and understand. In dealing with such environments, top management needs to recognise that specialists throughout the organisation know more about the environment in which the organisation operates and their views need to be considered as well. Their strategic competence based on experience may result in competitive advantage.

2.4.4. Benefits of a Well-Defined Strategy

“Galileo was nearly burned as a heretic for saying the earth went round the sun. His dangerous thinking had huge ramifications for the established order and was a threat to traditionalists” Strategy also poses the challenge of finding powerful new ideas about the industry and managing the implications of those ideas. (Loewen: 1999).

In order to survive in today’s competitive world, an organisation needs to move constantly forward and create its own future before someone else does. Therefore, a well-defined strategy provides the following advantages to an organisation:

- To Control the Future:
 - Reality check against altering market environments.
 - Make sense of implacable issues that the organisation must deal with.
 - Know how to change the route of the organisation.
 - Strengthen your location in the industry to make entry less attractive for new competition.
- To focus People:
 - Clarifies business purpose.
 - Defines opportunities and stumbling blocks.
 - Forces managers to pull their scattered thinking into a meaningful framework.
 - Focuses on critical areas of the business – highlights weak divisions.
 - Improves growth and profit.
 - Sets priorities in service delivery, products and skill development.
 - Creates a corporate framework for budgets.
- To grow leadership skills:
 - Improve the collective IQ of the business.
 - Develop management capacity to think and act – a critical path of any executive development program.
 - Educates people to think holistically by using strategy exercises.
- To improve communication:
 - Improves communication across functional divisions and aligns thinking.
 - Improves co-ordination and inspires co-operation.
- To regain entrepreneurial spirit:
 - Rejuvenate people and increase motivation.
 - Energies the passion for ‘doing things right’.
 - Gain the co-operation of employees.
 - Revitalise customer focus and product/service offerings.

2.4.5. Strategy Making Pyramid for a Single Business Company

Most organisations have decisions to make about what business approaches to take and what new moves to initiate. These decisions should involve senior executives in the corporate office, heads of business units and product divisions and, the heads of major functional areas (manufacturing, marketing and sales, finance, human resources). According to Thompson and Strickland (2001), in single business organisations, there are three levels of strategy making. These include business strategy, functional strategy and operating strategy.

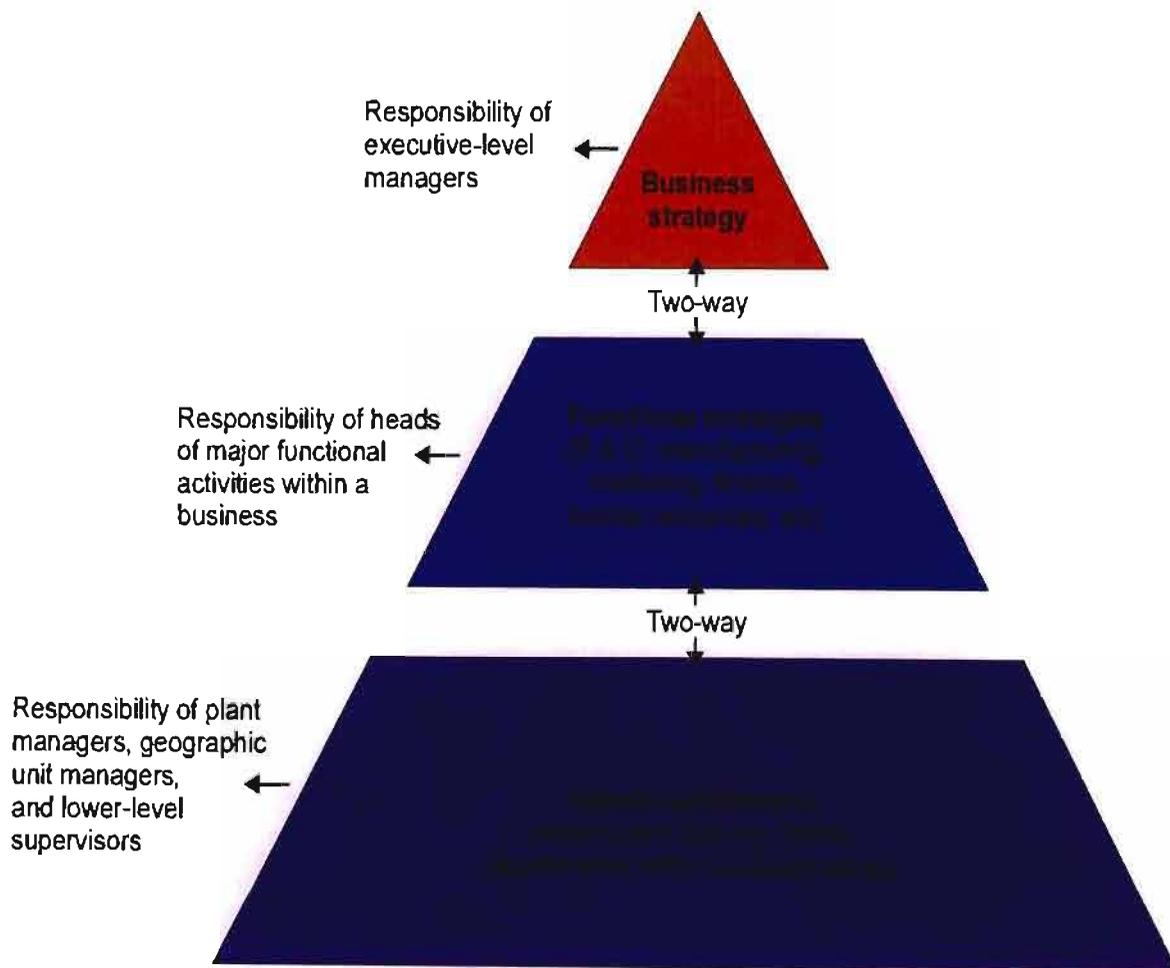


Figure 2.7 – The Strategy-Making Pyramid for a Single Business Company (Adapted from Thompson & Strickland: 2001)

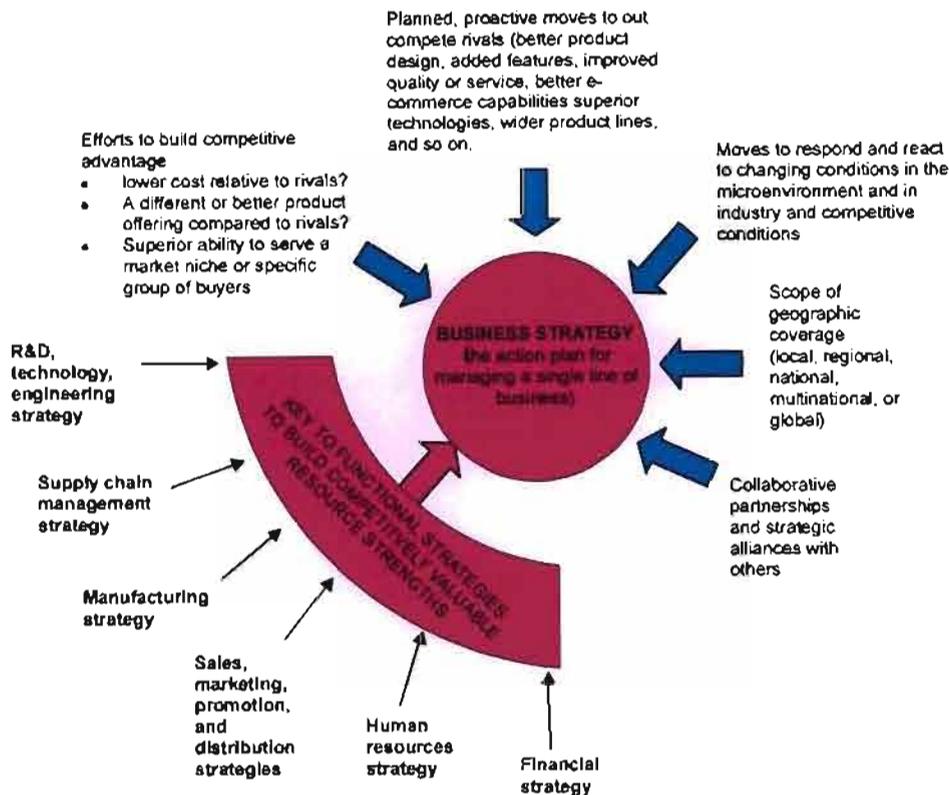


Figure 2.8 – Identifying Strategy for a Single Business Company (Adapted from Thompson & Strickland: 2001)

2.4.5.1. Business Strategy

Thompson and Strickland (2001) said that business strategy refers to the managerial game plan and is mirrored in the pattern of approaches and moves crafted by management to produce successful performance in one specific line of business. For a single business company corporate and business strategy are the same. Figure 2.8. outlines the key elements of business strategy. The underlying issues surrounding business strategy include:

- How to build and solidify the organisation’s long-term competitive position in the marketplace.
- Responding to changes in the industry, economy, the regulatory and political arena and other areas of importance.
- Developing competitive strategies and market approaches that will lead to sustainable competitive advantage.
- Building core competencies and capabilities
- Creating unification in the strategies of the different functional areas
- Addressing specific strategic issues facing the organisation.

Thompson and Strickland (2001) believe that having superior internal resource strengths and competitive capabilities is an important way to outcompete rivals. Distinctive competencies will result in leading-edge product innovation, higher technological process know how, expertise in defect-free manufacturing, specialised marketing and merchandising competence, superior e-commerce capabilities, better customer service, or any other competitively valuable strength in creating, producing, distributing, or marketing the company's product and service. The responsibility of business strategy is in the hand of the leader of the business, who is accountable for the strategy and the results it produces.

2.4.5.2. Functional Strategy

According to Thompson and Strickland (2001), functional strategy refers to “the managerial game plan for running a major functional activity or process within a business – research and development (R&D), production, marketing, customer service, distribution, finance, human resources and so on; a business needs as many functional strategies as it has major activities”. The aim of functional strategy is to establish and enhance specific competencies in order to strengthen the firm's overall market position. Functional strategy must support business strategy. The responsibility of developing functional strategy lies in the hands of the functional department heads and process managers who must also work closely with key subordinates. This must also be done in conjunction with the managers of the other functions and processes and the business head. Compatible, collaborative, mutually reinforcing functional strategies are essential for the overall business strategy to be successful. If there is no coordination on strategy, it can lead to conflicting strategies.

2.4.5.3. Operating Strategy

Thompson and Strickland (2001) state that operating strategy concerns the even narrower strategic initiatives and approaches for managing key operating units (plants, sales districts, distribution centers) and for handling daily operating tasks with strategic significance (advertising campaigns, materials purchasing, inventory control, maintenance, shipping). Lead responsibility for operating strategies lies with the front-line managers in consultation with higher-ranking managers. Operating strategy is of great importance in manufacturing organisations. If these organisations fail in their strategy to achieve production volume, unit cost and quality targets, this could adversely impact on the company's strategic efforts to build a quality image with customers.

2.5. Establishing Company Direction through Vision, Mission and Setting of Objectives

Strategic vision is a prerequisite to strategic leadership. According to Thompson and Strickland (2002), there are three major tasks in formulating a strategic vision:

- A mission statement that defines what business the company is presently in and conveys in quintessence of ‘who the company is’, ‘what they do’ and ‘where they are now’.
- Through the mission statement the long-term direction of the organisation is mapped out, stating ‘where they are going’, and planning the strategic pathway.
- It is imperative that an effective communication strategy must highlight the vision in clear and unambiguous ways that capture peoples’ attention.

2.5.1. Demystifying Vision

“A well conceived vision statement serves like a set of architectural drawings to give structure to ideas” (Lipton,M: 1997). A vision serves as a roadmap for companies as they move through rapid change. Transformation efforts frequently fail through lack of clear vision. Performance measures such as profit return on shareholder equity, employee turnover and the rate of new product development improve when visions are used as strategic tools to manage culture.

2.5.1.1. What is a vision?

According to Lipton (1997), a vision must focus on the future and serve as a concrete foundation, an enduring promise. Vision is long term and unlike goals and objectives it does not fluctuate from year to year. A vision should radiate to people the feeling that their lives and work are intertwined and moving towards prioritised goals.

A vision statement fulfills two useful functions:

- First, it provides an integration of a formless collection of goals, dreams, challenges, and ideas.
- Second, it serves as the constitution for the organisation. People respond to vision when it is viewed as long lasting commitment, made in writing.

A shared vision motivates individuals by helping them relate to the purpose of the organisation. People need to feel that they are contributing to a worthwhile venture, and a vision enables them to realise their contribution to the larger picture. A shared vision provides a context for decision-making. As organisations become leaner and flatter, decentralised decision-making occurs. An effectively communicated vision results in job satisfaction, commitment, loyalty, esprit de corps, and clarity about the organisation’s values, pride, productivity, and encouragement.

2.5.1.2. Elements of a Strategic Vision

Lipton (1997) suggests that the visions of highly effective organisations communicate three messages or themes: the mission or purpose, the strategy for achieving the mission, and elements of the culture that seem necessary to achieve the mission and support the strategy.

$$\text{VISION} = \text{MISSION} + \text{STRATEGY} + \text{CULTURE}$$

- Mission – The mission addresses the issue of why an organisation exists and why it is in business. It also defines the stakeholders and what they expect.
- Strategy – In order for a mission to exist there must be a strategy in place in terms of what the organisation hopes to accomplish. The strategy must define the core competencies or competitive advantage that the organisation has or plans to develop. This is linked to strategic positioning i.e. the organisation's position in relation to its competitors.
- Culture – When people understand the desired culture - the values that support the purpose and strategy - they know what is expected of them.

2.5.2. Transforming the Vision into a Mission Statement

“Corporate mission statements ...are the operational, ethical and financial guiding lights of companies. They are not simply mottoes and slogans; they articulate the goals, dreams, behaviour, culture, and strategies of companies” (Jones and Khaner: 1996: page ix)

2.5.2.1. What is a mission statement?

A mission statement provides a sense of direction, focus, and unity, and in Chester Barnard's words, “a spirit that overcomes the centrifugal forces of individual interest or motives” (Barnard: 1968: page 283). It contains both a cultural and strategic purpose. Strategically, the mission statement is a tool that defines a company's business and target market. Culturally, the mission statement serves as the “glue” that binds the organisation together through shared values and standards of behaviour (Campbell and Nash: 1992). It can inspire employees and “stretch” the organisation to achieve higher levels of performance. Nicholls (1994) characterises mission statements as a “strategic compass” that helps organisations find their way. “If the pace of change is rendering the business environment increasingly featureless, a compass is the essential tool. In the absence of landmarks, it's mission [mission statements] shows the way ahead” (page 22). Campbell and Nash (1992) hold a perspective not widely shared by others. They see mission statements as creating more harm than good because “they imply a sense of direction, clarity of thinking, and unity that rarely exists” (page 9). They suggest that many mission statements articulate values and behaviour standards that are unrealistic and not part of an organisation's culture. Instead of motivating employees, they invite cynicism. They argue that

leaders should be trying to create a “sense of mission” among their employees that serves to cultivate a level of commitment and emotional attachment, not attainable in a basic statement of purpose. Creating a sense of mission involves managing a blend of factors that include the organisation’s purpose, strategy, values, standards and behaviours such that employees values are congruent with the organisation’s philosophy and culture.

2.5.2.2. Mission Statement Elements

There is no simple format that prescribes what fundamentals a mission statement should contain. In one collection of 622 mission statements, no two had the exact same formula, or pattern; they varied in length as well as tone (Graham & Havlick: 1994). However a review of literature reveals that effective mission statements must be:

- Clearly Articulated – Mission statements should be clear and concise, so that employees can clearly understand the values and principles that will guide them in their daily and future activities.
- Relevant – A mission statement should be appropriate to the organisation in terms of its history, culture, and shared values (Quigley: 1993). It should also be consistent with the present situation and provide a realistic and informed assessment of what is attainable in the future (Nanus: 1992).
- Current - Mission statements need to be reviewed constantly as it serves as a driving force for the organisation into the future. The competitive environment must also be assessed and changes to the mission statement should be made accordingly.
- Written in a positive and inspiring tone – The mission should be written to encourage commitment and energise employees towards fulfilling the organisation’s mission. All stakeholders should identify with the organisation and feel a sense of attachment.
- Uniqueness to the organisation – An organisation’s mission statement should set it apart from other companies. It should establish the individuality, if not the uniqueness, of the company (Ackoff: 1987).
- Enduring – Mission statements should serve to guide and inspire the organisation for many years (Collins and Porras: 1994). In other words, a company should be continually achieving its ultimate goal.
- Adapted to the target audience – Mission statements are usually targeted to employees, general public, shareholders, trade unions and general public. The target audience has a bearing on the length, tone and visibility of the statement (Abrahams: 1995). The organisation needs to know whom they are writing for before they decide what to say.
- Concern for the public – The mission statement should highlight social responsibility issues.

- Concerns for Quality – The organisation’s commitment to quality will highlight their public image.
- Commitment to Survival, Growth and Profitability – A high percentage of the mission statement should explain this.
- Statement of company philosophy – this should include statements on the basic belief and values of the organisation.

A well-crafted mission statement is a key element of an effective strategic planning process, especially in organisations that undergo change and embark on new ways of doing business. Perhaps Drucker (1992) said it best: “[The mission] focuses on the organisation on action. It defines the specific strategies needed to attain the crucial goals. It creates a disciplined organisation. It alone can prevent the most common degenerative disease of organisation’s, especially large ones; splintering their always limited resources on things that are interesting or look profitable rather than concentrating them on a very small number of productive efforts” (page 205). A mission statement is the key to guiding the business in times of turbulence to create competitive advantage.

2.5.3. Establishing Objectives based on Vision and Mission and Measuring Performance

Through the setting of objectives the strategic vision and mission is translated into specific performance targets. Thompson and Strickland state that objectives represent a managerial commitment to achieving specific outcomes and results and unless the organisation’s long term direction is translated into specific performance targets and managers are pressured to show progress in reaching these targets, vision and mission statements are likely to end up as nice words, window dressing and unrealised dreams. If objectives are to serve as yardsticks of organisational performance, they must be stated in quantifiable and measurable terms against which performance can be measured. It provides a benchmark against which the organisation’s performance and progress can be judged.

House and Price (1991) suggest that objectives are needed for each key result that managers deem important to success. Kaplan and Norton (1992) state that there are two types of key result areas that stand out: those relating to financial performance and those relating to strategic performance. Financial performance objectives are critical as they are related to the organisation’s survival whilst strategic performance is important for improving the organisation’s long-term market position and competitiveness.

- One, is that perceived economic and social costs of maximising behaviour exceed the benefits stakeholders conceive that will be gained from disrupting the organisation's current operational mode,
- And secondly, there are dampening mechanisms within the organisation, which facilitate its ability to adapt to stakeholder demands.

2.5.3.2. Objectives and the Concept of Strategic Intent

Hamel and Prahalad (1989) state that: "A company's strategic objectives are important for another reason – they indicate strategic intent to stake out a particular business position" (page 63-76). Examples of strategic intent can be described as industry leadership, dominate a market niche, overtake market leaders or to create an innovatory product. According to them the concept also encompasses an active management process that includes: focusing the organisation's attention on the essence of winning; motivating people by communicating the value of the target; leaving room for individual and team contributions; sustaining enthusiasm by providing new operational definitions as circumstances change; and using intent consistently to guide resource allocations. Hamel and Prahalad (1989) argue that intent should motivate people 'by communicating the value of the target'. Goold and Quinn (1990) contradict this by suggesting that 'many managers are not motivated by a target unless it is a short term objective or milestone'. One is, therefore, able to conclude that strategic intent is less dynamic a philosophy than mission because it fails to incorporate values and behaviour standards which is fundamental to long-lasting employee commitment and fervor.

2.5.3.3. The Need for Long-Range and Short-Range Objectives

Long-range objectives force managers to carry out actions now in order to achieve desired performance levels in the future, whilst short range objectives merely serve as milestones, in that they set and measure performance over two or three years. Thompson and Strickland state that objectives should ideally serve as a managerial tool for truly stretching an organisation to reach its full potential, which means setting objectives high enough to be challenging, that is to energise the organisation and its strategy. Short and long-term objectives should also be set as performance targets for the organisation's separate businesses, product lines, functional areas, and departments. In this way each part of the organisation is aware of its strategic role in moving down the organisation's strategic pathway to produce the desired outcomes and can also be held accountable.

2.6. Environmental Analysis for Strategic Management

A firm's external environment comprises of all the conditions and forces that affect its strategic options and define its competitive position. Many pioneering companies have gone out of business because of their inability to adapt to changes in the environment and also their inability to create change. There are many external factors that influence a firm's choice of direction and action and ultimately, its organisational structure and internal processes. Pearce and Robbins (2000) suggest that the factors, which constitute the external environment, can be divided into three inter-related sub categories: factors in the remote environment, factors in the industry environment, and factors in the operating environment. However, if an organisation is involved or intends pursuing opportunities outside of its boundaries, then the regional and international environments should also be considered. Based on an analysis of the different environments, the organisation should formulate strategies that optimise its market opportunities.

Ginter and Duncan (1990) state that the process of environmental analysis consists of four inter-related activities – scanning, monitoring, forecasting, and assessing. More specifically environmental analysis involves:

- Scanning the environments for warning signs and possible environmental changes that will affect the business;
- Monitoring environments for specific trends and patterns;
- Forecasting future directions of environmental changes; and
- Assessing current and future trends and the impact of such changes on the organisation.

There are benefits to be gained by conducting environmental analysis. These include:

- It increases managerial awareness of environmental changes;
- A higher environmental awareness enhances strategic planning by enriching industry and market analysis; increasing the organisation's awareness of settings; improving diversification and resource allocation decisions and risk management;
- Environmental analysis focuses the managers attention on the primary influences of strategic change; and
- Provides time to foresee opportunities and carefully formulate responses to change (i.e. early warning systems).

More specifically, Mesch (1984), based on his experiences in an operating division of Sun Exploration and Production Company, developed seven specific criteria for deciding whether an organisation needs environmental analysis. These are:

- Does the external business environment influence capital allocations and the decision-making process?
- Have previous long-range plans been scrapped because of unexpected change in the environment?
- Is competition growing in the industry?
- Do more and different kinds of external forces seem to be influencing decisions, and does there seem to be more interplay among them?

A 'yes' to any of these questions suggests the need to consider adding or illuminating the environmental efforts in the organisation. The more 'yes' answers, the more urgent the need.

2.6.1. Macro Environment

The impact of environmental changes on the organisation are sometimes constrained by the resources available to make changes or by organisational culture, which may cause a resistance to change; and any opportunities in the environment can only be capitalised on through organisational capabilities. However, the success of any organisation is their ability to integrate the internal environment with the external environment to bring about prosperity. Heijden (1996) introduced the concept of the "business idea", a model of how an organisation can successfully reconcile the different forces and influences on strategy. This is illustrated below and schematically explains how strategy can develop successfully such that environmental forces, organisational resources and competencies, and stakeholder's expectations can bring about mutual synergies.

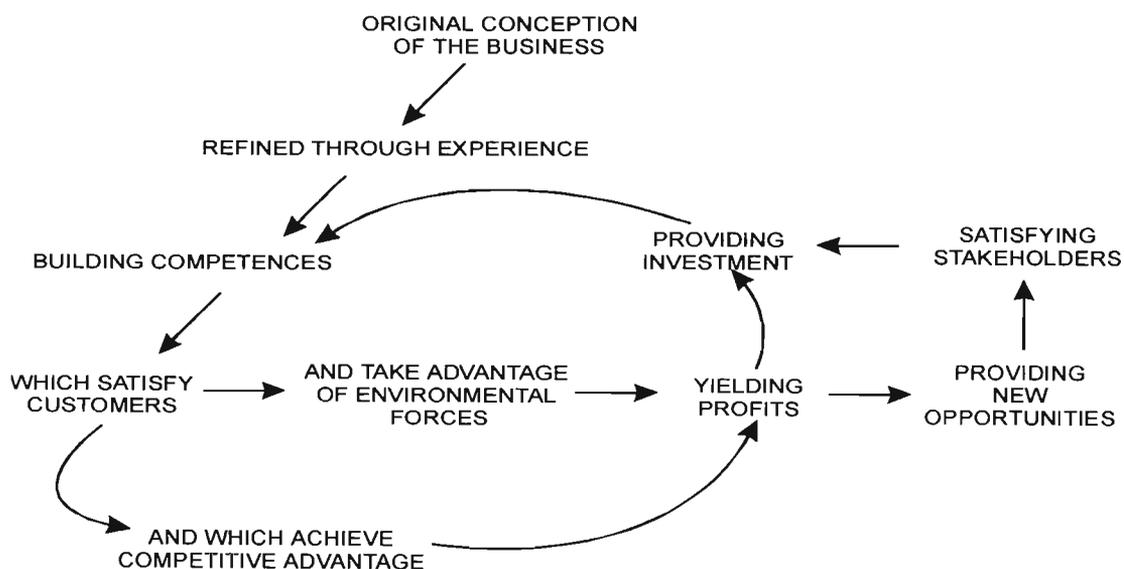


Figure 2.10 - The Business Idea (Adapted from Heijden,K. The Art of Strategic Conversation)

2.6.1.1. The PESTEL Framework

This consists of broad environmental factors that impact to some degree on the organisation. It is crucial to identify these issues, specifically those that are likely to have a significant impact on the organisation. The PESTEL framework looks at future trends in the political, economic, social, technological, environmental and legal environments, which might impact on organisations.

<p>Political</p> <ul style="list-style-type: none"> • Government stability • Taxation policy • Foreign trade regulations • Social welfare policies <p>Sociocultural factors</p> <ul style="list-style-type: none"> • Population demographics • Income distribution • Social mobility • Lifestyle changes • Attitudes to work and leisure • Consumerism • Levels of education <p>Environmental</p> <ul style="list-style-type: none"> • Environmental protection laws • Waste disposal • Energy consumption 	<p>Economic Factors</p> <ul style="list-style-type: none"> • Business trends • GNP trends • Interest rates • Money supply • Inflation • Unemployment • Disposable income <p>Technological</p> <ul style="list-style-type: none"> • Government spending on research • Government and industry focus on technological effort • New discoveries / development • Speed of technology transfer • Rates of obsolescence <p>Legal</p> <ul style="list-style-type: none"> • Monopolies legislation • Employment law • Health and safety • Product safety
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Table 2.4 – The PESTEL Framework – A list of Macro-Environmental influences (Adapted from Fahey,L. & Narayanan,V.K. 1986 Macro-Environmental Analyses for Strategic Management. West.)

The above macro-environmental factors are examples of ways in which strategies are affected by these influences.

▪ **Political and Legal Factors**

Company strategy is fundamentally driven by the direction and stability of political factors. They define the legal and regulatory framework within which organisations need to operate in. These may take the form of fair-trade decisions, anti-trust laws, tax programmes, minimum wage

legislation, pollution and pricing policies and many other actions aimed at protecting the employees, consumers and the general public. These restrictive laws and regulations can potentially reduce the profits of a company, although not all aim to do so. Political actions, which include patent laws, government subsidies, and product research grants, are designed to protect and benefit firms.

- **Economic Factors**

These factors concern the nature and direction of the economy in which the firm operates. Prime interest rates, inflation rates, and trends in growth of the gross national product are some factors that need to be considered. Different market segments have different consumption patterns, therefore when the organisation is conducting strategic planning it must consider economic trends in the segments that affect its industry. The general availability of credit, the level of disposable income, and the propensity of people to spend need to be considered on both an international and national level. The impact of international economic forces and international economic power brokers such as European Economic Community (EEC), Organisation of Petroleum Exporting Countries (OPEC), and coalition of developing countries also needs to be considered. This helps to compete more effectively on the international markets.

- **Sociocultural Factors**

The social factors that affect a firm involve the belief, values attitudes, opinions, and life-styles of people in the firm's external environment, which has evolved from the cultural, ecological, demographic, religious, educational, and ethnic conditioning. As these factors change so do buying patterns of customers change. Social forces are dynamic and involve constant change. Estimating the impact of each adjustment such as geographic shifts in populations and changing work values, ethical standards, and religious orientation can only assist a strategising firm in its attempts to prosper.

- **Technological Factors**

These set of factors involve technological change. To prevent obsolescence and to promote innovation a firm must be constantly aware of technological changes and advancements in the industry. New technological advancements will allow for new product development, product improvement or for improvements in manufacturing and marketing techniques. Technological forecasting and R&D can help improve the profitability of an organisation in growing industries, by alerting strategic managers to impending challenges and promising opportunities.

- **Ecological Factors**

The most important factor in the macroenvironment is the reciprocal relationship between business and the ecology. The term ecology refers to the relationships among human beings and

other human beings and other living things in the air, soil, and water that justify them. Specific factors include global warming, loss of habitat and biodiversity, as well as air, water and land pollution. Environmental legislation impacts corporate strategies worldwide.

2.6.1.2. Structural Drivers of Change

According to Hill (2000), it may be possible to identify a number of structural drivers of change, which are forces likely to affect the structure of an industry, sector, or market. This is evident in the increased globalisation of some industries.

- Drivers of Globalisation

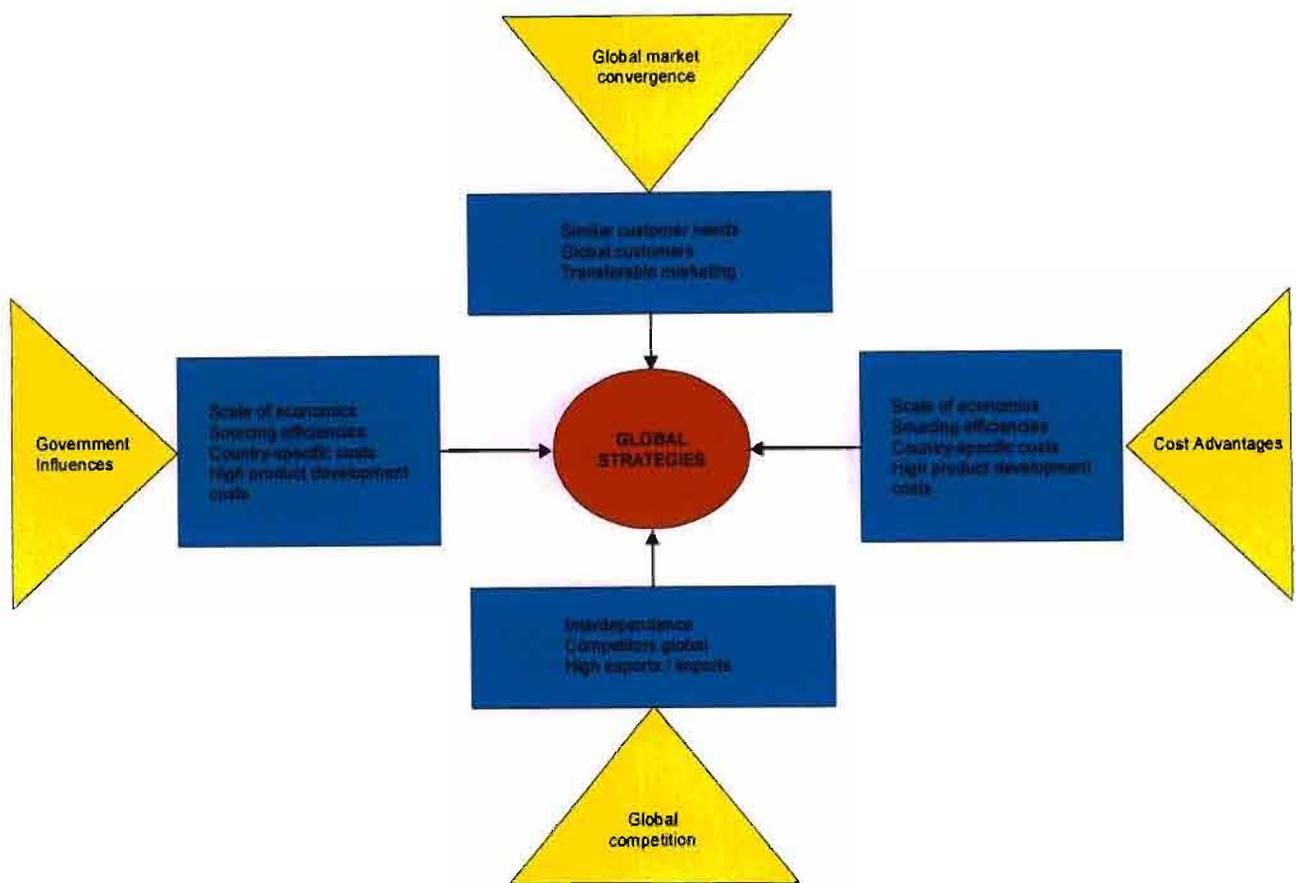


Figure 2.11 — Drivers of Globalisation (Adapted from Yip,G. 1995. Total Global Strategy. Prentice Hall. Chapter 2.)

There is a worldwide convergence of markets because customer needs and preferences are becoming more similar. As markets globalise, those operating in global markets become global customers and look for suppliers on a global basis. This, in turn provides opportunities for transference of marketing across countries. Marketing policies, brand names and identities and advertising maybe developed globally. Global operations may also provide cost advantages, especially in industries in which large volumes of standardised production is required for economies of scale. Cost advantages can also be achieved through central sourcing efficiencies

from lowest-cost suppliers across the world. Costs specific to a country, such as labour or exchange rates, encourages business to search globally for lower costs in order to compete. Government policy and activity has also stimulated the globalisation of certain industries. Political changes in the 1990s meant that all trading nations function with market-based economies and their trade policies have encouraged free markets between nations. As a result, global competition is therefore becoming more rampant and encourages further globalisation. If the level of imports and exports between countries are high, it increases interaction between competitors on a more global scale.

- **Reasons for Going Global**

Firms that only operate in the local or domestic environment have an important decision to make with regards to their globalisation: Should they (1) be proactive by entering global markets in advance of other firms and thereby enjoy first-mover advantages; or (2) be reactive by following a conservative approach and following other companies onto the global arena once customer demand has been established and new product or service costs have been absorbed by competitors? The table below is a useful guideline to help strategic decision makers faced with this dilemma.

Proactive

Advantage / Opportunity	Explanation of Action
Additional resources	Various inputs – including natural resources, technologies, skilled personnel, and materials – may be obtained more readily outside the home country
Lowered costs	Various costs – including labour, materials, transportation, and financing – may be lower outside the home country
Incentives	Various incentives may be available from the host government or the home government to encourage foreign investment in specific locations
New, expanded markets	New and different markets may be available outside the home country; excess resources – including management, skills, machinery, and money – can be utilized in foreign locations
Exploitation of firm-specific advantages	Technologies, brands, and recognized names can all provide opportunities in foreign locations
Taxes	Differing corporate tax rates and tax systems in different locations provide opportunities for companies to maximize their after-tax worldwide profits
Economies of scale	National markets may be too small to support efficient production, while sales from several combined allow for larger-scale production
Synergy	Operations in more than one national environment provide opportunities to combine benefits from one location with another, which is impossible without both of them
Power and prestige	The image of being international may increase a company's power and prestige and improve its domestic sales and relations with various stakeholder groups
Protect home market through offense in competitors home	A strong offense in a competitor's market can put pressure on the competitor that results in a pull-back from foreign activities to protect itself at home

Reactive

Outside occurrence	Explanation of reaction
Trade barriers	Tariffs, quotas, buy-local policies, and other restrictive trade practices can make exports to foreign markets less attractive; local operations in foreign locations thus become attractive
International customers	If a company's customer base becomes international, and the company wants to continue to serve it, then local operations in foreign locations may be necessary
International competition	If a company's competitors become international, and the company wants to remain competitive, foreign operations may be necessary
Regulations	Regulations and restrictions imposed by the home government may increase the cost of operating at home; it may be possible to avoid these costs by establishing foreign operations
Chance	Chance occurrence results in a company deciding to enter foreign locations

Table 2.5 – Guidelines for going global (Source: Punnet,B.J. & David,A.R. 1992. International Business. Page 249-250)

- Orientation of a Global Firm

Multinational firms typically display one of four orientations towards their overseas activities, based on a set of beliefs about how the management of foreign operations should be handled. The table below shows the impact of all four orientations based on key activities of the firm.

	Ethnocentric	Polycentric	Regiocentric	Geocentric
Mission	Profitability (viability)	Public acceptance (legitimacy)	Both profitability and public acceptance (viability & legitimacy)	Same as regiocentric
Governance	Top-down	Bottom-up (each subsidiary decides on local objectives)	Mutually negotiated between region and its subsidiaries	Mutually negotiated at all levels of the corporation
Strategy	Global integration	National responsiveness	Regional integration and national responsiveness	Global integration and national responsiveness
Structure	Hierarchical product divisions	Hierarchical area divisions, with autonomous national units	Product and regional organisation tied through a matrix	A network of organisations (including some stakeholders and competitor organisations) Global Flexible manufacturing Global product, with local variations
Culture	Home country	Host country	Regional	Redistribution globally
Technology	Mass production	Batch production	Flexible manufacturing	Best people everywhere in the world
Marketing	Product development determined primarily by the needs of home country customers	Local product development based on local needs	Standardize within region, but not across regions	developed for key positions everywhere in the world

Finance	Repatriation of profits to home country	Retention of profits in host country	Redistribution within region	
Personnel practices	People of home country developed for key positions everywhere in the world	People of local nationality developed for key positions in their own country	Regional people developed for key positions anywhere in the region	

Table 2.6 – Orientation of a Global Firm (Source: Adapted from Chakravarthy,B.S. & Perlmutter,V.H. 1985. “Strategic Planning for a Global Business”. Columbia Journal of World Business. Page 5-6)

▪ Complexity of the Global Enviroments

There are five factors that contribute to complexity in the global enviroments. These include: -

- Global organisations face multiple as well as various rates of changes in the political, economic, legal, social and cultural environments.
- There are national sovereignty issues which need to be considered which affects the interactions between national and foreign environments.
- Variations in business practices and geographical separation tends to make communication and control efforts between headquarters and overseas affiliates difficult.
- These organisations face extreme competition because of the differences in industry structures.
- Global organisations are restricted in their selection of competitive strategies by various regional blocs and economic integrations, such as EEC, European Free Trade Area (EFTA), North American Free Trade Area (NAFTA) and so on.

▪ International Strategy Options

The figure below presents the basic multinational strategy options based on location and coordination dimensions.

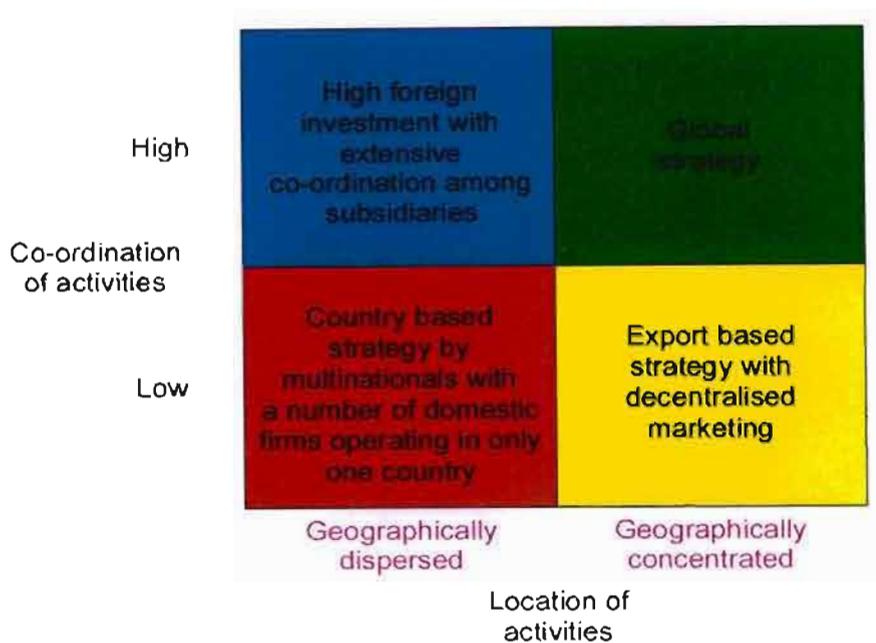


Figure 2.12 – International Strategy Options (Source: Adapted from Porter, M.E. 1986. “Changing Patterns of International Competition”. California Management Review. Page 19)

▪ **Competitive Strategies for Firms in Foreign Markets**

Firms wanting to globalise can adopt strategies based on the complexity of the foreign market they want to enter and by the diversity in the company’s product line. According to Pearce and Robbins (2000), complexity refers to the number of critical success factors required that are required to prosper in a given competitive arena and diversity refers to the breadth of a firm’s business lines. Together, the complexity and diversity dimensions form a continuum of possible strategic choices, which can result in various possible actions.

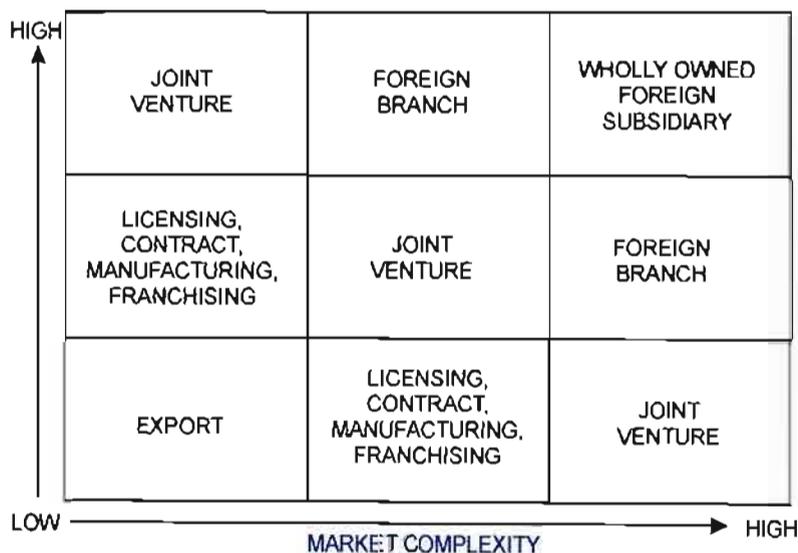


Figure 2.1 – Competitive Strategy Options

➤ Niche Market Exporting

The primary niche market approach for the company that wants to export is to modify select product performance or measurement characteristics to meet special foreign demands. Exporting usually requires minimal capital investment. Quality control standards over production processes and finished goods inventory are maintained by the organisation. There is low risk involved.

➤ Licensing/Contract Manufacturing

This involves a contractual agreement between companies without any equity involvement. Licensing may involve the transfer of some industrial property right from a licensor to a motivated licensee and can include patents, trademarks, or technical know-how that is granted to the licensee for a specified time in return for a royalty and for avoiding tariffs or import quotas. This strategy could also take the form of contract manufacturing of a firm's product line to a foreign company to exploit local comparative advantages in technology, materials, or labour. The licensing option reduces the risk of entry into foreign markets. There are however two major problems involved. Firstly, the foreign partner may gain experience and become a major competitor after the contract expires. And secondly, the licensor forfeits control on production, marketing, and general distribution of its products.

➤ Franchising

A special form licensing is franchising, which allows a franchisee to sell a highly publicised product or service using the parent's brand name or trademark, procedures and marketing strategies. In exchange, the franchisee pays a fee to the parent company, based on the volume of sales of the franchiser in its defined market area.

➤ Joint Ventures

As multinational strategies mature, they may include joint ventures (JV) with some specific company. JVs usually begin with mutually agreeable pooling of capital, production or marketing equipment, patents, trademarks, or management expertise and therefore offer a more permanent cooperative relationship than exporting or contract manufacturing.

➤ Foreign Branching

This is an extension of the company in a foreign market and is usually a separately located business unit responsible for fulfilling the operational duties assigned to it by head office, including sales, customer service, and physical distribution.

➤ Wholly Owned Subsidiaries

This involves the highest investment commitment to a foreign market. Such companies insist on full ownership for reasons of control and managerial efficiency. They can either be started from

scratch or by acquiring established firms in the host country. Policy decisions about local product lines, expansion, profits, and dividends are still determined by home country managers.

2.6.2. Industry and Operating Environments

Differences between industries arise because of their economic characteristics, competitive situations, and future profit prospects. An industry's economic traits and competitive condition, and any changes in these will determine whether its profit prospects are poor, average or excellent. When analysing the industry and operating environments one is trying to determine the intensity of competition, the drivers of industry change, the market positions and strategies of rival companies, the keys to competitive success, and the industry's profit outlook. Such analysis helps an organisation to determine whether strategies are in keeping with what is going on in the industry environment and whether resources are being adequately utilised. It is therefore imperative for the firm to match its strategy to changing industry conditions and competitive realities.

2.6.2.1. Industry Dominant Economic Factors

According to Thompson & Strickland (2001), industry and competitive analysis begins with an overview of the industry's dominant economic features and the factors to consider when profiling include:

- Market size.
- Scope of competitive rivalry (local, regional, national, international or global).
- Market growth rate and position in the business life (early development, rapid growth, and takeoff, early maturity, saturation and stagnation, decline).
- Number of rivals and their relative sizes – is the industry fragmented into many small companies or concentrated and dominated by a few large companies.
- The number of buyers and their relative sizes.
- Whether and to what extent industry rivals have integrated backwards and/or forwards.
- The types of distribution channels used to access customers.
- Whether products between rival firms are highly differentiated, weakly differentiated or identical.
- Whether companies can achieve economies of scale in purchasing, manufacturing, transportation, marketing or advertising.
- Whether certain industry activities are characterised by strong learning and experience effects (learning by doing) such that unit costs decline as cumulative output grows.

- Whether high rates of capacity utilisation are crucial to achieving low-cost production efficiency.
- Whether industry profitability is above/below par.

2.6.2.2. How Competitive Forces Shape Strategy

Michael Porter, an authority on competitive strategy, contends that a corporation should mainly be concerned with the intensity of competition within its industry. The level of this intensity is determined by basic competitive forces, which are depicted in the figure below. “The collective strength of these forces,” he contends, “determines the ultimate profit potential in the industry, where profit potential is measured in terms of long-run return on invested capital”(Porter,M.E: 1980: page3). Therefore, the essence of strategy formulation and analysis is coping with the competition. Porter (1979) suggests that in the fight for market share, competition is not manifested only in the other players. Rather, competition in an industry is rooted in its underlying economics, and competitive forces that exist well beyond the established combatants in a particular industry. Customers, suppliers, potential entrants, and substitute products are all competitors that maybe more or less prominent or active depending on the industry. Knowledge of these underlying sources of competitive pressure provides groundwork for a strategic agenda of action. They highlight the critical strengths and weaknesses of the company, the positioning of the company in its industry, clarify the areas where strategic changes may yield the greatest payoff, and highlight the places where industry trends promise to hold the greatest significance as either opportunities or threats.

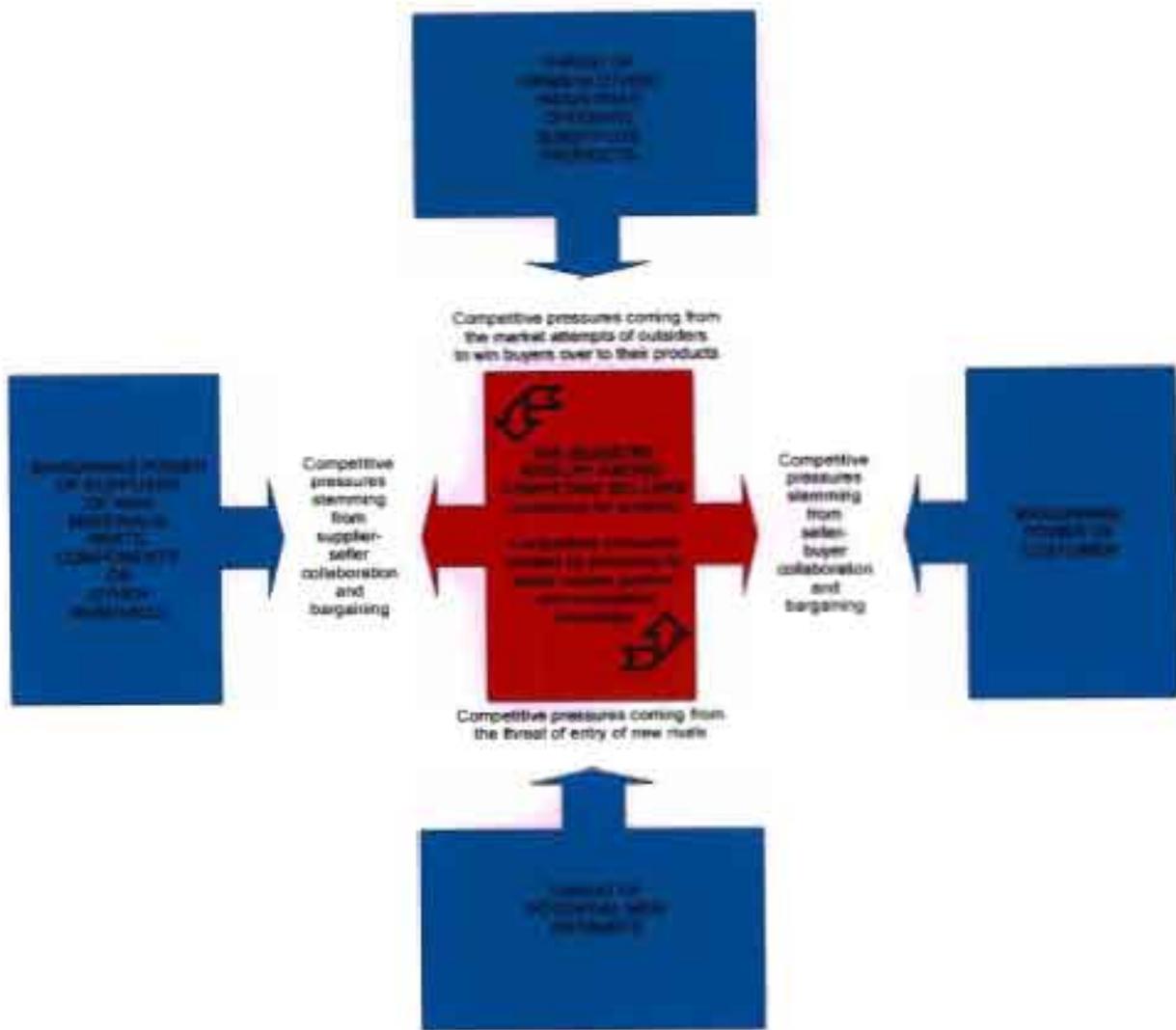


Figure 2.14. – The Five Forces Model of Competition (Source: Adapted from Michael.E.Porter, “How Competitive Forces Shape Strategy,” Harvard Business Review 57, No.2, March/April 1979, page 137-145)

Different forces take on prominence in shaping competition in each industry. The strategist, wanting to position his company to cope best with its industry environment or to influence that environment in the company’s favour, must learn what makes the environment tick.

- **Rivalry among Competing Sellers (Jockeying for Position)**

Rivalry in an industry can take the form of price competition, product performance features, marketing of innovative products, higher quality or more durable products, providing superior after-sale service, or creating a stronger brand image. Every company is faced with the challenge of crafting a successful strategy for competing i.e. one that produces a competitive edge over its rivals. Therefore, the success of any one firm’s strategy hinges on what strategies its rival’s employ and the resources rivals are willing and able to put behind their strategic efforts.

Regardless of the industry, several common factors seem to increase the tempo of cross-company rivalry:

- Number competitors increases and as competitors more equal in size and capability.
- Demand for the product is growing slowly.
- Industry conditions tempt competitors to use price cuts or other competitive weapons to boost unit volume.
- Customers costs for switching brands are low.
- When a competitor is dissatisfied with their market position and launches a move to bolster their standing at the expense of rivals.
- The more diverse competitors are in terms of their vision, strategic intents, objectives, strategies, resources and countries of origin.
- Strong companies outside the industry acquire weak firms in the industry and launch aggressive, well-funded moves to transform their newly acquired competitors into major market contenders.
- Threat of Potential New Entry

New entrants to a market bring new production capacity, the desire to establish a secure place in the market, and sometimes-substantial resources with which to compete. There are several types of entry barriers:

- Economies of scale.
- Cost and resource disadvantages independent of size.
- Learning and experience curve effects.
- Inability to match the technology and specialised know-how of firms already in the market.
- Brand preferences and customer loyalty.
- Capital requirements.
- Access to distribution channels.
- Regulatory policies.
- Tariffs and international trade restrictions.
- Threat of Substitute Products

Firms in one industry are quite often in close competition with firms in another industry because their respective products are good substitutes. Just how strong the competitive pressures are from substitute products depends on three factors:

- Whether attractively priced substitutes are available.
- Whether buyers view substitutes as being satisfactory in terms of quality, performance, and other relevant attributes.
- Whether buyers can switch to substitutes easily.

- **Bargaining Power of Buyers**

Buyers affect an industry through their ability to force down prices, bargain for higher quality or more services, and play competitors against each other. A buyer group is powerful if the following factors hold true:

- It is concentrated or purchases in large volumes.
- They have the ability to integrate backward by producing the product themselves.
- Alternative suppliers are plentiful because the product is standard or undifferentiated.
- Switching costs are low.
- The purchased product represents a high percentage of a buyer's costs, thus providing an incentive to shop around for a lower price.
- A buyer earns low profits and is thus very sensitive to costs service differences.
- The purchase price is unimportant to the final quality or price of a buyer's products or services and thus can be easily substituted without affecting the final product adversely.

- **Bargaining Power of Suppliers**

Suppliers can affect an industry through their ability to raise prices or reduce the quality of purchased goods and services. A supplier group is powerful if the following factors apply:

- It is dominated by a few companies and is more concentrated than the industry it sells to.
- Its product or service is unique and/or it has built up switching costs.
- Substitutes are not readily available.
- Suppliers are able to integrate forward and compete directly with their present customers.
- A purchasing company buys only a small portion of the suppliers group's goods and services and is thus unimportant to the supplier.

2.6.2.3. Concept of Driving Forces

Porter (1980) suggests that industry and competitive conditions change because forces are in motion that creates incentives or pressures for change. These dominant forces are called driving forces because they have the biggest influence on what kinds of changes will take place in the industry's structure and competitive environment. Most drivers of change fall into one of the following categories (Porter: 1980: page 164-183):

- The internet and the new e-commerce opportunities and threats it breeds in the industry.
- Increasing globalisation of the industry.
- Changes in the long-term industry growth rate.
- Changes in who buys the product and how they use it.
- Product innovation.

- Technological change.
- Market innovation.
- Entry or exit of major firms.
- Diffusion of technical know-how across companies and more countries.
- Changes in cost and efficiency.
- Growing buyer preferences for differentiated products instead of a commodity product.
- Regulatory influences and government policy changes.
- Changing societal concerns, attitudes and lifestyles.
- Reduction in uncertainty and business risk

Sound analysis of an industry's driving forces is a prerequisite to sound strategy making. Managers need to have a keen awareness of what external factors will cause the largest potential changes in the company's business over the next one to three years.

2.6.2.4. Key Success Factors

According to Thompson and Strickland (2001), an industry's key success factors (KSFs) are those things that most affect industry's members ability to prosper in the marketplace- the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the difference between profit and loss and, ultimately between competitive success and failure. KSFs are the rules that determine whether a company will be financially and competitively successful. The answer to three questions helps identify an industry's key success factors:

- How do customers choose between the competing brands of sellers? Which product or service attributes are fundamental to their decision?
- What resource and competitive capabilities does a seller need to have to be competitively successful?
- What does it take for sellers to achieve a sustainable competitive advantage?

List of Key Success Factors

- Technology-Related KSFs
 - Scientific research expertise.
 - Technical capability to make innovative improvements in production processes.
 - Production innovation capability.
 - Expertise in given technology.
 - Capability to use the internet for all kinds of e-commerce activities.

- Manufacturing-Related KSFs
 - Low-cost production efficiency (achieve scale economies, capture experience curve effects).
 - Quality of manufacture (fewer defects, less need for repairs).
 - High utilisation of fixed assets (important in capital-intensive/high-fixed cost industries).
 - Low-cost plant locations.
 - Access to adequate supplies of skilled labour.
 - High labour productivity (important for items with high labour content).
 - Low-cost product design and engineering (reduces manufacturing costs).
 - Ability to manufacture or assemble products that are customized to buyer specifications.
- Distribution-Related KSFs
 - A strong network of wholesale distributors/dealers (or electronic distribution capability via the internet).
 - Gaining ample space on retailer shelves.
 - Having company-owned retail outlets.
 - Low distribution costs.
 - Accurate filling of customers orders.
 - Short delivery times.
- Marketing-Related KSFs
 - Fast, accurate technical assistance.
 - Courteous customer service.
 - Accurate filling of buyer orders.
 - Breadth of product line and product selection.
 - Merchandising skills.
 - Attractive styling or packaging.
 - Customer guarantees and warranties (important in mail-order and on-line retailing, big-ticket purchases, new product introductions).
 - Clever Advertising.
- Skills-Related KSFs
 - Superior workforce talent.
 - Quality control know-how.
 - Design expertise (important in fashion and apparel industries and often one of the keys to low cost manufacture).

- Expertise in a particular technology.
- An ability to develop innovative products and product improvements.
- An ability to get newly conceived products past the R&D phase and out onto the market very quickly.
- Organisational Capability
 - Superior information systems.
 - Ability to respond quickly to shifting market conditions (streamlined decision making, short lead times to bring new products to the market).
 - Superior ability to employ the internet and other aspects of electronic commerce to conduct business.
- Managerial experience.
 - Other Types of KSFs
 - Favourable image or reputation with buyers.
 - Overall low cost (not just in manufacturing).
 - Convenient locations.
 - Pleasant, courteous employees in all customer contact positions.
 - Access to financial capital.
 - Patent protection.

2.6.2.5. Industry Prospects and Overall Attractiveness

It is important to draw conclusions on the relative attractiveness or unattractiveness of the industry in the near-term and long-term. This helps company strategists to decide whether industry and competitive conditions present an attractive business opportunity for the company or whether the company's growth prospects are gloomy. The following factors need to be considered when drawing such conclusions:

- The industry's growth potential.
- Whether competition permits adequate profitability and whether competitive forces will become stronger or weaker.
- Whether prevailing driving forces will favorably or unfavorably affect industry profitability.
- The company's competitive position in the industry and whether its position is likely to grow stronger or weaker (Being a well-entrenched leader or strongly positioned contender in an otherwise lackluster industry can still produce good profitability; however, having to fight an uphill battle against much stronger rivals can make an otherwise attractive industry unattractive).

- The company's potential to capitalise on the vulnerabilities of weaker rivals (perhaps converting an unattractive company industry situation into a potentially rewarding company opportunity).
- Whether the company is able to defend against or counteract the factors that make the industry unattractive.
- The severity of problems confronting the industry as a whole.

If the assessment of the industry proves to be attractive, this suggests that the organization needs to employ strategies to strengthen their long-term position by expanding sales effort and investing in additional facilities and equipment as needed. If the situation proves to be unattractive, the organisation may choose to invest cautiously, look for ways to improve long-term competitiveness and profitability, and perhaps acquire smaller firms if the price is right.

2.7. Strategic Capability

Reputation is defined as the evolution of a firm by its stakeholders in terms of respect, knowledge or awareness, and emotional or effective regard. Therefore, one can say that a firm's reputation is an intangible resource upon which the company can build capabilities and ultimately core competencies. Because reputation has been such a apparent intangible resource, many firms have tried to build perceptual measures of this asset that provides a signal to rivals and stakeholders of the competitive value of their reputations. Charles Fombrun and colleagues have argued that many ranking services are in the business of public relations rather than academic measurement. In their research, Fombrun and his colleagues use twenty attributes to develop a "reputational quotient." These attributes are divided into six reputation categories: emotional appeal, social responsibility, financial performance, vision and leadership, workplace environment, and products and services. Based on these criteria, a firm can develop intangible distinctions between itself and its rivals within each reputational category. These value-creating distinctions help the firm develop the type of reputation that can evolve into a core competence.

Organisations that develop competitive advantage based on reputation want that advantage to be sustainable. Sustainable competitive advantage is created when firms use the strategic management process to implement strategies that uniquely use a firm's resources, capabilities, and core competencies. Brush et al (2001) states that competitive advantage research is critical because "resources are the foundation for strategy and (the) unique bundles of resources (that) generate competitive advantages that lead to wealth creation."

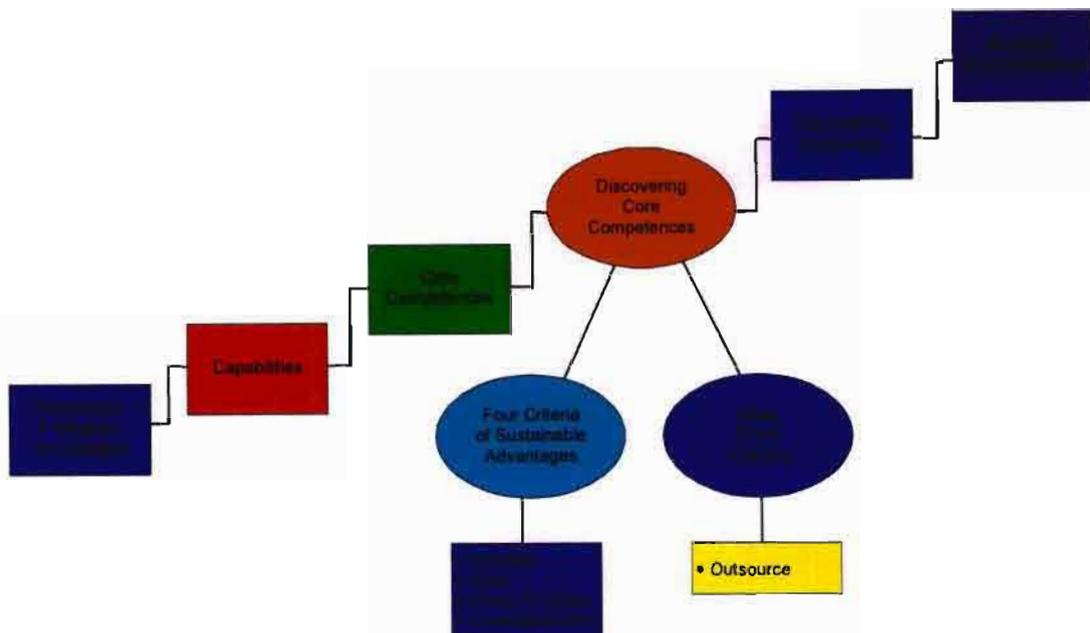


Figure 2.15 — Components of Internal Analysis Leading to Competitive Advantage and Strategic Competitiveness.

“The challenge in all firms is to effectively manage current core competencies while simultaneously developing new ones” (Abell,D.F: 1999). In the words of Michael Dell, CEO of Dell Computer Corporation, “No [competitive] advantage and no success are ever permanent. The winners are those who keep moving. The only constant in our business is that everything is changing. We have to be ahead of the game” (Eisenhardt,K.M: 1999). Based on the above, it is only when firms develop a continuous stream of competitive advantages do they achieve strategic competitiveness, earn above-average returns, and remain ahead of the competitors.

“It is also critical that managers view the firm as a bundle of heterogeneous resources, capabilities and core competencies that can be used to create an exclusive market position” (Rindova & Fombrun: 1999). This perspective suggests that individual firms possess at least some resources and capabilities that other firms do not – at least not in the same order. The figure below illustrates the relationships among resources, capabilities, and core competencies and indicates how firms optimise them to create strategic competitiveness. In terms of economy, the mindset required by managers is to define their firm’s strategy in terms of a unique competitive position, rather than strictly in terms of operational effectiveness. Michael Porter (1996) argues that quests for productivity, quality, and speed from using a number of management techniques – total quality management (TQM), benchmarking, time-based competition, and re-engineering – have resulted in operational efficiency, but have not resulted in strong sustainable strategies. In order to achieve strategic competitiveness, a firm needs to satisfy the operational efficiency demands of its external environment while simultaneously using its own unique capabilities to establish a viable strategic position.

2.7.1. Resources, Capabilities and Core Competencies

Resources, capabilities and core competencies are the characteristics that make up the foundation of competitive advantage. Brush et al (2001) state that resources are the source of a firm's capabilities and capabilities are in turn the source of a firm's core competencies, which provides the framework for competitive advantage.

2.7.1.1. Resources

From a strategic perspective an organisation's resources include those that are owned and also those that can be accessed externally to support strategies. These external resources may include the organisation's network of contacts or customers. Resources can be grouped into tangible and intangible categories and cover a spectrum of individual, social and organisational phenomena. Intangible resources include assets that are embedded in the firm's history and have accumulated over time. They are relatively difficult for the firm's competitors to analyse and imitate. Tangible resources are assets that can be seen and quantified. They may include production equipment, manufacturing plants, and formal reporting structures. Below are tables, which indicate a list of both these resources and some of their characteristics.

Financial Resources	<ul style="list-style-type: none">• The firm's borrowing capacity• The firm's ability to generate internal funds
Organisational Resources	<ul style="list-style-type: none">• The firm's formal reporting structure and its formal planning, controlling, and co-ordinating systems
Physical Resources	<ul style="list-style-type: none">• Sophistication and location of a firm's plant and equipment
Technological Resources	<ul style="list-style-type: none">• Stock of technology, such as patents, trademarks, copyrights, and trade secrets

Table 2.7 – Tangible Resources (Source: Adapted from Barney, J.B. (1991) Firm resources and sustained competitive advantage, *Journal of Management*, No. 17, page101.)

Intangible Resources	
Human Resources	<ul style="list-style-type: none"> • Knowledge • Trust • Managerial capabilities • Organisational routines
Innovation Resources	<ul style="list-style-type: none"> • Ideas • Scientific capabilities • Capacity to innovate
Reputational Resources	<ul style="list-style-type: none"> • Reputation with customers • Brand name • Perceptions of product quality, durability and reliability <p>Reputation with suppliers - for efficient, effective, supportive and mutually beneficial interactions and relationships</p>

Table 2.8 – Intangible Resources (Source: Adapted from Barney, J.B. (1991) Firm resources and sustained competitive advantage, *Journal of Management*, No. 17, page 101.)

2.7.1.2. Capabilities

Capabilities evolve from intangible and tangible resources, which are a critical pathway to the development of competitive advantage. Helfat and Raubitschek (2000) highlight that capabilities are the firm's capacity to deploy resources that have been purposely integrated to achieve a desired end state. They are often based on developing, carrying and exchanging information and knowledge through the firm's human capital. An extensive knowledge base is embedded within all organisational actions, which may not be explicitly understood by all employees, and through repetition and practice this enhances organisational capabilities. Firms committed to continuously developing their people's capabilities seem to follow the adage that "the person who knows how will always have a job. "The person who knows why, will always be the boss" (Forbes: 1999). As illustrated in the table below, capabilities are often developed in specific functional areas (such as manufacturing, R&D, and, marketing) or in a part of a functional area (example advertising). Research suggests that a relationship exists between capabilities developed in a specific functional area and the firm's financial performance at both the corporate and business unit levels, suggesting the need to develop capabilities at both levels (Hitt & Ireland: 1986).

Functional areas	Effective use of logistics management techniques
Human resources	Motivating, empowering and retaining employees
Management information systems	Effective and efficient control of inventories through point-of-purchase data collection methods
Marketing	Effective promotion of brand-name products Effective customer service Innovative merchandising
Management	Ability to envision the future of clothing Effective organisational structure
Manufacturing	Design and production skills yielding reliable products Product and design quality Production of technologically sophisticated automobile engines Miniaturisation of components and products
Research and development	Exceptional technological capability Development of sophisticated elevator control solutions Rapid transformation of technology into new products and processes Deep knowledge of silver-halide materials Digital technology

Table 2.9 – Examples of firm’s capabilities.

2.7.1.3. Core Competencies

Core competencies are resources and capabilities that serve as a source of a firm’s competitive advantage over rivals. They reflect the organisation’s personality and distinguish a company from its rivals. According to Hamel & Prahalad (1990) core competencies are regarded as the “crown jewels of a company” because they are the activities that the company performs better in relation to their competitors and through which the firm enhances value of their goods and services over a period of time.

▪ Building Core Competencies

There are two tools that help a firm identify and build its core competencies (Barney:1995:99). The first consists of four specific criteria of sustainable advantage that firms can use to determine those resources and capabilities that are core competencies. This is indicated in the table below. The second tool is the value chain analysis, which identifies value creating competencies that need to be constantly maintained, upgraded or developed, and those, which may need to be outsourced.

➤ Four Criteria of Sustainable Competitive Advantage

Capabilities that are valuable, rare, costly to imitate and non-substitutable are strategic capabilities. They provide a source of competitive advantage to the firm.

FOUR CRITERIA FOR DETERMINING STRATEGIC CAPABILITIES	
Valuable capabilities	<ul style="list-style-type: none"> Help a firm neutralise threats or exploit opportunities
Rare Capabilities	<ul style="list-style-type: none"> Are not possessed by many others
Costly to Imitate capabilities	<ul style="list-style-type: none"> Historical: A unique and a valuable organisational culture or brand name
Nonsubstitutable capabilities	<ul style="list-style-type: none"> No strategic equivalent

Table 2.10 – Four criteria for determining strategic capabilities

As shown in the figure below, every core competence is a capability, but not every capability is a core competence. Operationally, for a capability to be a core competence, it must be “valuable and non-substitutable, from a customer’s viewpoint, and unique from a competitor’s viewpoint (St John & Harrison: 1999: 129). Sustained competitive advantage is achieved when competitors are unable to duplicate the benefits of the firm’s strategy or if they lack the confidence to do so.

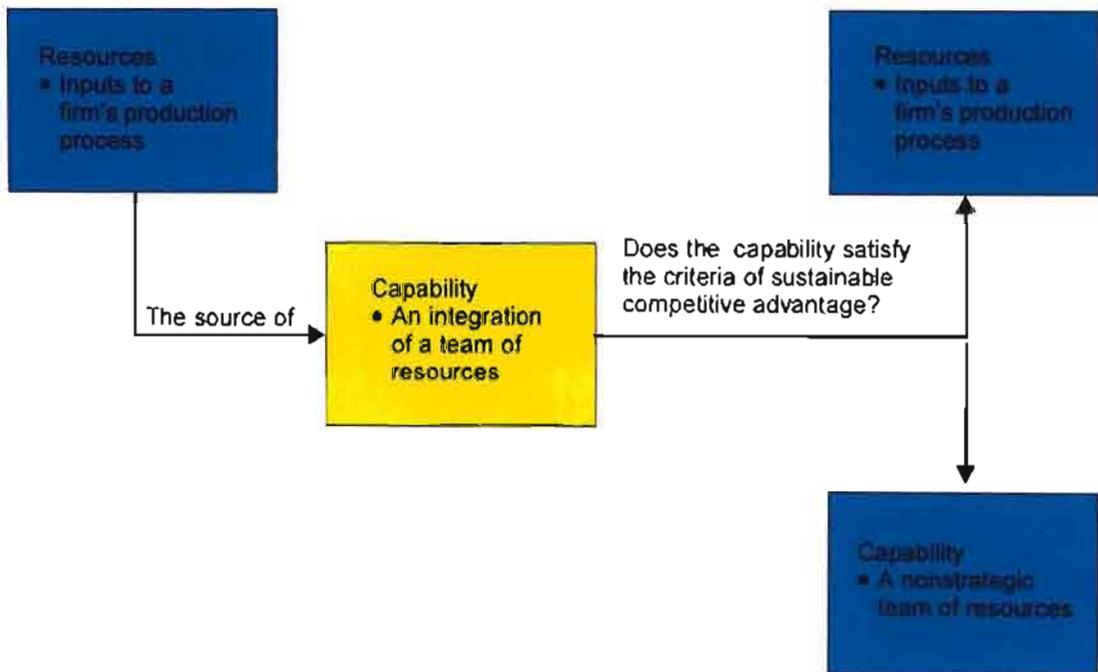


Figure 2.16 — Core Competence as a Strategic Capability.

Core competences underpinning competitive success can be embedded in linked organisational activities, as illustrated in the following figure.

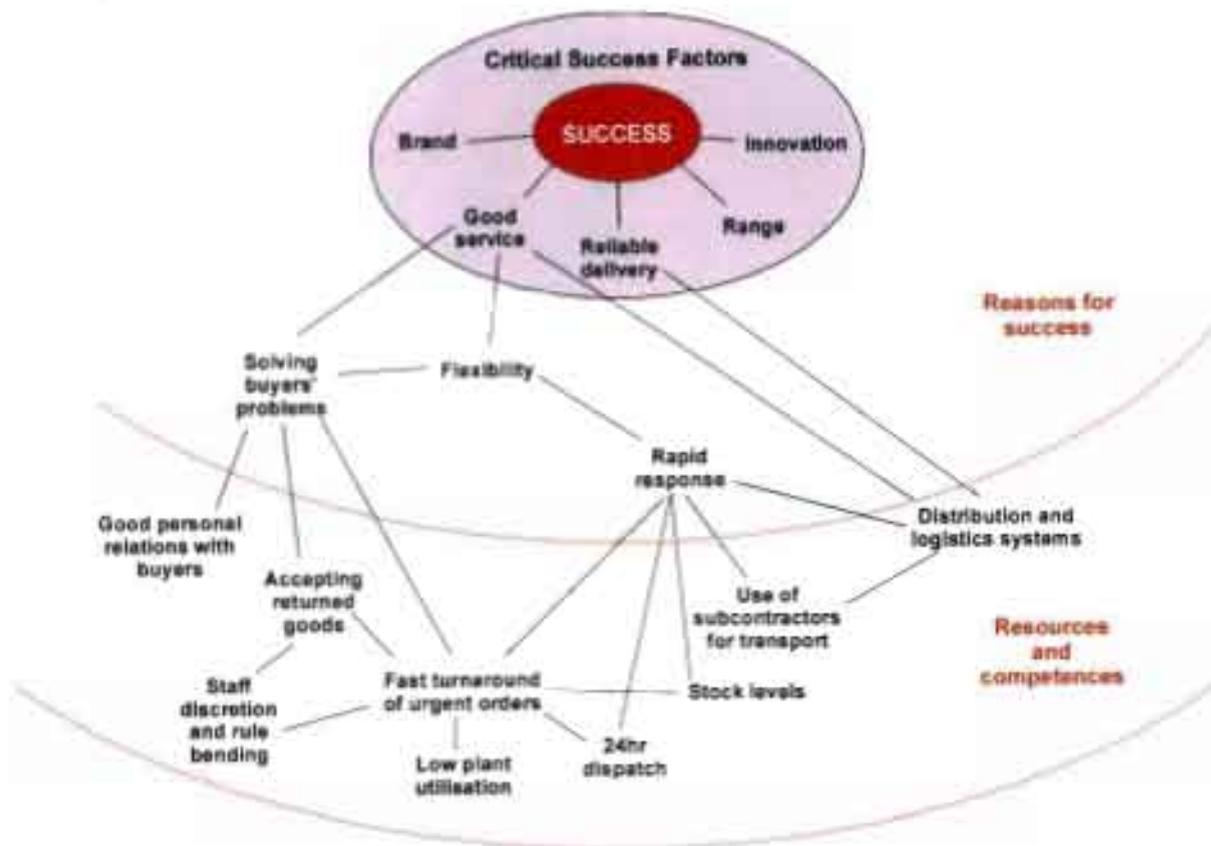


Figure 2.17 — A model of core competences in consumer goods business.

From the above we can determine that critical success factors (CSFs), such as level and range of service which form part of an organisation's core competences help it to be particularly successful in relation to competitors. The illustration also shows that success can be understood better by being specific as to what these CSFs actually mean. For example good service actually means flexibility and rapid response, but also finding ways to solve problems that buyers may have – getting the wrong order mix or over-ordering. These can be regarded as reasons for success. Following on this, organisations do not outperform competitors until resources and core competences that underpin these items are unpacked. These include a well-developed distribution system in serving customers, flexibility to solve buyer's problems such as 'bending the rules' by taking back returns and so on. Through the above illustration, emerges an understanding of where core competences reside in an organisation. It is a combination of activities that result in superior performance and not just one or two items in isolation. Much of the success lies in the operational activities of the firm, which are not evident to the competitors, and thus results in sustainable competitive advantage.

2.7.2. Developing Competitive Advantage through the Value-Chain

Customer value is obtained from three different sources: activities that differentiate the product, activities that lower product costs, and activities that satisfy customer needs rapidly. Value chain analysis (VCA) attempts to explain and identify how the organisation through an analysis of organisational activities can create customer value. Therefore, the term value chain describes the business as a chain of activities that transforms inputs into outputs. Porter (1985) explains that understanding these issues is important because the firm earns above-average returns only when the value it creates is greater than the costs incurred to create that value. Proponents of VCA believe that VCA allows managers to look at the firm as a business process or a chain of activities, in order to identify its strengths and weaknesses i.e. by looking at what actually happens instead of arbitrary organisational dividing lines or historical accounting protocol.

The figure below shows a typical value chain framework. Activities of the firm are divided into two broad categories: primary activities and support activities. Primary activities (sometimes called line functions) are those involved in the physical creation of the product, marketing and transfer to the buyer, and after-sale support. Support activities (sometimes called staff or overhead functions) provide infrastructure or inputs that facilitate primary activities. The value chain includes profit margin since a markup above the cost of providing a firm's value-adding activities is normally part of the price paid by the buyer – creating value that exceeds cost in order to create a profit. In order for the activities on the value chain to be a source of competitive advantage, the resource or activity must (1) perform in a manner that is superior to the way competitors perform it, or (2) to perform a value-creating activity that competitors cannot complete. Only under these circumstances does the firm create value for customers and have opportunities to capture that value.

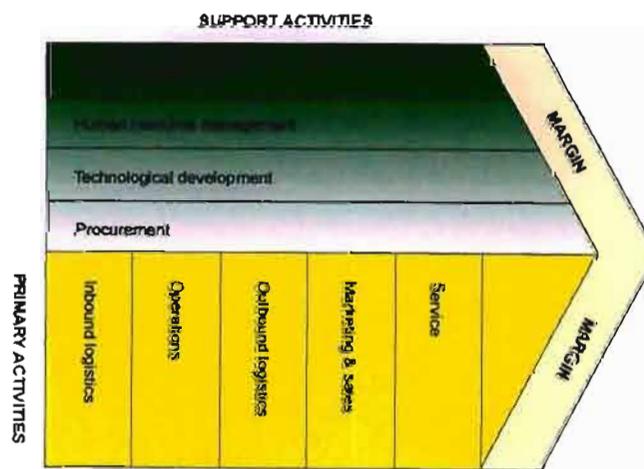


Figure 2.18 – Value Chain Analysis

2.7.2.1. Conducting a Value Chain Analysis

- Step 1 – Identify Activities

The firm's activities and business operations need to be categorised into primary and support activities. The challenge is to identify any discrete activities that may represent strengths or weaknesses, which needs to be analysed in detail.

- Step 2 – Allocate Costs

Here one needs to allocate costs to each discrete activity as each activity incurs costs, utilises time, and ties up assets.

- Step 3 – Identify the Activities that Differentiate the Firm

Here sources of differentiation on products and services relative to competitors need to be highlighted.

- Step 4 – Examine the Value Chain

After the value chain has been documented, managers need to identify the activities that are critical to buyer satisfaction and market success. There are three aspects, which need to be considered. First, the company's basic mission needs to affect the manager's choice of activities for analysis in detail. Second, the relative importance of selecting activities should be based on the industry in which the firm is operating. Third, the relative importance of value activities can vary by a company's positioning a broader value system that includes the value chains of its upstream suppliers and downstream partners and customers involved in providing products or services to end-users. Managers need to consider their level of vertical integration when comparing their cost structure for activities on their value chain to those of their competitors.

- Step 5 – Compare to Competitors

A value activity when being analysed as a strength or weakness needs to be compared to value activities of competitors. This can be done through benchmarking.

2.7.3. SWOT Analysis

Building on a firm's resource strengths and weaknesses and its external opportunities and threats is known as a SWOT Analysis. Such an analysis provides a synopsis of whether a firm's business position is healthy or not. By conducting a SWOT Analysis the organization is able to determine whether strategy-making efforts are producing a good fit between the company's resource capability (as reflected by its balance of resource strengths and weaknesses) and its external environment (as reflected by industry and competitive conditions, market opportunities available to the organisation, and external threats that affect the company's profitability and market standing).

- Identifying Company Strengths and Resource Capabilities

Strength is something the company is good at doing or a trait that enhances competitiveness, and may take various forms:

- A skill or important expertise – Low cost manufacturing capabilities, strong e-commerce expertise, technological know-how, consistently good customer service.
- Valuable physical assets – state-of-the-art plants and equipment, attractive real estate locations, worldwide distribution facilities, cutting edge computer networks and information systems.
- Valuable human assets – experiences and capable workforce, talented employees in key areas, motivated and energetic employees, astute entrepreneurship and managerial know-how.
- Valuable organisational assets – proven quality control systems, key patents, a base of loyal customers, a strong balance sheet and credit rating, well functioning company intranet, cutting-edge supply-chain management.
- Valuable intangible assets – brand-name image, company reputation, motivated and energised workforce.
- An achievement or attribute that puts the company in an advantageous market position- low overall costs, market share leadership, and wide product selection.

- Identifying Company Weaknesses and Resource Deficiencies

A weakness is something a company lacks or does not succeed in (in comparison to others) or a state that places it at a disadvantage. Internal weaknesses can relate to:

- Deficiencies in important skills or expertise or intellectual capital.
- Lack of competitively important physical, organisational or intangible assets.
- Lack of competitive capabilities in key areas.

This entails a review of the company's resource base i.e. which resource gaps need to be filled?

- Identifying a Company's Market Opportunities

Opportunities in the market greatly influences the shape of a company's strategy. Each opportunity needs to be appraised in terms of its growth and profit potential. According to Thompson and Strickland (2001:127), "the market opportunities most relevant to a company are those that offer important avenues for profitable growth, those where a company has the most potential for competitive advantage, and those that match up well with the company's financial and organisational resource capabilities".

▪ Identifying Threats to a Company’s Future Profitability

There are factors in the external environment that can pose a threat to a firm’s profitability and competitiveness. These can stem from the emergence of cheaper or better technologies, competitors introduction of a new or better product, entry of new competitors into the market, vulnerability to a rise in interest rates, political instability, the potential of a hostile takeover, and fluctuations in exchange rates. Opportunities and threats not only affect the company’s situation, but more importantly calls for strategic action.

2.7.3.1.SWOT Analysis and Strategy Selection

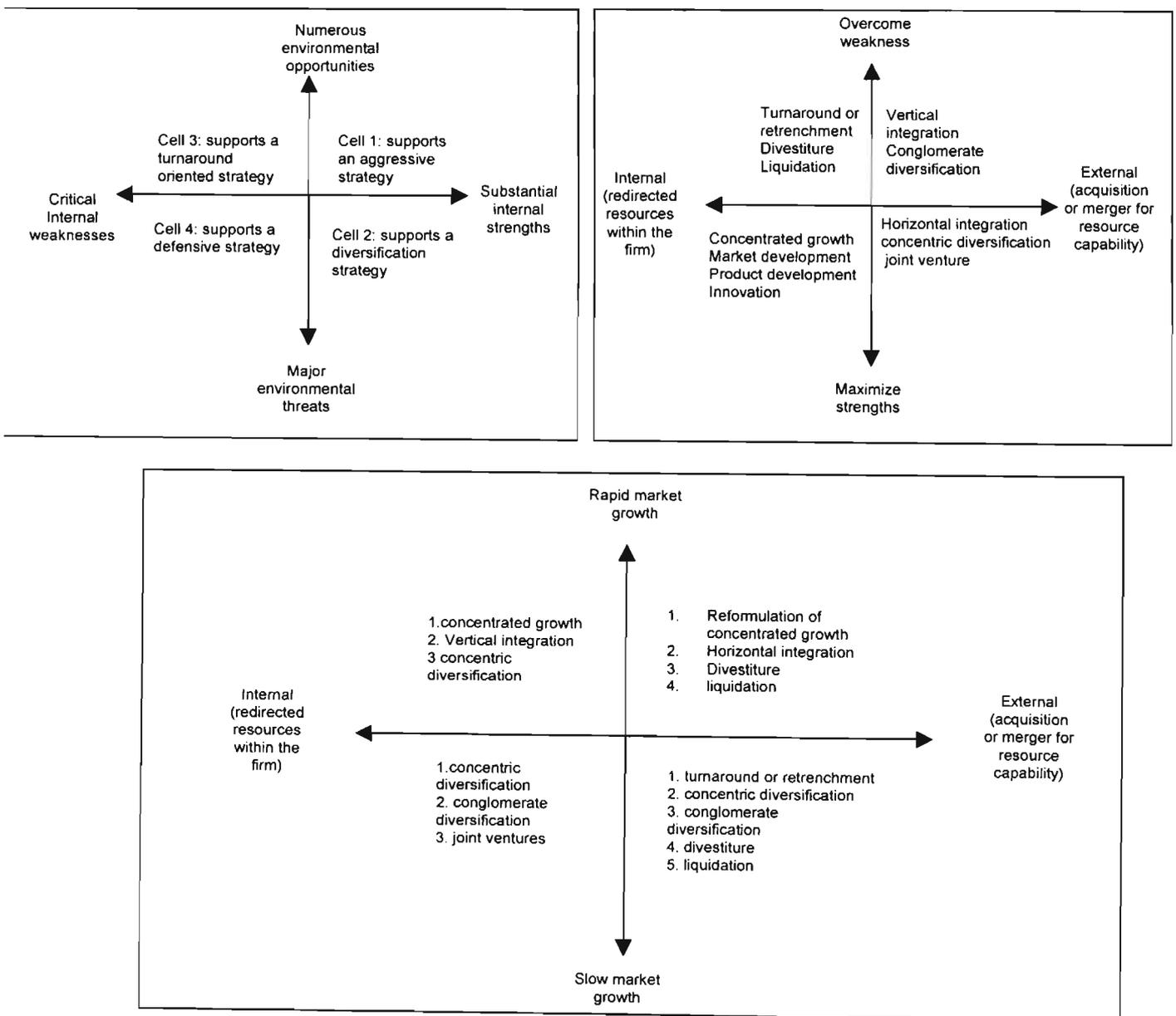


Figure 2.19 – SWOT Analysis and Strategy Selection

2.7.3.2. Evaluating Strategy

Whilst evaluating strategy from a qualitative viewpoint (its completeness, internal consistency, rationale and suitability to the situation), it is also important to consider the quantitative evidence on how well a company's recent strategic and financial performance and seeing what story the numbers tell about the results the strategy is producing. Based on this, one needs to evaluate the performance of a company's strategy by looking at:

- Whether the firm's sales are growing faster, slower, or about the same pace as the market as a whole, thus resulting in a rising, eroding or stable market share.
- Whether the company is acquiring new customers at an attractive rate as well as retaining existing customers.
- Whether the firm's profit margins are increasing or decreasing and how well its margins compare to rival firm's margins.
- Trends in the firm's net profits, return on investment, and economic value added, and how these compare to the same trends for other companies in the industry.
- Whether the company's overall financial strength and credit rating are improving or on the decline.

The stronger a company's current overall performance, the less likely the need for radical changes in strategy. The weaker a company's financial performance and market standing, the more its current strategy must be questioned.

2.8. Strategy and Organisational Structure, Leadership and Culture – Organising for Success

In order for strategy to be successfully implemented and carried out, organisational and business activity needs to be effectively carried out. The firm needs to address the following questions: What is the best way for the firm to organise itself to accomplish its mission? Where should leadership come from and the role of leaders and managers?; What values should guide the organisation's daily activities?; and what should the organisation and its people be like? These are some of the fundamental issues managers face as they turn to the heart of effective strategy implementation. When considering these internal factors, there are external factors that also need to be looked at simultaneously. These include the intense competition in the marketplace, customers, suppliers and distribution partners. They in turn affect decisions in terms of business processes, leadership and culture of the company. Managers need to rationalise their organisational structure, leadership and culture to ensure a basic level of cost competitiveness,

capacity for responsive quality, and the need to shape each one of them to achieve the requirements of their strategies.

These issues have received considerable attention from various authors, executives and researchers over the last decade in order to understand the reasons behind the superior performance of the world's 'best companies'. One of the early and widely accepted frameworks that identify the key factors that best explain superior performance is the McKinsey 7-S framework. (As shown in the figure below)

This framework identifies seven characteristics that that characterise the more successful companies. The first of these is style, which refers to the dominant pattern of behaviour and thinking of management. The second element is skills, which means specific capabilities possessed by employees that set a company apart from its competition. Staff refers to the dominant culture of the people who work for the organisation. The final characteristic is shared values, which means common values or goals that motivate people in the business. McKinsey believes that successful companies exhibit strongly held shared values that fit their strategy. (Doyle: 2002)

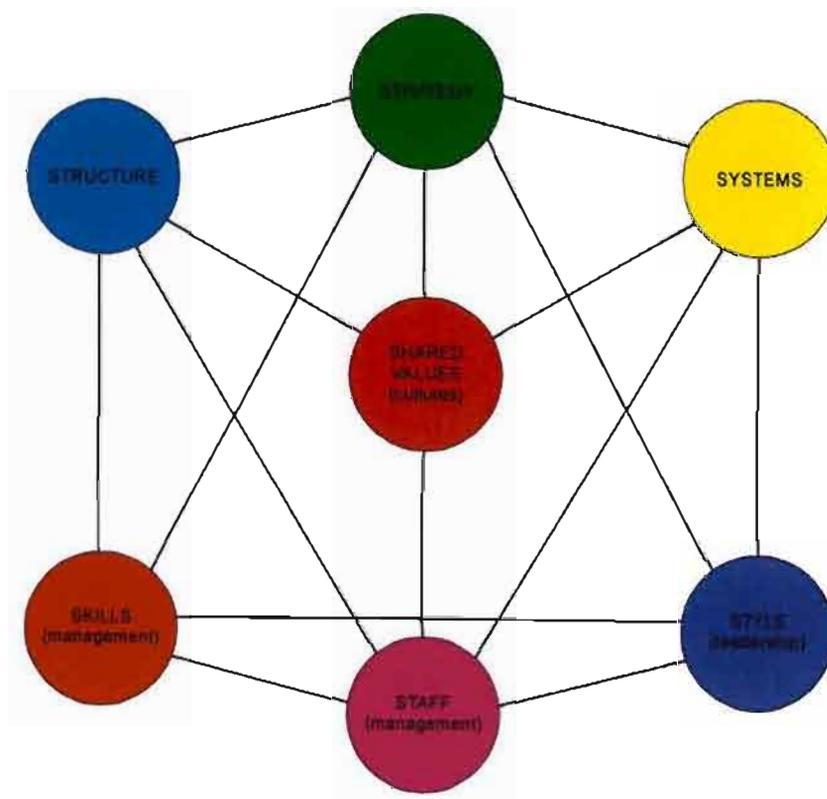


Figure 2.20 - McKinsey 7-S Framework

2.8.1. Structuring an Effective Organisation

Successful strategy depends largely on a firm's primary organisational structure. According to Pearce & Robbins (2000), primary organisational structure refers to the way in which work and activities are organised within an organisation or business entity in order to get work done efficiently and effectively. Separating activities in this way is part organising and is sometimes also referred to as differentiation. However, separate activities need to be integrated back together in some fashion so that the business as a whole functions effectively. Managers need to learn that designing the right structure can enhance the chances that a strategy will succeed, while designing a structure without considering a strategy will cause a strategy to ultimately fail.

The following guidelines are essential when matching strategy to structure:

- Restructure to emphasise and support strategically critical activities
- Reengineer strategic business processes
- Downsize, outsource or self-manage
- Recognise that strategy and structure often evolve in a predictable pattern.

2.8.2. Processes

Structure is a critical factor in organising for success. However, within any structure, what makes organisations work are the formal and informal organisational processes (Fenton & Pettigrew : 2000). These processes are regarded as controls on the organisation's operations and therefore play a role in assisting or hindering strategy into action. The following processes will be discussed:

2.8.2.1. Direct Supervision

According to Johnson & Scholes (2002), direct supervision is the direct control of strategic decisions by one or few individuals. This is often found in family businesses and results in managers controlling the strategy in detail from the center. It usually occurs under conditions of major change, an organisational crisis or when a major transformation is occurring in the business environment. In such a situation, the survival of the organisation may be threatened and autocratic control through direct supervision may be necessary.

2.8.2.2. Planning and Control Systems

Johnson & Scholes (2002) describes planning and control systems as archetypal administrative control, where the successful implementation of strategies is achieved through systems that plan and control the allocation of resources and monitor their utilisation. A plan would cover all parts of the organisation and show, clearly in financial terms, the level of resources allocated to each area (whether that is functions, divisions or business units). Budgets are also used as a planning

and control mechanism. The illustration below is an example of a “bottom-up” business planning and control system.

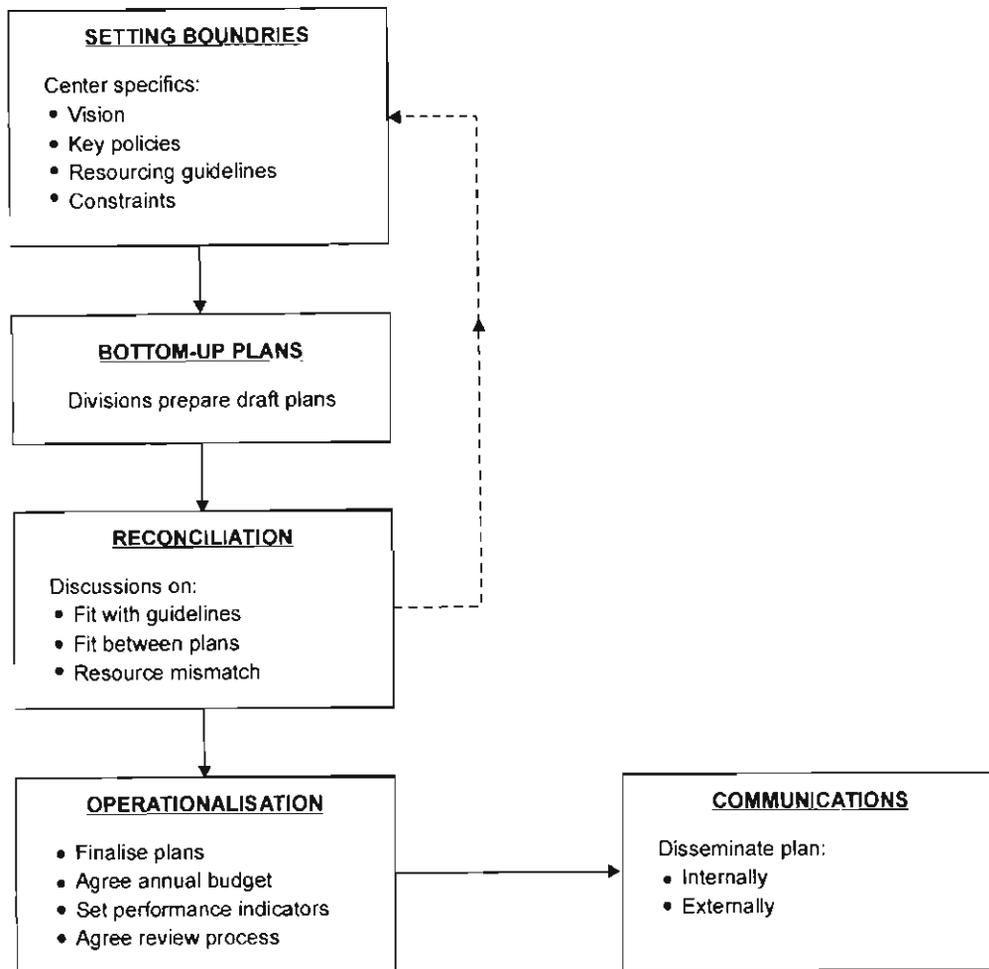


Figure 2.21 - Bottom-up business planning

2.8.2.3. Performance Targets

Performance targets are an important process through which successful strategies are fostered. These relate to outputs of an organisation such as product quality, prices or outcomes such as profit. An organisation’s performance is measured internally or externally based on its ability to meet the targets set. The balance scorecard method can be used as a measure of performance in some firms. According to Kaplan & Norton (1992), balance scorecards combine both qualitative and quantitative measures, acknowledge the expectations of different stakeholders and relate an assessment of performance to choice of strategy. The scorecard suggests that performance is linked not only to short-term outputs but also to the way in which processes are managed, for example, the processes of innovation and learning which are crucial to long-term success.

2.8.2.4. Market Mechanisms

According to Jackson & Price (1994), market mechanisms involve some formalised systems of 'contracting' for resources or inputs from other parts of an organisation. This can be done through competitive bidding where resources maybe held at the corporate center for which business units can bid for additional resources to support particular projects or developments.

2.8.2.5. Social/Cultural Processes (Norms)

A great deal of emphasis has been placed on formal processes of co-ordination used to implement successful strategies. These formal processes can be helpful in less complex environments, but they can prove to be inefficient in the complex environments of the 21st century. Therefore, social processes are concerned with organisational culture and the standardisation of norms, and are particularly important in complex and dynamic environments. The promotion of innovation is crucial to survival and success in these situations, but not in beauracatic ways. "Social processes must be allowed to flourish and exist within and between what has been called the 'community of communities' in other words, the informal processes whereby individual specialists and groups interact to share and integrate their knowledge"(Brown & Duguid: 1991). Social processes are also important to an organisation in how they deal with competition and collaboration. Training and development is also another way in which organisations maintain and invest in social processes. It provides a common set of reference points (norms) to which people can relate to their own work and priorities, and a common language in which to communicate with other members and parts of the organisation.

2.8.3. Enabling Strategic Success

Managers and individuals lower down the organisation play a crucial role in enabling success as they control resources and competences. They are also most familiar with changes in the business environment because they interface with it on a direct basis. Efforts, decisions and priorities of these managers are crucial to the success or failure of strategies. According to Johnson & Scholes (2002), the role that these managers play is as follows:

- Changing and developing resources and competences to fit changing strategies;
- Developing unique resources or core competences in the part of the organisation in which they work and on which successful new strategies can be built.

There are four key resource areas that can enable strategic success: people, information, money and technology.

2.8.3.1. Managing People

People are at the heart of strategy in most organisations. Therefore, an understanding of the relationship between business and human resource strategies is important. The behaviour of people in an organisation is based on informal ways as well as formal procedures and systems. This involves how people should be developed as a resource – such as recruitment, training and performance management. It is also concerned with obtaining advantage through a cultural and political context that people create. People can also be organised for success through formal structures, roles, processes and relationships.

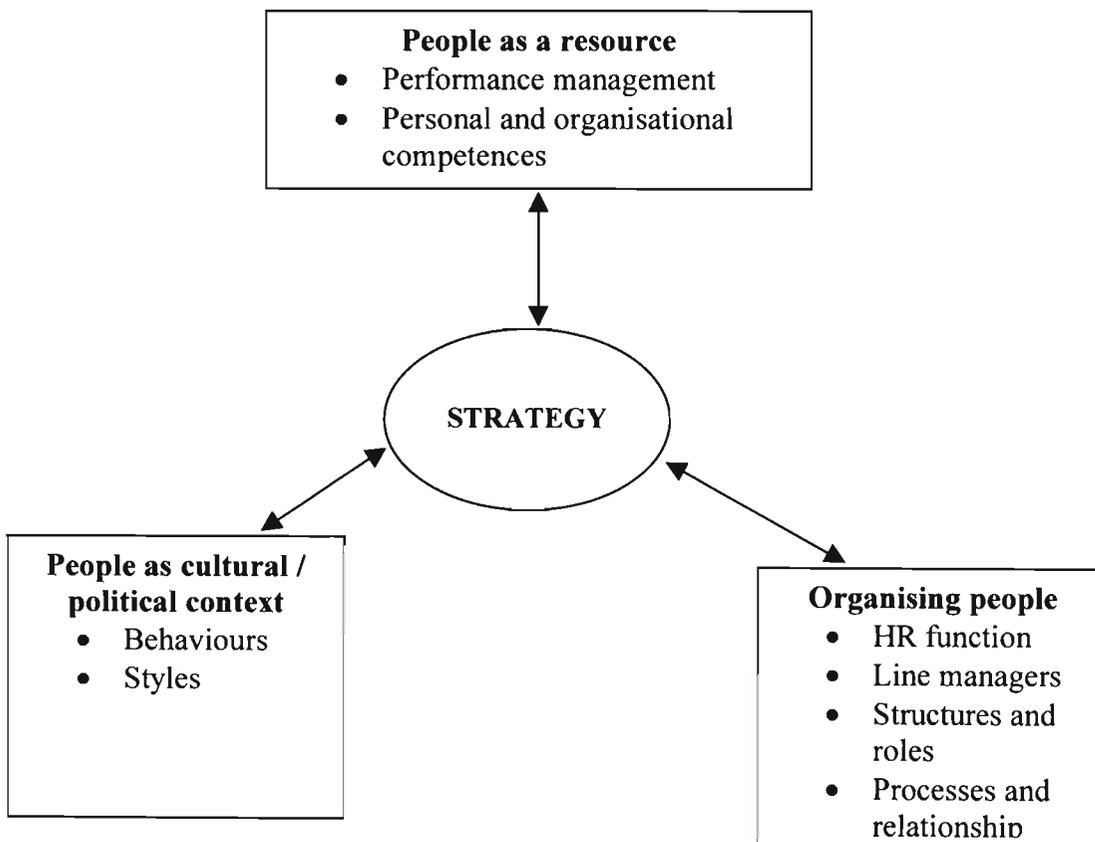


Figure 2.22 - Strategy and People

There are continuous trends emerging, which have impacted on organisations and to which organisations need to respond to in terms of overall and human resource (HR) strategies. Some of these trends include:

- Changing demographics and rising educational levels affect both consumer behaviour and the labour market.
- Structural changes in the economy.

- Political and legal changes have minimised the power of organised labour and increased the power of other stakeholders such as employees and customers.
- Information technology has changed the way in which public and private sector organisations conduct business.

There are also trends internal to the organisation, which affects the relationship between the way in which strategy and HR is managed:

- The product life-cycle of an organisation.
- Organisations embarking on low price strategies face different challenges from differentiators
- Management style and employee relation issues such as decision-making styles, trust, and attitude to risk-taking are fundamentally important.

2.8.3.2. Managing Information

Information is a key resource at present that requires focus because of the rapid advances in information technology (IT). This is crucial to gain competitive advantage because the ability to access and process information can build or destroy an organisation's core competences. Ward & Griffiths (1996), states that IT has also resulted in the creation of new business models – Where traditional value networks are being reconfigured. This might pose a threat to some organizations and opportunities for others. They acknowledge that changing capability in access to and processing of information also has important implications for issues of structures and processes within and between organisations.

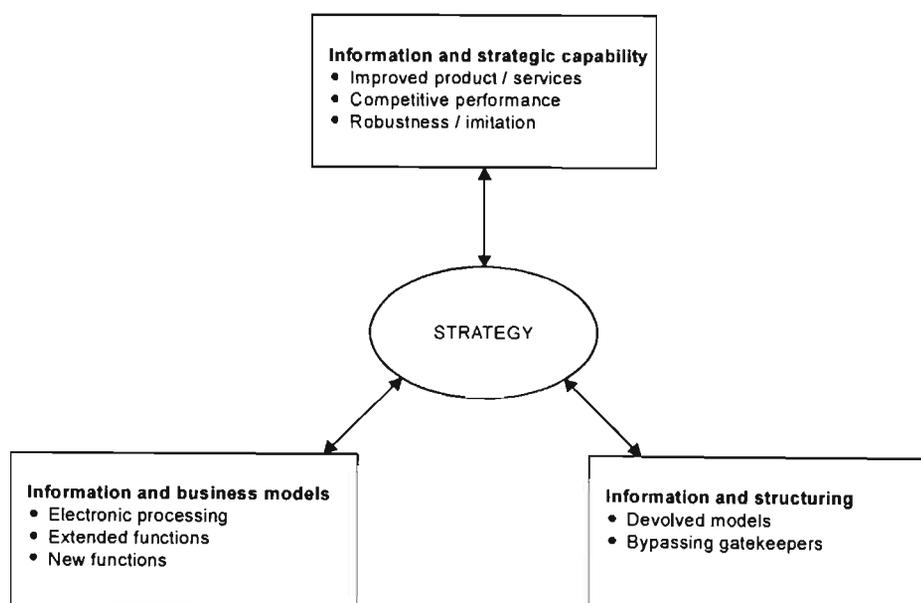


Figure 2.23 - Strategy and Information

2.8.3.3. Managing Finance

The management of money is a key determinant to strategic success. Money is a resource of central importance in all organisations. Ellis & Williams (1993) imply that from a shareholder's point of view, what matters is the cash-generating capability of the business since this determines the ability to pay dividends in the short-term and to reinvest for the future. It is particularly important to understand whether and how business strategies might deliver financial value to shareholders and owners. Most strategic developments need financing, which, in turn, creates risk. Different types of funding need to vary with strategy.

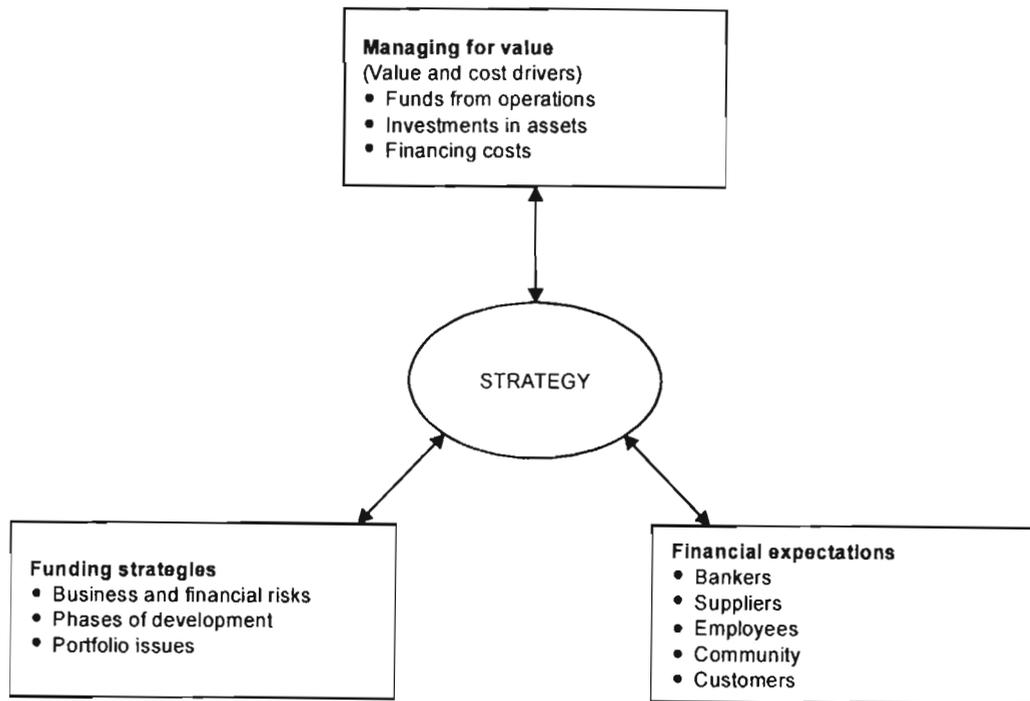


Figure 2.24 - Strategy and Finance

2.8.4. Strategic Organisational Leadership

Strategic leadership is the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary. Although complex and multifunctional in nature, strategic leadership involves managing through others, managing an entire enterprise rather than a functional subunit, and coping with change that seems to be increasing exponentially in the 21st century competitive landscape (Hitt et al: 2003: 386). Hamel (2000), states, "By word or by personal example, and through their ability to envision the future, effective strategic leaders meaningfully influence the behaviours, thoughts and feelings of those with whom they work."

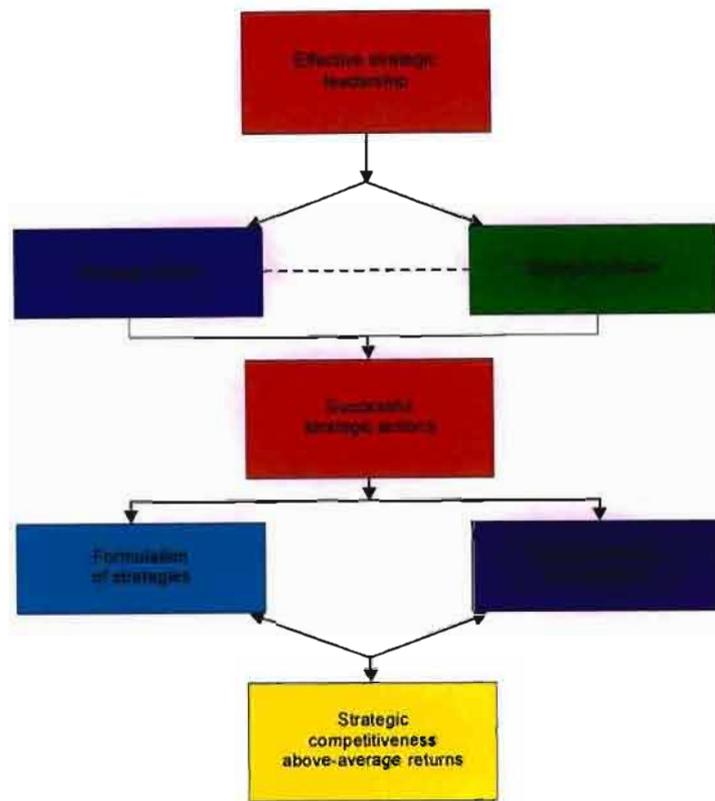


Figure 2.25 – Strategic Leadership and the Strategic Management Process

It is through effective strategic leadership that firms are able to successfully use the strategic management process. As strategic leaders, top-level managers need to direct the firm in ways that will result in the creation of a strategic intent and mission. This guidance may lead to goals that stretch everyone in the organisation to improve their performance. As shown in the figure above, the role of strategic leaders is to facilitate the development of appropriate strategic actions and determine how to implement them. These actions on the path of strategic leaders will ultimately result in strategic competitiveness and above average returns.

According to Rothschild (1996), there are three factors, which are key to successful strategic leadership:

- Leader and life-cycle phase must be matched

All successful companies have a range of products and businesses moving through various stages of the product and business lifecycle. Some maybe growing, others maturing, and still others declining. A different type of leader maybe required steering the business through the different cycles because each phase may require different attitudes and skills in dealing with change, uncertainty and risk. Strategic thinking forces recognition of business differences and the need to have different strategies and resource allocation systems to deal with each type of business. Successful companies must have the ability to have the right leader in the right place and at the right time.

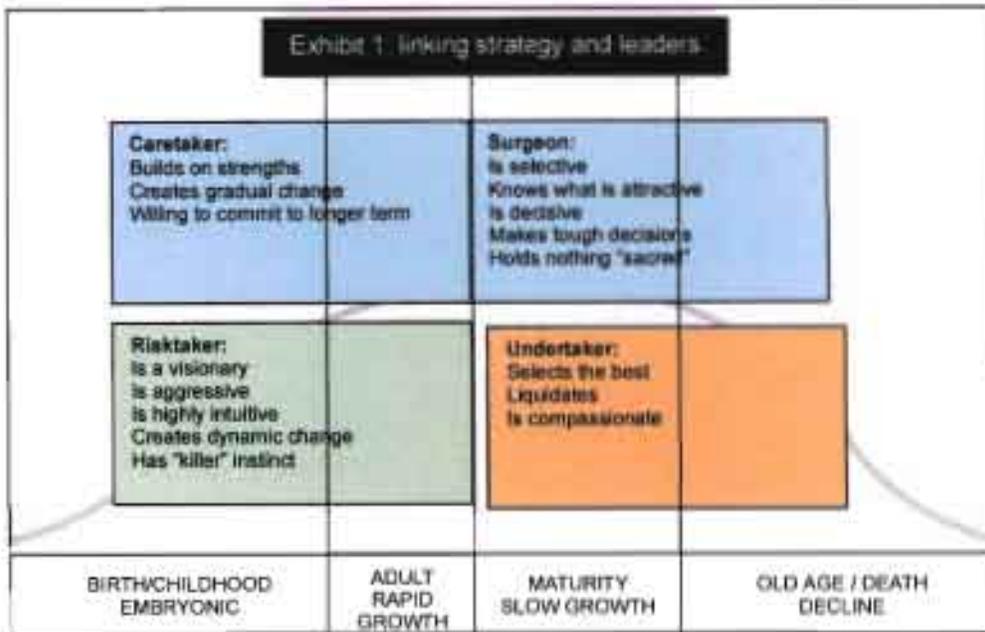


Figure 2.26 – Linking Strategy and Leaders

The above figure illustrates the different cycles of a business and the type of leadership qualities required at each stage to implement strategies. The talents of each type are very distinctive and it is rare that one individual could handle all aspects.

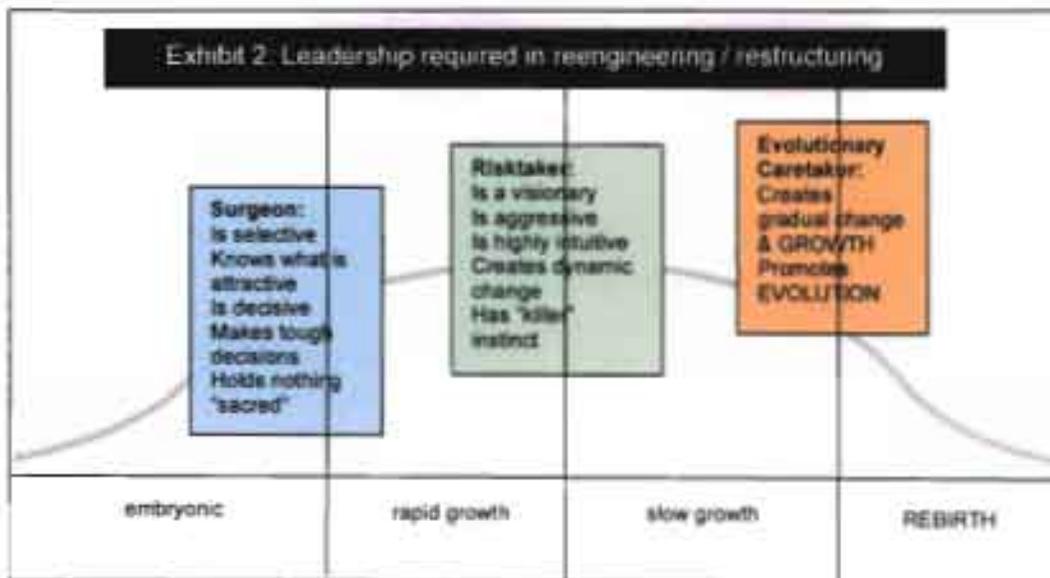


Figure 2.27 – Leadership Required in Reengineering and Restructuring

To prohibit the extinction of companies, at the decline stage of the life cycle, can be prevented through reengineering and restructuring as a business strategy. The right strategic leader can re-focus the company and position it for a new cycle of sustained growth, as shown in the figure above.

- Each strategic differentiator requires a different leader and implementation team

All successful business units or product lines have a strong, lasting competitive advantage. They are differentiated by their marketing and selling skills, innovation and creativity in producing new products, and others by their cost leadership strategies. The leader and team must match the strategic driver.

- Just as strategies change so must leaders – “Nothing lasts forever”

The old adage says, “If it isn’t broke, don’t fix it.” Following that adage could be one of the fatal flaws for the organisation, according to Rothschild. If you have a winning strategy, leader and team, there is a strong temptation to hold on, keep it in place, and assume it will continue to work. But following this path can lead to trouble. The essence of strong strategic management is a combination of internal and external sensors that help signal change and provide an early warning system to ensure that surprises are avoided and change is done systematically.

2.8.5. Leadership and Organisational Culture

Leaders are informed about the inter-relationship between values and beliefs shared throughout the organisation and how these values and beliefs shape how work is carried out in the organisation. In order to embrace change, re-shaping the organisation’s culture is of paramount importance. Leaders can use reward systems, symbols, and structure to shape an organisations culture.

2.8.5.1. Organisational Culture

An organisation’s culture is similar to an individual’s personality – an intangible yet ever-present theme that provides meaning, direction and the basis for action. “Organisational culture is the set of important assumptions (often unstated) that members of an organisation share in common (Pearce & Robbins: 2000).” In the same way as personality influences the behaviour of an individual, the shared assumptions (beliefs and values) among a firm’s members influence opinions and actions within that firm.

Leaders attempt to manage and create distinct cultures in a variety of ways:

- Emphasise key themes and values to create competitive advantage.
- Encourage dissemination of stories and legends about core values.
- Institutionalise practices that systematically reinforce desired beliefs and values.
- Adapt some very common themes in their own unique ways

2.8.5.2. Managing the Strategy-Culture Relationship

Managers sometimes find it difficult to coordinate the relationship between a firm’s culture and the critical factors on which strategy depends. Consequently, managing the strategy-culture

relationship requires sensitivity to the interaction between the changes necessary to implement strategy and the compatibility or “fit” between those changes and the firm’s culture.

2.9. Conclusion

South African companies entering the 21st century face numerous challenges within their business environments, which will impact the strategic management practices of their organisations. Some the challenges anticipated include:

- Increasing globalisation.
- Intensified competition.
- Higher prices of raw materials.
- Shorter product lifecycles.
- A need to increase flexibility within their companies.
- Implementation of new forms of inter-industry and international co-operation.
- To innovate and yet to maintain traditional forms and values.
- To provide scope for individual development and employee participation and consultation.

Changing environments require new challenges and threats, which in turn lead to new tasks and continuous changes within organisations.

Managers take on a crucial responsibility of strategically managing their organisations, through a process of decision-making, planning and control, as they are ultimately responsible to various stakeholders such as shareholders, employees, customers and suppliers. The tasks of strategic management therefore include:

- Determining the corporate philosophy of the organisation,
- Defining corporate objectives and goals,
- Analysing both the internal and external environments of the organisation,
- Formulating corporate, business and functional strategies,
- Planning the company’s organisation structure and its legal forms,
- Planning management systems and processes,
- Processes of implementation and supervision, and
- The design of the desired corporate culture.

This process is illustrated in the concluding figures below.

Strategic planning and management includes the definition of the goals and objectives of the organisation. This is usually based on the shared values of top management, who also determine the corporate culture of the organisation. Therefore, we can define strategic management as involving the development and communication of corporate goals, the strategic plans, the corporate philosophy and corporate culture.

Every organisation needs a vision-oriented, goal-oriented and well co-ordinated strategic management approach within an integrative framework. All strategic management considerations should advocate the following points:

- Corporate goals and objectives should clearly include those requirements which are necessary for a supportive business climate.
- Management needs capabilities that allow for a pro-active influence on philosophy and culture.
- Corporate, business and functional strategies need to be combined more closely to achieve strategic fit.
- Structure follows strategy.
- Systematic succession planning and individual career planning are key strategic tasks requiring management involvement at all organisational levels, and leads to highly motivated staff and workers.

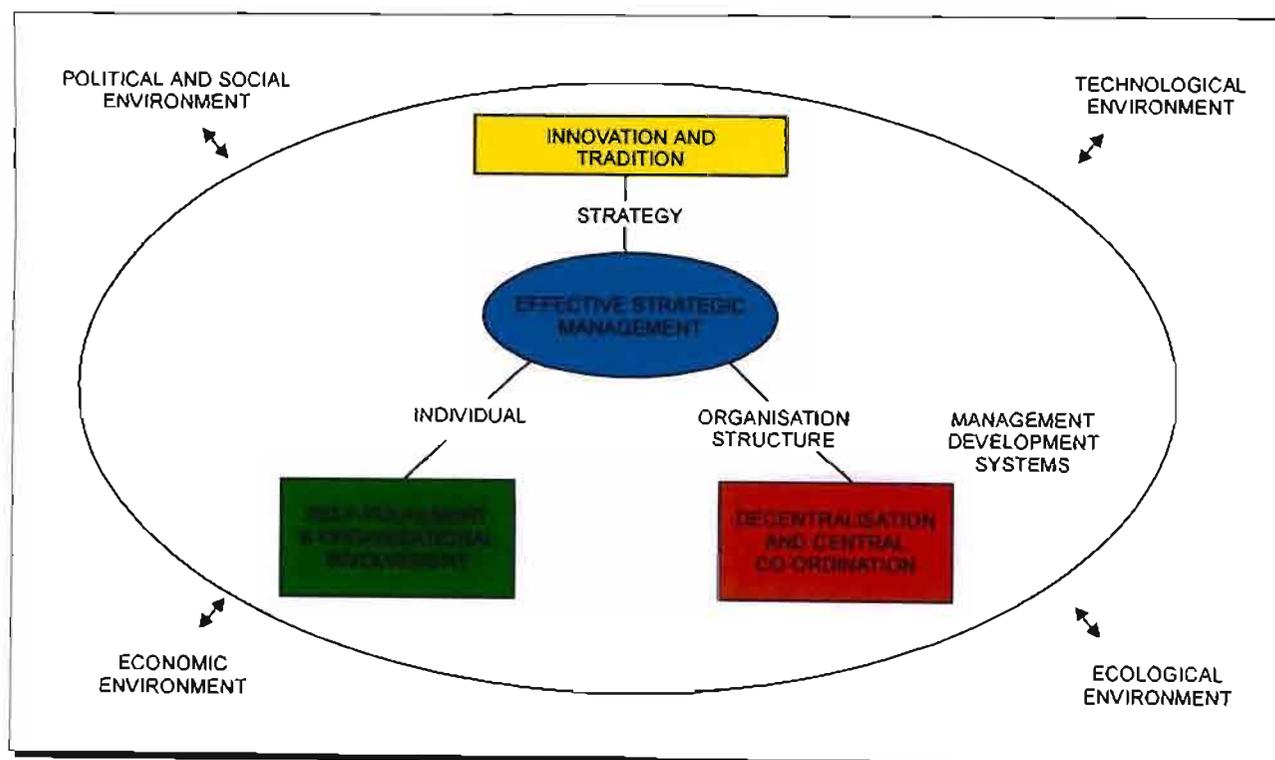


Figure 2.28 – Effective Strategic Management

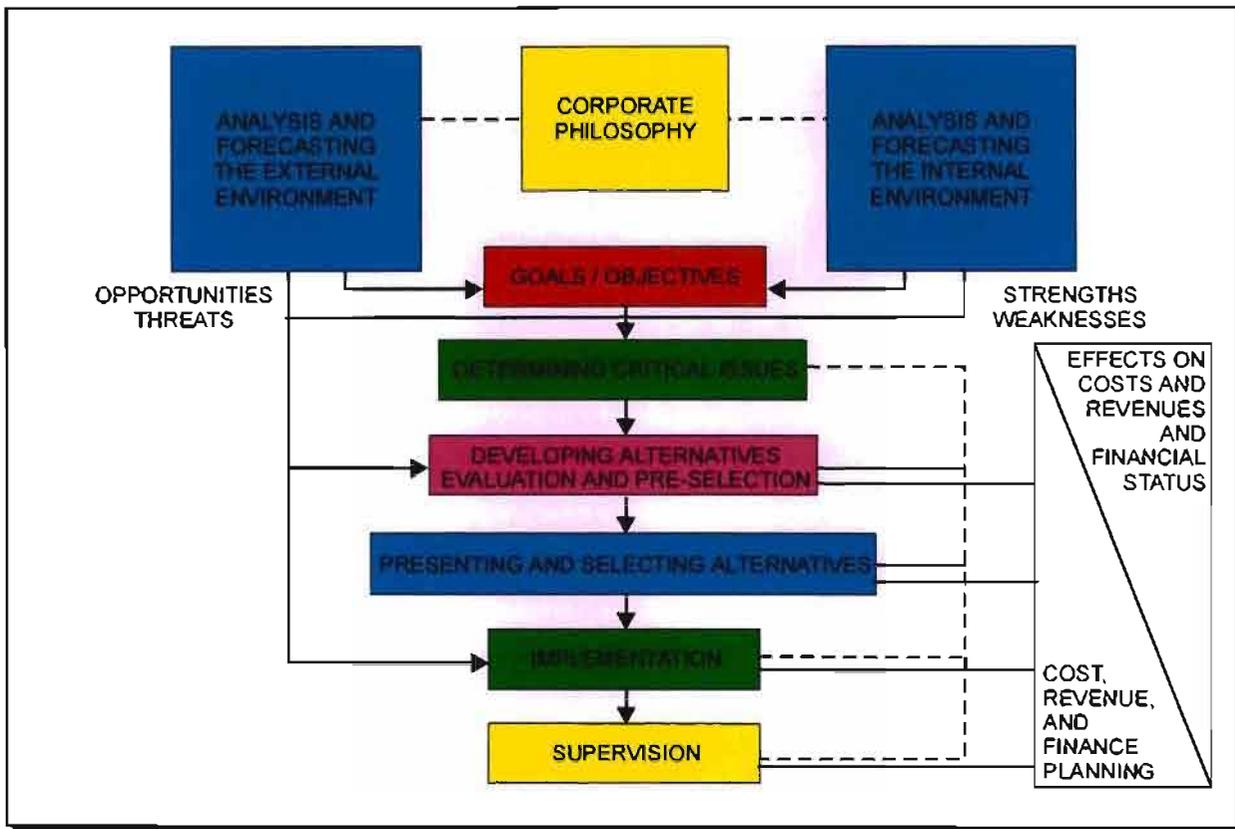


Figure 2.29 – Strategy Framework

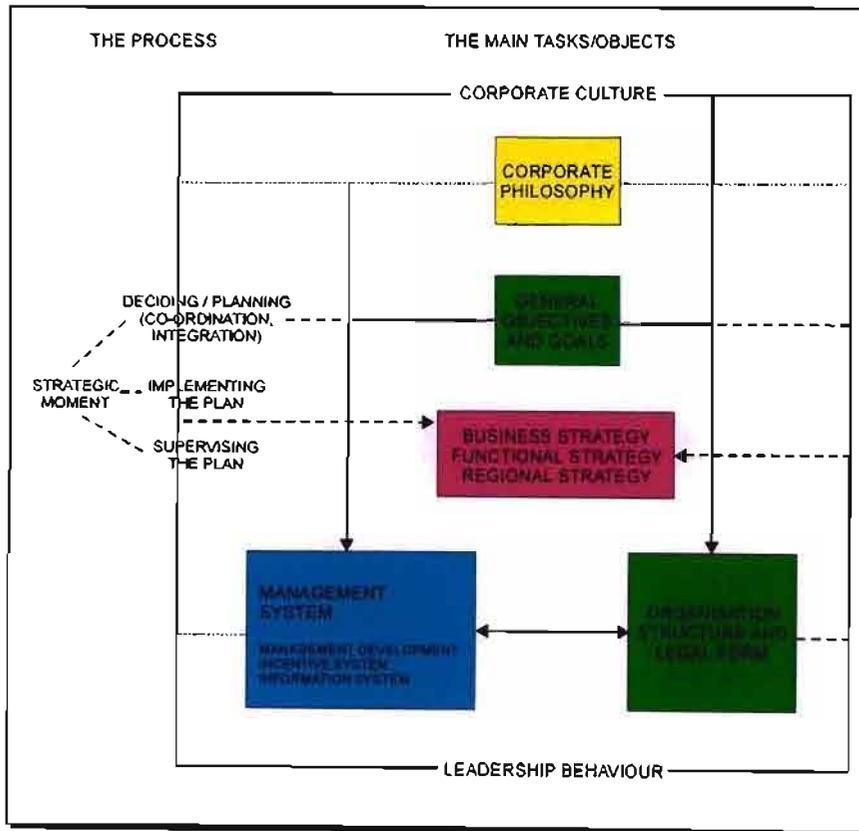


Figure 2.30 – Strategy Implementation

CHAPTER 3: ANALYSIS OF THE KINGSGATE GROUP OPERATING WITHIN THE CLOTHING AND TEXTILE SECTOR

Carl Sagan and Ann Dryan wrote in *Shadows of Forgotten Ancestors*, “Active mutators in placid and stable times tend to die off. They are selected against. Reluctant mutators in changing times are also selected against. A solid strategy is easy in a growth market with a supportive market, particularly if your industry is protected by trade tariffs. Those days seem to be fading and what separates the winners from the losers is the ability to find opportunity where others see despair. Why are some companies able to see their industry future and its advantages while others stay fossilised in their past successes? To understand this, we need to look at the history of strategy (Carl Sagan and Ann Dryan. 1992. *Shadows of Forgotten Ancestors: A Search for Who We Are*. Random House. And Loewen,J. 1997. *The Power of Strategy*. Zebra Publishers.).

3.1. Introduction

In conducting an analysis of the Kingsgate Clothing Group and formulating strategies for the future, it is important to look at the organisation through the eyes of the industry in which it is operating, namely, the clothing sector. The clothing industry is highly diverse in nature and caters to a wide range of needs. The sector is under a major tariff reform programme and is developing within the framework of the Sector Summit Strategy where the major thrust is in stimulating exports. Domestic growth, particularly in the small, medium and micro enterprises (SMME) and black economic empowerment (BEE) sector, is, to a great extent, dependent on significant export growth.

The effect of AGOA has had a significant effect on the apparel industry and the environment in which it operates. The prime concern has become the availability of locally produced fabric in terms of lead times and price. This aspect affects export growth and manufacture for the domestic market. The broad spectrum of industry from large to micro is affected. Various issues, including trade agreements, illegal imports and opening up of the economy have all contributed to a massive awareness in the sector of the need to be globally competitive.

If the South African (SA) government does not choose to target industries for assistance, it will need to consider sectors that earn foreign exchange, provide strategic inputs, generate employment and/or fill consumer demand. In the SA context, employment generation and

consumer needs would be the main considerations in developing the clothing sector. Clothing is not a major foreign exchange earner for a country rich in strategic minerals and metals. However, in the light of recent changes in the devaluation of the SA Rand, this has stimulated exports across the board. The extent to which the SA clothing industry could efficiently supply consumer needs is challenged by the fact that many of these goods can also be imported from Asia and Latin America.

The most important priorities in the industry at present are employment generating and job saving in the context of extremely high unemployment rates. The clothing industry offers a number of advantages to a government seeking to expand employment quickly. It is one of the few remaining labour intensive industries. In SA, clothing factories employ about 9% of manufacturing workers, with about 140 – 160 000 located in central and decentralised factories. The creation of clothing jobs is extremely cheap, costing less than R10 000 per employment opportunity. In the absence of other alternatives, supporting the clothing industry is one way to cheaply and quickly generate jobs.

In addition, improving competitiveness to promote expansion is very inexpensive. The most important productivity improvements are implemented organisationally, and do not require substantial capital investment. Therefore, clothing is a relatively cheap, non-forex consuming industry, especially when the aim of government is to stimulate foreign investment, easy entry means that the industry can expand very quickly.

However, seeing that it is a low productivity sector, it is one industry that has not been supported wholeheartedly by government.

In summary, the focus of the clothing industry is as follows:

- Long Term Scenario
 - Investment in technology upgrade and specialisation.
 - Expansion of domestic manufacture.
 - Investment in new operations.
 - Focus on cotton and to a lesser extent polyester staple.
- Short Term Scenario
 - Temporary tariff relief for yarns and fabrics not readily available domestically.
 - Aggressive export promotion.

- Amend Duty Credit Certificate (DCC) rules.
- Increased internal and external promotion support.
- SMME and BEE development through establishment of a forum, identification of specific operations, training via the Sector Education and Training Association (SETA) and mentoring.
- Improved financial schemes and incentives.
- Tariffs retained but at lower level.

A focus on these issues, which are in themselves multi-faceted, will result in meaningful growth and attaining a launching pad for broadening the export focus of an internationally competitive industry. A review of KCG's outward looking strategies, in light of these scenarios together with a review of their inward looking strategies will allow the organisation to become a leading national and global clothing manufacturer in a highly competitive and volatile industry.

This chapter begins with a strategic review of the industry in terms of setting the backdrop to the industry, highlighting the structure of the industry, vision mission and objectives of the industry, and the international environment, which, greatly impacts on conditions locally. All strategies are based on conducting a SWOT analysis and this is done for the industry. Thereafter, industry strategies are focused upon with a brief analysis on the critical factors affecting the industry.

Leading on from the discussion on the industry, a presentation on the KCG is conducted highlighting issues such as an overview of the organisation, vision, mission and objectives of the organisation, core competencies, culture, leadership and organisational structure. The value-chain of the KCG is also highlighted. A brief comment on the KCG's financial position is also highlighted. In essence, a synopsis of the group is done in light of the industry evolution.

3.2. Background on Clothing Industry

It is important to understand the nature of the major customer, the clothing industry in South Africa, and for a strategy to be developed with this in mind. The industry is both complex and diverse. Operations cover the larger manufacturer, CMT's, fashion designers, design and distribution centres, and survivalist one-person operations.

The South African clothing industry is well established, catering to a wide range of customer needs. Manufacture includes men's, women's and children's clothing including outerwear,

underwear and swimwear. The strength of the industry is in the middle to upper market segments, which is well illustrated by the various international brand names that are produced in South Africa under license agreements. The industry has both a formal and informal structure. The greater proportion of the formal sector of the industry is located in Cape Town and Durban. The general industry is also located in several decentralised areas where firms tend to function in a more independent manner. The informal sector is comparatively large and tends to be located in the poorer suburbs and in villages. This sector has also exerted its influence on market forces and created an additional dimension to the functioning of the retail sector.

Since the time of the international emerging market financial crisis, which also affected the South African economy, the SA clothing industry has experienced extremely difficult conditions; consumer demand was constrained as a result of high interest rates. Simultaneously, consumer spending patterns have been changing with the advent of cellular phones, a national lottery and electronic communications (computers, e-mail and internet); household consumption expenditure on clothing and footwear has declined from 6.2% in 1995 to 5.1% in 2000, expressed as a percentage of total household consumption expenditure. The industry has historically been focused on the domestic market and is thus extremely sensitive to general economic conditions within South Africa (Theron,P & Kuboni,N: 2002).

The industry is currently operating within a strategic framework that forms the basis of government policy. A gradual phase down of the customs tariffs reached its end point on 1 September 2002. This is also combined with a strategy emanating from a sector summit process completed in 2000. The main driver of growth is considered to be exports, combined with various complementary initiatives.

In terms of strategy, the industry has significance, as it is highly labour intensive with low capital start up costs. It thus has the potential to be a significant mechanism for achieving the government goal of job creation with effective utilisation of a scarce resource, namely capital.

The industry has to function within a given external environment, which includes factors such as interest rates and income tax – these are relatively high by international standards and affect competitive ability. A somewhat volatile exchange rate makes for difficult trading conditions. Government is also constrained by scarce financial resources and international trading rules set by the World Trade Organisation (WTO) in its endeavours to stimulate growth in this sector.

With this as a background, the apparel textiles sector has developed to supply the needs of the clothing sector. Historically, the apparel textiles sector was created within an insular and highly protected economic structure. This sector followed the route of a high degree of vertical integration and focused on supplying a wide range of yarns and fabrics for the domestic market. Economies of scale were not on a par with international norms with production runs being too short and variable. High protective barriers enabled inefficiencies to be sustained and the sector did not reinvest in updating capital equipment. Although the tariff-restructuring programme was supposed to encourage development of an internationally competitive environment, the sector was late in reacting. The result is that after 8 years, more than 50% of the capital equipment is still out of date. There are moves to change this and for production to become more internationally market focused, i.e. longer production runs with less variety and a customer base that extends beyond the confines of SA's borders (Theron.P & Kuboni,N: 2002).

3.3. Factors Relating to the Clothing Industry

The key-driving factor in the clothing industry over the last few years has been to develop the industry within an international context. In doing so, emphasis has been on the potential for expanding or securing sustainable, formal job opportunities with an outlook on productivity improvement to increase competitiveness.

- **Employment**

Industrial Councils account for approximately 70% of industry employment. The fall in SA clothing employment cannot be attributed to labour productivity, but instead job losses are as a result of massive growth in import volume penetration. Export expansion has not compensated for the displacement in local markets. (Altman,M: 1994).

- **Firms and Plants**

The notion that clothing is a highly fragmented industry primarily holds at the production level. An analysis of the clothing industry requires a reflection of the locus of power, located in the ownership, and not in the small fragmented, production units. In particular, it is these larger firm's overseas that maybe important customers for the SA industry in its efforts to export. The SA industry is more concentrated in terms of production and ownership than any other clothing industry. In terms of ownership, this maybe useful for the expansion of export and technological adoption. However, there are few scale economies in clothing, but it is possible for the large size structure to impose unnecessary inefficiencies as a result of high overheads. Firms may gain from disintergrating and operating as separate cost centers.

- Retail

The highly concentrated retail sector could have beneficial effects on the industry, if their approach were more developmental. However, at present, the retail sector is squeezing the clothing producers, resulting in poor distribution of profits through the pipeline. The degree of dependence on large retailers by manufacturers is also of concern. Firms that have a high degree of dependence lose market control, and in the event of retailer bankruptcy suffer from a severe domino effect. This dependence varies by region: Many Cape firms have adopted a specific policy to focus on multiple retailers whilst firms in KwaZulu Natal have a broader customer base, including multiples and independent distributors.

- International Trade

The international division of labour and trade flows in clothing have altered dramatically in the post war period, and particularly since the 1960s. The international trade in clothing expanded dramatically. Simultaneously, developing countries increased their share of world exports from 10% in 1955 to 64% in 1998 (Altman, M: 1994). The growth in Developing Country (DC) clothing exports is caused by two factors: clothing production is often the first industry to be developed in a non-industrialised country. And secondly, Industrialised Country (IC) firms seek low cost locations to assemble garments, maintaining the high skill intensive aspects of production centrally. The Multi-fibre Arrangement (MFA) then encourages IC firms to continually relocate production to DCs that have unfilled quotas.

- Market Segmentation

Clothing expenditure as a proportion of private consumption has been falling since the mid-1970s. Hence, apparel firms have sought to increase their infiltration of smaller markets diversifying and differentiating their product. The expansion of niche marketing has resulted in a requirement for greater production flexibility and more emphasis on creative marketing.

- Cost of Production

Even in the age of niche marketing, price continues to be an important consideration for both local and overseas buyers. Relative to other countries, SA is a high cost producer. The high cost of production is related to the cost of labour and locally manufactured fabrics. Productivity improvements can be made through a focus on factory organisation, pipeline efficiency and human resource development (Altman, M: 1994).

- Static Organisational Forms

Static strategies refer to one-off accommodations that do not improve a firm's ability to respond to further competitive pressures. Mainly as a result of ownership structures, clothing companies tend to be conservative in their business strategy and pursue static responses to competitive

pressures. In a labour intensive industry the most familiar manifestation of these strategies includes the emphasis on labour cost flexibility. Such strategies may include causalisation, decentralising production to low cost regions or informal firms or work intensification through productivity deals. Mechanising or automating without implementing organisational change can be another form of static strategies. These strategies are static since they offer a very short-term solution. South African clothing firms have typically adopted static strategies that emphasise labour cost flexibility. The choice of strategy has depended on the prevailing regulatory environment governing labour and international trade.

- **Dynamic Organisational Forms**

Dynamic strategies occur when firms implement practices that permanently increase the capacity to change. These changes include organisational change and functional labour flexibility. Changes to factory organisation consistent with short-cycle manufacturing, quick response relationships and human resources development and encouraging forms of multi-skilling are integral to this approach. Organisational change is considered for all parts of the clothing pipeline including the supply of textiles, pre-production, assembly and distribution. New organisational forms are presented that are consistent with shorter production cycles, modular production, total quality control, reduced inventories and a more skilled workforce. The adoption of dynamic approaches to flexibility is the only route to making a significant contribution to the clothing industry's poor competitiveness.

- **Competitive Advantages**

The SA clothing industry's main short-term competitive advantage is market access. Its other competitive advantages lie in non-price factors. For example, SA manufacturers are willing to accept the relatively short orders that Asian manufacturers regularly reject. The reversed seasons offer manufacturers longer-term competitive advantage, that is, SA factories slow down when northern hemisphere orders are at their height. In addition, the strong infrastructure allows for easy communication and transport. Finally, the strength of the union allows for national negotiations that can facilitate restructuring in work organisation and training.

- **Competitive Disadvantages**

South African clothing faced a number of disadvantages including an exchange rate that is volatile, distance from the main export markets and a 14% tariff into EU markets. In addition, the weaknesses of local apparel fabric manufacturers are a significant disadvantage, since overseas buyers prefer to source fabric locally when purchasing from afar. Low productivity is the SA clothing industry's major competitive disadvantage. This can be a short-term problem since raising efficiency in the clothing industry is relatively cheap and quick. The most important

changes are organisational and substantial improvements can be gained within 6 to 12 months. The main obstacle in achieving these gains is psychological because firms tend to focus their cost-cutting efforts on wage and work strengthening instead. However, a shift in thinking about productivity must occur where efforts to increase productive efficiency, reduce throughput times and lower cost structures emphasise the production system. The most substantial gains have been established in firms adopting short-cycle manufacturing techniques; and the introduction of quick response relationships that would further enhance efficiency.

- **Market Niches**

There are basically six broad market niches, including low price or higher priced fashion, seasonal and basic goods. The difference between these is the replenishment time permitted. A fashion item maybe replaced within a month whilst a basic item may have a shelf life of over a year. SA would not successfully compete in low priced goods unless there is major currency devaluation because its cost structure must reflect that of a middle-income country.

In export markets, its main competitors are other middle-income countries such as Turkey, Southern Europe, or parts of South East Asia and China. Overseas buyers will mainly seek to buy from SA to diversify their sources and to order smaller runs. Since the distances are great, SA would be stronger in middle-priced seasonal or basic items, with longer replenishment times. To compete in the medium term, it will be necessary to dramatically raise productivity since the lower income countries such as China are already achieving capabilities in the production of mid-income seasonal and basic garments.

In local markets, SA mainly imports from Taiwan, Hong Kong and China and to a lesser degree from Europe. Even if productivity improved dramatically, SA producers could not compete with the low priced Asian imports. Its competitive advantage would lie in the development of quick response relationships in the production of medium-high market basic, seasonal and fashion items.

- **Import Protection**

Until very recently, the SA clothing industry provided more than 80% (of the units) and 90% (of the value) of local demand. Since 1989, volume import penetration has risen to over 40% of the local market (Altman,M: 1994). Worn clothing accounts for an important part of the rise in import penetration. However, the extent to which new and worn clothing are substitutes is not clear. Historically, SA clothing has been highly protected from imports by tariffs and quotas. Clothing producers have also faced negative effective rates of protection. Based on this, the industry, which operates on extremely small margins is exceptionally fragile. This is evident in the high loss of jobs within this sector.

- Export Promotion

Export promotion has caught the imagination of South African policy makers and firms since the late 1980s. The misnamed Structural Adjustment Programme (SAP) was introduced in 1989 to encourage exports. The SAP offered negotiable duty-free import permits to exporters until 1994/1995. There were two main problems with the SAP. First, it was assumed that export activity would necessarily encourage productivity improvements. The SAP did not offer any form of support to the organisational changes that are required in the industry and pipeline. Firms have also not introduced major changes to operating practices and have mirrored their local behaviour both in terms of production and marketing behaviour, when entering export activity.

Second, the SAP encouraged import penetration since it allowed for duty-free imports to be sold on the local market. Normally rebate programmes are introduced to allow exporters access to inputs at “world prices”. In contrast, the SAP encouraged firms to export in order to bypass high tariff determinations. In conjunction with variations in tariff determinations, SAP permits have mainly been used on the most trade sensitive products, to which the higher duties applied.

In addition, the SAP and duty drawback scheme (470.03), which are used about equally, conflicted with the GEIS incentive. The GEIS formula is partly dependent on the use of local inputs. If clothing exporters make use of duty drawbacks to obtain inputs at world prices, their GEIS subsidy can fall from 19,5% to 9% of export value.

Finally, aside from assistance with productivity improvements, exporters need support for marketing costs. Clothing exporters unanimously report that marketing accounts for 10-15% of the cost of their export sales in the first few years at least. The Export Marketing Assistance (EMA) programme offers a mere pittance of what is really required, and provides 50% of one economy airfare, a stipend of R400 a day and a small amount for the transport of samples. However, the development of overseas markets requires many trips overseas and expensive communication and hotel stays.

- Inward Orientation

An inward orientation requires high protection to ensure local markets for domestic producers. This was the prevailing orientation in SA until the late 1980s. It is a very narrow approach for two reasons. First, the local market is very small and mainly growing in low-income segments. These are the products that the local industry cannot offer competitively. From a macro-economic standpoint, it is necessary to offer an important wage-good at low prices. Moreover, the extent of protection required would exceed that allowed by international trading arrangements. Second, the high degree of market segmentation means that SA could concentrate

on items it can produce competitively. The SA industry could supply both local and global markets in particular niches. These products would then be complementary to, and not in competition with imports.

- **Export Orientation**

The adoption of an export oriented trade strategy often assumes that an open trading environment maximises welfare and promotes productivity and efficiency. SA exporters seem to graft local strategies onto exporting behaviour. The main changes effected by new SA exporters include a relocation of production to lower wage countries that have better market (Lome) access. In countries with greater labour regulation, local formal employment often falls as export competition encourages firms to assemble in foreign factories. It is the mainly less developed countries where exports lead to significant rises in employment.

- **A Balanced Approach**

South Africa is unlikely to be wildly successful in export markets, particularly in the absence of some new fashion trend or significant productivity improvements. It would therefore be unwise to ignore the need to recapture local markets, and the balance required between supplying domestic and foreign demand. A holistic development programme is required that directly promotes productivity improvements through operational change. Firms should focus on product niches in which they can successfully compete, providing these items for both the SA and export markets. The development of quick response relationships and short-cycle manufacturing techniques would be more effective at recapturing the local markets than would high tariffs.

- **Trade Policy**

The most important consideration in developing trade policy for SA clothing is employment generation. In addition, it is necessary to consider the effect on consumer prices since clothing accounts for a large proportion of household expenditure. Any policy should be formulated in an incorporated manner. It is crucial that policy be implemented in a consistent manner and that incentives and schedules remain unchanged. Finally, incentives should always be tied to the 'proverbial stick'. For example, the continued provision of export subsidies should be tied to verified productivity improvements, employment expansion, training or capital investment.

- **Training and Grading**

The training and grading system in SA needs to be adjusted for two reasons. Firstly, it will not be possible to introduce newer organisational practices, reduce downtime and improve throughput times unless workers become more multi-skilled. In particular, modular manufacturing systems require that workers have a broad range of skills. Even where organisational changes are unassuming, training workers in quality control and line balancing can reduce reject rates and

speed throughput. Second, the current grading system discourages worker interest in training since little financial re-numeration is offered to those who gain a broader skill base.

The common perception that clothing workers are unable to become more educated and move up the ranks seems to be based on poor entry educational levels. However, low school leaving educational attainment is probably more the result of the few choices facing women. Factories that do encourage training achieve the desired results. The training and grading structures should reflect clearly defined career paths for production workers. Increments should be offered to workers that gain higher skill levels.

- Foreign Processing

There is relatively little foreign processing at present. However, assembly in lower wage, Lome signatory countries is likely to climb as firms increasingly enter export markets. Foreign processing is one the most difficult forms of labour cost flexibility to regulate. It is well worth considering the implementation of regulatory measures before many firms become reliant on this activity. For example, there might be regulations on the percentage of value that can be added outside of the country. In addition, it is important to limit foreign processing to manufacturers. Any state assistance to firms should require adherence to these sort of regulations.

- Informalisation

Informalisation occurs where assembly is usually subcontracted to unregistered firms that are not required to comply with labour regulations. While not a major problem yet in SA, informalisation can devastate worker organisation and regulation within a short period of time. Regulating informal firms is a difficult task.

- Causalisation

Causalisation is relatively rare in the SA clothing industry. However, other forms of flexibility that previously offered substantial savings in the wage bill are falling away. The minimal regulations on causalisation are now likely to encourage firms to increasingly hire workers on fixed term contracts. This can have a very divisive effect on union membership.

There are a number of ways to address causalisation. The first and most difficult is the introduction of short cycle manufacturing trends to smooth out the production cycle and in turn dropping the need to reduce the workforce during slow periods. Secondly, more stringent notification and severance procedures might limit current retrenchments. As firms move to causalisation, they fire permanent staff and then hire back on fixed-term contracts. Although causalisation is not desirable, it maybe a better form flexibility than informalisation or foreign processing since it can be observed and regulated. The South African Clothing and Textile Workers Union (SACTWU) needs to establish rules around causalisation by introducing

maximum proportions of a firm's workforce that can be hired on fixed term contracts. The notification procedures essentially require only one week's notice. Severance pay is determined by negotiation. In an industry offering low wages and small provident fund pay-outs, workers are left with little for their working life. Clearly, more strict procedures are required. In particular, the union should be given a minimum of one month's notice of severance. Minimum assistance should be provided for re-training. In addition, there should be provisions allowing independent consultants entry to a factory to determine ways to avert closure.

▪ Wage Determination

The common ideology concerning wage determination asserts that workers should be paid according to their productivity. It is evident that firms do not know the marginal productivity of their workers. Wages are more determined by industry margins and the bargaining power of worker organisation. Attention should not be focused on the allocation of a fixed surplus between wages and profits. Wages are not SA clothing's competitive disadvantage; instead the problem is low productive efficiency. Presently, many firms are folding and some are requesting wage freezes or reductions. These concessions will not address their fundamental problem associated with poor productivity. It is worth entering into such deals when wage is used as a strategic tool to force the firm to adopt new organisational practices. Otherwise, wage deals will only exert a downward pressure on industry wages. According to Altman, three major suggestions are made:

- First, a lower wage determination might be introduced for smaller firms.
- Second, two tiered bargaining maybe introduced in a limited manner as strategic tool to encourage firms to introduce organisational change. As an experiment, a slightly lower basic wage might be allowed for firms that act jointly with SACTWU and enter a process of introducing short cycle manufacturing and quick response relationships. The proceeds from the productivity improvements would then be shared in set proportions. These experiments would then require shop steward training to monitor the implementation and improvements.
- Finally, any major changes to grading structures will probably meet with resistance in the industry. The major concern will be related to potential wage increases. This concern would be addressed by the introduction of long-term wage agreements that tie wages to some cost of living index. This will allow for the introduction of more rational grading structures that benefit skill and human capital development.

3.4. International Environment

The international clothing environment impacts significantly on the SA clothing environment. Organisations need to constantly monitor these changing trends, which ultimately affects their business.

3.4.1. World Fibre Trends

World output of man-made, synthetic and cotton continues to grow whilst that of wool declines. Man-made fibres comprise the greater proportion of world demand, exceeding that of natural fibres. The trend is for man-made fibres, particularly synthetics, to continue increasing its share of the world market. World fibre demand is summarised in Table 3.1.

	1982	1990	1995	2000
Man-made fibres				
Cellulosics	2.95	2.76	2.44	2.21
Synthetics	10.15	14.89	18.38	26.01
Total	13.10	17.65	20.82	28.22
% of Total Demand	44.38	46.11	50.93	57.23
Natural Fibres				
Cotton	14.74	18.59	18.50	19.75
Wool	1.62	1.97	1.49	1.25
Silk	0.06	0.07	0.07	0.09
Total	16.42	20.63	20.06	21.09
% of Total Demand	55.62	53.89	49.07	42.77
Total All Fibres	29.52	38.28	40.88	49.31

Table 3.1 – World Fibre Demands (Source: Textile Outlook International, Textiles Intelligence Ltd., Various editions)

- Cotton

World cotton output continues to increase and the long-term price decline is showing signs of levelling out. The price has shown a recovery from US 37 c/lb in 2001 to US 47 c/lb in July 2002, according to the Cotlook A index. The International Cotton Advisory Committee expects the price going forward to be in the region of US 50 c/lb. This is equivalent to approximately

ZAR 11.15 per kg. The SA price for cotton lint is in the region of South African Rand (ZAR) 11.00 per kg (Quality is slightly better for SA cotton than the average used in the Cotlook A index). World cotton production for 2002/03 is expected to be in the region of 19.85 m tons and consumption 20.25 m tons. The major producing countries are China (5.3 m tons), USA (4.4 m tons) and India (2.6 m tons). Other major producers are Uzbekistan, Pakistan and Brazil. China's incorporation into the WTO is expected to bring its prices more in line with world prices, which will reduce production.

- Wool

Wool production and demand are more or less balanced with wool production having declined marginally. The balance is at approximately 1.3 m tons p.a. Prices are expected to remain stable.

- Man-made Fibres

The world has huge excess capacity of man-made fibres, particularly synthetics. Polyester is the dominant synthetic fibre, accounting for 74% of world production of synthetics, followed by polyamide (nylon) with 16% and acrylic with 10%. The world capacity for man-made fibres is shown in Table 3.2 below.

DEVELOPED COUNTRIES	'000 tons	% share
USA + Canada	3 793	10.4
W. Europe	4 232	11.6
Japan	1 989	5.4
Others	8	0.0
Sub-total	10 022	27.4
Former Socialist countries, incl. China	10 312	28.2
Developing countries	16 207	44.4
Total	36 541	100.0

Table 3.2 - Man-made Fibre Capacity, 2002 (Source: Textile Outlook International, Textiles Intelligence Ltd., Various editions).

Man-made fibre capacity was 34.2 million tons in 2000, compared to demand of 28.2 million tons. The surplus capacity is quite evident. Man-made fibre production by region and fibre type for 2002 is shown below in Table 3.3.

(‘000 tons)

	Acrylic	Nylon	Polyester	Cellulosics
W. Europe	987	899	1 774	518
E. Europe	177	414	405	322
USA + Canada	328	1 587	1 898	107
Japan	675	313	877	208
Developing Countries	1 186	2 214	19 644	1 598
Total	3 353	5 378	24 597	2 752

Table 3.3 - Man-made Fibre Production by Region and Fibre Type, 2002 (Source: Textiles Intelligence Ltd., Fiber Organon)

China is showing high growth of synthetic fibre capacity, reducing its reliance on imports. This is occurring despite world surplus capacity. The share of the developed world in global man-made fibre production is declining; it was 34% for cellulosics and 30% for non-cellulosics in 2000. This trend is expected to continue with trade liberalisation.

3.4.2. USA

The US textile and apparel industries are showing declining trends. Imports are increasing market share. At the same time, the US market has been sluggish. The main sources of textile and apparel imports into the US are shown in Table 3.4 below.

(million sme - square metre equivalent)

	2000	2001	% Share 2001	% change
TEXTILES				
Canada	2 904.0	2 986.4	17.9	2.8
Mexico	2 219.7	2 000.1	12.0	-9.9
Pakistan	1 666.6	1 842.5	11.0	10.6
China	1 288.7	1234.8	7.4	-4.2
Thailand	848.6	855.9	5.1	0.9
India	849.1	847.4	5.1	-0.2
S. Korea	724.6	751.5	4.5	3.7
Taiwan	562.6	610.3	3.7	8.5
Indonesia	530.6	571.0	3.4	7.6
Turkey	568.8	565.2	3.4	-0.6

World	16 828.8	16 703.9	100.0	-0.7
APPAREL				
Mexico	2 526.8	2 290.2	14.2	-9.4
Honduras	1 028.1	1 020.7	6.3	-0.7
China	929.2	976.0	6.1	5.0
Bangladesh	966.6	966.0	6.0	-0.1
Hong Kong	916.3	916.9	5.7	0.1
Dominican Rep.	836.6	753.0	4.7	-10.0
El Salvador	719.2	723.8	4.5	0.6
S. Korea	587.2	632.0	3.9	7.6
Taiwan	670.7	614.2	3.8	-8.4
Indonesia	522.0	593.7	3.7	13.7
World	16 035.3	16 103.6	100.0	0.4

Table 3.4 - Major Sources of US Textile and Clothing Imports (Source: Textiles Intelligence Ltd., US Dept. of Commerce)

In value terms, total MFA imports of textiles and clothing represent US\$70.24 billion.

Imports from the “big four” (China, Hong Kong, Taiwan and South Korea) only rose 0.4% in volume. The effect of trade agreements on sourcing imports is evident, with NAFTA and the CBI being most significant. The fastest growing region was Sub-Saharan Africa (SSA) as a result of AGOA, although the absolute levels are still very small. Apparel textiles from SSA only benefit indirectly from AGOA through apparel exports to the USA. The major SSA exporting countries to the USA under AGOA are shown below in Table 3.5.

(million sme)

	Total Imports		% of Total	AGOA Imports	% of Total
	2000	2001	2001	2001	2001
Lesotho	34.4	51.0	0.3	29.7	0.2
Madagascar	20.5	37.5	0.2	16.5	0.1
Mauritius	40.1	41.1	0.3	5.7	0.0
South Africa	55.2	59.3	0.4	5.5	0.0
Sub-Total	150.2	188.9	1.2	57.4	0.4

Table 3.5 - USA Apparel Imports from Major SSA Countries (Source: ACT/ US Dept. of Commerce)

3.4.3. European Union

The growth in imports of textiles and clothing slowed in 2001 to 4.5% compared to 16.1% in 2000 due to weak domestic demand. Trade is shifting away from Asian countries that transact in

US\$ to other countries, especially Eastern Europe, the Mediterranean Rim, the Commonwealth of Independent States (CIS) and Baltic States. EU trade in textiles is shown below in Table 3.6.

(Euro million)

	Exports			Imports		
	2000	2001	% Change	2000	2001	% Change
Industrialised	5 541.4	5 424.6	-2.1	3 506.5	3 319.4	-5.3
MFA	2 749.2	2 852.6	3.8	7 326.0	7 429.3	1.4
E. Europe	6 786.9	7 475.5	10.1	2 070.9	2 403.5	16.1
Preferential	3 821.1	3 950.2	3.4	2 417.4	2 639.7	9.2
Autonomous	1 432.2	1 654.7	15.5	567.5	626.4	10.4
ACP	448.1	486.4	8.6	129.7	117.1	-9.7
Total	21 658.6	22 789.1	5.2	16 734.2	17 149.1	2.5

Table 3.6 - EU Trade in Textiles (Source: Textiles Intelligence Ltd., Euratex)

Note:

- Industrialised includes Japan and USA.
- MFA includes Argentina, Bangladesh, Brazil, China, Colombia, Guatemala, Haiti, Hong Kong, India, Indonesia, Macao, Malaysia, Mexico, Pakistan, Peru, Philippines, Singapore, S Korea, Sri Lanka, Taiwan, Thailand and Uruguay.
- E. Europe includes Bulgaria, Hungary, Poland, Romania, Czech Republic, Slovakia, Croatia, Macedonia and Slovenia.
- Preferential includes Cyprus, Egypt, Malta, Morocco, Tunisia and Turkey.
- Autonomous includes CIS (Belarus, Moldova, Russia and Ukraine), Estonia, Latvia, Lithuania and Vietnam.

EU trade in clothing is shown below in Table 3.7.

(Euro million)

	Exports			Imports		
	2000	2001	% Change	2000	2001	% Change
Industrialised	5 470.7	5 729.9	4.7	1 161.2	1 158.7	-0.2
MFA	969.2	1 097.2	13.2	21 157.8	21 066.4	-0.4
E. Europe	2 207.5	2 531.0	14.7	8 086.9	9 319.2	15.2
Preferential	1 196.6	1 191.5	-0.4	10 569.5	11 532.8	9.1
Autonomous	863.6	1 101.6	27.6	2 362.0	2 545.5	7.8
ACP	88.7	93.2	5.1	1 062.7	1 058.4	-0.4
Total	11 641.2	12 695.6	9.1	45 677.8	48 061.7	5.2

Table 3.7 - EU Trade in Clothing (Source: Textiles Intelligence Ltd., Euratex)

The importance of trading agreements is again evident from the above tables.

3.5. Vision, Mission and Objectives of the Clothing Industry

3.5.1. Vision

The vision of the South African textile and clothing industry is to create and sustain quality jobs and living standards for its employees, increase competitiveness and outputs, attract investment and promote exports in an integrated pipeline. The acceptance by the industry of a greater responsibility for their own future by lessening their dependence on government by improving productivity through human resource development, work organisation and upgraded technology. There should also be a conscious move out of the lower end of the market but simultaneous efforts to retain these activities within the region.

3.5.2. Mission

The mission is to mobilise available natural, human and technological resources to promote the South African industry to become the preferred domestic and international supplier of SA manufactured Textiles and Clothing. In addition, to create value added niche markets.

3.5.3. Strategic objectives

To forge consensus between government, labour and business on a clear vision and set of objectives and strategies for the SA Textiles and Clothing Industries to maintain and develop employment opportunities by transforming the industry into a strong, internationally competitive and growing industry capable of sustaining and attracting jobs and investment.

In order to meet these objectives, the parties would need to develop strategies to:

- Aggressively grow exports.
- Strengthen the local market.
- Introduce world class manufacturing standards throughout the industries.
- Ensure co-ordinated action from government, labour and business.
- Commit to investment.
- Ensure fair labour standards.

3.6. Structure of the Clothing Industry

Although there is no recent manufacturing census, a broad perspective of the structure of the industry can be obtained from the 1993 census and this is reflected in table 3.8.

Employment Group	Number of Firms	% of Total	Employment	% of Total
< 100	1 075	77	28 700	24
100 - 200	191	14	27 800	23
Sub - Total	1 266	91	56 500	47
> 200	124	9	63 000	53
Total	1 390	100	117 500	100

Table 3.8 - Industry Structure (Source: Stats SA)

The numbers in Table 3.8. tend to reflect what may be referred to as the more formalised sector. More detail on employment is discussed later. The significance of these figures is the dominance of the SMME sector in terms of the number of firms and employment.

3.6.1. CloTrade

The clothing industry was regulated under the auspices of the Clothing Federation (Clofed). Historically, the broader interests of the South African clothing manufacturers were looked after by Clofed. Clofed became unrepresentative as the profile of the industry changed from consisting principally of large urban based manufacturers, to an industry geographically widely spread and consisting of a growing number of small and medium enterprises. It was in danger of becoming ineffective in addressing the concerns of this broader constituency. After careful consideration it was decided not to attempt to transform Clofed, but rather to structure a new body from scratch that carried no baggage from the past, based on the lines of the structure and operation of the Export Council for the Clothing Industry. The clothing industry needs a strong collective voice to represent its common interests and to work towards creating an environment in which clothing manufacturers can prosper and grow. Government cannot be expected to deal individually with companies in an industry as vast and diversified as the clothing industry. The responsibility lies with the clothing industry to make it possible for government to deliver what is required to maximise the potential of the industry within a broader textile pipeline that offers both threats and opportunities by providing government with a credible representative body with which to interact. A new body has been formed under CloTrade. This new organisation will seek to encourage active participation by the broadest possible membership base through direct representation by individual companies. Membership of CloTrade is therefore at individual company level; and is member-led and member-funded. CloTrade is issue-driven under the guidance of a board of directors or councilors elected annually from and by the entire membership via postal votes to ensure maximum participation.

3.6.2. Difference between the Export Council And Clotrade

The Export Council focuses entirely on exports and international trade. It addresses the needs and concerns of its members who are all exporters of apparel and strives to maintain an environment conducive to the growth of exports.

CloTrade's focus is primarily on the local and sub-regional markets. It addresses the needs and concerns of all clothing manufacturers operating in SA supplying the local and regional markets. It will seek to maintain an environment conducive to the growth of the local market and the well being of clothing manufacturers in SA.

CloTrade recognises that within the broader clothing industry there are a number of different sectors, each of which may face different challenges requiring different strategies. Examples of sectors/interest groups are:

- High fashion, Designer Label, Branded manufacturers.
- Contract/Private Label manufacturers, Chain store suppliers.
- Ladies wear, men's wear, children's wear, utility wear (uniforms and protective clothing).
- Urbanbased manufacturers, Rural based manufacturers.
- Large companies/Design Houses (Design, Sales and Procurement).
- SMMEs.
- CMT manufacturers.
- Locally owned transnationals.

The aim of CloTrade is to cater for all of the above and to develop a structure capable of addressing macro issues as well as finding sectoral solutions to sectoral concerns if required.

3.6.3. Key issues facing CloTrade

- Raw material supply and input costs.
- Availability of yarns and fabrics.
- Cost inflation of yarns and fabrics.
- Board of Trade and Tarriffs (BTT) proposed removal of 3rd Schedule rebate facility.
- Duty reductions on products not available locally.
- Threat to local market/monitoring of imports of garments.
- Country of origin labeling.
- Illegal imports.
- Under invoicing.

- Trade agreements giving favourable access to the SA market. (The SA government is currently engaged in discussions with Mercosur, USA, India and China)
- SADC quota controls.

In order to address these issues it will require:

- Continuous communication with members to identify issues of concern and agree on strategies to address them.
- Interaction with various government agencies such as DTI, BTT, South African Revenue Services (SARS), Customs, South African Bureau of Standards (SABS), CSIR.
- Interaction with Texfed and the Retailers Forum.

3.7. Statistical Overview of the Clothing Industry – Industry Dominant Economic Features

The SA textile and clothing industries each contribute approximately 1.8% (3.6% combined) to the GDP of the economy. They also each account for 2.2% (4.4% combined) of sales by the manufacturing sector. As indicated above, the clothing sector is even more significant for household expenditure.

3.7.1. Production

- Cotton Lint

SA produces approximately 29 000 tons p.a. of cotton lint and imports approximately 30 000 tons p.a. The local production of raw cotton is expected to decline by more than 40% for the 2001/2002 season due to the low price of cotton relative to other crops. The SA cotton price is currently on a par with the international price, as indicated earlier.

The production of spun yarn is summarised below in the table below.

(tons)

	1997	1998	1999	2000	2001
Cotton Spinning System					
Pure Cotton	48 711	41 038	45 330	45 371	50 706
Pure Polyester	2 835	2 249	2 376	2 449	2 359
Polyester/ Cotton	24 014	22 312	20 482	22 016	22 596
Other	11 693	10 726	10 262	11 851	9 084
Sub-Total	87 253	76 325	78 450	81 687	84 745
Condenser Spinning System	11 446	10 885	11 580	11 554	8 723
Total	98 699	87 210	90 030	93 241	93 468

Table 3.9 - Spun Yarn Production (Source: Stats SA/ Texfed)

Table 3.9 illustrates the dominance of cotton and polyester/ cotton in the SA production structure for yarns.

- **Fabric Production**

Production of woven fabrics is shown in the table below.

(‘000 sq. m.)

	1997	1998	1999	2000	2001
Cotton					
Printed	46 317	35 583	28 644	26 145	23 379
Dyed	81 222	65 957	69 431	67 392	61 746
Other	80 392	72 640	72 694	68 719	72 975
Sub-Total	207 931	174 180	170 769	162 256	158 100
Worsted	9 025	7 495	6 858	6 536	8 500
Cont. Filament	76 116	67 015	60 861	62 259	66 417
Sub-Total	85 141	74 510	67 719	68 795	74 917
Spun Synthetic					
Dyed + Colour Woven	17 895	11 546	11 873	13 226	13 119
Other	108 816	104 837	111 410	80 917	94 734
Sub-Total	126 711	116 383	123 283	94 143	107 853
Total	419 783	365 073	361 771	325 194	340 870

Table 3.10 - Woven Fabric Production (Source: Stats SA/ Texfed)

Note: The above figures exclude industrial cloth and sheeting.

Production of knitted fabric is shown in table below.

(tons)

	1997	1998	1999	2000	2001
Cotton	10 565	9 999	12 519	10 278	10 409
Man-made fibres	2 330	1 136	1 493	1 491	1 406
Continuous Filament	14 647	12 654	13 426	10 931	11 370
Total	27 542	23 789	27 438	22 700	23 185

Table 3.11- Knitted Fabric Production (Source: Stats SA/ Texfed)

The production volume index has been reflecting a generally declining trend since 1995 but since mid-2001, there are indications of the beginning of an upturn. Although it is early days, the improvement in March and April 2002 is particularly significant. The improvement in the textile industry, which produces 30% of its output for the apparel industry, reflects a potential continued upturn for clothing, taking lead times into account. (Refer to the following figure).

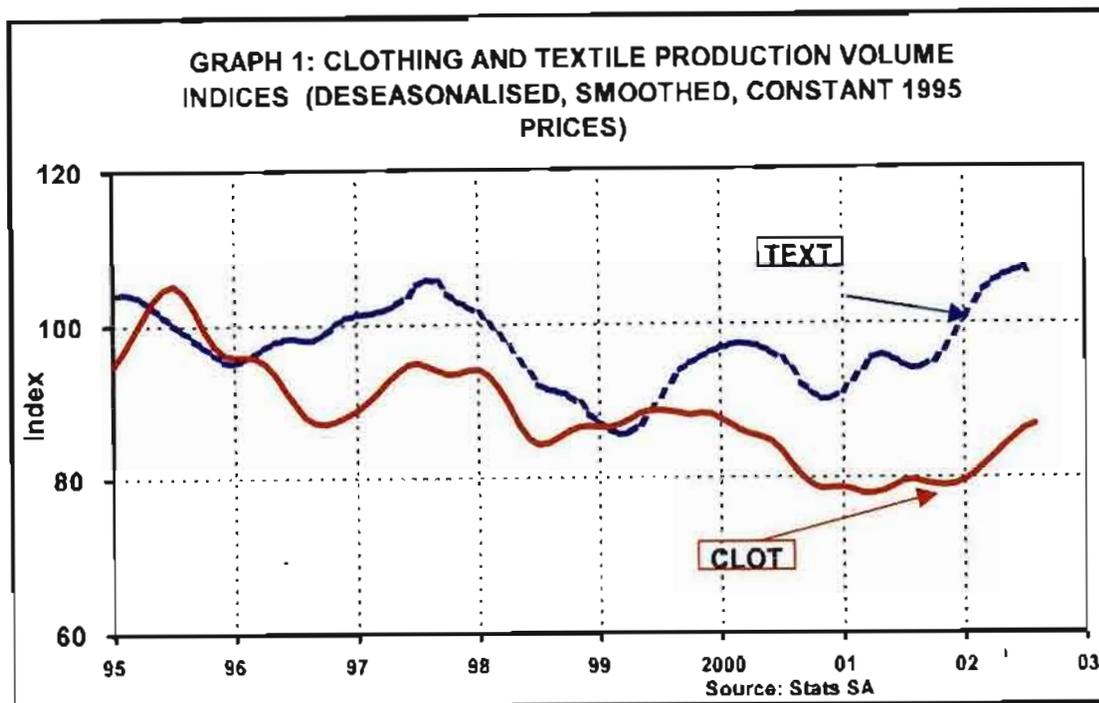


Figure 3.1 - Production Volume Index (Source: Stats SA)

The following are some of the factors affecting the performance of the industries:

- The industries are over-exposed to domestic market conditions;
- There are upward pressures on the interest rate;
- There is high volatility in the Rand exchange rate with various major currencies;
- There have been upward pressures on the Consumer and Production Price Indices (CPI and PPI);
- There has been a rising trend in the consumer-borrowing component of the money supply.

Consequently, a revival in consumer demand for apparel on the domestic market can be expected to be constrained for the immediate future. The apparel textiles sector, however, is experiencing greater growth as a result of the demands of AGOA; other regional countries, such as Mauritius are having to source yarn and or fabric from SA.

3.7.2. Sales

The production sales value (at current prices) for textiles shows a sustained recovery from R9.6 billion in 1998 to R11.0 billion (US\$1.6 billion) in 2001. (Refer to the following figure).

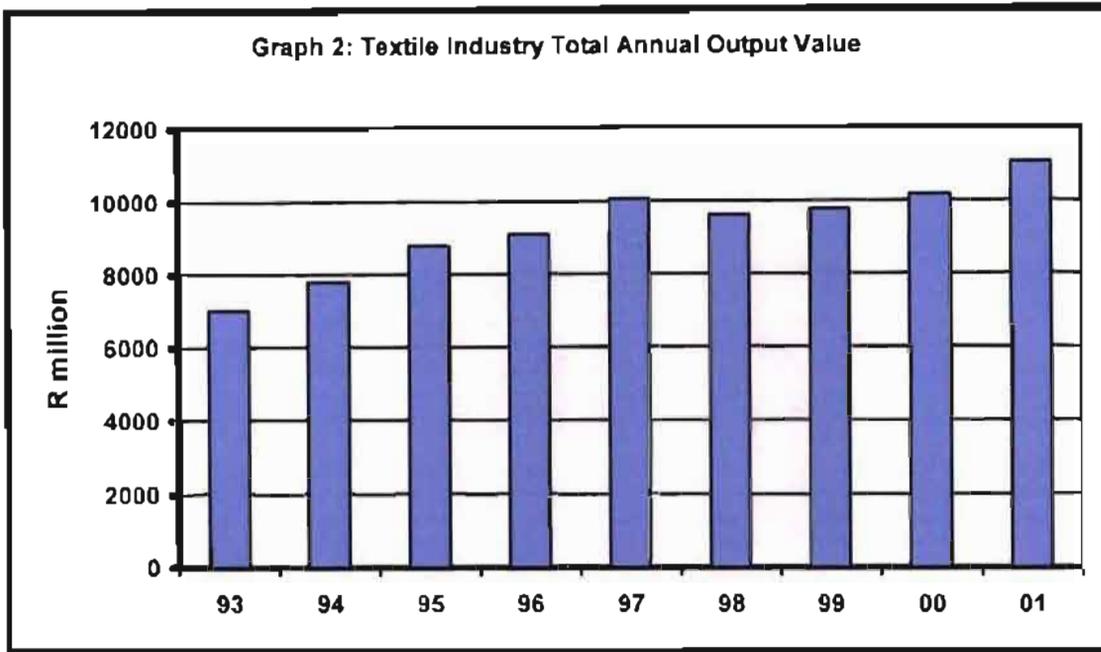


Figure 3.2 - Textile Industry Total Annual Output Value (Source: Stats SA)

The production sales value (at current prices) for clothing showed a marginal recovery from R11.0 billion in 1999 and R10.6 billion in 2000 to R11.0 billion (US\$1.6 billion) in 2001 (Refer to figure below).

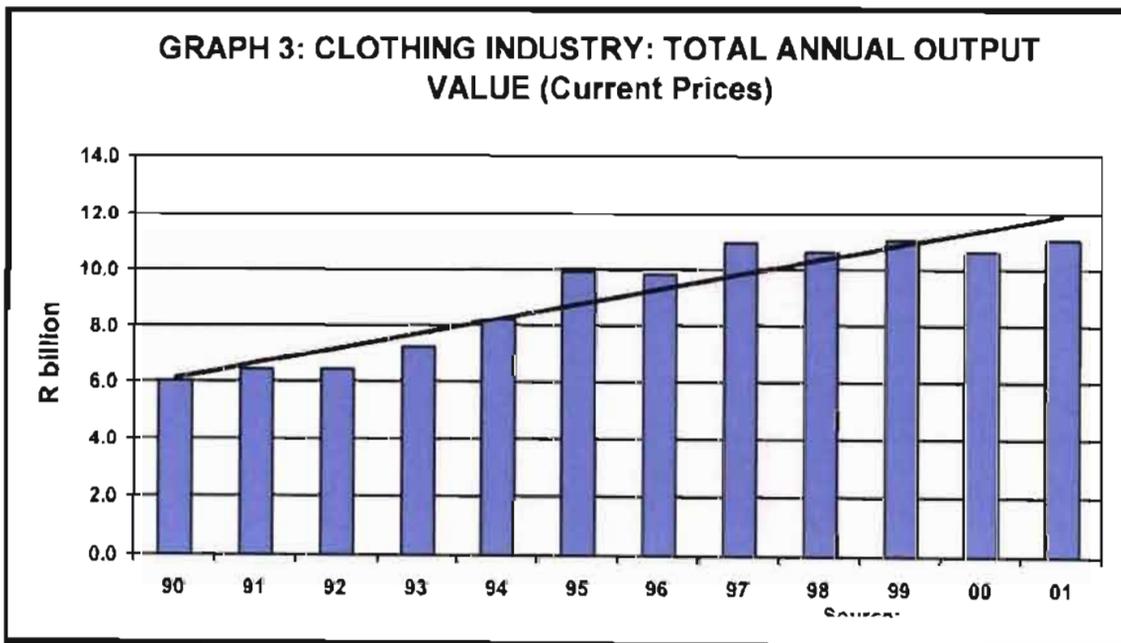


Figure 3.3 – Clothing Industry Total Annual Output Value (Source:Stats SA)

The historical trend line reflects a sustained growth path. It is expected that the industry will experience an export-led recovery over the next few years as the opportunities presented by AGOA and the EU agreement begin to take effect.

Monthly sales at current prices for clothing are reflected in the figure below.

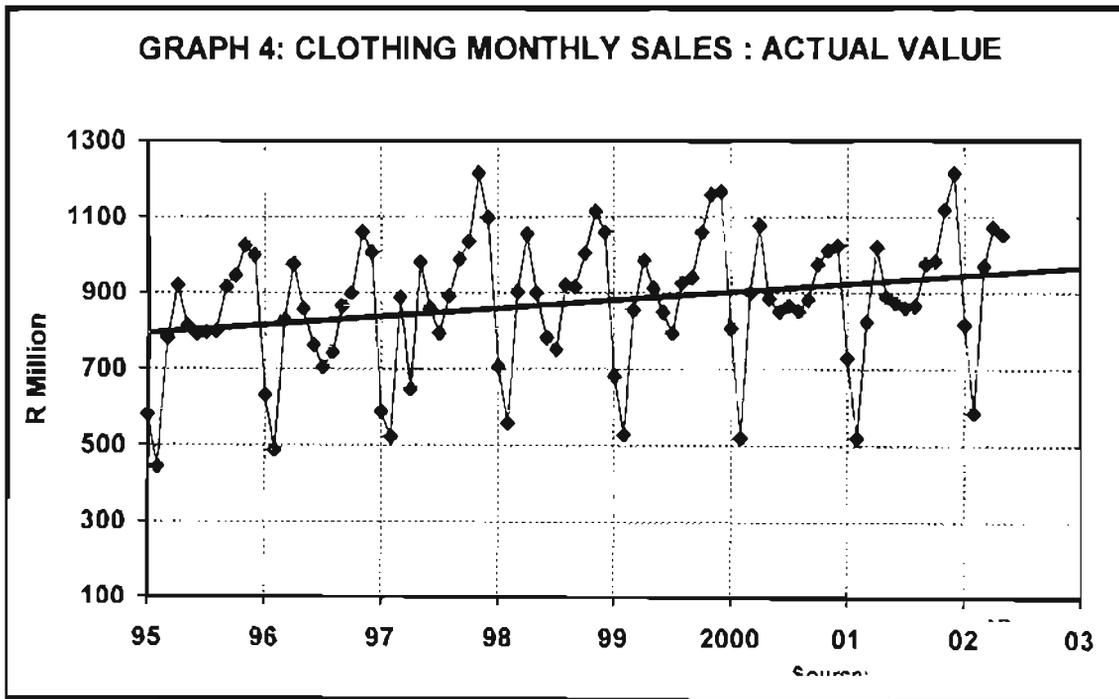


Figure 3.4 - Monthly Sales, Actual Values (Source: Stats SA)

The graph typifies the marked fluctuations in monthly and seasonal sales. The monthly sales also confirm the indications of improving conditions with the seasonal drop in April 2002 being far less pronounced than the norm.

3.7.3. Employment

Total employment in the textile industry, as recorded in the official statistics, increased from 56 000 in 1999 to 57 000 in 2001. Employment in the spinning, weaving and finishing sector was 28 000 in 2001. Total employment in textiles represents 4.5% of employment in the manufacturing sector. Total employment in the clothing industry, as recorded in the official statistics, declined from 148 000 in 1999 to 123 000 in 2001. Employment in clothing represents 10% of employment in the manufacturing sector.

Employment in the clothing industry, including the informal sector, is estimated to be approximately 200000 people, which suggests that the domestic market is much larger than that reflected in the official statistics.

In the figure below, a comparison between total employment in the clothing industry and employment in the bargaining council areas is shown. The move away from metropolitan unionised wages is evident, with the gap widening.

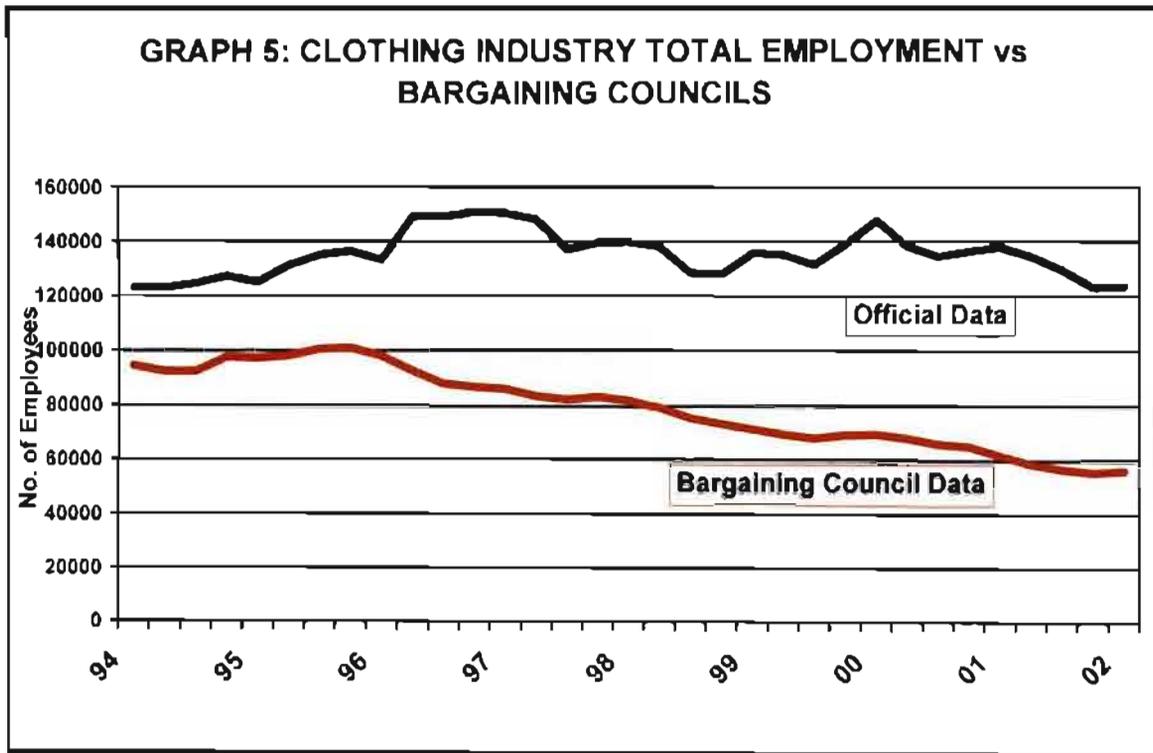


Figure 3.5 - Total vs. Bargaining Council Employment (Source: Stats SA, Bargaining Councils)

3.7.4. Inflation

As at May 2002, the clothing production price index (PPI) was 9.6%, having risen from a low of 4.0% in April and May 2001. The clothing PPI is lower than the overall manufacturing PPI, which was 13.8%. The textile PPI for spinning, weaving and finishing was significantly higher at 15.8%, compared to the overall textile PPI at 12.4%. These indices clearly reflect the upward pressures on manufacturing costs. Of particular concern is the rate for spinning, weaving and finishing which is the rate for inputs into the clothing industry. The situation is depicted in the following figure.

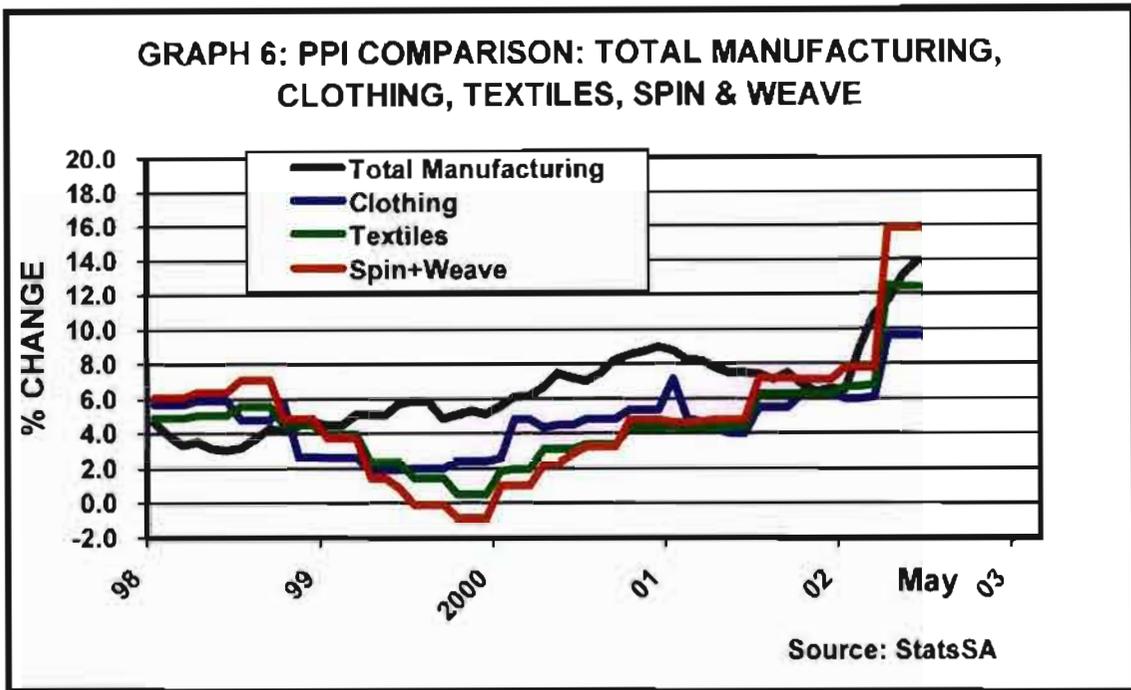


Figure 3.6 - PPI Comparison – Total Manufacturing, Textiles, Spinning and Clothing (Source: Stats SA).

The clothing CPI is very low at –6.3% compared to the general CPI of 8.4%, as depicted in the figure below.

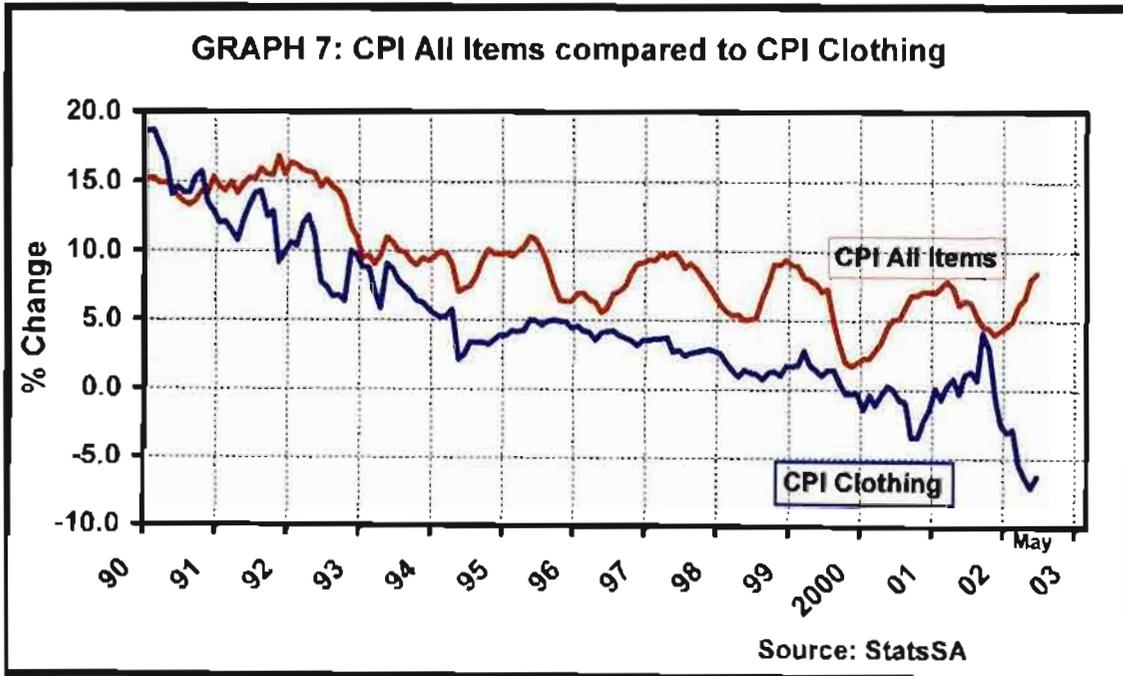


Figure 3.7 - CPI Comparison – All Items and Clothing (Source:Stats SA)

3.7.5. International Trade

Imports of textile yarns and fabrics have continued to show a rising trend since South Africa has become part of the global market and tariffs have continued to decline. Total annual imports and exports of textiles are shown below.

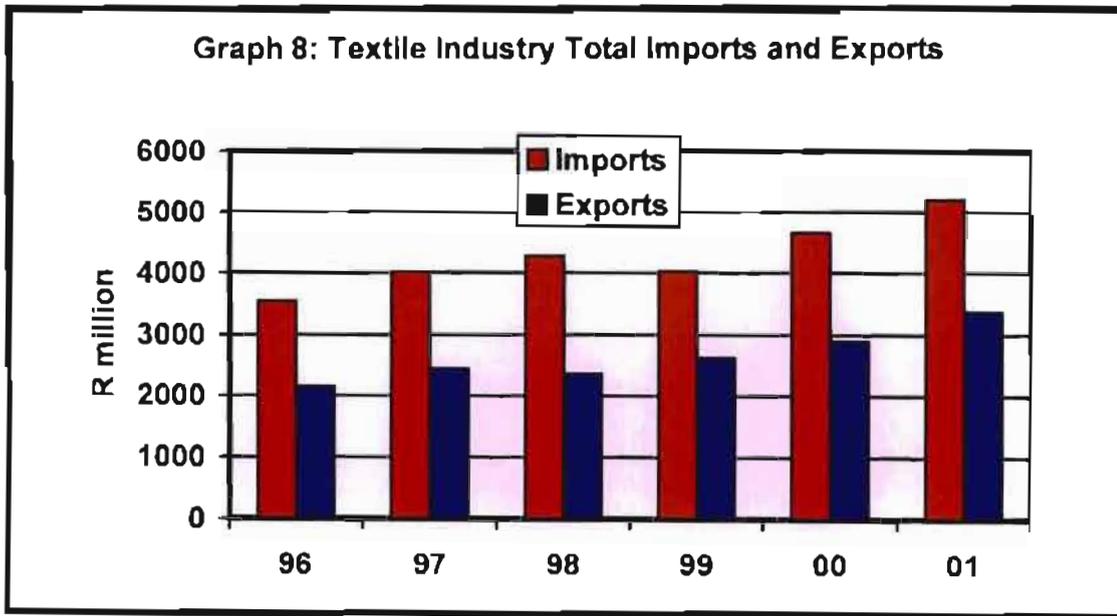


Figure 3.8 - Total Annual Imports and Exports of Textiles (Source: SARS, Texfed)

Imports of yarns and fabrics are detailed in Table below.

	1999		2000		2001	
	Tons	R million	Tons	R million	Tons	R million
Yarns – Total	31 759	518.6	38 191	643.9	42 011	809.9
Wool	121	8.2	148	9.7	161	12.3
Cotton	3 190	55.1	3 662	58.4	10 113	178.3
Vegetable	2 396	14.9	2 842	19.1	2 171	19.0
Filament	20 472	351.1	25 704	461.1	25 500	520.7
Spun Synthetic	5 579	89.0	5 832	95.4	4 104	78.7
Fabrics – Total	50 482	1 804.6	64 260	2 055.9	94 956	2 203.0
Silk	151	18.5	228	23.8	193	27.0
Wool	140	23.5	106	18.9	116	26.0
Cotton	7 912	313.5	9 287	342.2	35 148	418.0
Vegetable	2 196	36.8	1 765	27.6	1 544	28.4
Filament	20 713	735.6	23 711	805.3	21 451	780.8
Spun Synthetic	9 293	315.1	15 298	431.4	23 525	478.3
Woven Pile	1 484	51 424	2 313	62.1	1 982	63.6
Knitted	8 603	310.3	11 552	344.6	10 967	381.0

Table 3.12 - Imports of Textile Yarns and Fabrics (Source: SARS, Texfed)

The growth in imports of cotton yarn and fabrics is indicative of the demands being placed on the sector by the effects of AGOA. Imports of clothing also show a rising trend. The major source countries are China, Malawi and Hong Kong. Exports of clothing have also demonstrated a sustained rising trend with the USA and UK being the major destination countries. The USA accounts for 62% of South Africa's total apparel exports. Furthermore, apparel exports to the USA grew by 35% from 2000 to 2001. The relatively low value of trade compared to overall production stems from the long years of isolation. The industry was inwardly focused and catered to the needs of the domestic market. This is all changing as the industry becomes increasingly exposed to the international market place and far more export orientated (Refer figure 3.9).

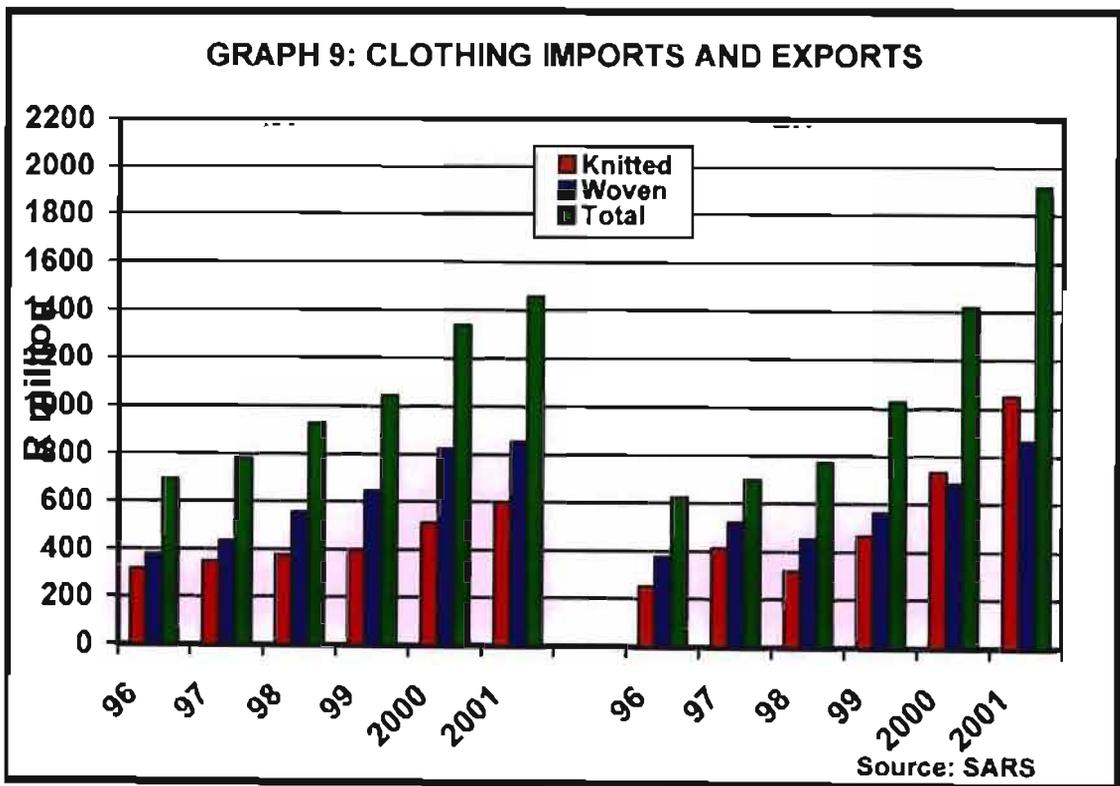


Figure 3.9 - Annual Imports and Exports of Apparel (Source:SARS)

The following table 3.3 summarises total clothing output, imports and exports. It also shows the percentage growth in imports and exports as well as the relative size of each compared to total value of domestic output.

R million

Year	Output	Imports	Exports	Output % Change	Import % Change	Exports % Change	Imports % of Output	Exports % of Output
1990	6043	251	195				4.15	3.23
1991	6412	318	359	6.11	26.69	84.1	4.96	5.60
1992	6364	351	470	-0.75	10.38	30.92	5.52	7.39
1993	7207	389	420	13.25	10.83	-10.64	5.40	5.83
1994	8176	483	415	13.45	24.16	-1.19	5.91	5.08
1995	9857	412	490	20.56	-14.70	18.07	4.18	4.97
1996	9774	694	626	-0.84	68.45	27.76	7.10	6.40
1997	10923	783	660	11.76	12.82	5.43	7.17	6.04
1998	10641	931	772	-2.58	18.90	16.97	8.75	8.75
1999	10996	1043	1028	3.34	12.03	33.16	9.49	9.49
2000	10622	1337	1418	-3.40	28.19	37.94	12.59	12.59
2001	10985	1458	1917	3.42	9.05	35.19	13.27	13.27

Table 3.13 - Total Clothing Output, Imports and Exports, Current Prices (Source: Stats SA, SARS).

Note that 1997 exports have been adjusted downwards to eliminate fraudulent exports to Mozambique. From the above table the following points can be noted:

- Output value has slowed in recent years.
- Exports are starting to show a sustained growth trend of more than 30% p.a.
- Exports and Imports have grown as a % of total output, reflecting a more open trading environment.

Analysis of clothing imports has revealed that average prices declined by nearly 50% after the minimum specific duty was withdrawn in September 1999. This suggests the occurrence of under-invoicing to avoid payment of the full ad valorem customs duty.

Analysis of exports shows that the industry strengths are in cotton and wool based products. Products include suits, jackets, trousers, T-shirts, golf shirts and jerseys/ sweaters.

3.7.6. Retail Trade

The clothing retail sector, despite weak economic conditions in the consumer market continues to reflect a long-term growth trend (refer to figure 3.10). The performance is remarkable when taking into account the low and even negative CPI for clothing.

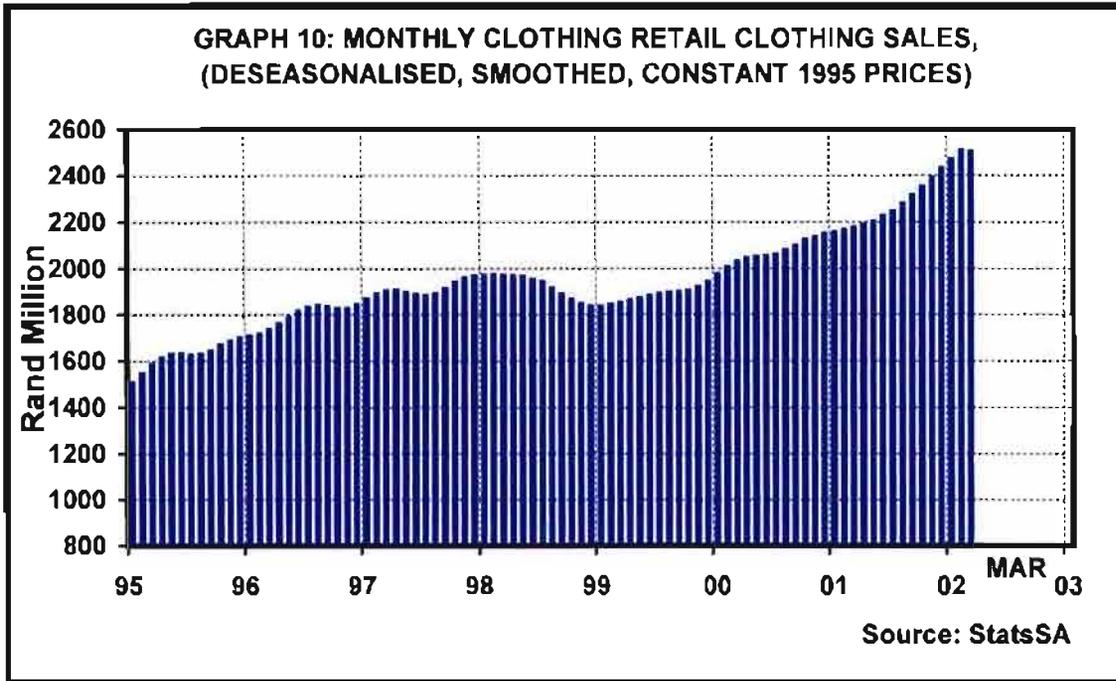


Figure 3.10 - Monthly Retail Sales in Real Terms (Source Stats SA)

At current prices, total apparel retail sales were R22.7 billion in 1999 compared to R24.8 billion in 2000 and R27.0 billion in 2001 (Refer to the following figure).

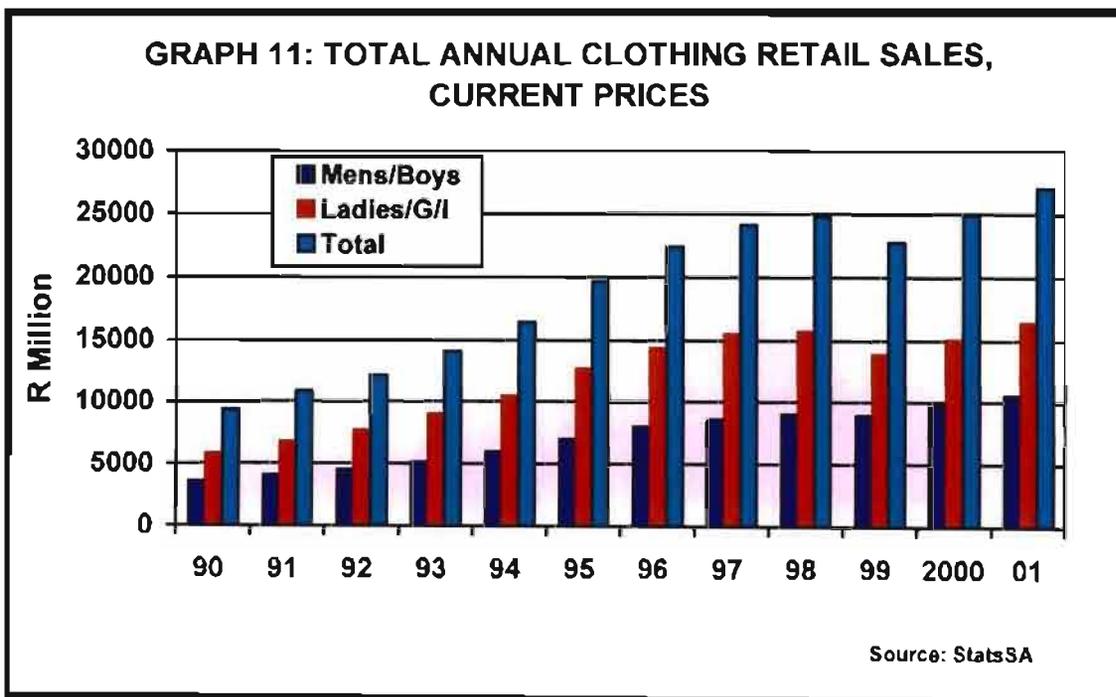


Figure 3.11 - Annual Retail Sales at Current Prices (Source:Stats SA)

Ladies and infants wear accounts for approximately 61% of the market and men's wear for 39%. The major market area is Gauteng, which comprises 38% of the total market. The Western Cape accounts for 18% and KwaZulu-Natal for 15% of the clothing retail market. Clothing is still a major item in the total retail market, making up 16% of total retail sales in value terms.

3.7.7. SADC Market

It is important to place the SA apparel textile sector in context relative to the SA region as a whole. In the textile and apparel manufacturing sectors, SA is the largest. In terms of employment, the SA textile and apparel sector employs approximately 180 000 people. This compares to approximately 70 000 in Mauritius, 40 000 in Lesotho, 20 000 in Zimbabwe and 20 000 in Malawi. It should be noted that both Zimbabwe and Malawi are in a state of flux and employment has declined slightly from these levels recently. Fibre production in the SADC is approximately 560 000 tons p.a. with cotton comprising just over 50% of this. Zimbabwe is the largest producer of cotton and SA the largest in synthetic fibres. Total fibre consumption in the SADC is approximately 440 000 tons p.a. Of this, cotton consumption is 155 000 tons, polypropylene and high-density polyethylene 90 000 tons, acrylic 50 000 tons, and polyester continuous filament 40 000 tons and polyester staple 40 000 tons. Fibre demand for spinning is 243 000 tons. Of this, 152 000 tons is for cotton. South Africa consumes 53% of total fibre for spinning with Zimbabwe the next largest. Tanzania accounts for approximately 6%. SADC production of spun yarn is approximately 225 000 tons p.a., of which spun cotton yarn is 165 000 tons per annum. Yarn demand for weaving is approximately 126 000 tons, of which cotton and polyester cotton accounts for approximately 75%. Apparel textile woven fabric production is approximately 345 million square metre. Yarn demand for knitted fabrics is approximately 70 000 tons p.a. SA accounts for 80% of warp knit yarn demand and Mauritius for 32% of circular knit.

3.8. SWOT Analysis of the Industry

A SWOT analysis has been carried out of the industry, which critically evaluates all aspects of the clothing industry with the aim of directing organizations specifically the KCG.

3.8.1. Strengths

- Cotton and wool based

Cotton and wool are natural resources in SA and form the basis of the apparel textile sector.

- Infrastructure

South Africa has a well-developed infrastructure that is a necessary pre-requisite for a capital-intensive industry (banking, telephones, roads, rail, harbours, electricity, and water).

- Established industry base

The textile industry is well established and has developed production capacity to meet a wide range of needs for the domestic market.

- Integrity of leading manufacturers

The leading manufacturers have established a reputation for ethical integrity.

- Discipline from a demanding retail sector

The local retailers have encouraged the development of standards to meet international quality and specification standards.

- Fair labour practices

The industry is able to participate in the international market due to the adoption of labour practices that meet international standards.

- Well organised SETA for training

- Environmental awareness

The textile sector is aware of environmental demands and is continually improving production processes. This ensures acceptance of products in the international market place.

3.8.2. Weaknesses

- Capital equipment outdated

The textile industry has publicly indicated that machinery is out of date. The average age is more than 5 years. The industry has not been able to upgrade during the tariff phase down programme. To compete internationally, the latest technology has to be in place.

- Lead times and service

Lead times and service to the clothing industry is below international norms. This is largely a result of high protection and a domestic market focus.

- Skill shortage

There is a shortage of technical skills in SA and there are practical difficulties in importing appropriate expertise from overseas.

- Low export orientation

A lack of exposure to the international market results in an industry that lacks international competitiveness. Export orientation implies a greater degree of specialisation and improved economies of scale.

- Relatively wide range of products

The focus on serving the needs of a relatively small domestic market has resulted in production of a relatively wide range of products, short production runs and poor economies of scale.

- Financial constraints

The necessary technological upgrade of plant and machinery requires access to capital at competitive interest rates. The decline in the R/\$ exchange rate and the relatively high interest rates are a serious constraint to a technological upgrade and an increase in production capacity.

3.8.3. Opportunities

- Export Potential

The industry has the potential to become both a direct and indirect exporter by concentrating on its advantages in cotton and wool.

- Trade Agreements (AGOA, EU, SADC)

The industry is at the centre of an enormous growth potential emanating from AGOA and the EU Trade Agreement. Demand from the SA and neighbouring countries has already stretched the industry's capacity. With the LDC's in sub-Saharan Africa losing their temporary benefit for sourcing fabric, the pressures will be compounded even further.

- Alternative international supplier (international political instability)

As a result of international political instability and concerns for workers rights, developed countries are discovering SA, particularly USA, as an alternative supply source. International buyers are diversifying their risk profile.

3.8.4. Threats

- Illegitimate imports – under-invoicing, trans-shipment, worn clothing

The industry's viability and capacity utilisation is undermined by imports that enter the country by improper methods.

- Poor domestic market economic conditions

The poor growth and the effect on the domestic consumer have adversely affected the ability of an industry that is focused on the domestic market to operate at optimum levels.

- Production capacity

For the industry to become successful, it will be critical that additional production capacity is created as a matter of urgency.

- MFA quotas eliminated in 2005

The elimination of MFA quotas in 2005 will result in one of SA's advantages disappearing. The SA industry will have to have gained a foothold in the international market before then and geared itself to compete with only a duty advantage. The industry will be dependent on the competitive ability of the clothing industry in SA and neighbouring countries in international markets.

- Competition from China – WTO member

China is expected to become a major competitor in the international market as it becomes more accepted and as it increases its production capacity, particularly in polyester. As a member of the WTO, it is expected that China's price structure will become normalised to some extent. The degree of normalisation remains the unknown factor.

3.9. Strategies for the Clothing Industry

The Sector Summit process arose out of the October 1998 Job Summit where it was agreed that individual sectors would address specific action plans for their individual sectors. The parties to the Sector Summit process are SACTWU, CLOFED and TEXTFED and all of their members and constituent parts, the Department of Labour and the Department of Trade and Industry.

The parties to the Sector Summit agree to three interlocking sets of strategies to transform the industries and achieve the objectives agreed to for the Summit (Sector Summit Report for the Clothing and Textile Industries: 2000). These are:

- Generic strategies, aimed at changing the overall focus of industry, and to strengthening specific areas of potential or current comparative advantage,
- Export and Investment strategies, directed at increasing the volume, value and sustainability of exports, and to increase the overall levels of investment in the industry,
- Domestic market strategies, intended to sustain and increase the share of domestic consumption produced from local manufacturers,
- Trade Agreement Strategies,
- Labour Market Strategies.

3.9.1. Generic Strategies

The strategies outlined above are strategies for growing the industry in the domestic and export market. The supply side measures outlined below are measures that aim to support the industry

in its quest to compete domestically and globally through enhancing the value added production of the clothing and textile industry.

3.9.1.1. Supply Side Measures

For the strategies to be successful, they have to be supported by appropriate institutional arrangements. The objectives of growth require capital investment, cash flow finance, investment incentives, amongst others. Such aspects require the broad support of institutions such as International Development Corporation (IDC), commercial banks, DTI, Khula, Ntsika, etc. Competitive, low cost, easy access and flexible conditions are examples of issues that need attention if this sector is to be supported. Government budgeted the following amounts in the 2000/1 budget for a range of supply side measures to support all industries in South Africa:

- Investment Facilitation: R547,004,000.00
- Trade Facilitation: R360,000,000.00
- Technology Enhancement: R518,664,000.00
- Work Organisation/Competitiveness: R84,000,000.00

However, the supply side measures have not been successfully used by industry to date and changes need to be made that will make the measures more accessible and effective. Government has expressed their support for mechanisms that facilitate more inclusive and targeted delivery of resources to underpin the supply side strategies of the industry. Some critical success factors have been identified for the industry, which need to be borne in mind in the implementation of any supply side strategy. These success factors are:

- Quality
- Turnaround times
- Delivery
- Consumer fashion
- Commodity Production
- Input costs

Specific supply side measure that are in need of attention are:

- SMME Services

It is envisaged that SMME services will provide a number of customised services for small enterprises in the sector. These may include a register of SMME's, collection of data on the extent of such outwork, monitoring of the social and industrial dimensions of SMME's in the industry, and serve as a referral to help SMME's access the services in training and skill enhancement or specialised information technology (IT) services. The Small Business Promotion

services, which could be provided by the bargaining councils, will provide logistical and information help to small businesses in dealing with legislation, tax, regulations, managerial services, quality improvements, access to capital, government incentive opportunities, etc. It will also assist small businesses to access the services available in other chambers.

▪ E-commerce Services

The electronic age is sweeping through the textile and clothing industries. Areas affected include office administration, production control, design, waste management, production methods, stock control, dispatch, web page product promotion, internet purchasing and selling and electronic data interchange (EDI) between retailer/clothing manufacturer/textile supplier. With South Africa's comparative advantage in the developing world in the area of IT, and the strong cyber-infrastructure which exists locally, we can move rapidly to build a world-class electronic exchange covering suppliers and customers, and use this to secure advantage in both costs, marketing and ease of supply. A clothing and textile portal will provide the platform for b2b, b2c and b2e e-Commerce services for customers, suppliers and employees of the industry.

Such a portal could cover:

- Customer-supplier link-ups and e-procurement throughout the local supply-chain
- Customer supplier links for e-procurement for export customers to access supplies in SA
- E-retailing to the domestic and international markets
- Value added online services to employers and employees of the industry in:
 - recruitment
 - business innovation
 - design capacity
 - technological innovation
 - training
 - investment
 - business administration
 - industrial relations services

Through the SETA for the sector, an education and training strategy and service delivery program which substantially raises the skills base in the sector, and hence the productivity, quality of output, and capacity of workers and managers to adjust to a rapidly changing set of market and societal requirements may be developed. The sector SETA will develop training policy for the sector, monitor its effectiveness, compile information on the skills profile for the sector, and work with training providers to respond more effectively to emerging needs in industry. It will undertake regular skills audits in the industry.

- Technical Services

This will promote cutting-edge work in areas such as product innovation, support for small business, assistance with technology improvements and help with marketing programme of research into fibre development, new product development and process technology, to place SA in the forefront of global industry in new technology products. This requires research partnerships where appropriate with universities, technikons, CSIR, international institutes and bargaining Councils. These active measures require both financial support, and an institutional capacity to identify needs on a regular basis, and to link such need to the supply of services available in both the public and private sectors.

- Export services

Export services will promote exports through publicising export opportunities, and for SMMEs it will provide logistical and information services. It could also act as an agency for DTI in promoting export incentives. It will help to promote fashion designers, studying in fashion, local label and brand name promotion, fashion shows and the promotion of South African fashion abroad.

3.9.2. Export and Investment Strategies

The following strategies for job creation are aimed at exponentially growing South Africa's clothing exports during the period 2000-2005, underpinned by targeted investment flows into these sectors and their supporting service and manufacturing sectors.

There is an overarching need for export market research, R&D, training, technology upgrade and capacity increase in line with a projected rise in manufacturing activity to serve the new demand arising from market access opportunities. The DTI is currently initiating a textile technology audit and it has been proposed that the industry and labour jointly assess the amount of investment required for the textile and clothing sectors to achieve world class levels in technology and work organisation, with a view to developing a strategy for the re-capitalisation

and upgrading of the sector towards achieving desired export targets.

An export strategy should take into account both the present and future areas of comparative advantage. Presently, SA exports both high value added and commodity type exports with different firm types specialising in different product markets.

In general, SA based firms based in the urban centres focus on the mid to upper ends of the product market. These are usually large and medium sized firms that have some experience in operating in developed economy markets. Exports from these firms have shown significant growth over the last two years, and as a group they still make up more than half of all exports from SA. These firms are likely to form the core of any major expansion into export markets. It has therefore been agreed that a range of incentives and support programs should be developed to allow these firms to expand capacity and massively grow the level of exports.

Whilst smaller companies and those based in the decentralised areas may only be in a position to move into the more value added product markets in the medium term, this should be encouraged as it is the only strategy that is sustainable in the long term for a middle income economy. Assistance programs should therefore be designed in such manner as to actively encourage firms to move into more value added products.

A focus on value added products should not, however, ignore the short-term opportunities of increasing the supply of commodity type products to US markets. It should be noted that there is a lower and higher value added segment found within this product market. There is an existing capacity in both rural and urban areas that can be expanded to supply these products. Increasing the supply of these products from SA will stimulate employment in rural and urban areas as well as create the industrial capacity and skills base for the production of more value added products in the medium term. More importantly, successful entry into US markets establishes the platform for SA to access more value added product markets. As a buyer driven commodity chain, the types of products produced by clothing and textile firms will, at least in the short term, be strongly influenced by the strategies and sourcing policies of US retailers. As SA becomes more established as an important fashion centre, the focus of an exporting strategy should be to enter the more value added segments of these markets.

The broad base of SA's clothing industry therefore allows for a focus on a range of product

markets. Existing incentives and resources that are available to exporters are, in any event, under-utilised and it is possible, at least in the short term, to focus on a broader range of product markets.

The Export and Investment Strategy is therefore separated into market segments.

3.9.2.1. Increase Higher Value Commodity Type Products

This strategy is aimed at facilitating export growth by the traditional SA firms including CMT companies. There may be benefits for a joint approach with the TransNational Clothing (TNCs) firms due to the need to develop a single professional country image in world markets. The Export Council can play a key role here in combining efforts of exporters. A package of incentive measures needs to be developed to encourage the expansions of production by existing local manufacturers as well as foreign investors. This should be a priority issue for the forum.

Steering the TNCs up the value chain through facilitating investment to comply with country of origin rules of preferential trade agreements as well as establishing a sustainable local manufacturing base for global operations. The need for work permits for skilled key staff (such as textile technologists) as well as a rapid deployment of training courses in the rural areas is key success factors for this strategy.

- Increase Economic Collaboration towards Export Growth

There is still an inherent lack of economic collaboration and trust in the industry following years of global isolation and total local market focus. Core business and support infrastructure still work in pockets, and there is a lack of integration. This is the fundamental basis for clustering; export council development and the new export incentive schemes. These initiatives towards clustering should be encouraged as they lead to improved communication channels between firms, stakeholders and supporting industries towards export growth. They also encourage links between large and small firms (mentor-style) for the benefit of both towards improved supply chain management.

Attention need to be given to the effective application of instruments like the Duty Credit Certificate Scheme (DCCS) and the need to remove uncertainty amongst manufacturers in respect of its continuance. During periodic reviews of existing programmes, consideration should be given to other forms of support such as tax rebate incentives.

- Encourage a Domestic Trading House Model

This model involves local textile and clothing manufacturers or retailers taking on a trading house role, whereby the core operations of the firm are optimised through accelerated orders for the pipeline, for areas of particular specialisation in-house and for complementing ranges as well

as pure trade (import/export) operations. Sales strengths, technical, design, logistic and additional revenues from the trading house, enabling export activities by retail using local and imported inputs, enhance distribution capacity of retail. This can also form part of a strategy to increase efficiencies by specialising in the marketing and design function while developing a manufacturing base of dedicated CMT's.

- Commodity Clothing Market Strategy

This strategy aims to dramatically increase the volumes of commodity-type product exports. There are two broad components to this strategy. The first is to expand the existing local manufacturing base of these products. The second is to attract overseas investors with established international markets in such products. The envisaged actions required are as follows:

- Identification of Commodity Export Markets

There is a need to conduct an exercise to identify the export markets for these products, which can be competitively exported at the volumes required in order to achieve the economies of scale for these products. One of the obvious markets is the USA, but closer work needs to be done on the market segmentation, either by the Export Councils, individual firms or groups of firms to establish the most effective market penetration and retention by SA exporters.

- Secure Export-Led Investment

Target and secure investment by TNCs into the rural areas to rapidly establish SA as the sourcing base for world markets. This should have the effect of increasing the volume of exports significantly, especially in mass production of commodity products. This investment should be largely aimed at the decentralised areas where development and employment is still very poor. This will lead to employment, skill's development, and economic development in these rural areas. Simultaneously, encourage the move up the value chain in SA and SADC by the TNCs to comply with origin requirements for preferential access to markets. Interact with key retailers in the USA who effectively determine the TNC sourcing base.

It is suggested that the DTI do a full assessment of the TNC's that the IDC has funded to date to assess what their performance has been like. Some of the TNC's are financially very weak while others are undertaking major expansions with a view to supplying the USA market. It is especially important to establish the sustainability of these firms and to determine to what extent these firms are likely to remain competitive and expand into more value added product markets. The capacity of these firms to upgrade the skills of employees should also be considered. The outcome of this investigation will inform the level of resources that should be made available to these types of firms.

- Encourage a Foreign Trading House

Target, secure and support foreign investment into new SA-based textile and clothing trading houses with an export focus, either independent or through joint ventures with local manufacturers or retailers. Foreign-owned trading houses bring with them the advantage of established markets, global linkages in the supply chain, e-commerce markets, knowledge of the specific requirements of each market (standards; labeling; administration; etc), and credibility from world markets. Local partners can provide the knowledge of SA manufacturing networks and suppliers, local legislation and business practices, as well as established infrastructure in order to steer the locally manufactured products through the supply chain that the trading house already has in place.

This has the effect of rapidly establishing SA as a sourcing zone for world markets, accelerating export growth and pulling employment levels up through stimulating the manufacturing base to supply the volumes that these trading houses are used to supplying to their existing base of buyers. Simultaneously, explore opportunities for sourcing from SADC and complementing the “basket” of finished products sold internationally by the trading houses with SADC-sourced products.

- Niche Clothing Market Strategy

This strategy aims to assist small and medium firms to get export ready in fashion and design intensive market segments and join forces in dealing with larger orders through the actions below. It is acknowledged that improving SA’s design capacity is important for the long term sustainability of the industry. The emergence of design houses in SA as a specialist service to the industry, as well as the retention of design in the downsizing trend of manufacturing firms, is indicative of the value of this strategy both to retail and manufacturing exports from RSA.

- Fashion Design Initiative

A collective effort initiated by the DTI, Clofed, Texfed and SACTWU to take stock of all existing SA design and fashion institutes and various projects underway, and that this be drawn together into a more detailed set of strategies to be considered post-summit. The outline of this project would be as follows:

- identify the players in design (of fabric and clothing) in SA in terms of established designers; amateur designers; design houses; NGO’s; trainers; institutions; fashion leaders; fashion editors; fashion TV ; sponsors of fashion events; etc
- identify champions who could play a key role in driving the project and who may also provide funding and global exposure
- establish the strengths of SA design and attempt to group these strengths (indigenous;

contemporary; wool products; etc)

- establish marketing channels and strategies for the strengths, including DTI's Imaging SA project
- identify product development needs and mechanisms for improved product development by firms including better use of research institutions and training institutions
- in respect of branding issues, identify the brands currently produced in RSA and actions necessary to market these brands, focus/elevate existing brands and develop further brands.
- encourage branding of African designs
- improve co-operation between industry and relevant schools of design, independent designers and design houses with a view to integrating their services with that of industry through effective mechanisms of service delivery including web-based technology. This could also lead to long-term export of SA designs as intellectual property.
- based on the marketing initiative, linking designers to small and medium manufacturers in SA and SADC to shift existing production to local design. This may extend to large manufacturers in the long term.
- involve SADC in the initiative for wider design growth for the region
- identify investors who can bring design, branding and marketing skills to the existing base.
- identify strategy for fashion incubation for emerging designers to supply high fashion couture as well as tourism markets using existing NGO's and training institutions.

3.9.2.2. Preferential Market Strategy

This strategy aims to maximise preferential access to markets by identifying the export and investment opportunities offered through these markets and utilising these as a tool for SA export growth. All strategies may be linked to the Made in RSA campaign, Country of Origin Labeling and the Imaging SA Project.

- African Growth and Opportunities Act (AGOA) – Visa system

Establish criteria for accessing the Act; implement the necessary requirements for compliance; train officials and industry representatives on the USA legislation and its implications; support exporters in bringing in buyers and implementing firm-level requirements; link to beneficiation projects and SADC for availability of country of origin materials. Resources need to be pooled to investigate the compliance requirements that the USA were putting into place to administer quota free access to their market.

- EU/RSA Free Trade Agreement

Export Councils and industry need to identify advantages for specific product groups for marketing purposes. Utilise embassies and existing market research. Arrange targeted missions

to matching markets with groups of exporters. Government will assist in ensuring that information regarding the EU preferential duty structure is provided timeously to the industry, as this information has not been readily available up front.

- SADC

Initiate market research in specific products. Initiate industry-to-industry dialogue through targeted missions arranged to SADC countries for specific export opportunities in the pipeline using the tariff preferences such as EU, GSP's and AGOA market opportunities which are anticipated to raise the levels of demand for input products for SADC manufacturing entities. Use the Textile and Clothing Working Group as a platform for increased trade flows and regional integration through trade and investment (example, joint ventures and cotton pipeline integration). Support initiatives for growing retail exports, distribution and investment in the region.

- Export council

The Export Councils will play an important role in the development of the strategies contained in this document. The Clothing council will be directly involved in identifying target markets where SA has strengths such as wool, cotton and blended garments, menswear, certain women's wear, foundation wear, swimwear. This will need to be in harmony with international fashion trends and in line with the characteristics of targeted countries, consumer preferences (national and regional) and climatic characteristics. It will also be vital that the export councils are supported by the Government in terms of timeous financial and marketing support.

It cannot be sufficiently stressed that adequate financial support for existing domestic industries both to expand and to enter the export markets is both critical and necessary for the strategies to be successful. Institutions such as the IDC will need to adjust their policies to be more flexible to accommodate the operating environment of the Textile and Clothing industries. Conditionalities such as equity (gearing), profit ratios, return on capital and track record need to be more realistic. The parties are also concerned at the poor image of the clothing and textile industry amongst the private investment community. This inhibits the capacity of the sector to recapitalise and expand. The parties are committed to engage the private sector with a view to improving the image of the sector.

Business and labour believe that there has been insufficient attention given to the costs of capital, particularly in an industry where low margins and low returns prevail.

3.9.3. Domestic Market Strategies

The policy of 'expanding the domestic market' does not imply that all domestic consumption will be supplied from local sources. It does however seek to maximise, at least in the short to medium term, the employment opportunities, and capacity utilisation of productive resources, which will flow from an increased supply by local producers of the needs of the local market.

These policies embrace appropriate support from government, retailers and all suppliers of inputs in the local industry, through a mix of procurement campaigns and policies; improved controls over imports of illegal goods; and appropriate levels of protection. These commitments are set out below.

3.9.3.1. Public Procurement Policies and the Buy South Africa Campaign.

These are policies aimed at influencing buying behaviour of large procurers (example, the state) retailers, and consumers in favour of local producers can play a role in increasing domestic output and hence of maintaining and increasing local employment. Such policies need to be part of measures aimed at addressing price, quality and delivery time, which are addressed in the section on generic strategies. Each of the parties has a role to play in fostering 'buy local' policies.

- Government and parastatals need to maximise local purchasing of clothing and textile products through the public procurement system (at national, provincial and local government levels) through the following mechanisms which will be in place for a three year period:
- All goods available locally will be granted additional price preferences and that specifications are designed in such a manner that local producers are not disadvantaged.
- Local suppliers will need to certify that they respect worker rights, and do not engage in disguised employment relationships such as the 'independent contractor' arrangements
- Government needs to fast-track the implementation of the 'Buy SA campaign' agreed at the presidential job summit, through setting aside funds and personnel and introduce a target date for its official launch, which shall be no later than December 2000.
- Government should introduce a legislative requirement that all clothing, footwear and made up textiles sold in South Africa, should carry a label of origin.
- Government will use the expertise of SABS to both improve the quality of local production, and to assist in protecting the consumer from shoddy imports.
- The parties to secure a commitment from retailers to source at least 90% of their goods by value from local factories, and put in place proper and credible monitoring and verification processes to ensure this.

- To secure from retailers a commitment to take up the Buy SA campaign on the basis agreed at the Presidential Jobs Summit, and devote resources to promote the campaign and the agreed label, in their stores, and their advertisements.
- Negotiations with retailers the establishment of joint projects aimed at improving the local supply chain; and establishing stronger electronic supply chain management linkages with suppliers.
- Government will assist in securing co-operation from parastatals to maximise their support for the ‘buy local’ campaign, through procuring their apparel and textile needs from local industry.
- Organised labour agrees to run a consumer awareness campaign on the ‘buy local – don’t buy illegal’ theme, and to this end it will organise and staff information stalls at key shopping centres, and produce appropriate materials to publicise the campaign.
- Organised labour will enlist the co-operation of community organisations and churches for the ‘buy local’ campaign.
- Organised labour will seek to secure publicity and air-time for the campaign on eTV and SABC and build support among organised workers in the country for the campaign
- Organised labour further agrees to promote the sourcing of SA manufactured goods on global markets through publicising South Africa’s commitment to fair labour standards within the numerous ethical trading initiatives, and the various social labelling efforts in the EU and the USA.

3.9.3.2. Customs and Excise

The importance of an effective customs control to ensure that existing tariff protection is effectively administered, that domestic industry and employment is protected, and that the fiscus receives duties due to it. SARS management and government have taken important steps to improve customs controls. Government should improve controls over customs and excise to reduce or eliminate illegal imports, through the following measures:

- Take measures to stop the corrupt issue of import certificates within the Southern African Customs Union (SACU).
- Tighten security at customs warehouses to stop the theft of seized goods.
- Improve the resources available in the BTT for anti-dumping and countervailing investigations as well as investigations of rebate permits.
- Prosecute retailers and middlemen caught with goods which have entered the country without the proper payment of duties, publicly disclose the names of guilty parties, apply stiff tax

penalties against companies and individuals found to have benefited from such abuses and utilise the asset forfeiture legislation to seize assets accrued through customs abuses.

- Stop the importing of second-hand clothing immediately.
- Improve the technical resources at ports of entry.
- Increase the number of inspectorate posts.
- Publicise the identities of companies guilty of fraudulent customs clearance transactions.
- Improve and publicise the award system for information on customs fraud.
- Provide an effective control over exports of goods subject to incentives.
- Dedicated ports of entry be nominated for clothing and textile products, in order to ensure that limited technical capacity is concentrated for effectiveness.

3.9.3.2. Tariff Regime

Government's current tariff reduction program in preparation include:

- Identify those labour intensive products which require upward adjustments in tariffs to the WTO level.
- Review tariffs on inputs (cotton, fibre trims such as zips, buttons, interlinings,etc).
- Investigate the retention of 3rd level rebates facilities.
- Simplify the tariff structure where appropriate.

3.9.4. Trade Agreement Strategy

3.9.4.1. SADC and Bilateral Agreements

Business and labour have expressed serious reservations regarding the adequacy of SADC consultation process. There is an undertaking that the communication process will be improved for future trade negotiations and that a protocol on consultations should be developed.

The exception of 1-stage processing subject to quotas is a matter of concern. It would therefore be vital that SARS plays an important role in the administration of quotas. It is agreed that business and labour will participate in the monitoring of the quota. Government has given the assurance that Malawi, Mozambique and Zambia and Tanzania (MMTZ) and all SADC countries can only export textile and clothing products to SA under the MMTZ arrangement. This means that bilateral agreements will become redundant and fall away for clothing and textile products upon implementation of the SADC trade protocol. It is noted that SARS has taken steps with its SADC counterparts to effectively manage and control the agreement including safeguard mechanisms. This will be essential for the SA industry to be able to compete in its domestic market and sustain market share, which is an objective of the strategy.

3.9.5. Labour Market Policies

These policies are aimed at enhancing the quality of the workforce and to enhance productivity.

3.9.5.1. General Overview

- To maintain and develop employment opportunities and enhance growth and equity there needs to be an appropriately regulated and adaptable labour market environment.
- The clothing and textile sectors consist of different sub-sectors/different kinds of enterprises including big and small, unorganised and organised, formal and informal, factory based and home based.
- There is increasing ‘fragmentation’ of the labour market and a rise in atypical employment relationships.
- Labour cost differentials exist between and within the different geographical areas and within these areas in South Africa and the sub region.
- All workers enjoying basic rights.
- Productivity improvements and ensuring that all social partners benefit from such improvements.
- An adequate social net for workers affected by the changes in the sectors.
- Increased ability to respond to changes including in the nature of production and changing markets.
- Social equity and decent work.

3.9.5.2. Skills development

- Significantly enhanced skill development at all levels is critical to achieve growth and employment creation in the clothing and textile sectors.
- The objectives identified by the Clothing, Textiles, Footwear and Leather SETA are supported. These include to:
 - Promote the concepts of strategic planning for training, linked into user company business plans.
 - Develop and implement an effective and efficient sector skills strategy.
 - Promote and register learnerships.
 - Specifically promote skills training and development within SMME’s through a skills strategy and implementation plan focussed upon the particular needs of this area.
 - Ensure the most effective and efficient disbursement of grants from the Skills Development Levies in this sector
 - Provide an efficient accreditation and quality assurance service to the sector.
 - Maintain an effective Management Information System.

- In respect of financing of training:
 - Adequate resources are required to finance the outcomes of a sector and enterprise skills plans so that they can maintain and develop job opportunities;
 - Efforts and initiatives taken to ensure that the skills levy and other investments are effectively spent.
 - The industry and government should take the major responsibility for investment in training, with the former effecting sustained investment through the Skills Development Levy.
 - Government could also contribute through funding from either/or the National Skills Fund and other appropriate incentive schemes.
- To improve capacity in respect of technology and design:
 - Zones of excellence in respect of technology and design should be developed.
 - Technical training institutions serving the Clothing and textile Industry should be integrated and harmonized and the duplication of resources ended.
 - Strategic partnerships should be developed with international technical training institutes.

3.9.5.3. Productivity

- Productivity impacts on our ability to be internationally competitive.
- The employer and trade union parties endorse the process of collective bargaining as the mechanism to determine appropriate conditions of employment.
- In addition the employer and trade union parties commit themselves to put in place a framework for productivity and equity in the industry to improve productivity and to enable the equitable distribution of the benefits of productivity enhancement.
- Such a policy framework could include productivity enhancing campaigns.
- The sector endorses and commits itself to basic worker rights in terms of International Labour Organisation (ILO) conventions and applicable labour legislation and will not condone or tolerate exploitation.

3.9.5.4. Working conditions

There is the need to have a set of working conditions which will promote and enhance:

- Improved productivity.
- The participation of designated groups (blacks, women and disabled) in employment creation.
- Fair conditions of employment.
- The sector further endorses basic worker rights and applicable labour legislation and commits itself to ensure that all workers in the sector are in fact protected by the labour legislation and fair conditions.

- The sector acknowledges the importance of pension and provident, medical and health care funds in promoting and sustaining productivity and therefore commit themselves to seek ways in which the funds and services can be enhanced and extended through looking at integration of some funds, taking advantage of economies of scale etc.
- To ensure the employment and advancement of women in employment, the parties commit themselves to the implementation of the Employment Equity Act and improving conditions of employment in respect of maternity leave, working time, and childcare.
- The sector does not support labour relations practices which lead to the fragmentation of employment relations within one's business.
- The sector does not support the conversion of genuine workers, usually unskilled, into so called independent respect of the above:
- The government commits itself to introduce legislation to address this problem of 'disguised employment relationships' and improve enforcement of the law in this regard.
- The employer parties commit themselves to improve their service to employers so that there are incentives for employers to comply with labour legislation.
- The trade union party commits itself to more pro-actively inform workers of the dangers and disadvantages of being converted into independent contractor arrangements.

3.9.5.5. Small business

- Workers in small businesses and factories are entitled to basic worker rights. Strategies that will promote the growth of small businesses should ensure that both small business employers and employees benefit from the resultant growth.
- The parties agree that a supportive environment should be created for micro and small enterprises to grow including in respect of:
 - training
 - information
 - provision of facilities
 - assistance in dispute prevention and resolution
 - ensuring labour law compliance
- The role that the SETA needs to play in relation to training for small businesses.
- Government commits itself to play a role in providing this supportive environment including in relation to ensuring the implementation of labour laws.
- Bargaining councils commit themselves to consider a role in providing a supportive environment which renders to the parties a set of value added services, particularly in relation to information management and dispute resolution.

3.9.5.6. HIV/AIDS

The sector acknowledges the seriousness of the HIV/AIDS epidemic and its potentially negative impact of the epidemic on the clothing and textile sectors.

The employer and employee parties agree to:

- Establish the impact of the epidemic on the clothing and textile sectors
- Establish and participate in work place programmes, which include prevention, care and support and protection against discrimination for employees living with HIV/AIDS.
- Participate in social responsibility initiatives within communities, which assist employees and their families who are infected or affected by HIV/AIDSs.
- Request the bargaining councils to draft a customised policy for clothing and textile enterprises.

3.10. Understanding the SA Clothing Manufacturing Sector from the Perspective of Leading SA Clothing Retailers

The important role that buyers can play in upgrading manufacturing capabilities and their contribution towards improving the performance of their suppliers has been widely recognised in the academic literature. (Gereffi: 1996; Schmitz & Knorringa: 1999). In fast changing markets customer responsiveness is key to competitiveness, and in many industries contact between the manufacturer and the end customer is mediated by their retail customers. “Apart from transmitting end customers demands to manufacturers, retailers also bring to the table their own demands and expectations of manufacturing performance. If manufacturers are to upgrade their performance to keep abreast of rapidly changing market demands, then they need to be keenly aware of the expectations of their leading retail customers” (Dunne,N: 2000).

The South African clothing sector is dominated by a small number of large retail groups each comprising of a number of chains focusing on different customer groups and operating in various subsectors of the Clothing, Footwear, Textile and Accessories (CFTA) market. Together these groups wield considerable power in the market place and it is these chains that to a large extent govern the apparel value chain in SA. According to Dunn (2000), retailers provide the following useful information:

- First, at a broad level the retailers can contribute a useful perspective on recent and anticipated shifts in the clothing sector. They have vital information on to offer on recent changes in market demographics, on the role of imports and the impact of both illegal imports and the informal sector on clothing retailers and manufacturers in SA.

- Second, and more importantly retailers can provide useful information to guide the upgrading of SA clothing manufacturers.

It is therefore relevant for SA manufacturers to understand domestic retailer perceptions of their strengths and weaknesses in areas of performance in order for manufacturers to develop a competitive advantage over foreign manufacturers, especially in Asia, who are viewed as a major threat to the local clothing manufacturing sector.

3.10.1. The Clothing Retail Market in South Africa

The clothing retail sector is extremely concentrated. The table below outlines the structure of the industry:

GROUP	CHAIN	NO. OF STORES	TARGET MARKET
Edcon	Edgars	189 + 9	Middle & upper middle income families
	Sales House	97 + 3	Lower middle market families
	Jet	107	Young South African family, discount clothing
	Smiley's Warehouse	49	Middle income consumer
Pepcor	Pep Limited	873 + 328	LSM ³ 2-5
	Ackermans	188 + 23	Middle to lower end (LSM 4-6)
	Stuttafords	11	Top end
Wooltru	Woolworths	120+	Traditional and classic fashion
	Truworths	200+	Youthful and fashionable customers
	Topics	170	LSM 4-6, some LSM 7-8
Speciality	Mr. Price	260	Week-end fashion wear for younger customers
	Hub	10	LSM 5, 6 & 7
	Milady's	163	LSM 6 – 8 better end design
Foschini	Foschini	330+	Not available
	Markhams	180	Men's fashion
	Exact	85	LSM 1 - 6

Table 3.14 – Leading South African Clothing Retail Chains (Source: Information obtained from retail chain web-sites. Refer to bibliography).

Four of the above chain stores operate in SA and in neighbouring countries whilst less common were stores in other African countries, or in the middleeast. Some groups also have separate chains in markets such as Australia and the UK. The above chains tend to offer a wide range of wares from across the CTFA category. However, the focus of most of these chains is on specific market segments defined by income. There is also a shift in focus on the 'character' and 'lifestyle' of the customer in terms of age group and fashion dictates. According to Harrison and

Dunne (1998), political and economic changes have had a profound impact on the clothing and retail sector. Through research conducted by them they have found that social and cultural changes in the country have led to drastic changes in the marketplace. As a result of globalisation, this has impacted on demands made by customers and their awareness of fashion trends. Customers are more mobile, and have access to more information through advertising and the media. Emphasis is now being placed on quality, choice and image. Dunne (2000) states that chains are increasingly reluctant to identify their customers by race, although clearly the demographics of SA means that targeting specific income groups has certain race implications. Chains that target the lower income group are generally aware that the majority of their customers are black. Changes in the market has meant that focusing on the race of a customer is no longer favoured, nor a successful strategy.

According to research conducted by Dunne (2000), through a survey of several chains the following conclusions were drawn:

- The changing character of the consumers had implications for location of stores.
- Chains from across the income spectrum pointed out that a failure to adequately read and respond to recent cultural changes had negatively impacted on their market share.
- The market is extremely tough at the moment and has been shrinking. This has been attributed to growing levels of competition in the clothing retail sector.
- Within these tight market conditions, price is becoming increasingly important as the basis of competition.
- In turn clothing manufacturers have been forced to sacrifice profit for turnover in order to remain competitive.
- Price competitiveness is resulting in increasing levels of imports, aggressive buying policies and diminishing margins.
- Manufacturers are being forced to maintain or lower their price levels.
- Customers are demanding greater ‘value for money’, that is lower prices without a sacrifice for quality.
- At the same time greater emphasis is being placed on design, fabric types and quality.

3.10.2. Illegal Imports and the Informal Sector

“The informal sector is an extremely complex concept, referring to low-end, mass market and exclusive, upper-end activities, and to both manufacturing and retailing” (Fakude: 2000). At the low end of the market informal retailing involves street vendors, or hawkers. Whilst at the upper

end of the market it involves home based designers and craft markets. The informal sector is seen as a great threat to retailers on both ends of the spectrum. Competition from the low end is limited in the sense that they have limited facilities and offer a narrow range of products. A much greater threat is 'organised' hawking activities, where hawkers sell for an agent who imports clothing either legally or more critically illegally.

Dunne (2000) states that the problem of illegal imports is viewed more seriously by leading retail chains in SA. Retailers claim that it is fairly obvious to insiders that when an item is priced too low to have been imported legally. A concern raised by retail chains is the fact that the customer only focuses on the low price and with no concern for how the low price came about. There has been some controversy around chain stores engaging in the activity of illegal importing. However, such action will only result in high risks and scandal, which could be detrimental to their business. Retailers generally of the view that there is very little that they can do about illegal importing and it is the responsibility of government.

3.10.3. Retailers Views on Manufacturers

Many retailers in SA procure merchandise nationally rather than regionally. Each manufacturer that they procure from produces garments that are sold in stores throughout the country, rather than in the vicinity of the manufacturer. Proximity to manufacturers is of concern to retailers as it offers advantages such as speeding up the purchasing process, making delivery easier, and making it easier to deal with any problems that might arise. Proximity also allows for production to be more specification driven example the market is fast moving and you cannot wait for a sample to arrive from another region when a local supplier is on your doorstep.

Retailers prefer to refer to manufacturers as 'suppliers'. This is because the retailer builds a relationship with a particular supplier who is responsible for delivering the agreed upon garments. However, not all suppliers manufacture in-house. Many suppliers use CMT operators who are supplied with fabric and patterns and in turn cut, assemble and finish garments on behalf of the lead supplier. The role played by CMTs in the SA clothing sector was summarised as follows: "The flexibility of CMTs is closely associated with their employment trend, with the number of workers employed by CMTs fluctuating more within the course of a year that is the case with full manufacturers, CMTs are considered footloose, opening and closing depending on orders, creditors and seasons."(Harrison & Dunn:1998). Retailers prefer suppliers to own their manufacturing operations, as CMTs are associated with a loss of control, especially over quality.

Retailers strongly believe that there are benefits to be derived from building close relationships with suppliers and consolidating their supply base. This was based on economies of scale, overcoming problems with greater ease and forming partnerships with suppliers. Consolidation needs to be based on consistency in terms of service, quality and delivery performance. At the same time the supply base cannot contract too far as not all suppliers have the capability to provide the range of garments needed.

3.11. A Value Chain Perspective on Supply Relations

For the purposes of the industry outsider the interface between retailer and supplier can be divided into a number of phases. The first phase would involve the design of a garment, the next the ordering process, followed by the manufacturing of the garments. Quality control tends to occur at a number of stages, but the volume of quality measures occur prior to the final phase, the delivery of the completed order. In order to understand the practical issues surrounding the relationship between retailer and supplier this section will consider each of these “phases”, and will also analyse the nature of communication between retailer and supplier.

It is unusual for South African retailers to have devoted design centres. Most design is done collaboratively between suppliers and retail buyers, with the latter’s primary function being buying rather than designing. Both suppliers and buyers make trips overseas to get new design ideas. Often garments are purchased overseas for local suppliers to copy. The fact that the North American and European fashion season is six months ahead of South Africa makes this system a useful one in the South African context. Both buyers and suppliers come up with the ideas for new designs, then work together to make the changes necessary both from a production and a marketing point of view. In addition, some retailers retain consultants in Europe or the USA to advise them of fashion developments around colours and trends. While design skill tends to lie with the supplier, retailers are more aware of the likes and dislikes of their customers. Fabric selection is likewise done jointly, although fabric purchase is almost always the responsibility of the supplier. On some occasions retailers might intervene on behalf with a local mill in order to get a better price for fabric. Although it was difficult to get with a local mill in order to get a better price for fabric. Although it was difficult to get accurate estimates, it seems that a high percentage of fabric is imported. Quality and price are both reasons behind fabric imports, as is the non-availability of certain fabrics locally.

Orders are finalised with suppliers up to six months in advance. Most retailers break the year up into four or more “seasons” for buying purposes. These generally include a summer and winter season and two transitional seasons. The main summer season is often broken up into two seasons, sometimes designated a high summer and holiday summer season. It is generally agreed however that the most of the lead-time is the result of waiting for fabric (with both imported and domestic fabric purchases involving long lead times) and scheduling production. Production is estimated to begin about five weeks prior to delivery. Shorter lead times provide great advantages with JIT production seen as ideal. Local manufacturers surprisingly seem to offer only slightly shorter lead times than imports, with overseas lead times estimated at between four to six months.

Quality control is viewed as an ongoing process in the clothing industry. Although specific procedures differ between retailers, the system of multiple checks at various stages of the buying process is in essence the same. Responsibility for quality control is shared by the supplier and the retailer, and each has its own quality control personnel. The first quality check takes place before production actually starts. The supplier provides a sample, which is approved by the retail buyers, is sealed and retained as a standard against future quality samples can be compared. Suppliers are responsible for their own in production quality checks although most retailers do have quality controllers who travel to suppliers to undertake field inspections. A “bulk production” sample is usually provided from the production run. A final quality check is then made on delivery of the order. At this stage a sample is generally sent to the retail buyer to be checked against the original sealed sample. Garments are checked against specifications in terms of weights and sizing. Quality problems are dealt with in various ways depending on the extent and severity of the problems. In some cases a system of financial penalties was instituted against the suppliers. In extreme cases the entire order might be cancelled.

Deliveries are made by the supplier to the retailer’s distribution centre rather than to the individual stores. In the case of some retailers suppliers are required to deliver to a distribution centre in the city where the retailer is head-quartered, while in others they are able to deliver to satellite warehouses located in the three major manufacturing centres of Durban, Cape Town and Johannesburg. Most retailers aim to have goods delivered to their distribution centres pre-packed and shop floor ready.

Communication between retailers and suppliers occurs on a regular and ongoing basis. Buyers and planners communicate with suppliers when placing orders and arranging deliveries. Extensive communication also occurs around quality issues. Key suppliers appear to be much more involved in communication around feedback than are occasional suppliers. Suppliers are encouraged to make store visits to gain a better understanding of the type of customer and garment that the retailer focuses on. Retailers are generally prepared to share sales figures with major suppliers, and are increasingly experimenting with online links with major suppliers, although this system could not yet be called widespread or firmly entrenched amongst South African clothing retailers. The advantage of information sharing, particularly through on-line links is that suppliers are able to get frequent and up-to date information on sales. As well as making suppliers more aware of the type of product that sells well, this allows suppliers to plan ahead for trends and material purchases. One retailer observed that most communication still centres around poor performance (in terms of delivery and quality) and noted that ideally more communication should be taking place around strategic, rather than operational performance issues. It is clear that the trend towards the small supply bases and closer relationships with suppliers is affecting the nature of communication and making it easier to offer feedback to suppliers.

3.12. Exporting

The past two decades have seen a growing homogenisation of economic policy as the Washington consensus has swept through the global economy. South Africa has not been immune to this shift in the policy agenda, particularly in the post apartheid era, manifested primarily through a new trade regime, with the gradual reduction in import tariffs and a reduction in the exceptionally large tariff dispersion. Between 1994 and 1996 the weighted average of import tariffs halved from 14 to 7 percent, and then stabilised at 5 percent after 1998. (Kaplinsky,R and Morris,M:2002)

Significant consequences have occurred as a result of this changing trade regime. Domestic firms have been exposed to international competition (particularly in the industrial sector) which has forced producers more intense forms of competition. According to Kaplinsky and Morris: “World Class Manufacturing has forced itself onto the agenda and sets the standards for industrial restructuring. This has resulted in enhanced productivity but with a substantial fall in employment. But, as domestic demand remained muted and as production competence grew, so to did South Africa’s manufacturing trade balance move into the back of rapid growth in manufactured exports”. Significantly, for the first time in decades, exports exceed imports in

2001 (See figure below), providing evidence of the growing exposure of South African producers to global standards of competitiveness, as well as to growing production competence. If sustained, this positive trade balance has the possibility of easing the foreign exchange gap constraining South Africa's growth performance.

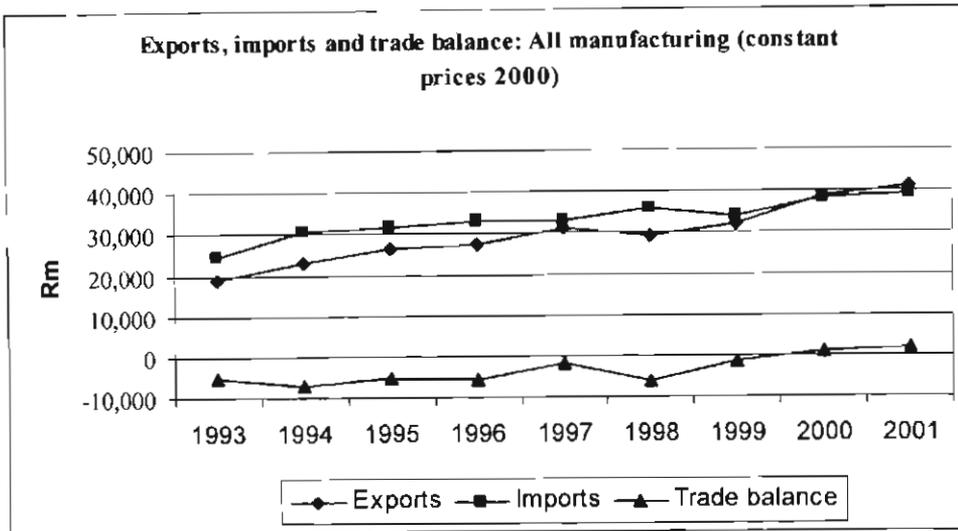


Figure 3.12 – Exports, Imports and Trade Balance

3.12.1. The Virtues of Exporting

“Based on the successful experience of both first and second-tier newly industrialising economies, a new orthodoxy has grown on the virtue of exporting (see, for example, the World Bank’s 1993 study of East Asian economic success)” (Kaplinsky,R and Morris,M:2002). There are benefits arising both for the economy as a whole, and for the corporate sector.

From the economy-wide perspective, it is argued that exporting provides the capacity to specialise in areas of comparative advantage as follows:

- First, the previous import-substituting regime meant that economies were insufficiently focused on what they could do best with resources being put into activities which were unlikely to add to real GDP over time (or to do so at high opportunity cost).
- Second, the virtue of growing exports is a positive trade balance, which provides the resources to promote overall economic growth.
- And, thirdly, growing foreign demand (especially for labour-intensive products which are the comparative advantage of low-income economies) creates employment. This latter point is especially attractive for South Africa where the unemployment rate is so high that no

imaginable increase in domestic demand would have much impact on reducing the rate of unemployment.

From the firms-perspective, growing exports offers a number of advantages as follows:

- First, it allows the firm to specialise in those activities where it clearly holds a comparative advantage.
- Second, the large volumes which can be sold on global markets makes it possible for the firm to reap economies of scale, not just in production but also possibly in design, marketing and logistics.
- Third, when exporting is accompanied by a competitive exchange rate, it may provide greater profits than when products are sold in the domestic market.
- Fourth, exposure to more demanding customers forces the firm to upgrade its products and processes and is thus a transmission belt for enhanced learning.

For all these reasons there is a growing accepted view on the benefits to be reaped from greater exporting.

3.12.2. A Value Chain Perspective on Upgrading Export Activities

Two schools of thought have addressed the issue of upgrading activities in recent years. The first has focused on core competences (Hamel and Prahalad: 1994). The thinking here is that firms need to examine their capabilities to determine those of its attributes which:

- Provide value to the final customer.
- Are relatively unique in the sense that few competitors possess them.
- Are difficult to imitate that is provides barriers to entry.

The capacity to innovate therefore arises from concentration in these competences and the concomitant outsourcing of those functions, which do not meet these three criteria.

A useful supplement to this line of thinking is that in a dynamic world, core competences can easily become core-rigidities (Leonard-Barton: 1995), and part of the task of upgrading is to relinquish areas of past expertise.

Closely related is a school of thought focusing on dynamic capabilities (Teece and Pisano: 1994). They argue that corporate profitability in the long run cannot be continuous by control over the market (for example, through using quasi-monopolistic practices), but through the development of dynamic capabilities which arise as a result of its:

- Internal processes which facilitate learning, including the capacity to reconfigure what the firm has done in the past.
- Position, that is, its access to specific competences either within its own activities, or those which are drawn from the regional or national system of innovation,
- Path, that is, its trajectory, because change is always path-dependent.

Both of these related concepts provide an important backdrop for understanding the phenomenon of upgrading. They are especially helpful in understanding the factors both driving and facilitating improvements in product and processes which arise from the activities of the firm itself. But they are also weak because they stop at the level of the firm, and fail to capture upgrading processes which are systemic in nature and which involves groups of firms linked together in value chains. This is particularly damaging for the core competences approach, which explicitly neglects the chain through its normative conclusion that upgrading almost always involves outsourcing.

Kaplinsky and Morris highlight that the upgrading challenge needs to be viewed in a wider perspective, capturing the central idea that it may involve changes in the nature and mix of activities, both within each link in the chain, and in the distribution of intra-chain activities. This relates both to the achievement of new product and process development, and in the functional reconfiguration of who does what in the chain as a whole. It is thus possible to identify four trajectories, which firms can adopt in pursuing the objective of upgrading (see figure below), namely:

- **Process Upgrading:** increasing the efficiency of internal processes such that these are significantly better than those of rivals, both within individual links in the chain (for example, increased inventory turns, lower scrap), and between the links in the chain (for example, more frequent, smaller and on-time deliveries).
- **Product Upgrading:** introducing new products or improving old products faster than rivals. This involves changing new product development processes both within individual links in the value chain and in the relationship between different chain links.
- **Functional Upgrading:** increasing value added by changing the mix of activities conducted within the firm (for example, taking responsibility for, or outsourcing accounting, logistics and quality functions) or moving the locus of activities to different links in the value chain (for example from manufacturing to design)
- **Chain Upgrading:** moving to a new value chain (for example, Taiwanese firms moved from the manufacture of transistor radios to calculators, to TVs, to computer monitors, to laptops

and now to WAP phones)

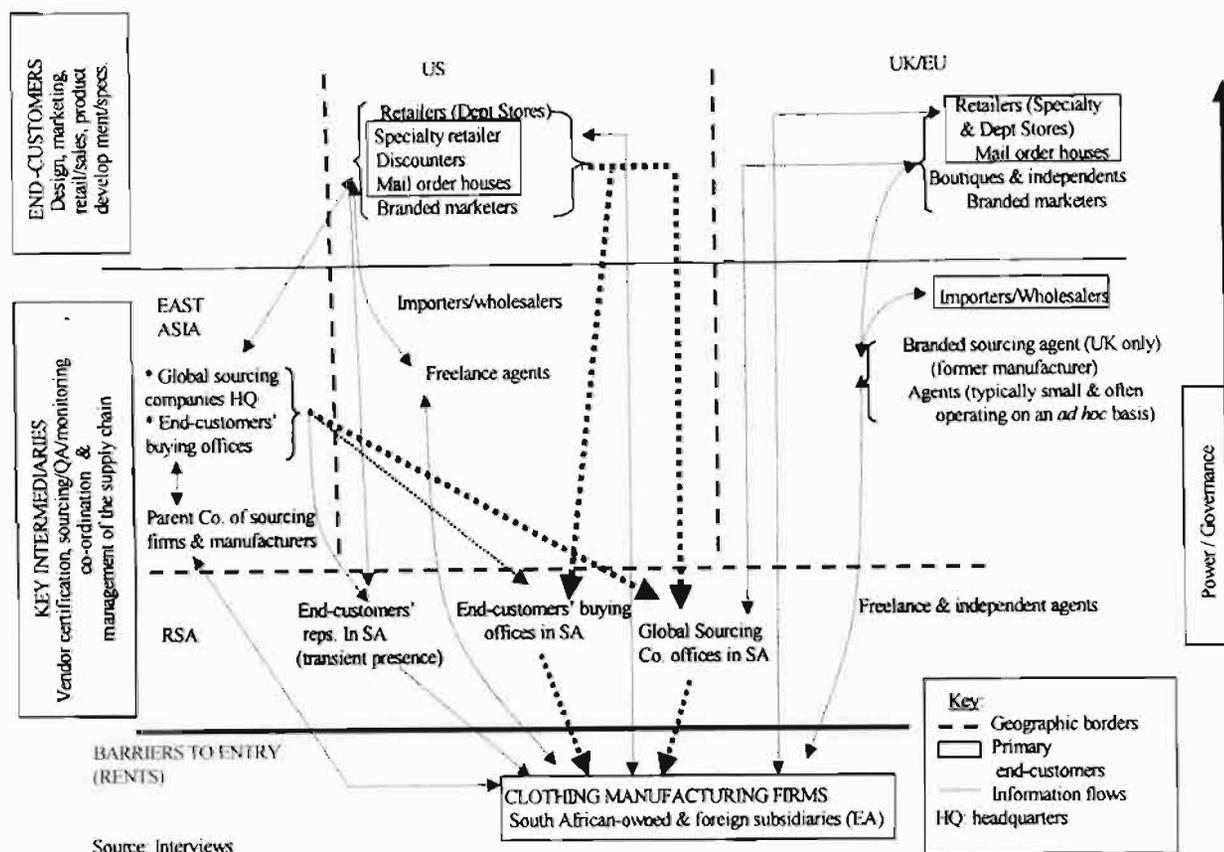


Figure 3.13 – Network Connecting South African Clothing Manufacturers and Foreign end Customers (Source: Adapted from Moodley,S. & Velia,M. 2002. An Analysis of the Recent Exporting Trajectory of the South African Clothing Value Chain: Upgrading or Downgrading?. School of Development Studies, University of Natal).

3.12.3. Exporting in South Africa

The clothing sector has played an important development role in a series of Asian countries and more generally in the less developed countries (LDCs). The developmental contribution of the sector has remained important and the LDCs’ share in world clothing exports rose from 14.8% in 1965 to 65.2% in 1997 (Coughlin, Rubin and Darga,2001: 4). The latter phenomenon reflects an increasing globalisation of the sector as clothing trade grew over the 1990s more rapidly than clothing production (ILO, 2000). The share of clothing in manufacturing exports currently stands at or exceeds 10% for Africa, Latin America and less prosperous Asia. Nevertheless, there is a regional concentration of exports in favour of Asia and important variations across countries. Africa is a small exporting clothing region, accounting for less than 5% of apparel world export (WTO, 2001). Moreover although over the 1990s the range of suppliers expanded

to include China and countries that neighbour the major importing economies, i.e. the US and the EU, few new African suppliers emerged, namely Madagascar and Lesotho (Mortimore, 1999; ILO, 2000: 9ff and WTO, 2001). Amongst this typology of suppliers South Africa (SA) is a small newcomer. In contrast to an average of 19% of Africa's manufacturing exports accounted for by clothing, according to the data, clothing amounted to about 1% of total South African manufacturing exports over the 1993-2001 period (see also WTO, 1998; IDC, 1998 and Gibbon, 2002 noting that estimates vary depending on the source).

SA's clothing export performance is somewhat atypical to that observed elsewhere (this point is made clear by Flaherty, 2002 who refers to ILO, 2000). Yet, the South African clothing sector is a large employer (Gibbon, 2002 and ILO, 2000); calculations for this report suggest that it absorbs 10% of SA's manufacturing employment, a figure which contrasts with a rate of (formal) unemployment currently at about 30% in SA (House and Williams, 2000 and TIPS, 2002a). Generally, the combination of the sector's high labour intensity, the low barriers to entry and to investment and the new incentives provided through recent 'preferential' access to the EU and the US through the Trade, Development and Cooperation Agreement (TDCA) and AGOA makes the prospects of the sector attractive to South African policy makers. This is in a context in which SA's manufacturing export performance, whilst improving, has been disappointing (Salinger et al., 1999; Chandra, 2002 and Rankin, 2002). Yet, whilst Jachia and Teljeur (1999) find that the prospects for clothing production and exports are favourable under the TDCA, and whilst Stern and Netshitomboni (2002) illustrate that the opportunities offered through AGOA are the greatest in clothing, these have not been fully taken up (see Stern and Netshitomboni, 2002 and Gibbon, 2002 for instance).

The difficulties facing a stronger clothing export momentum are routed in both the domestic and international context. Domestically, Dunne (2000) illustrates that SA shares with other developed countries an established and oligopolistic retail sector as well as a declining share of consumers' expenditure in apparel (see also Salinger et al., 1999: 13-14). Moreover, SA has only comparatively recently formalised its integration into the international economy and confronted the resulting changes in the production incentive structure (Holden, 2001; Lewis, 2001 and Van Seventer, 2001). Prior to 1995, firms had little incentives to undertake the technological investments required for the industry to be internationally competitive. South African textile as well as clothing producers was focused on domestic sales. The fabric range tended to be 'wide and shallow' with production capacity and products geared for the small

domestic market. Internationally, the difficulties relate to the strong position of already established Asian clothing exporters. Asian clothing exports to North America and to Western Europe increased annually by 5% and 4% respectively between 1990 and 2000. The difficult international clothing export context might be compounded by evidence that SA and/or the Southern African region has, potentially, a comparative disadvantage in the sector (although there is mixed evidence as to whether textiles or clothing fares relatively better) (Yeats, 1998; Valentine and Krasnik, 2000 and TIPS, 2000: 3). This is not to say that opportunities cannot and have not been taken up; as an upper middle income country, SA has the infrastructure (physical and institutional) required for exports to expand. Compared to its neighbours, SA is well endowed in sophisticated synthetic fibre production capacity and there are potentials for regional clothing and textile pipeline developments (Roberts and Thoburn, 2001 and Coughlin, Rubin and Darga, 2001). Moreover, on the basis of unit labour costs, SA would appear internationally competitive against some suppliers with labour cost per hour of the order of US\$1. However, South African clothing producers are engaging in the international economy at a time when the opportunities available to penetrate the major importing markets have become limited. Powerful end-customers and intermediaries control access to the US and the EU consumers' market (Gereffi 1999a,b; Gibbon, 2001 and Baden and Velia, 2002). Furthermore, China has become a major competitor to garment exporting economies, by virtue of the volume of its exports, and its productivity and labour cost advantages.

3.13. Critical Factors Affecting the Industry

The factors listed below are relevant issues facing the industry at present and which impacts on organisations within the industry.

3.13.1. The International Environment

The analysis of the international market shows that SA, the SADC and sub-Saharan Africa are extremely small players. The opportunities presented by AGOA and the EU with their specific rules of origin need to be considered in the light of international developments. The USA and EU are significant importers of textiles and apparel. Their imports are influenced greatly by various trade agreements. China is also a significant importer but is in the process of developing into a major player on the world market. The excess capacity that exists with regard to polyester is enormous and is affecting world prices. China is pursuing a relentless policy to become the world supplier of polyester. Closures will be inevitable in the Far East. Prices for polyester are expected to decline over the next few years.

The market for polyester will continue to be the largest growth area in the world market. Cotton will also continue to grow but at a slower rate. Under these conditions, the international price for cotton will be held down, particularly if there are good crops in any of the major growing regions (Theron.P & Kuboni,N: 2002).

3.13.2. Tariffs and Inputs

Tariffs are one of the most contentious issues in the pipeline. The widely diverse nature of the apparel textiles pipeline results in a polarisation of opinion that varies from zealous protectionists to progressive trade liberalisation.

The pipeline as a whole is under a restructuring programme, the main instrument of which is a phase down of the tariffs. The final tranche of the phase down is due on 01 September 2002. The general rate will be 40% for clothing and 22% for fabrics.

Concurrently there is an intention to eliminate various 3rd Schedule rebate facilities. Although these were supposed to have been phased out over time and were to have been considered as part of a mid-term review, this never happened. There is a clear need for the situation to be analysed properly before action is taken. This also needs to be viewed in the light of considerable market changes over the 8-year tariff phase down period; these include developments such as AGOA and the EU Trade Agreement (Theron.P & Kuboni,N: 2002).

Research conducted by various parties confirms a serious fabric supply shortage that has arisen, primarily as a result of AGOA. The analysis of fabric and yarn imports reflects a large growth in 2001, which serves to confirm this development. AGOA rules of origin have meant that other countries such as Mauritius have had to look to SA for yarn and fabric. This has placed additional strain on the SA textile industry. The shortage not only affects exporters but also manufacturers for the domestic market.

The textile industry is preparing a strategy that primarily intends to develop areas of excellence and specialised production. The implication is a smaller range of fabrics with international quality, delivery and hopefully price. This will exacerbate the fabric supply shortage.

According to Theron and Kuboni, with these market developments, it is all the more important for the following short-term actions:

- Retention of 3rd Schedule rebates
- Duty free access to fabrics either not available or not readily available locally

The contentious area that the DTI will have to resolve is the protectionist and self-interest lobby of the textile industry. It is known that the textile sector wants tariff protection at a uniform rate on all fabrics whether made locally or not. International fashion market trends determine the types of fabric that the SA clothing industry must use. The textile industry often interprets this as using substitutes or alternatives for fabrics that they produce, which is not the case.

The tariffs on non-textile inputs also need to be reduced. This covers items such as zips and buttons, inter alia. Current tariffs are linked to circumstances that no longer apply. In the case of buttons and zips, for example, there is only one manufacturer of each left (there used to be several in the past). Neither can supply the range required in the market place. It is essential that tariffs on inputs be reduced so that the clothing industry can reduce costs wherever possible in order that it achieves international competitiveness. The issue of reducing input costs is a cross-cutting one; it is the one most dominant issue that is a common concern from large manufacturers to SMME's to community sewing clusters (Theron.P & Kuboni,N: 2002).

3.13.3. Trade Agreements

Perhaps the most significant event that has affected SSA in general and South Africa in particular is AGOA. The quota free and duty free access for apparel into the USA is a unique opportunity. The constraining factor is the rules of origin, which requires that apparel be made from locally produced yarn and fabric. Most of the lesser-developed countries in the region have been granted a 4-year window during which they can use imported fabric. It will be critical for the region to build capacity in yarn and fabric production in order to maximise the benefits of AGOA. South Africa has a reasonably well-developed textile industry but significant expansion will be required to fulfill the potential demand. It is estimated that the South African apparel textiles and clothing industries could double in size within 5 years as a direct result of AGOA. The alternative is to mount a concerted lobby, especially at government level, to convince the USA to relax the rules of origin for SA, Mauritius, Botswana and Namibia. The use of imported fabric would lead to a massive increase in exports and job creation. There would then be an equitable playing field throughout SSA and the threat of a serious problem developing in LDC's when the 4-year window of opportunity would be avoided.

South Africa has completed a free trade agreement with the EU. However, for textiles and clothing, the benefits are not being felt immediately, due to a 6-year phase down to duty free by

the EU – in certain product categories the phase down is 3 years. The one positive aspect of the agreement is the less onerous rules of origin, which require 2-stage transformation. This agreement also holds the potential for the South African apparel textiles and clothing industries to increase double in size in 10 years.

South Africa as a whole has accepted its role as the driver of economic development in the Southern African region and has finalised a free trade agreement with the SADC. The SADC comprises 14 countries, namely, the South African Customs Union (SACU) members (South Africa, Botswana, Lesotho, Namibia and Swaziland), Zimbabwe, Zambia, Malawi, Mauritius, Angola, Tanzania, Mozambique, Seychelles and Democratic Republic of Congo (DRC). Not all members of the SADC have committed to the free trade agreement (Angola, DRC and Seychelles). Certain of the lesser-developed countries (Malawi, Mozambique, Tanzania and Zimbabwe – also referred to as the MMTZ countries) have been granted a special dispensation (duty free subject to quotas) for 5 years for access to the South African market in respect of clothing and textiles.

The SADC general rules of origin, documentation and Customs control is similar to that of the EU agreement. The quotas for the MMTZ's are monitored by SARS. The integrity of the SADC agreement is threatened by abuse of the system by dubious operators in the neighbouring countries. The latest problem detected is imports from Mozambique – 7 million units imported in the period Jan-March 2002 at an average price of R0.60. There is either under – invoicing or trans-shipment taking place. Mozambique does not have the production capacity for these volumes. This matter is referred to again under illegal imports. The DTI needs to liaise with SARS on this issue and to resolve the matter urgently. One way to improve controls is to limit imports to one port of entry, viz. Komatipoort. Mozambique production occurs in Maputo and there is thus logic in using the one entry point – there should be no need to re-route via Zimbabwe, for example.

3.13.4. Illegal Imports

Illegal imports have, in the past, seriously undermined the apparel market and, in turn, the apparel textiles sector in SA. Concerted efforts by SARS have contributed to a significant reduction in smuggling activities. Vigilance cannot be relaxed, however. Alternative methods to circumvent customs duty and VAT are always being sought by the dishonest.

The latest methods are:

- Under-invoicing.

An analysis of imports comparing periods Jan–Sept 1999 and 2000 revealed that in major import categories average prices decreased by 50%. The significance of this relates to the removal of the minimum specific duty on 1 September 1999. The duty applied after 1 Sept 1999 was the ad valorem (%) duty. By under-invoicing, customs duty and VAT are reduced by half.

- Trans-shipment.

As indicated under the SADC, trans-shipment is possibly occurring through Mozambique. Limiting the port of entry and close monitoring of all imports would end the problem.

- Personal suitcases

Boutiques and home boutiques are bringing in high value garments from overseas fashion centres as personal luggage and avoiding customs duty and VAT. Closer monitoring at airports is required. VAT investigations of these boutiques would also uncover these activities.

- Worn clothing.

Imports of worn clothing are the scourge of the industry. Other SADC countries have experienced the decimation of their apparel manufacturing industry e.g. Tanzania, Zambia and Mozambique. South Africa has almost brought the problem under control. The rebate facilities for worn overcoats and for rags are still creating loopholes that are being seriously abused. The rebate facilities need to be summarily withdrawn.

Overall these issues fall within the realm of SARS. Close liaison between DTI and SARS on this aspect would improve the elimination of the activities and an improved communication process with the general public would be a strong deterrent.

3.13.5. Export Promotion

- Export Councils

The Export Councils for the apparel textiles and clothing industries are well established and performing an important role in export promotion. Growth in exports has been notable, particularly to the USA. Buyer missions to SA and electronic enquiries are all routed through the export councils to their members on a targeted basis. It is therefore critical for companies intending to enter the export market to be members of the council.

To date the main areas of focus of the Export Councils have been the implementation of AGOA in SA, lobbying changes to AGOA, co-ordination of inward buying missions, amendments to DCC and establishing a reputation of integrity in respect of SA exporters. Outward selling missions and participation in selected overseas exhibitions need to form part of the initial phase of a more aggressive marketing strategy. In tandem with this is participation in domestic exhibitions – the Clothing and Textile Trade Exhibition and SA Fashion Week are two possible

avenues; neither is ideal, however, due to the former being too broad and the latter concentrating on the individual designer. Communication between the exhibition organisers and industry is improving and may result in industry needs being met. There needs to be a greater degree of co-operation and coordination between the apparel textiles sector and the clothing manufacturers for promoting at both domestic and overseas exhibitions. It must always be borne in mind that exhibition attendance is costly and rewards are long term. The current EMIA scheme is inadequate to meaningfully assist new exporters in overcoming the financial hurdles, which become psychological ones as well.

- Incentives – DCC, EMIA

The DCC (Duty Credit Certificate) scheme is the main export incentive. It is currently based on using locally made inputs (i.e. fabric or yarn in the case of clothing). The fabric shortage referred to earlier is highlighting a severe limitation of the scheme. It has become critical to amend the scheme as follows:

- Fabric imported under DCC or 3rd Schedule rebate can be used for exports that qualify in terms of the DCC scheme.
- Exports using inputs imported under rebate item 470.03 qualify for DCC at 50% of the normal rate.

These two amendments alone would result in an exponential growth in exports and a consequent increase in employment. The pull-through effect to the SMME sector would also be significant, as the exporters will outsource increasing levels of production.

The DCC scheme is complicated and the claims procedure cumbersome and cost raising. The problem of eliminating fraud has been the main cause. The motor industry has a similar scheme (the MIDP). Although the two industrial sectors are structured very differently, the schemes are comparable. The one major difference is that, under the MIDP, when components imported duty free in terms of the scheme are used in the end product, the value added excluding the imported component qualifies for the full benefit.

The EMIA scheme is the only general export incentive available. The benefit or level of support is negated by the burdensome application and claim procedures. The time taken to complete an application and the subsequent claim is more costly than the benefit that accrues, except in high value claims. This prejudices the SMME sector. Consideration should be given to a simplified procedure for smaller claims, say below R100 000.

Part of the growth strategy from the Sector Summit was based on attracting investment in SA by trans-national operations. This has had limited success to date. Currently, the more relaxed rules of origin that apply to neighbouring countries such as Lesotho with regard to AGOA, combined with their incentive package, have made those countries more attractive. Whether such investment will be permanent or not is questionable. In 2005, the MFA quotas will fall away internationally and part of the advantage will be eroded. In addition, the AGOA rules of origin are scheduled to become more onerous for such countries from October 2004. Combined with China's access to WTO, the trans-nationals are not yet convinced of the opportunities that SA presents. The success of existing manufacturers in export growth will be the best message that can be conveyed.

3.13.6. SMME/BEE

SMME's predominate in the clothing sector rather than in apparel textiles due to the capital intensity of the latter. Growth of the SMME sector and BEE will occur through the relationship with larger manufacturers, exporters and retailers. Growth of SMME's will be dependent on growth of exports. SMME's will be used increasingly to supply the local market. Once skills and quality have been established, it will become possible for these SMME's to form part of the export drive through joint export action groups or as outsourcing agents to larger exporters.

SMME's (including BEE and Community sewing groups) also find that input costs, particularly fabrics, are adversely affecting their ability to compete. This aspect was referred to under Tariffs. In addition, production and general business skills are inadequate. The formation of an SMME forum will enable identification of SMME operations. The Export Council and CloTrade (the successor to Clofed) have indicated a willingness to establish a mentoring programme with the formal manufacturers. Simultaneously, the SETA has developed plans to train SMME's. The DTI, in conjunction with the Department of Labour (DoL), need to support these initiatives.

3.13.7. Labour, Productivity and Training

Productivity is today the current buzzword in most areas of manufacturing in South Africa. One needs to examine the crucial issues surrounding productivity and how they can be addressed practically. According to Alan Hartley, a managing consultant at the National Productivity Institute (NPI), SA is regarded as not being competitive. This has been as a result of neglect at adequately training over workforce over the last 15 to 20 years. South Africa's industries operated in a vacuum. Political isolation meant that they did not have to compete on international

markets. “They were also protected with a myriad of entry and exit barriers which prevented a true market-related sector developing” (Silke,D: 1996).

Both unions and management want training, but in different ways. The unions view is that training should be machinist based and linked to Adult Basic Education (ABE). The NPI’s believes that management of corporations should not focus on the ABE aspect but instead should implement a Basic Business Education programme. They believe that there is a need for workers to understand the entire industry from the raw material input to the retailing side of the business. This will allow them to make a positive contribution to their businesses.

Another crucial issue facing the industry is the role of labour unions and whether they are killing the industry or not? The clothing industry in particular has not had an easy time; concerning both employers and employees. Employers have had to face losses caused by strike action (R10 million loss in turnover in strike action); competition from cheap imports; and a fall in consumer spending. Labour on the other hand has suffered from huge job losses (5000 in 1996 alone). According to Spencer (1997), although there has been a decline in formal employment in the early 1990s, this began to level out towards the second half of 1996, it is unlikely that there will be much in the way of job creation for the future, She believes that there maybe further losses if manufacturers continue to lose business or if they move to neighbouring states in search of cheaper labour.

Andre’ Kriel of SACTWU, believes that strike action will not cause the collapse of the clothing industry. Their view is that there will always be pressure applied to the clothing industry, but the union is far more interested in repositioning the industry for long-term benefits than in destroying its livelihood. The union believes in negotiating labour issues with manufacturers.

3.13.8. Infrastructure

As growth will be export led, harbour and air-fright efficiency is critical. The recent harbour congestion illustrates the problem and the negative perception that can be created in the eyes of trading partner countries. Various steps being taken indicate an understanding of the importance of this link in the overall process.

The rapid development of the electronic environment has made it essential for a company to keep abreast of progress to be competitive. Whilst many companies in the apparel sector are

meeting the challenges of EDI, e-mail, internet and laser scanning technology, there are still many companies, particularly SMME's, that either have not computerised or do not have e-mail. It is possible that the Competitiveness Fund could be utilised to develop technology and skills at this level – this would need to be combined with an improved awareness campaign.

3.13.9. Funding and Working Capital

The apparel textiles sector is exposed to high capital investment costs and the clothing industry is sensitive to working capital finance. The relatively high interest rates in SA, especially when compared to countries against which SA has to compete have a negative effect on competitive ability. The industry also has a poor credit rating with financial institutions. SA financial institutions do not like to extend credit against stock and work in progress (WIP) – they prefer fixed assets as security. Orders can be factored but at a premium. Factoring has a poor image in SA. The IDC is prepared to provide export finance. Interest rates are however related to domestic market conditions. The IDC also provides loan finance but applies standard accounting principles when looking at gearing. Whilst this is good business practice, it does mean that the level of risk taking for development finance is similar to a normal commercial bank. This is perhaps the one major criticism levelled against the IDC and other development institutions. The DTI needs to consider a mechanism to reduce finance charges and to increase the risk taking criteria of such institutions. It is ironic that higher interest rates increase the exposure of a company and the associated higher risk becomes a self-fulfilling prophecy.

The IDC is currently investigating ways of increasing its exposure to SMME's and the apparel industry is one of the sectors upon which there is focus. If there is identification and targeting of specific SMME's (especially with a BEE component), coupled with specific training through the SETA mechanism and there is associated mentoring, then such projects could be financed outside the customary norms. The DTI needs to assist and encourage this process. This could be in the form of a cash subsidy or underwriting a guarantee.

A highly creative capital upgrade and investment programme needs to be developed by the IDC and DTI to encourage investment in the apparel textiles sector.

3.13.10. Trademarks and Labelling

South Africa's re-entry into the world market has also been marked by owners of trademarks and intellectual property rights such as Microsoft, Phillips and Levi Strauss policing the local market

for infringements (Majewski,R:1997). This is indicative that the industry has moved on from the “bad old days” when different forms of piracy was deemed acceptable strategies for survival, and are now falling in line with world trends.

Tight management of distribution and support together with publicised and effective policing have ensured the major software players some degree of protection, while electrical goods manufacturers are now offering Global Guarantees making it worthwhile for consumers to purchase genuine articles. Similarly, clear and simple use of a brand name can be policed, with support of the public to support manufacturer rights. Brand minded people feel justifiably cheated when sold imitations. One method to combat the tide of smuggled goods would be to educate consumers via a coherent labeling policy. If every citizen is well informed, he/she automatically polices infringements, providing valuable assistance to authorities.

3.13.11. Sweatshops

“Recent media statements and reports indicate that SACTWU is on the warpath regarding ‘sweatshop’ working conditions in certain local manufacturers. At a time when SA is trying to build an international reputation, and having a job is not necessarily a given, we need to find a way of keeping people employed.” (Majewski: 2002)

Presently, the domestic market is stagnant and heavily supplied with imported clothing and fabric. The union is keen on seeing ‘grey’ brands being confiscated at borders but they are complacent about importing sweatshop goods from real sweatshops. There are sections of the domestic market that cannot afford ‘first world’ standards and prices, and cheap imports are to their advantage. With manufacturing employing the most amount of jobs, and at a time when orders are coming from exports, the mention of sweatshop labour is a critical issue. According to Majewski (2002) this market is extremely sensitive to accusations of sweatshop labour being exploited for their own profit, and it is here that we need to act responsibly, locally. The slightest wiff of sweatshop activity will result in customers running for cover, and with Africa’s assumed corruption at every corner, coupled with the US and European clothing and textile markets dreaming up false trade barriers everyday, this is the exact sort of thing that could dampen our rising export successes.

The problem lies with not the “Best Practice” manufacturers, but with small or home based operations. One needs to ask the following questions: When does a small business become a sweatshop?; and When does a struggle for survival become illegal because labour rates are lower than the minimum wages for corporations?.

Unions tend to overlook this critical issue because they do not want lose membership of these home grown hives, because in no time large factories would be splitting up their operations into small pieces to take advantage of the loophole, as happens in countries like Italy.

A possible solution would be a type of grading system. Best practice formal business should be able to earn liveable profits from exports, and should get all the government help they can. This in turn will allow for best practices to be adhered to and will satisfy both domestic unions and overseas customers.

3.14. The Trade Union Perspective

“According to Ebrahim Patel, of SACTWU: The vision we have of the industry is that it transforms itself and seeks competitive advantage in areas such as quality, reliability of delivery, quick turnaround of fashion and where it is those qualities that become distinguishing features that set it apart from other emerging markets” (Jacka,C: 2002). This vision can only be achieved through investment in training, which is absolutely crucial in light of their vision. Patel maintains that training will serve to ‘secure commitment and quality at the source”. The union’s focus is also on achieving a world-class industry and this can only be achieved through work organisation. In striving to achieve a world-class work organisation, it helps to reduce costs, but also aid in speeding up the process of completing an order. This requires the right mix of people and technology. A third focus they believe is a change in management ideology. The final element is that of a shift to fashion focus. Patel says that it is no good churning out a product in the hope that there is a market for it. “Now we are customer orientated where production is customer driven by consumer demand.” He refers to experiments conducted in the USA, where Information Communication Technology (ICT) is being used to rapidly communicate trends in consumer movement to the manufacturers. This needs to be adopted locally. Online systems permit manufacturers to share in information of retailers – to attempt to review international trends.

The formation of the National Bargaining Council (NBC), which is seen as a historic agreement in the clothing industry by unions. In the past where previously large areas were left out of reach of the regional bargaining councils, this function will now be carried out by the NBC. Now effectively all decentralised areas will have access to self-regulatory decision-making on issues relating to remuneration.

3.15. Presenting the Kingsgate Clothing Group

Having focused on the issues surrounding the industry environment, this section presents the Kingsgate Clothing Group in relation to their industry environment.

3.15.1. History and Overview of the Organisation

The Kingsgate Group of Companies was established forty seven years ago in 1955 by the late Dr. A. M. Moolla and its current Chairman, Mr A. S. Vahed. It has grown over those often tumultuous and difficult years, into one of South Africa's leading, privatelyowned, companies and an icon of the South African clothing manufacturing industry. Starting with a staff complement of just over forty people, the Group today employs a workforce of about 12,000, both directly within its in-house factories, and indirectly via its more than 95 CMT) factories.

Under the name of A.M.Moolla Group, it was listed in the Clothing, Footwear and Textiles sector of the JSE Securities Exchange in October 1997 for a brief four-year period. With effect from 1st March 2001, the commencement of the company's financial year, it was de-listed and reverted to its prior (1955 to 1997) trading name of Kingsgate Clothing Group (KCG).

KCG therefore is again 100% owned by the A M Moolla Family and operates as an unlisted private clothing or apparel manufacturer - the second largest in Southern Africa. For many in the Clothing and Textile Industry and, in a wider sphere, the Group epitomises the determination to succeed against all odds. From its humble beginnings 47 years ago, the Group has become a formidable player and competitor both locally and internationally in spite of its history of disadvantage throughout the more than three decades of apartheid.

Through its many divisional structures, subsidiaries and in-house manufacturing plants, products are manufactured, which cater for the full spectrum of South Africa's diverse market. Nationally and throughout the neighbouring states, the Group has long established, strong relationships with major chain stores, semi-chains, hawker wholesalers, independent retail stores and boutiques. It thus provides total flexibility, with the ability to produce comprehensive ranges of men's, ladies' and children's casualwear, jeanswear, shirts, shorts and formal trousers. In addition, a specialist division manufactures and supplies corporate wear and tenders for government agencies and parastatals.

Close and consistent business ties are maintained with customers, and the ability to design and manufacture fashionable garments of high quality standards, at competitive prices and provide timeous deliveries, contributes to strengthening such relationships. Garments designs are targeted at a broad section of the consumer market, with strategic emphasis being placed on the budget or value and middle segments of the market.

The Group's twelve divisional structures allow focus to be directed at multiple generic fashion ranges for specific markets. While the products developed are mainly for the budget and value markets, KCG devotes substantial attention to niche marketing. This mainly caters for fashion conscious customers seeking sophisticated ranges, reflecting the latest designs in sportswear and casualwear, and forms an integral part of the Group's marketing strategies.

The Group's designers and merchandisers are encouraged to make regular overseas visits to the fashion capitals of the world, keeping them closely familiar with worldwide fashion trends, which are then adapted and modified for the markets that the Group targets.

Planning commences several months prior to deliveries being made to customers. This requires a complex operational infrastructure and the Group has, over the years, developed extensive design and planning systems. These systems are supported by high-technology equipment, including computer aided designing (CAD) and management information systems. State of the art technology is used in all spheres of the Group's activities. Great emphasis is placed in the training of employees and this is reflected in consistently high quality standards and production efficiencies.

Management devotes high priority throughout the entire range of the Group's activities to the achievement of the highest attainable quality standards and production efficiencies. Skilled quality control teams closely monitor all critical aspects of production in each production facility and training programs have been introduced to enhance such skills. KCG strictly complies with section 43 of the Basic Conditions of Employment Act 75 of 1997, which prohibits the use of "Child Labour".

In 1988, in recognition of its substantial contribution to the industry, the Group was presented with the highly acclaimed "South Africa's Top Non-Listed Company" award. As an affirmation of the Group's ideals and aspirations, the following table highlights their accolades.

1993	State President's Merit Award for Export Achievement
1993	Natal Mercury / British Airways Award for Business Excellence
1993	Cotton Board Award - in recognition of excellent service rendered to the South African Cotton Industry
1995	Exporter of the Year - in recognition of export achievement, sponsored by Coopers & Lybrand and Sunday Tribune
1997 / 1998	From the South African Airforce <ul style="list-style-type: none"> ○ Supplier of the Year ○ Achiever award for Deliveries ○ Achiever award for Administration ○ Achiever award for Best Uniform Supplier
1998 / 1999	From the South African Airforce <ul style="list-style-type: none"> ○ Achiever award for Research and Development
1999	From Professional Management Review (PMR) <ul style="list-style-type: none"> ○ Golden Arrow Award for "Best in Manufacturing Clothing in KwaZulu Natal ○ Silver Arrow Award for "Best Emerging / Affirmative Company" ○ Diamond Arrow Award for "Winning 3 Golden Arrow Awards in 1998"
2001	Select Sports Wholesalers Distribution Award for Service
2002	Achieved Visa No.1 status under AGOA (explanation given below)
2002	Selected by the US Government via their Consular office in South Africa as the candidate company for the conducting of a training programme of 18 Sub-Saharan Arican countries' regulatory authorities with regard to AGOA. The organisation was chosen because of their knowledge, expertise and understanding of the AGOA process.

Table 3.15 – KCG's Accolades

The Group made its inaugural entry into the export market in 1992 by pioneering clothing exports to Russia and the Commonwealth of Independent States with an initial order for US\$10 million. Today, the Group has become a major player in the export industry and has identified lucrative markets, regularly shipping substantial quantities of product to some of our larger

customers. Exports are aggressively focused through a single, principal export division, appropriately named New South Africa Garment Manufacturers (NSAGM) and are primarily directed to the USA, U.K. and select European countries. An increasing proportion of the Group's turnover is thus derived from exports. Adding to the Group's list of accolades is the achievement of being the first company to export out of the KwaZulu-Natal province/region of South Africa under the AGOA when it was promulgated and implemented in March 2001. In recognition, NSAGM received what was termed the First Visa or Visa No.1 status.

In 1998, the Group made a strategic acquisition of Sterling Clothing (Pty) Ltd. which broadened the customer base and opened avenues into middle and up-market branded formal trousers, shirts, shorts, safaris etc.

Currently, the Group produces about 50,000 garments per day, utilising several million metres of fabric, purchased annually. With 90 percent of fabric purchased from local South African textile mills, the Group provides employment opportunities to a large number of South Africans. This also substantially reduces lead times and allows for dependable quality and keen prices.

The Group's success is based on a philosophy of continuously striving for excellence in products and the ability to service and satisfy the needs of customers. More importantly, the Group's key assets are the wonderful people whose efforts and hard work have allowed it to perform with ongoing success. The unstinting dedication of management and staff is clearly evident in the Group's strong performance and steady growth over the years.

The combination of high volume, top quality "in-house" production facilities, supported by equally long established CMT) factories, a loyal and innovative management team and a wide range of products, positions KCG ideally to continue to grow along with its customers, both nationally and internationally.

3.15.2. Organisational Structure and Leadership of the Organisation

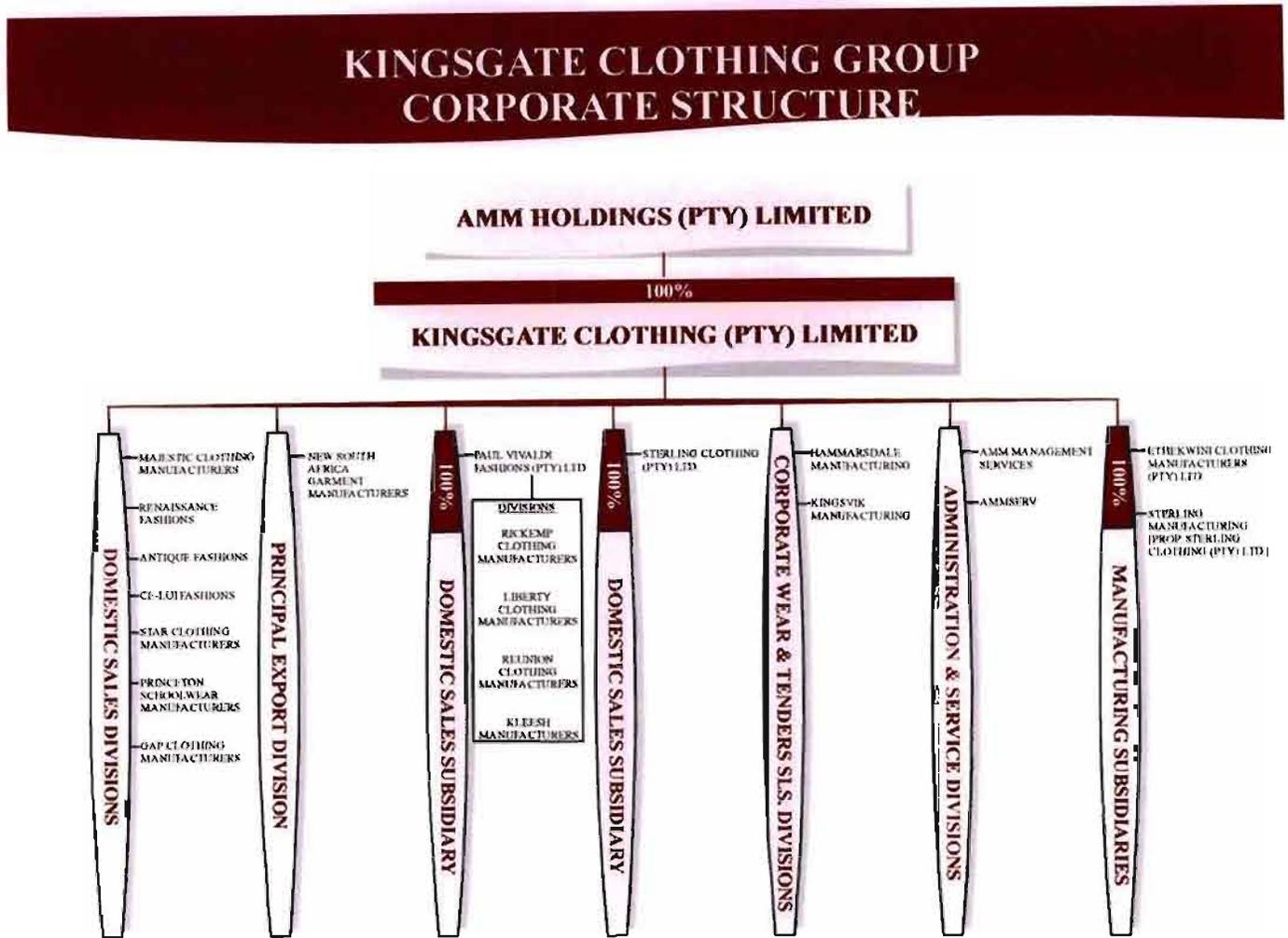


Figure 3.13. - Group Organogram (Source: Company Balance Sheet)

In seeking to maximise the use their resources and manufacturing capabilities, through modifying and adapting to new trends, KCG has restructured into 14 companies and divisions servicing the domestic SA market and also exports worldwide via its principal export division called NSAGM. Pursuant to the completion of the KCG restructuring programme their profile is especially significant in that it reflects their new corporate identity by way of a new logo and corporate colours. Each company/division operates as a specialized, properly focused dynamic business unit in line with their ever-changing market and looking forward to the challenging times ahead.

The 14 independent business units consist of:

DOMESTIC SALES COMPANIES/DIVISIONS

ACRONYM	DOMESTIC SALES COMPANY/DIVISION	SITUATED AT	<u>DEPARTMENT NO.</u>
RICKEMP	RICKEMP CLOTHING MNFRS.	AMMDALE CENTRE	16/18/19 "RICKEMP"
KLEESH	KLEESH MANUFACTURERS	AMMDALE CENTRE	55 "KLEESH"
LIBERTY	LIBERTY CLOTHING MNFRS.	AMMDALE CENTRE	6/7 "LIBERTY"
REUNION	REUNION CLOTHING MNFRS.	AMMDALE CENTRE	8 "REUNION"
PRINCETON	PRINCETON SCHOOLWEAR MNFRS.	AMMDALE CENTRE	5/27 "PRINCETON"
RENAISSANCE	RENAISSANCE FASHIONS	LEOPOLD CENTRE	4/10 "RENAISSANCE"
STAR	STAR CLOTHING MNFRS.	LEOPOLD CENTRE	11 "STAR"
CE-LUI	CE-LUI FASHIONS	LEOPOLD CENTRE	3 "CE-LUI"
MAJESTIC	MAJESTIC CLOTHING MNFRS.	AMMDALE CENTRE	21 "MAJESTIC"
TENDERS	HAMMARSDALE MANUFACTURING	HAMMARSDALE	97 "TENDERS"
TENDERS	KINGSVIK MANUFACTURING	HAMMARSDALE	97 "TENDERS"
STERLING	STERLING CLOTHING (PTY) LTD.	STERLING HOUSE	47/58 "STERLING"
KK	K K CLOTHING	AMMDALE CENTRE	45 "KK"

PRINCIPAL EXPORT SALES COMPANY/DIVISION

ACRONYM	<u>EXPORT SALES COMPANY/DIVISION</u>	SITUATED AT	<u>DEPARTMENT NO.</u>
NSAGM	NEW SOUTH AFRICA GARMENT MNFRS.	AMMDALE CENTRE	86/89 "NSAGM"

Table 3.16 – Business Units of KCG

The Directorate of the Kingsgate Clothing Group is detailed as follows:

- Executive Chairman - Ahmed Sadek Vahed
- Chief Executive Officer - Yusuf A.S. Vahed
- Joint Deputy Chairman - Mehמוד Haffejee
- Joint Deputy Chairman - Mahomed Y. Dhαι (Bhai)
- Financial Director - Daniel M. Chetty
- Executive Director - Abdul-Huck Maiter
- Executive Director - Ashraf Moolla
- Executive Director - Mahomed E. Kajee
- Executive Director - Ayub Desai
- Executive Director - Ismail Kathrada

3.15.3. Vision, Mission and Long Term Objectives

3.15.3.1. Vision

KCG is committed to providing genuine value to the company's stakeholders, including their customers, dealers, shareholders, employees, and communities. In support of this commitment, KCG aspires to:

- Grow and pursue leadership positions in each of their businesses.
- Extend their preeminent leadership position in the clothing market nationally and worldwide.
- Create new opportunities to leverage KCG brands nationally and globally.

By pursuing the broader corporate goals of profitable growth and continuous improvement, each of the company's businesses is expected to:

- Achieve world-class performance by attaining a strong competitive position in target markets.
- Exceed customer expectations for quality and value.
- Earn in excess of the cost of capital over a business cycle.

By growing profitably and continuously improving, each of the company's businesses will benefit from and contribute to KCGs unique tangible assets:

- Their distinguished brand identity.
- Their heritage of teamwork and integrity.
- Their advanced skills.
- Their special relationships that have existed between the company and employees, customers, dealers, and other business partners.

Each business will make a positive contribution to the corporation's objectives in the pursuit of creating genuine value for stakeholders. Their 'scorecard' includes:

- Human Resources – Employee Satisfaction, Training.
- Customer Focus – Loyalty, Market Leadership.
- Business Processes – Productivity, Quality, Cost, Environment.
- Business Results – Return on Assets, Sales Growth.

3.15.3.2. Mission

KCG seeks to be a responsible and successful commercial business benefiting all its stakeholders through the following:

- Transparent and accountable leadership.
- A workforce founded on the principle of equal opportunity and rewarded on the basis of merit and performance.
- Recognize and address the aspirations of all employees.
- Provide all employees with equal opportunity and access to training and self-development.
- Provide a working environment in which all employees can participate to their maximum capability and potential, and be rewarded for their achievements.
- Working conditions related to the highest international standards in all respects.
- A harmonious working environment and nurturing empowerment through the sharing of information.
- For our customers, assurance of quality of our products and services driven by the priority to be their "supplier of preference".
- Growth in shareholder value through competitive performance and ethical business principles.
- Mutually beneficial relationships with our suppliers.
- A decentralised management structure, with full autonomy being granted to divisional executives.
- Recognition of corporate social responsibilities.

3.15.3.3. Group Values

- Customer First
- Respect
- Leading
- Innovation
- Learning
- Teamwork

- Winning
- Discipline

3.15.3.4. Group’s Code of Conduct

The group will act in a manner that will earn it the reputation of:

- Having scrupulous ethics – openness, credibility and integrity.
- Being non-sectional and non-political.
- Being socially responsible.
- Being consistent in honouring its legal and moral obligations.

With regard to its people, the group subscribes to a competency based human resource approach in pursuit of:

- A highly trained, motivated and competent staff.
- A high performance and customer focused culture.
- Equitable employment practices.
- Sound employee relations.

3.15.3.5. Group’s Strategic and Financial Objectives

FINANCIAL OBJECTIVES	STRATEGIC OBJECTIVES
<ul style="list-style-type: none"> • Growth in revenues • Growth in earnings • Higher dividends • Bigger profit margins • Higher returns on invested capital • Attractive economic value added (EVA) performance* • Strong bond and credit ratings • Bigger cash flows • A rising stock price • Attractive and sustainable increases in market value added (MVA) • Recognition as a “blue-chip” company • A more diversified revenue base • Stable earnings during periods of recession 	<ul style="list-style-type: none"> • A bigger market share • Quicker design-to-market times than rivals (an ability to get newly developed products to market quicker) • Higher product quality than rivals ▪ Lower costs relative to key competitors • Broader or more attractive product line than rivals • Better e-commerce and Internet sales capabilities than rivals • Superior on-time delivery • A stronger brand name than rivals • Superior customer service compared to rivals • Stronger global distribution and sales capabilities than rivals • Recognition as a leader in technology and/or product innovation • Wider geographic coverage than rivals • Higher levels of customer satisfaction than rivals

Table 3.17 – Strategic and Financial Objectives of KCG.

3.15.3.6. How the Kingsgate Group’s Vision, Mission, Values and Objectives shapes its Strategy
 They begin with a fundamental belief in the inherent wisdom of **open markets**. Economic activities are better sorted out by markets than they are by governments. Customers ought to be

free to make a choice about their buying power in terms of clothing. The company is convinced that consumer choice and competition leads to lower prices and innovation.

KCG is a company for **innovation**. This explains the reason for employing the best and brightest people, since they believe that every employee can make a difference.

The organisation encourages people to make a difference by creating an environment where everyone is allowed to achieve their full potential and where everyone has a stake in the outcome. They believe that this entrepreneurial approach stimulates **creativity**. It calls for new insights, new ways of looking at problems and opportunities, and a strong sense of urgency.

Diversity is valued in the organisation. They are committed to removing all barriers to employment and advancement based on sex, sexual orientation, race, religion, age, ethnic background, national origin, or physical limitation. It's only by being able to recruit from a diverse pool of talent that they are able to maintain a truly outstanding workforce.

KCG believes that their success is measured by the success of their **customers**. They are committed to meeting the needs of their customer's needs with solutions that offer them a competitive advantage. And they work with them in ways that reinforce the benefits of a long-term partnership.

In everything that they do, they operate safely and with concern for the **environment**. The way that they do a job will affect how their children and their neighbour's children will live in the future. This a responsibility they take seriously in all different places that they conduct and operate their business.

The organisation treats others with **respect** as they would like to be treated themselves. They do not tolerate abusive or disrespectful treatment. Ruthlessness, callousness, and arrogance does not have a place in the company.

KCG works with **integrity** that is they work with customers and prospects openly, honestly, and sincerely. When they say they will do something they will do it.

They believe that they have an obligation to **communicate**. They take time to talk with one another and to listen. The company believes that information is meant to move and that information moves people.

KCG strives to provides a service of **excellence**. They are satisfied with nothing less than the very best in everything they do and will continue to raise the bar for everyone. The great fun here is that they will be able to discover just how good they really can be.

Their motto, which hangs about the organisation:

“Everything we do is about change. So every time you read this, try something different. Change a goal. Change a habit. Change a mind. **Together** we’re creating the leading clothing company in the world. Together we are defining the company of the future”.

3.15.4. Core Competencies and Enabling Culture of the Kingsgate Group

- The ability to deliver superior value through products and services. Increase customer penetration.
- The ability to carry out competitive manufacturing and commercial process reviews.
- Attracting superior talent – the ability to attract employees with critical expertise and skills.
- The ability to grow the business through competitive pricing and marketing image.
- The ability to establish long-term relationships with satisfied customers.
- The ability to establish long-term relationships with parties in the distribution channels.
- The ability to implement efficient administrative routines that cut costly red tape procedures to a minimum.
- The ability to create an information technology system capable of supporting operations.
- The ability to employ satisfied and competent employees.
- The ability to access and absorb new and critical sources of knowledge and technology.

3.15.5. Marketing Plan

Marketing is a crucial aspect of KCG’s value chain and is the driving force behind their business.

3.15.5.1. Product

Put simply, the group produces ‘apparel’, that is, various types of clothing which are classified as a consumer product. There are constant challenges that the design and marketing teams face in creating, designing and marketing product ranges that are original. The consumer views the products as heterogeneous. Marketing and designing are carried out in conjunction with chain stores/retailers, especially with regard to material costs.

The group offers various levels of product namely:

- Core Products – These involve basic and functional styles, which may change seasonally in terms of colour or fabric. They are usually sold in volume and at keen prices.

- Basic Products – This is usually an extension of the core product with slight variations.
- Augmented products – These offer added value to the basic products, with greater emphasis on style, innovation, colours and unusual fabrics.
- Potential products – Here products exceed customers expectations by offering a garment that will make a serious fashion statement or set a trend. Designers aim to re-design the category by offering something truly unique. This category caters to the customer's special needs by designing garments specific to contemporary trend requirements.

Products are considered to have a seasonal life-span, that is product ranges need to be developed four times a year viz. during spring, summer, autumn and winter. Marketing is done well in advance of the actual climatic season. The short life-span of designs is due to:

- Rapid product ageing because styling and colours are dictated by climate.
- Rapidly changing markets, mass distribution and communication due to international trends.
- Intensive competition between manufacturers in terms of quality, originality price and timeous deliveries.
- Rising standard of living where the product item cannot give total need satisfaction.

The key to the success of products is the product development process, which is done as follows:

- Business planning begins with a product. Various marketing divisions identify target markets and competitors. Based on these premises, products are created taking into account the needs, wants and socio-economic status of target markets, and an effort to offer products that will exceed that of competitors.
- New and variety of products are needed to strive for a balance on profit margins. The consumer must be given a choice in terms of purchasing decisions, hence the development of a number of categories of products.
- New products are essential for business growth. KCG's direct customer that is chain stores and retailers need to view constant innovation and creativity in our product ranges therefore there is a large budget allocation towards overseas travel to visit the fashion shows and centres of the world in order to present a globalised view adapted to our local needs. The organisation prefers to be innovative rather than imitative and prefers to be a leader in fashion trends rather than followers of their competitors.
- Certain environmental variables also lead to new products. Consumers have dominant and existing needs, which change constantly. Through constant monitoring and anticipation of these needs through various environmental factors the group believes that they can have a

competitive edge by reacting ahead of time. The options used are market segmentation, target market choice and product differentiation.

- The battle for retail shelf space continues. Through the segmentation of the marketing divisions into specialised business units, they are able to focus on the different markets more effectively and therefore concentrate on different chain stores and retailers in order to get specific products into specific stores for the specific market.

KCG'S product development process:

- **Organisation for Product Development**
This is done through the different marketing departments and their design and marketing teams who are involved in conducting marketing research of consumers and products, designing the product and targeting the customer base.
- **Development of Product Ideas**
This begins when the design teams travel overseas to the fashion and trade shows. Ideas are brought back on colours, styling, fabrics, trims etc. for the season ahead, which are then interpreted, adapted and designed to suit the needs of SA's population
- **Screening of Product Ideas**
The product range is then developed through a process of matching ideas against the needs and wants of their market. There is usually vast amounts of information and ideas which are fine-tuned to develop a product range that is functional, cost-effective and practical yet still portraying an image, theme or fashion statement.
- **Product Concept Development and Testing**
Sample garments or prototypes are made up ensuring the correct fit and quality. Trend boards are also developed. Ranges are created for the various brand categories.
- **Profitability Analysis**
Ranges are costed and slotted into different product categories.
- **Marketing and Selling of Product**
This is done through a presentation which is termed the "fashion week". During this time fashion shows and presentations are held for our supplier base.

The group's product strategy is one of diversification. They expand on their product mix by adding additional product lines and product items to the product ranges that is, they offer men's, ladies and children's clothing. Through product differentiation they strive to change the product that they manufacture from their competitors. This is done through their range presentations,

quality, packaging, brand image we portray, status, style, colours and other features which may satisfy consumer needs. KCG constantly strive to ensure width, depth and a relationship of the product range.

Packaging decisions

The group firmly believes that the way they package and label their products plays an important role in portraying the image of the company and its products in a favourable manner. Since branding is a major function of the company, its strength has been in the labeling of their garments. Emphasis is placed on colour and must be eye-catching. On certain of their products they attempt to convey a message through the labeling. Many of the brands have prescribed packaging and labeling in order to assist the customer in identifying the product. Most of the garments are wrapped in plastic and transported in boxes. The customer is informed on safety aspects and re-cycling possibilities. The group's garments are also labeled with detailed "care" instructions advising the customer on how to get the best out of the product, including the nature and composition of fabrics used. The philosophy behind their packaging is as follows.

- Brand must be clearly visible (legible and recognisable).
- Package must clearly reflect the nature, the purpose and benefits of the product.
- The package must be directed at the consumer in the target market i.e. it must be consumer related.
- It must have visual impact.
- The graphic design must be attractive and striking.

The slogan behind their packaging is: "a package must protect what it sells and sell what it protects"

3.15.5.2. Place

In determining the distribution channel for the KCG, their focus is not only on meeting the customers needs but also to provide an edge on competition. The organisation has adopted the following approach which they believe is the key to a successful trade channel:

- Their channel strategy is viewed in the context of the entire marketing mix. The firm's marketing objectives are reviewed and then assigned to each of the 4P's.
- Depending on the product range and to which end of the market it is directed at, a distribution channel is selected.
- Based on the intensity and market penetration of the product, the number of middlemen required is finalised.

- The last decision is selecting which retailers/chain stores or middle men will be decided upon pertaining to the product range and specific marketing department. The criteria used for selection is based on the product mix, pricing structure, promotion and customer service.

In selecting the above channels, the following issues were considered:

- Market Considerations
 - Their target market is large and varied with distinct buying patterns therefore they have used a multi-channel approach, with each channel serving a distinct market.
 - In their market they have distinct customers and potential customers who need to be reached.
 - The geographic concentration of their market is broad i.e. local, national, and international and therefore the use of middle-men or agents assists in handling with the export market.
 - The volume or size on orders can be small or large. With the former it is possible to deal directly or through middle-men and with the latter they prefer to deal directly with the customer.
- Product Considerations
 - When products are of a higher unit value then agents are considered as their commissions can be built in.
 - When an order is large, the unit value is usually low, then the direct channels are economically feasible.
 - When direct channels are used, product ideas are easier to exchange and can be tailor-made as well.
- Company Considerations
 - The company prefers to establish direct channels because we have better control and can achieve more aggressive promotion.
 - Through their vast and extensive knowledge they are better equipped to make decisions about which channels are advantageous to different products.
 - Since KCG is an established company they have developed their own sales force and warehousing facilities for their products.
- Middle-men Considerations
 - Legal agreements are signed with the agents or intermediaries, which are of mutual benefit. They are selected to promote the interests of the company and generate sales. Many of the agents have experience in the industry and are appointed on a commission basis.

3.15.5.3. Price

The main objective of the KCG is to generate sufficient profits through the manufacture and sale of its products. Their prices play a crucial part in the demand for their products, and they

influence the competitive position and market share that the company holds. Prices therefore determine what and how much the group ought to produce that is, supply, how it should be produced (manufacturing process) and for whom it is being produced (demand).

The following factors have been considered in determining the price of their products and thereafter a costing format developed. These include:

- Internal factors
 - Fixed costs namely, fabric, raw materials, trims etc.
 - Manufacturing costs namely, cut, make and trim cost involved in producing garments at factory level.
 - Overhead costs such as rent, electricity etc.
 - The sales representatives determine the final cost as prescribed by the finance department.
 - Price in relation to the marketing mix.
- Consumer Behaviour
 - The consumer in the clothing industry has a certain value analysis from which he acts. For branded items, they are prepared to spend more because of the image or perceived prestige associated with the brand.
- Competition
 - When selling clothing to chainstores and retailers a great deal of negotiation takes place to determine the final price because of fierce competition in the industry, therefore it is imperative that each marketing department has an in depth knowledge of the competitive structure of the market. Each department is also involved with comparative shopping on prices at retail level.
- Action of Suppliers
 - The group has an advantage with certain suppliers due to the history and loyalty built over the years thereby giving the group a competitive advantage on price. However prices on fabrics, trims and costs on prints/embroideries are also continually negotiated and due to the volume business placed with our suppliers, we succeed in obtaining keen prices.
- Economical Conditions
 - The economy in South Africa has a continual effect on prices. Inflation and interest rates are probably the most important variable that affects the industry. What happens in the neighbouring countries also impacts on prices in South Africa.

The company uses both the skimming price strategy and the market penetration strategy, depending on the target market and the volume of business.

3.15.5.4. Promotion

The KCG, through the use of promotion strives to make consumers aware of new products, to convey information, to convince the customer to purchase its products, to convince channel members to stock certain products, to increase turn-over, to retain and promote the image of the enterprise, to proclaim specific important activities, and to expand the product image and to convey the prices of the product. The group aims for a balance in its communication mix between a mass communication strategy through advertising and the use of sales people that is a personal approach. A vital element in devising their persuasive appeals is through an understanding of how particular purchase decisions are reached. They aim to match their offer with that of the customer's needs in the best way, and in doing so the customer will be persuaded to want the offer in preference to any other. This is accomplished by developing a psychologically unique appeal for their product (mainly through branding), correctly judging prices and making the product available in convenient ways. Promotion is shared between the group and its suppliers in order to attract the interest of consumers.

The AIDA concept is the basis for the KCG's promotional and marketing strategy:

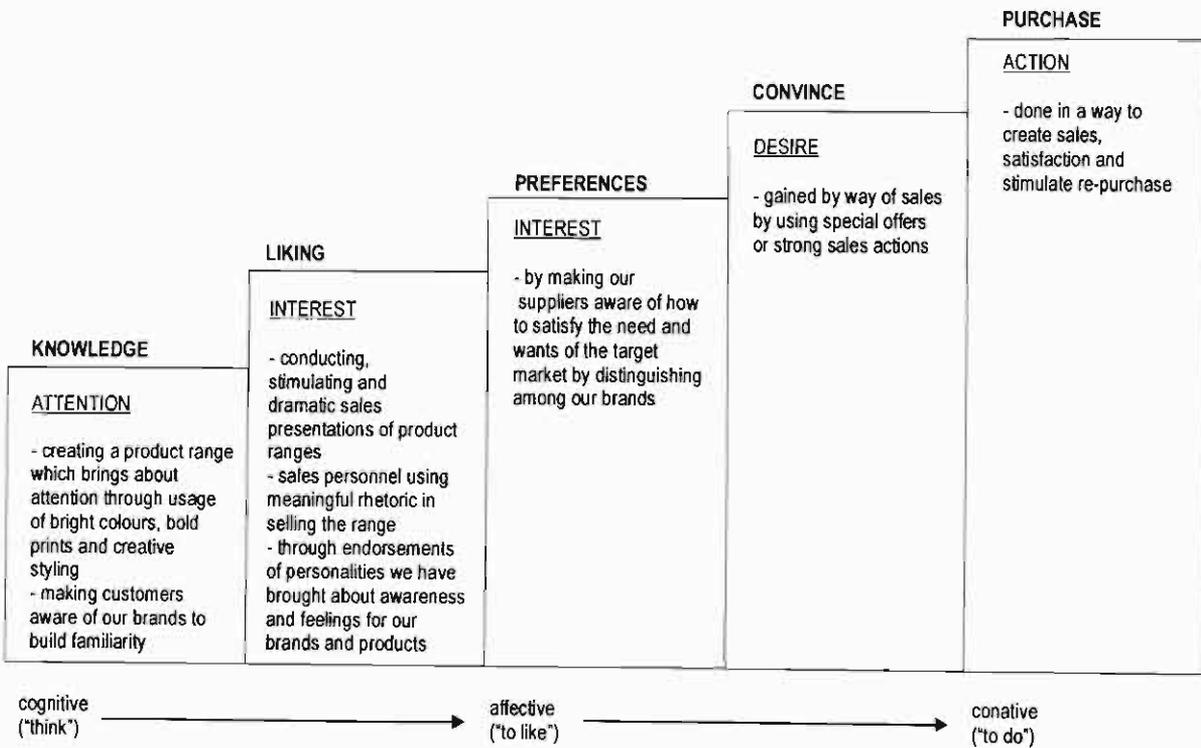


Figure 3.14 – KCG's Promotional and Marketing Strategy

Promotional methods used by the organisation are:

- Personal selling

Numerous sales meetings take place after presentation of the product range through the company's sales directors and or intermediaries. These are also followed upon by persistent telephone conversations.

- Advertising

This is done jointly between chain stores and the company due to the costs involved, through the medium of television (media) and through magazines, newspapers and leaflets. There is a small portion of each marketing department's budget allocated for direct advertising which is specific to their brands.

- Trade promotions

The group participates in trade shows nationally at SAITEX in Johannesburg and internationally at MAGIC, which is held once a year in the USA. This give them intensive exposure and visibility to their national market, the rest of Africa and internationally because of the large number of people that attend. Partial cost of exhibiting at these shows is also subsidised by government.

- Public relations

This is undertaken to stimulate and promote favourable attitudes because the KCG, specifically at customers, shareholders or any special interest groups for example, financial institutions and this done through interim reports, financial reports, press releases and through supporting charitable organisations and events. They have a combined PR and social responsibility department involved in this.

- Catalogues

The group's main focus is also to bring their brands into their customer's homes, by sending out catalogues which present the versatility of the brand's merchandise through words and images that represent modern living. Now even those customers who do not have direct access to the company or its retail outlets have access to their selection of clothing.

3.15.6. Financial Overview

The South African business scene has generally been characterised by particularly difficult trading conditions over the past few years and the year under review, which has included the aftermath of the shattering events of 11 September 2001, has been no exception. In the clothing sector, this has been exemplified by reduced consumer demand, exacerbated by tough competition from both local and international players.

Added to this, the South African Rand currency has been acutely sensitive to lack of confidence and political uncertainty, plunging by about 37% over the year but largely in the last quarter.

It has since recovered about 20% but this has added to understandable perceptions of exchange rate volatility. This scenario has had a strong bearing on the clothing sector, with many of the large store chains and some of the independent retail stores electing to source increasingly from overseas, notably the Far East. Considering that Chinese fabrics and clothing are about half the cost of South African, the Department of Trade's policy to phase down duty on fabrics and readymade apparel further stimulated this trend for most of the year.

In the last quarter however when the Rand went into freefall, some chain stores and retailers, finding their margins eroded by the exchange rate, switched back to the local market, buying more from the Group although not in overall percentage terms. Nevertheless, supplying the local market still constitutes over 80% of our business. Correspondingly, South African exporters enjoyed the benefits of the weaker Rand, which coincided with the first year of the US Africa Growth and Opportunity Act (AGOA). This Act entitles exports from a number of Sub-Saharan African countries to quota and duty-free concessions on exports to the USA, resulting in savings to the US importer of between 35% and 40% in landed costs. In respect of the international economic downturn which followed the attacks on the USA and the war in Afghanistan, South African apparel exports to the USA amounted to about 0,20% of that country's \$65 billion imported clothing in 2001 and our export business, which is almost totally focused on that country, was relatively unscathed.

To assist in offsetting the decline in orders from local retailers and contribute towards overheads, the Group increased its participation in the local tender market whereby public sector bodies, such as the armed forces, police and correctional services, seek tenders for the supply of uniforms.

The following profile shows the effects of the environment discussed above on the Group's sales profile:

- Chain stores 53%
- Independent retail stores 20%
- Exports 19%
- Tenders 8%

3.15.6.1. Financial Results

The effect of the trading environment described above is reflected in the results achieved for the year. The absence of comparative figures can be ascribed to the change in the company's structure and status. The revenue for the year at R327,19 million, was above budget. The operating profit before financing costs at R21,57 million reflects an overall margin of 6,59% which is considered to be satisfactory in a difficult trading environment. Profit before taxation was R5,17 million. Profit after taxation was R3,724 million. The balance sheet is healthy, with long term interest bearing borrowings at R38,68 million amounting to about 30% of shareholders' total equity at R128,72 million. The current ratio is a healthy 2.06:1 and the quick ratio is 0.76:1. (Refer to income statement and balance sheet in chapter 4)

3.15.6.2. Financial Prospects

The past four years have been progressively more difficult for our industry and ourselves in an overall economy characterised by inconsistent performance and beset by problems beyond our ability to control. The scenario that faces us now is showing more promise, in spite of a world economy yet to recover from the aftermath of 11 September.

Current economic and investment indicators suggest that growth in the economy is accelerating to over 3% for the year and this will stimulate further confidence in a sustained recovery.

More specifically, many of the leading retail stores, among them some of our largest customers, are reporting encouraging results with promise of even better to come. The fact that they have also been increasing their support for local manufacturers bodes well and while the partial recovery in the Rand might trigger some hesitation, I believe that they will look to be more cautious in committing themselves to overseas suppliers in the future.

The export scene remains brighter but, as I have outlined above, we shall need access to a wider international market of fabrics to achieve our full potential.

3.15.7. Key Success Factors

The success of KCG lies in the following factors:

3.15.7.1. Labour Relationships

The streamlining and restructuring of the Group has been done in full communication with their staff and trade union. For the twelve-month period from July 2002 to June 2003, they reached an agreement with the trade union on an 8,25% effective increase for their operations.

It is a feature of which the group is particularly proud that, in a South Africa severely affected by declining levels of employment, the restored Kingsgate Clothing Group today employs both directly and indirectly as many people as it ever did - some 12000 within the Southern African

region. The difference is that the new structures, which they have been developing, employ many of them indirectly through the medium of companies which were transferred out of the Group's direct control via management buy-outs (MBO's) but who manufacture exclusively for the Group. In addition, they have about 95 CMT operations to which they outsource quite a large part of their production. The creation of MBO's flows directly from the group's policy of constantly reviewing their operational base within the context of improving output and efficiencies. An equally important facet of this policy is the nurturing of entrepreneurial and executive talent and of empowerment to the benefit of the Group and the country. During the year, two further businesses were created on an MBO basis to add to the four already created.

3.15.7.2. Exports

The highlight of the period under review was unquestionably the finalisation of the AGOA and the consequent commencement and implementation of its clauses as a working reality. This bold move has catapulted the South African clothing industry, including the KCG, into the international market place and triggered a tidal wave of enquiries and subsequent orders by US importers now able to purchase South African garments on a duty-free and quota-free basis.

The delays in reaching that stage inevitably impacted on the Group as previously mentioned but the co-operation with US customers in minimising the effects has been acknowledged in the placement of larger orders. A windfall benefit was also experienced through the further weakening of the US Dollar-Rand exchange rate over the delayed period.

3.15.7.3. Relationship with Domestic Chains

There is an increasing tendency of some customer chains to seek to source growing volumes of clothing from overseas, particularly from such countries as Mainland China, India and Hong Kong. On occasions, this has been accompanied by termination of local orders and the interruption of long established relationships with local suppliers, including our Group. During the last year, there were some encouraging indications of a reversal of this trend to a more balanced approach. Contributing factors appear to include experience of poor service and products, a tightening up by South African Customs and the cost imbalances caused by a lower Rand/Dollar exchange rate.

3.15.7.4. Growth of Customers in the Small-Medium Size Business Sector

The rationalisation of many large clothing manufacturing companies is reducing the supply-side of the economic equation within the country, leaving many SMME retail businesses without an adequate supply of quality clothing. The Group, while expanding its export orientation, has not taken its attention off the local market and is actively increasing its customer base among SMME

retail businesses with the number of accounts now exceeding 1,700 and targeted to reach 2000 in the short to medium term.

3.15.7.5. Repositioning of the Group's Manufacturing Plants Leading to a Leaner and More Productive Workforce

A taskforce headed by the Group's CEO has investigated and revitalised every sector of the Group's operations. These have been reviewed, rationalised and cost inefficiencies have been curtailed and the workforce re-positioned so as to obtain improved outputs in every area of the Group's activities as follows:

- Six factory units have been rationalised into two units.
- Distribution Centres, Fabric and Trim Warehouses and Garment Stockholding areas have been consolidated into two areas instead of three.
- Administration and other service units have been centralised into one head office.

This has resulted in the direct workforce coming down to a total of 1,698 persons within all divisions, in Durban, Hammarsdale and Johannesburg. The remaining four factory units - three at Isithebe and one at Hammarsdale - have been disposed of on a Management Buy Out (MBO) basis to the respective managements, with the proviso that they manufacture exclusively for the Group as CMT operators for the Group. This MBO resulted in 1,275 persons now being employed by these four factory units. Offshore manufacturing continues on a CMT basis with three factory units in our neighbouring countries (two in Mozambique and one in Malawi) who also manufacture exclusively for the Group. The indirect staff complements in these regions total 1,129 persons. In addition, about 40% of Group manufacturing is sub-contracted to about seventy-five CMT factories spread throughout KZN, the OFS and Gauteng. These factories do not produce exclusively for the Group but, taking into account the indirect employee strength of the workforce that produce for the Group on a proportionate basis, it roughly totals about 900 persons. The Group therefore, both directly and indirectly, employs about 5,000 persons within the clothing industry in South Africa, Malawi and Mozambique, which is a strong contribution to the economy of the region.

3.16. Conclusion

The South African apparel textiles industry is undergoing change and is in the process of developing to meet the needs and challenges of a dramatically changing environment. The industry is striving to recover from one of the most difficult periods in its history. The indications are that AGOA could herald the dawning of a new and prosperous era for the industry.

The industry has the opportunity to make a quantum leap into a major growth phase. Prioritisation and initiation of the major strategy proposals in this report by the DTI will ensure that the growth path is attained.

The key success factors of the Kingsgate Clothing Group remain its personnel and management, combined with excellent product ranges, emphasis on consumer service, quality and innovative merchandise and customer relationships of long standing. Management and staff are fully committed to the group's stated objectives, risk management philosophy and its mission statement. Employees are encouraged to increase their skills levels in order to release their full potential in a challenging and invigorating working environment.

Prime lending rates have increased and are at unacceptably high levels. Inflation needs to be controlled, which will allow for a reduction to more acceptable lending costs. There are huge challenges facing industrial companies worldwide, Turnaround times, which are customer driven, are shortening. Low wage countries are spawning new competitors constantly. Cyclical retail markets tend to increase input costs. These need to be recognised and new and innovative ways of meeting them need to be sought in order to gain market share. Every effort must constantly be made to improve return to stakeholders.

In light of the challenging and changing conditions of the clothing industry, various strategic management tools need to be utilised to evaluate the strategy of the Kingsgate Clothing Group, in order to help direct the organisation into the future.

CHAPTER 4: EVALUATING THE PRESENT STRATEGY OF THE KINGSGATE GROUP

Peak performers start with potential. We all do. Yet history is littered with the bones of people who never converted potential into achievement. Inherent talents turn useful only when you examine what yours are and cultivate them. (Charles Garfield, Peak Performers: The New Heroes of American Business)

4.1. Introduction

Through a process of strategic evaluation, strategic choices need to be determined for the Kingsgate Clothing group. These strategic choices relate to the to decisions about the organisation's future and the way it needs to respond to and manage the pressures and occurrences in the environment, discussed in chapter 3. Strategic choices need to be made in order to satisfy expectations of shareholders by enhancing and creating value in the context of actual or potential competition. Strategic analysis and choice is therefore the phase of the strategic management process when business managers examine and choose a business strategy that allows their business to sustain and create a sustainable competitive advantage.

The two most prominent sources of competitive advantage can be found in the organisation's cost structure and its ability to differentiate the business from its competitors. Businesses that can create competitive advantage from one or both of these sources usually experience above-average profitability within their industry. Businesses that lack a cost or differentiation advantage usually experience average or below average profitability. Two recent studies conducted by Pearce and Robinson (1988), found that businesses that do not have either form or competitive advantage perform the poorest among their peers while businesses that possess both forms of competitive advantage enjoy the highest levels of profitability.

By conducting an evaluation and control process, ensures that the KCG is achieving what it set out to accomplish. It compares performance with desired results and provides the feedback necessary for management to evaluate results and take corrective action, as needed. Assessing performance is based on objectives set out by management in terms of the vision and mission of the company. These objectives, which were determined in the earlier chapter as part of the strategy formulation and strategic direction of the strategic management process of the KCG. Some of these objectives dealt with profitability, market share and cost reduction, which should

be used to measure corporate performance. Muralidharan and Hamilton (1999) state that controls can be established to focus on actual performance results (output), the activities that generate the performance (behaviour), or on resources that are used in the performance (input).

Strategic choice based on strategic evaluation is based on or strongly influenced by culture, experience and political processes. Therefore, strategies within the organisation are considered as emerging rather than being chosen at a point in time. However, a strong influence of culture and experience can lead to strategic drift. The process of formal planning and evaluation can overcome the problem of strategic drift or “closing the gap”. Not only does the process of evaluation provide another selection mechanism for alternate strategies, but it also provides a means of raising challenging, analytic and evaluative questions, which perform the role of changing minds, and not just making plans. Based on this philosophy various strategic analysis and evaluation tools will be used to evaluate the corporate, functional and competitive strategies of the Kingsgate Clothing Group.

4.2. Discovering and Defining the Process of Corporate Strategy Development within the Kingsgate Clothing Group

The Strategy Development Questionnaire (SDQ) was used to understand the development of strategy within the KCG. The SDQ comprises of 36 statements, that relate to six dimensions of strategy development. (Refer to Appendix 1 for a sample questionnaire) The output from this self-completion questionnaire is a pictorial representation, which identifies dominant processes operating at KCG, that is a strategy development profile.

4.2.1. Benefits of the SDQ

According to Bailey and Avery (1998), the use of the SDQ will provide the following benefits to the organisation:

- It builds on the conceptual framework and language for explaining strategy development that clarifies the complex processes at work in the organisation.
- It allows such processes to be made explicit as they are often taken for granted or concealed by what managers think should occur rather than what does occur.
- It facilitates discussion of processes, which are normally not discussed.
- It can be used to compare different perceptions of strategy development processes, for example between different levels of management.

4.2.2. Dimensions of the SDQ

A synopsis of the framework for strategy development using the SDQ was explained to senior management at KCG. This framework includes six dimensions, which are as follows:

- The Planning Dimension – Strategy is developed through an analytic, intentional and sequential process of planning.
- The Incremental Dimension – Strategy is developed in an evolutionary but purposeful manner.
- The Cultural Dimension – Strategy is guided and directed by the cultural aspects of the organisation, its history and the shared assumptions and beliefs of its members.
- The Political Dimension – Strategy is developed through a process of bargaining, negotiation and influence between internal interest groups.
- The Command Dimension – Strategy is defined and determined by a particular powerful individual within an organisation.
- The Enforced Choice Dimension – Strategy is developed as a result of external pressures, which limit an organisation's ability to determine its own strategic direction.

4.2.3. Administration of the SDQ

The SDQ was handed to various senior management people at KCG. These included:

- Joint Deputy Chairman – Mahomed Y. Dhai (Bhai)
- Joint Deputy Chairman – Mehmoud Haffejee
- Financial Director – Daniel M. Chetty
- Head of Public Relations – Mr Ahmed Dhai
- Head of Human Resources – Mrs Hawa Asmal
- Head of Operations – Mr Abdulla Amla
- Head of Marketing – Mr Yunis Hasan
- Head of Procurement – Mr Ebrahim Paruk

4.2.4. Interpretation of the SDQ

The SDQ scoring sheet is illustrated for Joint Deputy Chairman, Mahomed Y Dhai, followed by his Strategy Development Profile. For the remainder of management, their SDQ scoring sheets have been attached as annexure 2, and only their Strategy Development Profiles have been illustrated.

	PLANNING	INCREMENTALISM	CULTURAL	POLITICAL	COMMAND	ENFORCED CHOICE
	1 7	2 7	3 7	4 0	5 7	6 7
	7 7	8 7	9 7	10 1	11 4	12 3
	13 7	14 1	15 3	16 1	17 7	18 4
	19 7	20 3	21 7	22 1	23 7	24 1
	25 7	26 3	27 1	28 1	29 1	30 1
	31 7	32 7	33 1	34 1	35 1	36 1
COLUMN TOTAL	42	28	28	11	27	16
	-24	-24	-24	-24	-24	-24
SCORE	18	4	4	-13	3	-8

- Score = column total -24

Table 4.1. - SDQ scoring sheet for Joint Deputy Chairman – Mahomed Y. Dhali (Bhai)

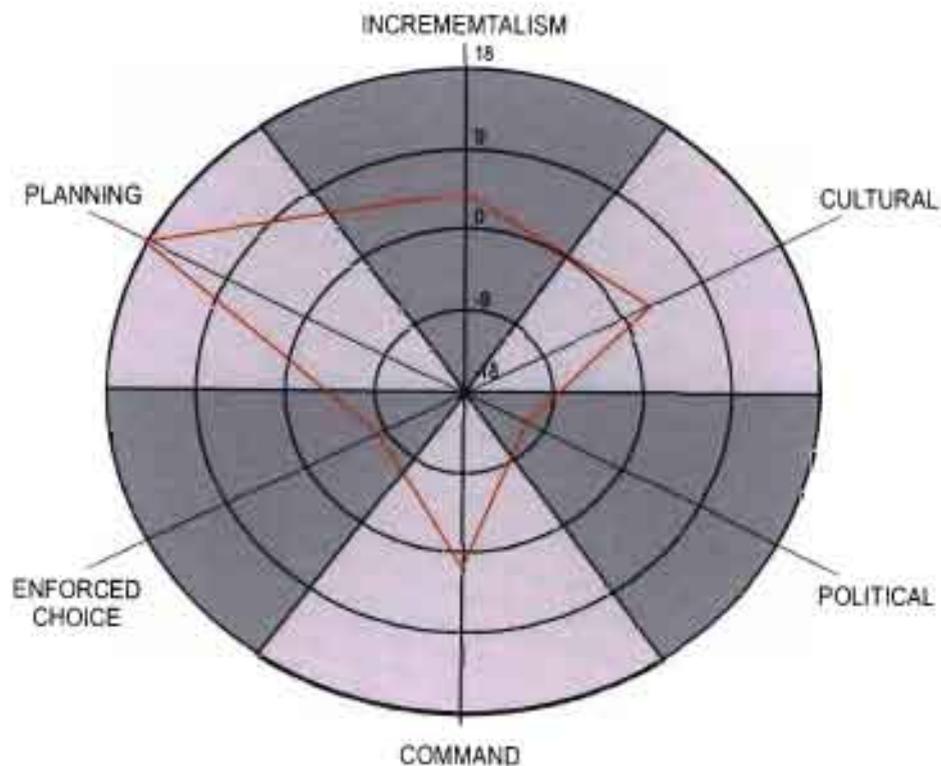


Figure 4.1 – Strategy Development Profile of Joint Deputy Chairman – Mahomed Y. Dhali (Bhai)

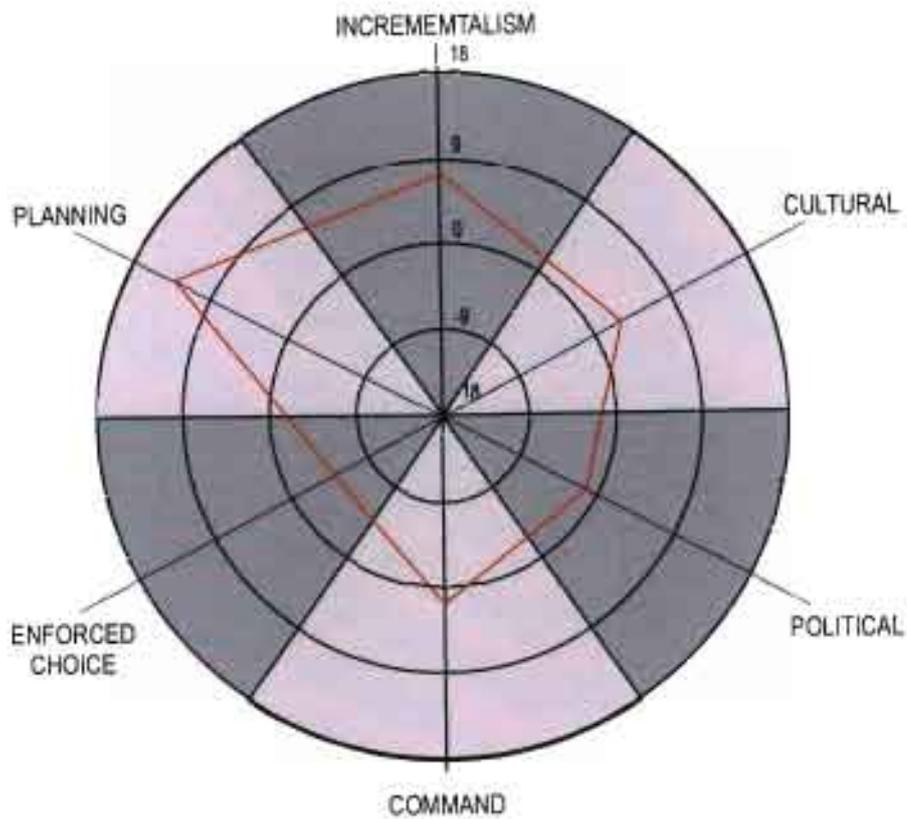


Figure 4.2 – Strategy Development Profile of Joint Deputy Chairman – Mehmoud Haffee

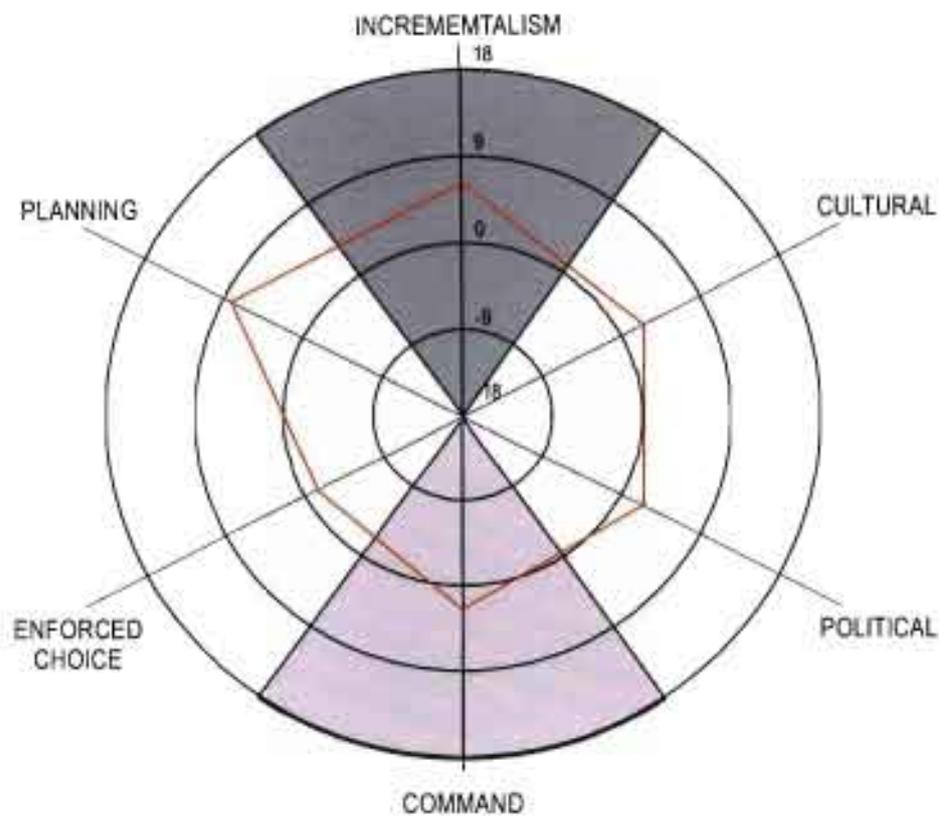


Figure 4.3 – Strategy Development Profile of Financial Director – Daniel M. Chetty

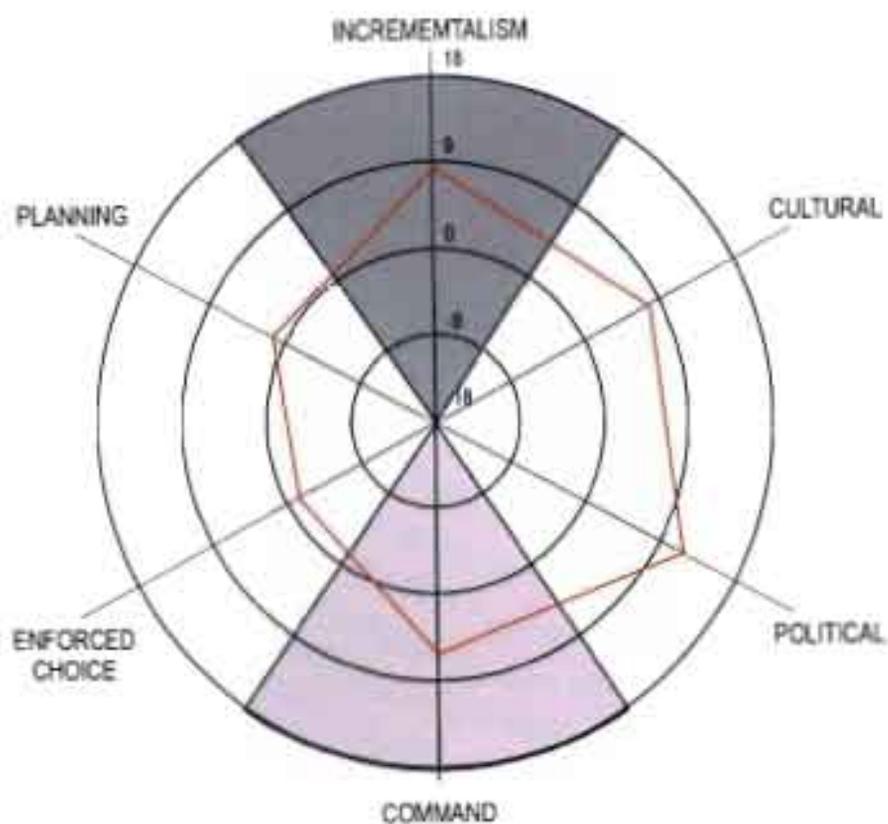


Figure 4.4 – Strategy Development Profile of Head of Public Relations – Ahmed Dhul

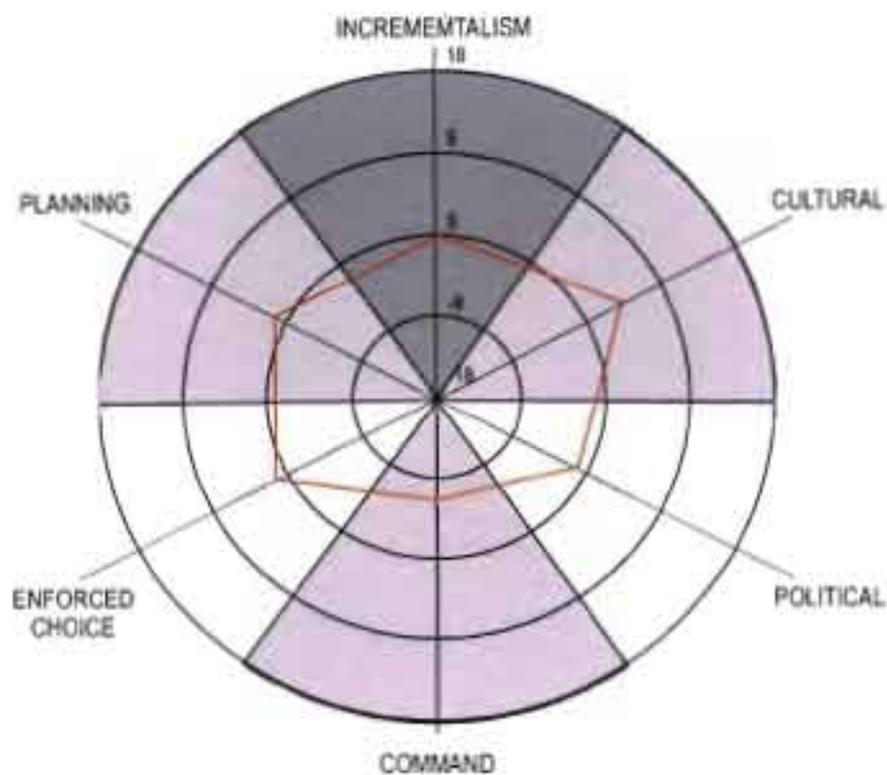


Figure 4.5 – Strategy Development Profile of Head of Human Resources – Hawa Asmal

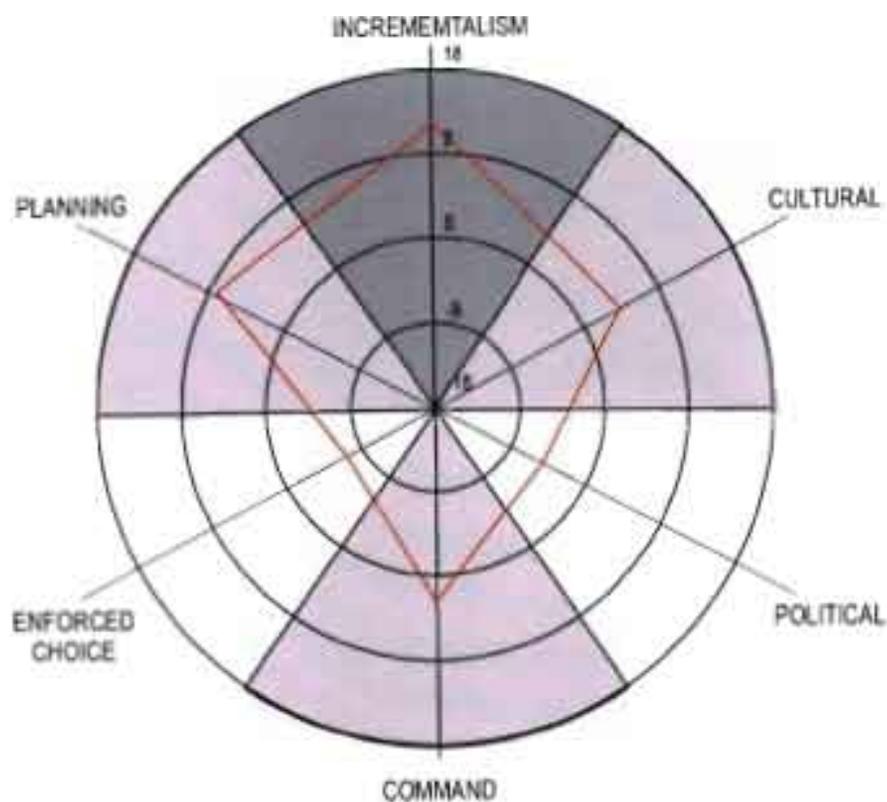


Figure 4.6 – Strategy Developemnt Profile of Head of Operations – Abdulhah Amla

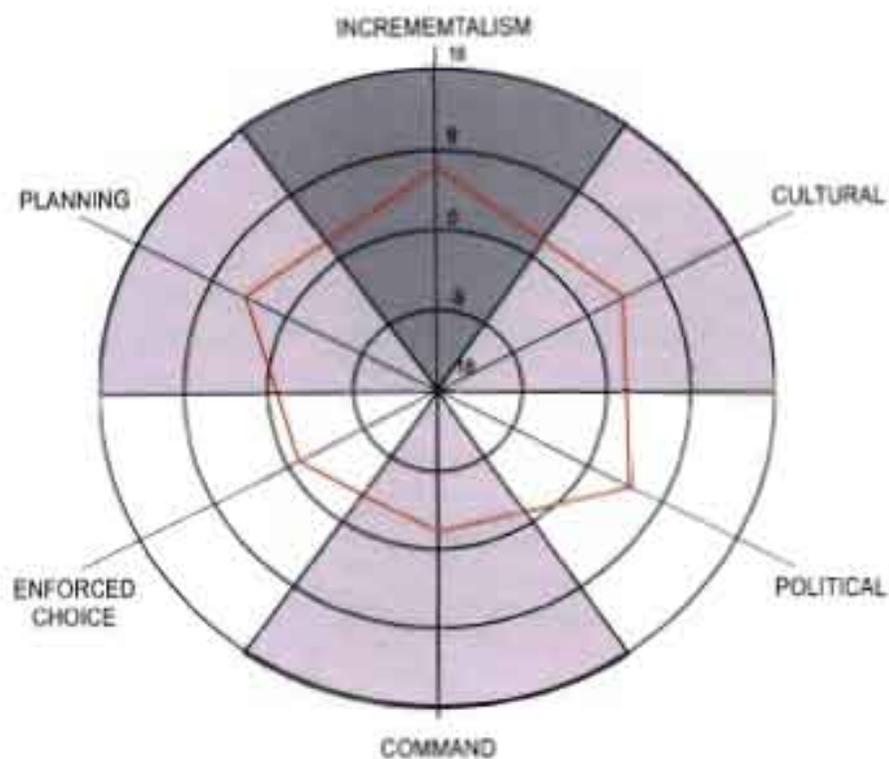


Figure 4.7 – Strategy Developemnt Profile of Head of Marketing & Sales – Yunus Hassan ((Domestic Sales Division)

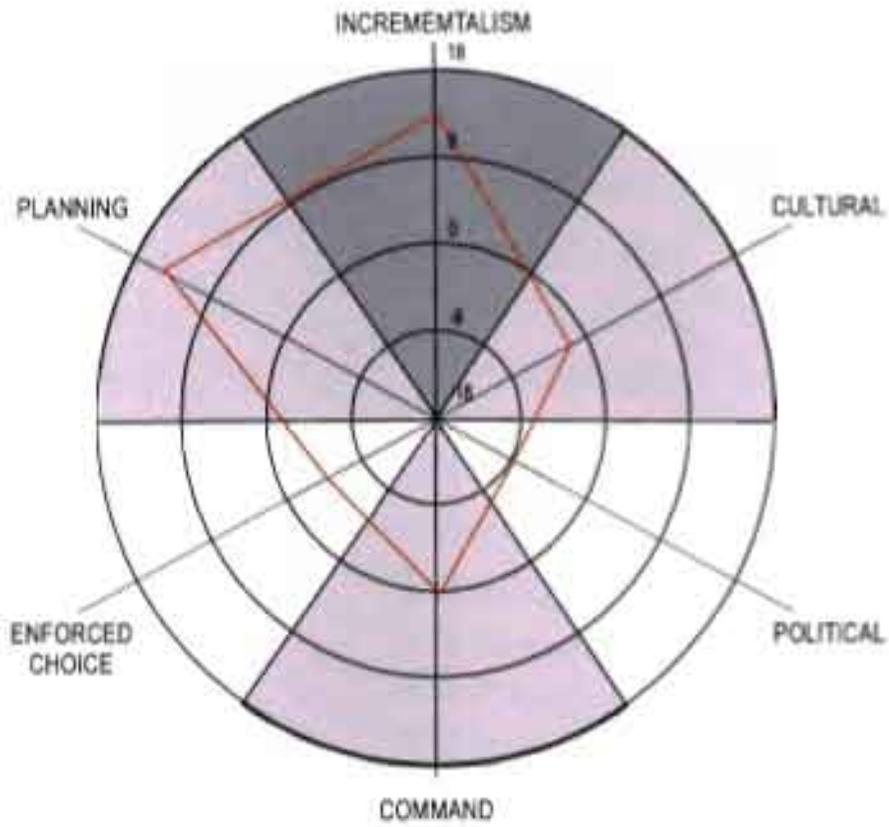


Figure 4.8 – Strategy Development Profile of Head of Head of Procurement - Mr. Ebrahim Parak

Bar Chart Illustrating a Comparison between the Differing Views of Management

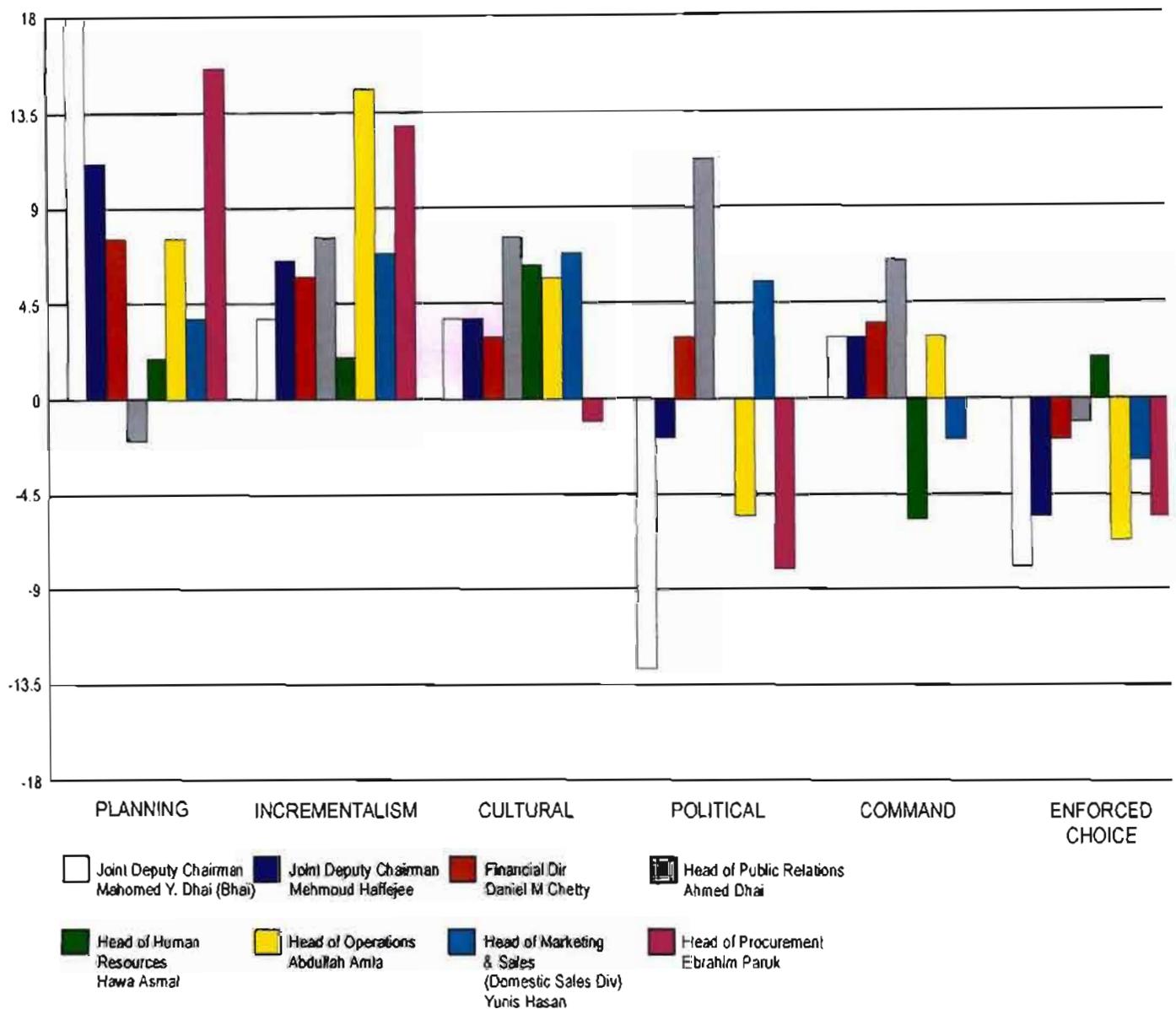


Figure 4.9 – Comparison of Strategy Development Profiles of Management of KCG

From the above illustrations we can determine the following based on the six dimensions of strategy development at the Kingsgate Clothing Group:

- Planning
 - Strategies are the outcome of rational, sequential planned and methodical procedures.
 - Strategic goals are set by senior organisational figures.
 - The organisation and environment are analysed.
 - Definite and precise objectives are set.
 - Precise plans for implementation are developed.
 - The strategy is made implicit in the form of detailed plans.

- Incrementalism
 - Strategy is not continually adjusted to match changes in the operating environment.
 - Strategy options are not continually assessed for fit.
 - Early commitment to a strategy is tentative and subject to review.
 - Strategy develops through experimentation and gradual implementation.
 - Successful options gain additional resources.
 - Strategy develops through small-scale changes.

- Cultural
 - A 'way of doing things' in the organisation impacts on strategic direction.
 - Strategies are evolved in accordance with a set of shared assumptions that exist in the organisation.
 - A core set of shared assumptions based on past experience and history guides strategic actions.
 - Organisational history directs the search for and selection of strategic options.
 - Strategy not in fit with culture is resisted.

- Political
 - Strategies are developed by negotiation and bargaining between groups.
 - The interest groups seek to realise their own desired objectives.
 - Influence in strategy formulation increases with power.
 - Power comes from the ability to create or control the flow of scarce resources.
 - Interest groups form coalitions to further their desired strategy.
 - The control and provision of information is also a source of power.

- A strategy acceptable to the most powerful interest groups is developed.
- Command
 - An individual is the driving force behind the organisation's strategy.
 - Strategy is primarily associated with the institutional power of an individual or small group.
 - The strategy represents the aspirations for the organisation's future of this individual.
 - The individual becomes the representation of the strategy for the organisation.
 - An individual has a high degree of control over strategy.
- Enforced Choice
 - Strategies are prescribed by the operating environment.
 - Strategic choice is limited by external forces, which the organisation is unable to control.
 - Strategic change is instigated from outside the organisation.
 - Organisations are not able to influence their operating environments.
 - Barriers in the environment severely restrict strategic mobility.

The aim of this stage of the feedback process is to help management of the Kingsgate Group to understand their strategy development profile.

4.2.5. An Analysis of the Follow-Up Questions to the SDQ Questionnaire

As a follow up to the above process, a number of individual questions were put forward to the same heads of departments, to encourage greater understanding of the process of strategy development that operates within their organisation. These questions together with a summary of the responses included:

- What do you think are the potential consequences of the process you describe for strategy development that operates within your organisation?

The strategy involves a reasonable degree of consultation as management attempts to involve different stakeholders. Whilst they would like to consult individuals at many levels of the organisation, this is not always possible because of time constraints and their belief that it can lead to information overload and confusion about appropriate strategy when too many ideas are put on the table. The CEO therefore consults with the Executive Board as well as divisional managers, auditing and accounting teams, and HR, before settling on policy decisions. The expectation is that divisional managers will, in turn, consult with their respective teams and have a clear understanding of what is and is not working in their respective areas. In this way, they

hope to take into account differing attitudes, opinions and contributions at all levels of the organisation while avoiding the problem of information overload. The KCG'S strategy also takes cognisance of government policy in the form of HR. One negative of this strategy is that the CEO is cut off at the 'coalface', so to speak, and is not directly involved with workers at the lower levels to truly appreciate their concerns. The CEO is influenced by subjective input from managers, which determines his/her decisions. The organisation remains focused on the critical areas of the business, strengths and weaknesses can easily be identifiable early and addressed immediately. Reflections of decisions taken can be compared after the event. Conflict of interest situations can be minimised. Power struggles are diminished, as there is an acceptance of the leadership in the organisation. The organisation can 'learn' from their mistakes and improve in areas where resources are limited/lacking

- Are there aspects of organisation that make the process the way it is? For example, in what ways do influences internal to the organisation- such as structure, management systems, and the personality and behaviours of colleagues – promote the strategy development process in the form you describe.

The organisation is highly and strictly controlled. This emanates largely from the fact for except for a brief four-year period when the firm listed on the JSE, this has always been a family-owned business. More important, family has taken a personal and hands-on approach to know what is going on at every level. The result is that historically there has been central command and this has been passed on to successive CEO's. Another important reason for this is that the three principal leaders in the half-century of the company's existence have been very strong leaders who believed in 'taking the bull by the horn' and driving the company in the direction and vision that they have mapped out. It is difficult to argue with this strategy given the success that the company has enjoyed. Successive CEO's have commanded huge respect from the Board and management. However, there has recently been a slight shift in this approach. Internal influences play a major role in the organisation, in that people are focussed together in meeting a common objective/goal. Persons outside these objectives struggle in the organisational structure. Further, management systems and structures have already set up to give effect to the strategy development in the organisation. This in itself makes the process the way it is that is, the organisation has been set up in such a manner that the internal structures set up by management have a significant influence in the way the process carries on. Anybody working outside this established structure would find it difficult and restrictive to continue. Therefore, the internal

structures mentioned above do significantly influence and promote the strategy development process in the organisation.

- Similarly, what impact do influences external to the organisation – such as the nature of the market, maturity, of and speed of change within the industry or government legislation – have upon the strategy development process?

Over the past decade, the market has changed. South Africa became a non-racial democracy and part of the global economy with markets increasingly being opened to the world. Further, as a result of the seemingly irreversible process of globalisation local markets have opened to the world. Local companies are purchasing from overseas while goods from the Far East are coming into the country in huge quantities. At the same time the company has grown company into a massive entity with multiple sites. Even the production process has changed with the company working with numerous small CMT firms. All these changes have made it difficult to maintain rigid control. Marketing managers have to travel all over the world and make instant decisions on the spot, that they consider to be in the best interests of the company, though the CEO may not always agree with the decision. The global era calls for flexibility and less rigidity. External factors in the textile industry do influence significantly on the organisation. To a great extent, government legislation, union intervention, overseas demand, exchange rates, interest rate and general economic conditions prevailing do influence directly on the performance of the company. Examples would be:

- The impact AGOA (African Growth and Opportunities Act) on the industry as a whole with particular reference to Exports.
- The impact of exchange rates for exports goods.
- The impact of reduction in custom duties.
- The boom in the retail trade impacting directly on orders.
- The impact of wage negotiations and possible strikes if no agreement is reached.

The above examples demonstrate the point that should these factors occur, the strategic process internally would be affected. It is therefore important, that the strategic process does, to an extent, have an allowance for the above external factors but only so far as it can be contained within that process, otherwise the organisation has to remain competitive in the industry it operates in.

- What does such a profile suggest about your own role within the strategy development process? Are there certain individuals or activities that are more effective than others in gaining influence over strategic direction?

While change has been rapid and management is allowed a degree of latitude to make responsible decisions without consultation, the CEO, who is constantly engaging with bankers, economists, the Board and others in the industry, formulate the overall strategy and sets the parameters within which management operates. This strategy and vision is articulated to management through regular meetings. So despite the greater freedom enjoyed by managers the CEO through his intimate team of HR and auditors maintains overall control, though managers have the freedom to explore new opportunities as far as customers, designs, fabrics are concerned so long as the overall parameters are not breached. The role of management is seen largely to support the strategic development process to the extent that it is:

- Workable and practical
- Cost effective
- Achieves the objectives of management
- Conforms with an established internal process system

However, should there be an area/s which needs to be looked at, the necessary motivation must accompany the need to change. This is possible and provisions made in the strategic process.

Key management decisions are based on teamwork and inputs from all senior persons. However, the final decisions and influence over the strategic development remains in the hands of certain key members, so that a clear vision and implementation of the process can take place, without having to reconvene frequently to adjust the processes within the organisation.

4.3. Assessing the Financial Performance of the Kingsgate Clothing Group

Any appraisal of a business should start with the overall financial performance, as financial performance gives an indication of overall success or failure. An assessment of the KCG's financial performance will be done through an analysis of the company's financial statements, which offer an untold wealth of combined strategic and financial insights. According to Grundy (1998), Strategic Financial Accounting (SFA) is defined as: "The process of analysing financial statements and company reports by both financial and strategic techniques. This process creates a more rounded view of business performance, position and potential. The SFA process will help to assess the competence of the KCG, in implementing strategic change, through the asking of key questions during the review of financial statements, for example:

- What does the corporate report reveal about management’s past record in implementing strategic change?
- What is the potential financial impact (both in terms of upsides and downsides) from current strategic change initiatives – both internal and external?
- How aware does senior management appear to be (based on the chairman’s and director’s report, and other commentary) of the problems constraints and uncertainties, which they are likely to face in future implementation?
- Where gaps or enormous challenges are apparent, what does top management intend to do about it?

4.3.1. The SFA Process

The SFA process on KCG will be carried out in two stages that is, a checklist and a questionnaire. The first is a reminder of the work that should be done on the numbers themselves using the group’s 2002/2001 financial statements (as shown below) and the second asks questions about the finance and accounting processes and policies themselves.

4.3.1.1. Checklist

Depicted in the figure below, are the specific ratios, which will be used to calculate financial performance as part of this stage. These ratios are calculated based on KCG’s 2002 and 2003 balance sheets shown below.

INCOME STATEMENT FOR THE KINGSGATE CLOTHING GROUP FOR THE PERIOD ENDED 28 TH FEBRUARY 2001 AND 2002		
	2002	2001
REVENUE	327 189 272	299 101 362
OTHER INCOME	4 982 761	2 111 824
OPERATING EXPENSES	(310 604 737)	(277 571 977)
OPERATING PROFIT	21 567 296	23 641 209
INTEREST RECEIVED	177 377	67 748
INTEREST & FINANCE CHARGES PAID	(16 579 620)	(12 775 637)
PROFIT before taxation	5 165 053	10 933 320
TAXATION	1 440 845	2 499 072
PROFIT for the year	3 724 208	13 432 392

Table 4.2 - Income Statement of KCG

BALANCE SHEET FOR THE KINGSGATE CLOTHING GROUP AT 28TH FEBRUARY 2001 AND 2002

	2002	2001
ASSETS		
NON-CURRENT ASSETS	20 868 191	25 774 712
Property, plant & equipment	8 498 883	13 447 384
Brands	9 630 754	10 058 690
Goodwill	529 321	
Investments & loans to subsidiaries	-	-
Deferred taxation	2 209 233	2 268 638
CURRENT ASSETS	284 373 474	354 495 240
Inventories	179 709 894	220 027 123
Trade receivables	104 663 580	133 868 730
Dividend receivable	-	-
Taxation overpaid		599 387
TOTAL ASSETS	305 241 665	380 269 952
EQUITY AND LIABILITIES		
EQUITY AND RESERVES	128 724 408	200 444 588
Share capital	500 100	935 300
Share premium	49 500 000	158 578 434
Distributable reserves	3 724 208	20 137 072
Non-distributable reserves		20 793 782
Shareholder's loan	75 000 100	
NON-CURRENT LIABILITIES		
Interest bearing borrowings	38 675 430	1 450 564
Deferred taxation		-
CURRENT LIABILITIES	137 841 827	178 374 800
Trade payables	109 661 021	157 426 303
Current portion of interest bearing borrowings	998 742	763 619
Bank overdraft (net)	27 014 955	20 184 878
Taxation	167 109	
TOTAL EQUITY AND LIABILITIES	305 241 665	380 269 952

Table 4.3 – Balance Sheet of KCG

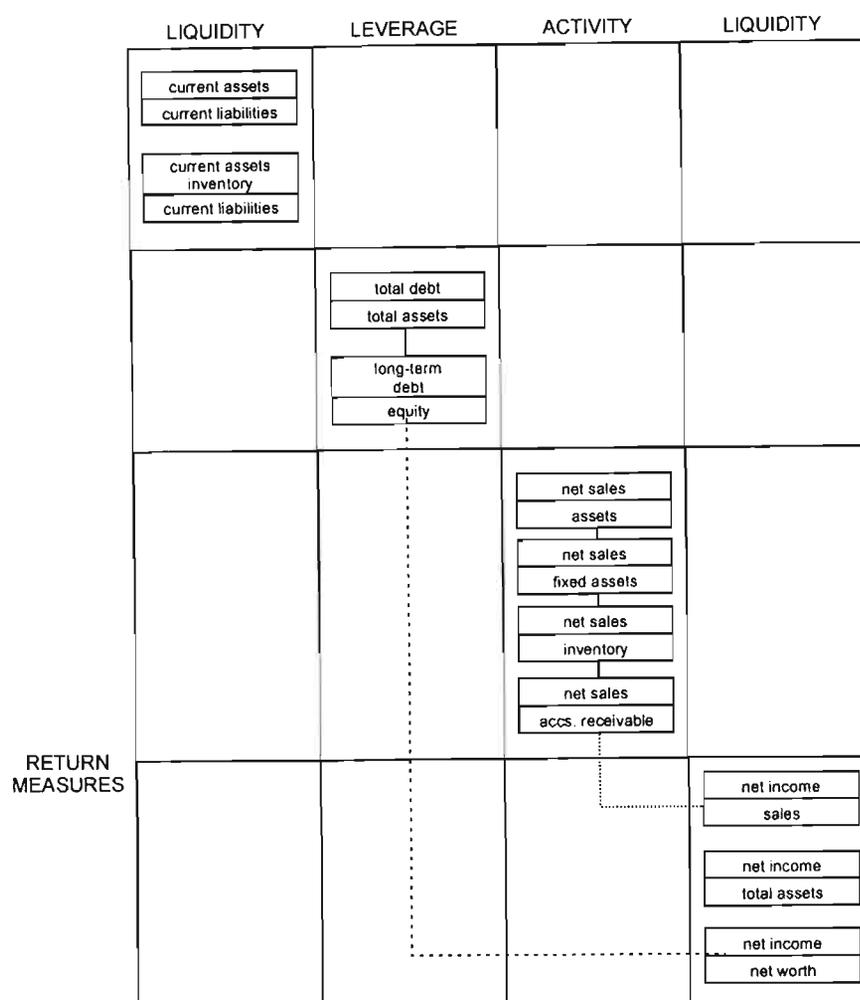


Figure 4.10 – Financial Ratios

▪ **Liquidity Ratios**

These ratios are used as an indicator of the KCG’s ability to meet its short-term obligations. These obligations include any current liabilities, including currently maturing long-term debt.

		2002	2001
Current Ratio	= $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	2, 06	1, 99
Quick Ratio	= $\frac{\text{Current Assets – Inventories}}{\text{Current Liabilities}}$	0, 75	0, 75

Table 4.4 – Liquidity Ratios

Most analysts suggest a current ratio of 2 to 3. A large current ratio is not necessarily a good sign; it means that the organisation is not making the most efficient use of its assets. The

optimum current ratio varies from industry to industry, however the clothing industry, which is a rather volatile industry of recent, high current ratios may seem acceptable. The current ratio of the KCG increased from 2001 to 2003, which explains the volatility of the industry, however the values still fall between what is acceptable. Since slow moving or obsolescent inventories could overstate a firm's ability to meet short-term demands, the quick ratio is preferred to assess a firm's liquidity. A company like KCG who would generally carry high inventories due the nature of their business, would prefer to use the quick ratio as a means of analysis. A quick ratio of approximately 1 or less would be acceptable for an organisation in the clothing industry. KCG's quick ratio increased marginally from 2001 to 2002 and is acceptable, although inventories had declined. From this we can state that the KCG is able to meet its short-term obligations, without relying on the sale of inventories.

- Leverage Ratios

Leverage ratios identify the source of a firm's capital – owners or outside creditors. The term leverage refers to the fact that using capital with a fixed interest charge will 'amplify' either profits or losses in relation to the equity of holders of common stock.

	2002	2001
Debt to total assets Ratio = $\frac{\text{Total Debt}}{\text{Total Assets}}$	1, 72	0, 51
Debt to equity Ratio = $\frac{\text{Total Debt}}{\text{Total stockholder's equity}}$	4, 08	0, 96
Long-term debt to Equity ratio = $\frac{\text{Long-term debt}}{\text{Total stockholder's equity}}$	3, 00	0, 89
Times interest Earned ratio = $\frac{\text{Profits before interest \& taxes}}{\text{Total interest charges}}$	1, 3 times	1, 9 times

Table 4.5 – Leverage Ratios

The most important of the leverage ratios is the total debt divided by total assets, which implies the total funds provided by creditors. A long-term debt to equity ratio of more than 0,5 is considered to be acceptable. Debt from borrowings has dropped significantly from 2001 to 2002.

The percentage of total funds provided by creditors versus the percentage provided by owners can also be analysed through the debt to equity ratio. Funding by creditors increased significantly from 2001 to 2002. The debt to equity ratio for KCG is exceptionally high in 2002. The ratio of long-term debt to equity is a measure of the extent to which sources of long-term financing are provided by creditors. Seeing that KCG higher debt to equity, we can state that the company faces greater risk. The debt on their balance sheet gives third parties legal claims on the company. Therefore, when KCG raises debt, it takes on a commitment to substantial fixed cash outflows sometime into the future. The company does not have a guaranteed cash-inflow over the same period. Indeed, the inflow maybe most uncertain. A fixed cash outflow combined with an uncertain cash in-flow gives rise to financial risk. Therefore, KCG is exposed to some degree of risk. Debt increases both profit and risk, and it is the job of the financial director of KCG to maintain a proper balance between the two. The interest cover ratio measures KCG's ability to serve its borrowings. This has dropped from 2001 to 2002.

- Activity Ratios

These ratios indicate how effective the firm is using its resources. By comparing revenues with the resources used to generate them, it is possible to establish the efficiency of an organisation.

		2002	2001
Asset turnover	= $\frac{\text{Sales}}{\text{Total assets}}$	1, 07	0, 79
Fixed asset turnover	= $\frac{\text{Sales}}{\text{Net fixed assets}}$	1, 56	1, 16
Inventory turnover	= $\frac{\text{Sales}}{\text{Inventory}}$	1, 82	1, 36
Accounts receivable Turnover	= $\frac{\text{Sales}}{\text{Accounts receivable}}$	3, 12	2, 23
Average collection Period	= $\frac{360}{\text{Accounts receivable turnover}}$	115 days	160 days

Table 4.6 – Activity Ratios

The asset turnover or return on total assets ratio would be a key tool in directing management's day-to-day activities. It provides a benchmark against which all operations can be measured. The rule of thumb would be that a margin of approximately 10% or an asset turn of between 1,3 and 1,5 would be acceptable. The asset turn at KCG has improved from 2001 to 2002, but is still below the norm. This indicates that the financial director needs to find a unique combination between margin and asset turn that will give the company its own particular and successful market niche. The fixed asset ratio, which is a stronger determinant of performance, is heavily influenced by the nature of the industry. It is therefore less amenable to management action than are many of the other performance drivers. The capital-intensive sectors of industry usually earn higher returns except where there has been some element of monopoly. Although, KCG's fixed asset ratio is low, it is keeping in line with the industry that it operates in, which is labour intensive and subject to intense competition.

The inventory turnover, accounts receivable turnover and average collection period ratios enable managers and functions to work better together as a team. It helps with the definition of responsibilities, delegation of authority and target setting. It also provides a powerful framework for a management information system. The rate of inventory turnover at KCG represents their stock carrying capacity. Whilst their stores were never empty, the group tends to prefer low stock carrying capacity. This could also be as a result of the seasonal nature of their merchandise. The accounts receivable ratio is a very precise ratio, which means that a slippage of even a few days is instantly identified. Also, figures can be compared to the company's normal terms of trade and the effectiveness or otherwise the credit control department can therefore be monitored. This ratio has dropped over the two years. The average collection period reflects management's efficiency in controlling debtors and collecting amounts owing. The average collection period for the industry is said to be around 90 to 120 days. The collection period has improved.

- Profitability ratios

			2002	2001
Net profit margin	=	$\frac{\text{Net income}}{\text{Sales}}$	0, 11	0, 45
Return on total Assets (ROTA) Or return investment (ROI)	=	$\frac{\text{Net income}}{\text{Total assets}}$	0, 12	0, 35
Return on stockholders Equity (ROE)	=	$\frac{\text{Net income}}{\text{Total stockholders equity}}$	0, 28	0, 67

Table 4.7 – Profitability Ratios

The phrase “return on investments” relates to one of the most important concepts in business finance. Each Rand of assets has to be matched by a Rand of funds drawn from financial markets. These funds have to be paid for at the market rate. Payment can only come from the operating surplus derived from the efficient use of the assets. It is by relating this surplus to the value of the underlying assets/funds that we find a measure of return on investment. If this return on investment is equal to or greater than the cost of funds, then the business is currently viable. If the long-term rate is less, however, the business has no long-term future.

The two measures focused on above, that is, Return on Total Assets (ROTA) or Return on Investment (ROI) and Return on Equity (ROE) are both necessary because they throw light on different aspects of the business. ROTA looks at operating efficiency of the total enterprise while ROE considers how operating efficiency is translated into benefit to the owners. There has been a decline in the ROE percentage from 2001 to 2002, which indicates a decline in shareholder value. This indicates that the company is not growing at a steady rate, and this could be as a result of market conditions, the state of the industry and economic factors. Profitability has therefore been affected over the two years. KCG needs to strive for a good return on equity because this will keep in place a good financial framework for a thriving, growing enterprise. ROTA sets the foundation for a company to deliver a good ROE. This ratio measures how well

management uses all the assets in the business to generate an operating surplus and is the most comprehensive measure of total management performance. ROTA has declined dramatically over the two years, which suggests that management is struggling to achieve an operational surplus.

4.3.1.2. Questionnaire

Thus far as part of the of the Strategic Financial Analysis process we have looked at the position of the organisation through its financial figures. However, in doing this we have also touched on matters, which stand behind the figures, and which cause the organisation to interpret its results differently, or to behave in a particular way. Competitive advantage can be lost or gained through the choices the company makes, so an important part of the SFA process is to identify these policies, concepts and conventions. It should not be assumed that KCG’s current choices are the best, and although all have advantages and disadvantages, in every unique situation some are better than others.

This section includes a questionnaire section which evaluates KCG’s accounting processes and policies to determine competitive advantage. Each question is rated from ‘no competitive advantage for the firm’ (1) to ‘excellent or significant competitive advantage for the firm’ (4). The financial director of KCG has rated these questions.

	No Competitive Advantage		Significant Competitive Advantage	
	1	2	3	4
RATING				
1. What performance concept is the driving force for strategic decisions in your organisation? In light of your assessment, how do you evaluate its impact on the organisation.				
▪ We use a number of measures, but none has any particular strategic impact.		2		
▪ Our measures try to take into account of shareholder value.		2		
2. To what extent is management in agreement about the firm’s critical success factors? In light of your				

assessment, how do you evaluate its impact on the organisation.

- We rarely make such analyses; the bookkeeping takes 2
of itself.
- As long as our profits are satisfactory, we have no use for 1
discussing our strong and weak sides. If profits fall, we try
to lower production costs.

3. How systematically does the firm work with long range financial and strategic plans? In light of your assessment, how do you evaluate its impact on the organisation.

- Long range strategic and financial planning efforts are 2
conducted over a shorter period, usually a year to two
years.
- In connection with large loan applications and other 2
essential dispositions, the firm's management tries to
forecast business for the following year.

4. What form of short-term financial planning does the firm use? In light of your assessment, how do you evaluate its impact on the organisation.

- On the basis of the yearly balance sheet and income 2
statement, we estimate the necessary business for next
year if earnings goals hold. At the same time, we estimate
whether or not the firm has adequate resources to achieve
these goals.

5. To what extent are the detailed actions needed to attain longer range strategies included in the budgetary process, and the way management performance is assessed? In light of your assessment, how do you evaluate its impact on the organisation.

- We assume managers have done this, and expect them to 2
meet the budget.
- We tell managers to do this, but in any conflict situation the
- current year's planned revenue and profits is what has to be met. 2

6. How well is the firm's accounting system designed with respect to giving management information, example for

cost estimates and budgets? In light of your assessment, how do you evaluate its impact on the organisation.

- Monthly statements are prepared and it is possible to back in the records and get information about individual departments, product groups and markets. 3
- The accounting is primarily built on the basis of budgets, thus allowing budget control. 4

7. How systematically do you perform budget control? In light of your assessment, how do you evaluate its impact on the organisation.

- The budget is compared with the annual report. 3
- Quarterly and monthly budgets are compared, and variances are compared. 3
- The budgets and accounts are run together and, deviations from the budget are discussed by management and the relevant employees. 4

8. Is the firm's cost analysis method valid and reliable? In light of your assessment, how do you evaluate its impact on the organisation.

- We estimate approximate costs based on last years accounting information and considering inflation. 2
- We estimate standard costs, but do not use ABC. 3

From this financial analysis, we can determine that KCG has no sound accounting processes and procedures, however there is strict adherence to budgets and budgetary control. Their strategic financial planning does not provide them with a strong competitive advantage, as the results once tallied seem to fall closer to the no competitive zone. In concluding, we can determine that the strategic financial process is in need of review and recommendations (which will be further explored in the next chapter) because this exposes the organisation to risk.

4.4. Conducting a Value Chain Analysis on the Kingsgate Clothing Group

In conducting a value chain analysis for KCG, an alternate approach as stated by Porter (1985) has been adopted. The various activities on Porter's value chain, pertaining to KCG will be analysed in the form of a questionnaire, which was handed out to the relevant management teams of KCG. Therefore, a theoretical approach to value chain analysis has been adopted. The aspects of the value chain pertaining to KCG, which will be analysed include: Marketing; Operations; Production; Technology and Innovation; and Human Resources, Management Effectiveness, Culture and Structure.

4.4.1. Conducting a Marketing Audit on KCG

It is for a number of reasons that this research has utilised the 'Marketing Audit' as a part of the strategic value chain analysis. The reason being is the marketing audit is a comprehensive and structured examination of the firm's market and the forces impacting on the market, the firm's activities and performance, as well as the processes by which, marketing decisions are made. The outcome of this audit will highlight the opportunities and challenges for KCG's marketing and suggest recommendations for improvement, and a plan for achieving superior performance.

This marketing audit will follow a structured approach in order to engage a comprehensive and systematic audit. The process was conducted through meeting between the head of the marketing department at KCG, who was given questionnaire to answer. This questionnaire is illustrated below, together with a review of the responses.

The marketing audit questionnaire covers six key areas of analysis, and comprised of the following issues relevant to the research:

- Customers – This part of the investigation covers an analysis of the current, past and future customers, their needs and preferences, segment differences, demands of different segments, buying patterns, development in application of core and augmented products and similar issues.
- Competitors – Who are KCG's major competitors, current and future? What are their strategies and objectives, competencies and capabilities, market share, profitability, and technology base?
- Channels – How are the products and services brought to market? What are the channels? What is their share concentration, ownership, profitability, efficiency, ability to satisfy current and future customer needs, trade practices, and similar issues?

- Context – This element covers the macro-economic, demographic, political, ecological, public and regulatory conditions under which the market is operating.
- Company’s Competencies – KCG’s own strengths and weaknesses need to be considered under the marketing audit. These are analysed in terms of generating competitive advantage, the firm’s organisation, structure, marketing information, reporting, planning and control systems are also important.
- Costs and Profitability – What are the profitabilities of the firm’s different market segments, products, territories and channels? What is the cost structure and how does it compare?

4.4.1.1. Marketing Audit Questionnaire (As Responded to by the Head Of Marketing at KCG)

The following process should be followed as you apply these questions to your organization:

- Read all the questions to get an idea of the area covered by the checklist.
- Think of the critical success factors as they apply to the strategy you have or think is necessary to follow in your industry.
- Read the individual questions and think about the situation in your own firm. Does this situation provide you with a competitive advantage or disadvantage?
- Finally, evaluate the firm’s situation in the entire area covered by the checklist. Evaluating the importance of the individual questions for your firm can do this. The result should be realistic evaluation.

Good Luck!

Each question is rated from ‘no competitive advantage for the firm’ (1) to ‘excellent or significant competitive advantage for the firm’ (4).

No Competitive Advantage		Significant Competitive Advantage	
1	2	3	4

RATING

Products and Services

1. Are the firm’s products and services commodity items or unique in character? In light of your assessment, how do you evaluate its impact on the organisation.

- Our products are highly differentiated, 4

developed and produced to the specific needs of a targeted segment.

2. Can the firm's products or services be copied, or are they protected, example by patents, special technology or because imitation requires special development work? In light of your assessment, how do you evaluate its impact on the organisation.

▪ Our products are based on overseas fashion trends which are then adapted to the local market. It is how we interpret these trends and present our fashion ranges that gives us the competitive advantage.

3

3. Do price and quality fit the expectations of the customers the firm has chosen to serve? In light of your assessment, how do you evaluate its impact on the organisation.

▪ The firm has positioned itself at the best price to quality level for our customers, who recognise our higher price and our superior quality. However, there are times when adjustments have to be made on price but this does not compromise on quality.

4

4. Is the market for current products or services expected to grow or shrink? In light of your assessment, how do you evaluate its impact on the organisation.

▪ Sales are steady and we plan to develop our product ranges to our market share and to aggressively promote exports. Revenues are also steadily increasing from a carefully managed market share expansion.

3

5. How profitable are the individual products or services? In light of your assessment, how do you evaluate its impact on the organisation.

▪ Profitability is systematically investigated, and we are well on the way to solving problems with unprofitable profit ranges. Our product portfolio is constantly monitored

3

and the ones that are less profitable are subject to cancellation, redesign or repositioning.

6. When your firm develops new products, what is the impetus for improvements or innovations? In light of your assessment, how do you evaluate its impact on the organisation.

- We internally design and produce our products. New products are developed regularly or seasonally in accordance with our planning. 4

7. How does the range of products/services produced affect your firm's overall performance? In light of your assessment, how do you evaluate its impact on the organisation.

- We keep track of revenues for individual product Ranges. Almost all groups do a reasonable business. 3

8. Does the firm have a problem with returned goods compared to other firms in the field? In light of your assessment, how do you evaluate its impact on the organisation.

- There are some returns attributable to quality problems or fabric flaws. 3

Competition

1. How does the firm's market share compare to that of the competition? In light of your assessment, how do you evaluate its impact on the organisation.

- Our market share is very stable. 3

2. How well does firm's management know the critical success factors affecting the firm's position in the market? In light of your assessment, how do you evaluate its impact on the organisation.

- We think that there is a connection between price and quality and our position in the market place, so we attempt to match price with quality level. 3

- Through a number of analyses of the effect of price changes, quality changes, customer service, changes in advertising etc., we have also found these factors to be important. 4

3. How much of a leadership role does the firm take with regard to new products, new design, new packaging etc.? In light of your assessment, how do you evaluate its impact on the organisation.

- We spend a fair amount on market and product analysis and always try to be ahead of the competition. 4

4. How sensitive is the firm to price competition? In light of your assessment, how do you evaluate its impact on the organisation.

- In order to penetrate some of the markets via certain chainstores it has been necessary to lower the prices of some of our products and have also had to reduce process in some instances to stay in the market. 1

- We are sensitive to the customer’s demands for better pricing and are able to lower prices appropriately with improved efficiencies without cutting into margins. However, there are instances where profits are sacrificed for margin. 3

5. How is the firm able to meet quality competition? In light of your assessment, how do you evaluate its impact on the organisation.

- We can usually convince customers that we are at least “as good” as competitor’s products. 2

- Improvements in quality can be implemented very quickly since production plans are prepared in advance and method changes can be undertaken. 3

6. To what degree are pricing and, credit policy, and discounts determined by competition? In light of your assessment, how do you evaluate its impact on the organisation.

- On the whole, we have to align our prices with those of 2

others in the field, but in our area of business, customer goodwill is more important than prices offered by other firms, in maintaining sales.

7. To what degree does the firm use opportunities for co-operation with the competition? In light of your assessment, how do you evaluate its impact on the organisation.

- We have not attempted any co-operation. 1

8. How well does the firm know the future plans of its most important competitors? In light of your assessment, how do you evaluate its impact on the organisation.

- We have a bit of knowledge acquired more or less randomly. 2
- We constantly try to judge the external (example, price and advertising) and internal (example, purchasing and hiring). 3

Customers

1. How stable is the customer's base? In light of your assessment, how do you evaluate its impact on the organisation.

- We have a number of steady customers who return again and again, however this customer base can sometimes be unpredictable. 3

2. How dependent is the firm on a single or a few major customers? In light of your assessment, how do you evaluate its impact on the organisation.

- We would definitely notice the loss of a couple of our major customers, but it is not likely and the firm's existence would not be in danger. 4

3. How good is the contact with important customers in the market? In light of your assessment, how do you evaluate its impact on the organisation.

- We have systematically developed in depth contacts with 4

the major customers in the market from a predetermined marketing plan.

4. How is the liquidity of your customers? In light of your assessment, how do you evaluate its impact on the organisation.

▪ Apart from a few losses, we have no problems and customers keep their obligations to us. 3

▪ We always perform credit checks on new customers and sort out the risks. Old customers are investigated as soon as they don't make timely payments. 4

5. How complete is the management's knowledge of the profit from each customer group? In light of your assessment, how do you evaluate its impact on the organisation.

▪ We have a good knowledge of the profit margin from each of the major customer groups. 4

6. To what extent is the firm's customer base a reflection of systematic understanding of needs and planning? In light of your assessment, how do you evaluate its impact on the organisation.

▪ Our market and production planning as well as product development must be seen as a whole, and the present customer base reflects a conscious effort of integration. 4

7. Is the firm able to deliver during seasonal changes in demand? In light of your assessment, how do you evaluate its impact on the organisation.

▪ Delivery time varies with the season, and demand in excess of the normal season may sometimes give us delivery problems. 2

Market Planning

1. To what extent does the firm engage in systematic market analysis? In light of your assessment, how do you evaluate its impact on the organisation.

▪ Senior management considers developments in the 3

marketplace in the yearly budgeting process.

- Through regular market research, we have gained much knowledge about our customers and strengths in our production. This knowledge is used to develop the short-term and long-term market plan. 4

2. How is market information collected? In light of your assessment, how do you evaluate its impact on the organisation.

- We use sales statistics and customer files as the basis for information gathering. The information is gathered sporadically. 3

3. Who in the firm is directly involved in market planning? In light of your assessment, how do you evaluate its impact on the organisation.

- Top management and selected members of the sales department. 3

4. What elements determine the size of your marketing budget? In light of your assessment, how do you evaluate its impact on the organisation.

- We don't have a separate budget for marketing efforts. 1

5. How are the firm's distribution channels chosen? In light of your assessment, how do you evaluate its impact on the organisation.

- Our distribution system is evaluated on a regular basis, and if certain points are seen as ineffective, we proceed to make appropriate changes. 4

6. To what extent has the firm developed policies and guidelines for the prices and sales practice? In light of your assessment, how do you evaluate its impact on the organisation.

- The policies and guidelines follow the market plan and the sales team is briefed regularly on these procedures. 4

From the above marketing audit, we are able to construct the following analysis on the Kingsgate Clothing Group:

- Products and Services
 - Strong competitive advantage.
 - Unique and differentiated product offering.
 - High degree of control on product offering.
- Competition
 - Strong competitive advantage in relation to others in the industry.
 - Very little collaboration between competitors.
 - Price and quality determine competitive advantage.
- Customers
 - Strong competitive advantage
 - Long lasting customer relationships.
 - Effective customer profiling.
- Market Planning
 - Strong competitive advantage
 - Does not engage in budgeting for marketing and therefore does not allow for a strong competitive advantage.
 - Flexible distribution channels.

4.4.2. Appraising Production at KCG

The production checklist and questionnaire below was used to evaluate KCG’s production, strategy, policies and methods. This was done in conjunction with the Head of Production at KCG.

4.4.2.1. Production Checklist and Questionnaire

Each question is rated from ‘no competitive advantage for the firm’ (1) to ‘excellent or significant competitive advantage for the firm’ (4).

	No Competitive Advantage		Significant Competitive Advantage	
	1	2	3	4
RATING				

Production Strategy

1. At which stage is your organisation on the journey to world class performance? In light of your assessment, how do you evaluate its impact on the organisation.

- Our aim is to meet the standards of the industry. We ensure that we are always as effective as competitors in every area where it matters.

3
- We monitor the industry, but use our creative approaches to achieve a superior performance. We want to be better than our competitors, not just copy them.

3

2. Is your organisation operating in the appropriate position on the continuum from local to global production? In light of your assessment, how do you evaluate its impact on the organisation.

- We are aware that there are global implications, but have done little to ensure that our production matches the need.

2

3. Does your organisation follow the concept of the focused factory? In light of your assessment, how do you evaluate its impact on the organisation.

- We have achieved a reasonable degree of focus in our

3

plants, but still have a few things to sort out.

Equipment and Production Techniques

1. To what extent does your firm's production facility or facilities match current and future needs? In light of your assessment, how do you evaluate its impact on the organisation.

- The firm's facilities are large enough for our current needs and there is some possibility for expansion. 3

2. How well is your machinery able to meet desired production output? In light of your assessment, how do you evaluate its impact on the organisation.

- Machines are suited to production under consideration for expected development. We frequently estimate the profitability of renovation or purchase of new equipment. 4

3. To what extent is production space utilized effectively? In light of your assessment, how do you evaluate its impact on the organisation.

- Production space is used to maximise each machine's capacity usage according to our overall plan to achieve most effective and efficient production processes. Periodic capacity utilisation and workflow studies are undertaken, resulting in rearrangement of machinery or machine replacements. 4

4. How do the present production techniques compare to other alternatives? In light of your assessment, how do you evaluate its impact on the organisation.

- We try to renovate our machines and follow developments of new approaches as best we can, but there is no systematic consideration of new production methods. 2

- We also try to follow technical development closely, but in some areas production is not great enough to warrant investing in the latest technique. 2

5. Who handles maintenance? In light of your assessment, how do you evaluate its impact on the organisation.

- Each machine operator is responsible for regular maintenance and repairs in accordance with his/her quality control. Major repairs and maintenance are performed on an on-going basis, following a time-table or during an annual factory shut down. 3

6. How do you utilise the prospective possibilities for ‘sourcing’ of components and product modules outside the firm (buy versus make)? In light of your assessment, how do you evaluate its impact on the organisation.

- The question of whether to buy from the outside or manufacture in-house enters into consideration of investing and production preparation. Our own production concentrates on those areas where we best. 3

7. Is the firm’s production equipment ahead or behind in comparison with other firms in your industry and with available technical possibilities? In light of your assessment, how do you evaluate its impact on the organisation.

- The firm has not been able to follow in all fields but, with specialising, we have limited ourselves to fewer areas in which we have considerable advantage in relation to others. 3

Production and Quality Problems

1. What basis do you use for production planning? In light of your assessment, how do you evaluate its impact on the organisation.

- We prepare estimates and compare with earlier similar jobs. time and material use is calculated in detail on the basis of data from earlier similar work. 3

2. To what degree is the production scheduled efficiently? In light of your assessment, how do you evaluate its impact on the organisation.

- We undertake long and short term planning that on ongoing basis corrects for changes based on the contacts between purchase production and sales. We are currently considering moving some of our production to a just-in-time system. 4

3. Do rush orders cause problems? In light of your assessment, how do you evaluate its impact on the organisation.

- A production plan is set for a specific period, ie, we take rush orders first when they can fit in the plan without breaking the flow of operations. We do try to accommodate our premier customers. **3**

4. To what degree are production schedules monitored and controlled? In light of your assessment, how do you evaluate its impact on the organisation.

- There is systematic monitoring of all work schedules, which is constantly monitored and updated. **3**

5. Is material workflow satisfactory? In light of your assessment, how do you evaluate its impact on the organisation.

- Supply works fairly well. The principal materials are supplied by inventory on schedule, and the remaining by requisition. The delivery of materials enters into planning, so that materials and tools are found at the workstations when they are needed. **3**

6. How well do materials flow throughout the manufacturing area? In light of your assessment, how do you evaluate its impact on the organisation.

- Machinery layout, production technologies and personnel are constantly examined to make improvements needed to speed-up turn-around time for production. **4**

7. Is the plant organised and tidy? In light of your assessment, how do you evaluate its impact on the organisation.

- The plant is very orderly and tidy given that each work group is responsible for and rated for how well they keep thing in order. **3**

8. Is there any organised form of quality control? In light of your assessment, how do you evaluate its impact on the organisation.

- There is control of some essential phases of production and **3**

systematic end-control of products according to specific instruction.

9. What is the basis of production with respect to drawings, standards, tolerances, preparations, instructions etc.?

In light of your assessment, how do you evaluate its impact on the organisation.

- The basis of production is completely developed with respect to production type, so there is no question with respect to quality. **3**

10. Are measurement and quality control techniques satisfactory? In light of your assessment, how do you evaluate its impact on the organisation.

- The firm specifies all measuring tools, including systematic control and maintenance. The same holds for measuring techniques. **2**

Purchasing and Inventory Management

1. On what basis do you evaluate your firm's vendors?

In light of your assessment, how do you evaluate its impact on the organisation.

- We make a complete evaluation of vendors with respect to quality, price, discount and delivery time. For all goods for which quality and delivery time are determined significant, we try to build a permanent vendor relationship. **3**

2. Does the supply of materials to the firm work satisfactorily?

In light of your assessment, how do you evaluate its impact on the organisation.

- Our vendors deliver parts and materials to us on a just-in-time delivery schedule, minimising our raw material inventories. **3**

3. How does inventory control work? In light of your assessment, how do you evaluate its impact on the organisation.

- Inventory levels for raw materials, parts and in-process work, and tools are maintained by computer; withdrawals and incoming goods are keyed in by code, so that our production planning system is integrated with the inventory system. **4**

The KCG believes strongly that there are several critical success factors within production that need to be adhered to that contribute to the ultimate success of the organisation. It is important for production to get things right, if the organization is to satisfy its customers, develop its competitive advantage and achieve its overall goals. The following issues emerged from the production audit:

- Production is carried out to ultimately meet the customer's requirements.
- There is integrity in the production processes and goals.
- There should be minimum variances in the processes.
- There is continuous improvement in all production methods and processes.
- There is flexibility in production to meet market changes and customer demands.
- Production processes aim to keep costs down to a minimum through design and engineering, quality assurance, inventory and materials.
- Production cycle times are strictly adhered to in terms of time to market delivery (concept to delivery, order entry to delivery).
- Delivery cycle and lead times are times are important and consider design, engineering, materials and inventory.

4.4.3. Auditing Technology, Innovation and Creativity at KCG

One of the keys to managing technology and innovation is to have a creative organisation in which people are free to propose and try new ideas. The following questionnaire, which was taken from "Building a Creative Hothouse" by Baron Kuntsler in the January-February, 2001, issue of the futurist. It is a simplified version of the Hothouse was handed to management in the organisation and describes many of the elements of a highly creative organisation. (See Appendix 3)

4.4.3.1. Scoring KCG's Creativity

The scoring of the questionnaire was evaluated as follows:

Score	Organisation is in the Creative.....
▪ 40 – 79	Dead Zone - A place where it is virtually impossible for creativity to flourish.
▪ 80 –159	<p>I-Zone - Where management thinks in terms of the next quarter and creativity is seldom transmitted from one person or department to another</p> <p style="text-align: center;">or</p> <p>O-Zone - Where creativity is valued but not consistently Incorporated into the organisation's strategy.*</p>
▪ 160-200	Hot Zone - Where creativity is intense and productive.

* Note – I-Zone organisations score higher on Values, Ideas, Perceptions, and Social questions.
 - O-Zone organisations score higher on Mission and Vision, Learning, Exchange and Festiva questions.

The results across management were tabulated and are illustrated as follows:

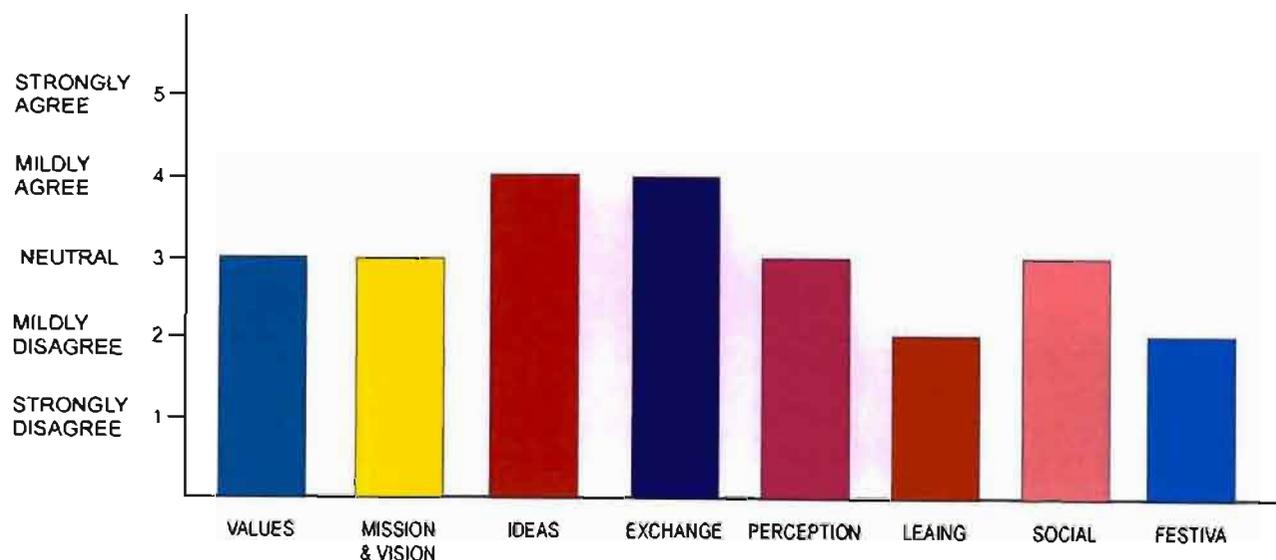


Figure 4.11 – Scores of KCG along dimensions of Technology, Innovation and Creativity.

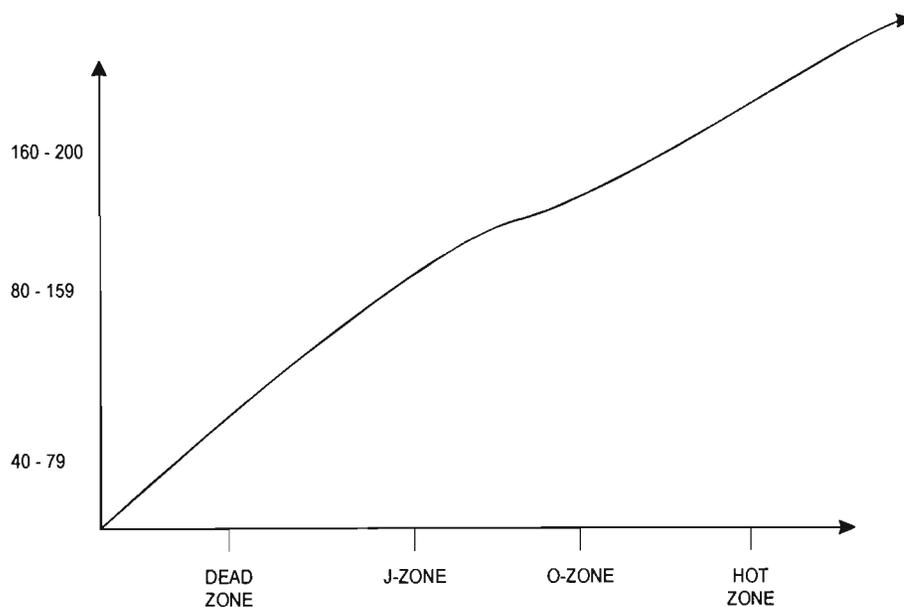


Figure 4.12 –KCG in the I-Zone

From the above we can state that KCG is an I-Zone organisation and scores stronger on values, ideas, perceptions and social questions. It is reasonable to suggest that creativity is a prerequisite for innovation at KCG , but the quality and quantity of innovations to harness creativity needs to be reassessed. What maybe lacking within the firm is the willingness to look beyond products to ideas. Developing products and processes can be a vehicle through which ideas become effective.

4.4.4. Appraising Human Resource Management, Management Effectiveness, Culture and Structure at KCG

When evaluating strategy it is important to compare current Human Resource (HR) policies and practices with the requirements of the vision of the organisation and the strategies it was following. In conducting a HR management audit on KCG, a diagnostic questionnaire was used at corporate level. This questionnaire examines the overall philosophy of HRM in the organisation and gives a good indication of the degree to which HRM is a good strategic partner to the other management functions. This questionnaire was handed to the Head of the HR department. (See appendix 4 for a sample questionnaire)

The results of the questionnaire were interpreted as follows:

How Business Driven is Your HRM Activity at KCG? Score Sheet

- Broad Interpretation – Under 15: Not Business Driven
 - 16-30 : Along way to go
 - 31-45 : Still room to improve
 - 46-60 : Business Driven
 - 61-63 : Excellent or wishful thinking!

KCG scored 37 which indicates that although their HRM strategy is business driven, there is still a great deal of improvement that can be done.

- Detailed Interpretation

	<u>Score</u>	
Total scores for questions 1-5 (Maximum Score 15)	17	Central Strategic Role
Total score for the remaining questions (Maximum Score 48)	34	HRM areas business driven

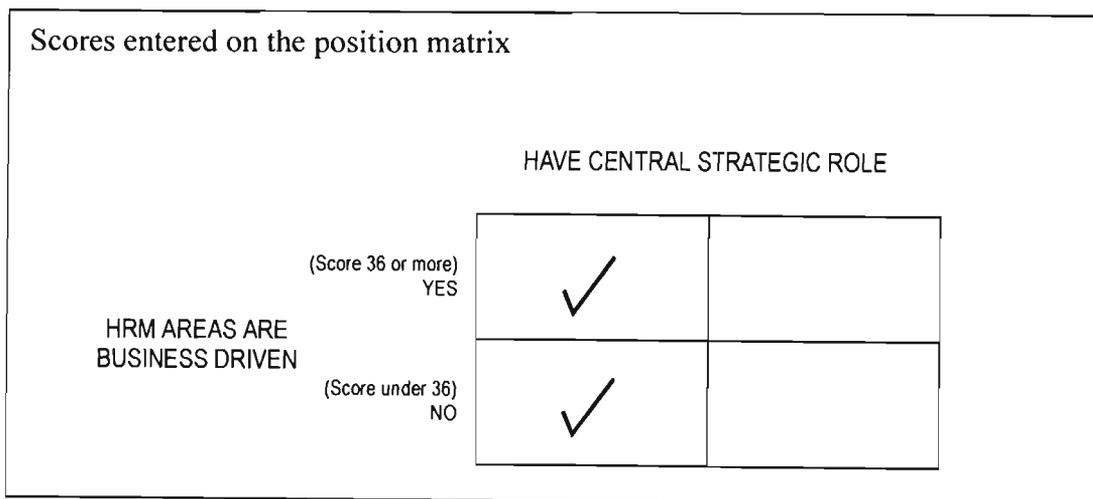


Figure 4.13 – Evaluation of HRM at KCG

From the above analysis the following statements can be made about HRM at KCG:

- Having a key central strategic role is not enough to ensure that HRM is business driven.
- Without a key central strategic role, HRM can only act in a reactive way and cannot easily help the organisation foresee HRM issues that might change its vision and strategies.
- Although the scores were satisfactory, HRM issues need to be integrated more effectively into corporate strategy, particularly at the planning stage.
- Top management needs from all departments also needs to play a more active role in HR activities to have a more coordinated approach.
- Clearly defined policies and guidelines need to be formulated with regards to specific areas of HR such as remuneration, recruitment, training, management development and succession.
- Budgets need to be set and clearly defined pertaining to HR functions.
- More detailed analysis of competitor HR practices needs to be conducted.

4.4.5. Evaluation of Information Systems

It is important to evaluate KCG’s management information system (MIS) in light of the evolving needs of the enterprise, that is, how to transition the gap between the company’s current information systems and the new challenges it faces. This management information audit aims to allow for maximum alignment between the firm’s business strategy and the information generating, processing and decision impact of the MIS.

4.4.5.1. Questionnaire to Evaluate the MIS

Each question is rated from ‘no competitive advantage for the firm’ (1) to ‘excellent or significant competitive advantage for the firm’ (4).

No Competitive Advantage		Significant Competitive Advantage	
1	2	3	4

RATING

1. To what degree is the firm’s administrative system organised to satisfy the internal as well as the external demands of a modern firm?

In light of your assessment, how do you

evaluate its impact on the organisation.

- The administration is satisfactorily organised in that it fulfills the legal demand for information. 2

Internally, the administration is nearly exclusively organised to provide top management with the most necessary pieces of information.

2. How effective is the firm's information and reporting system? In light of your assessment, how do you evaluate its impact on the organisation.

- Required information is discussed at regular intervals. 3
- Necessary new information is provided and the superfluous information is discarded; this ensures that the information is available to those who need it, when they need it.

3. To what extent is the firm's reporting system suitable for its information requirements? In light of your assessment, how do you evaluate its impact on the organisation.

- Reporting takes place according to a firm plan and is essentially tied to budget follow up. For instance, the reports address actual activity in relation to plans and also the development of budgetary consequences. 3

4. How much information is available on a daily basis? In light of your assessment, how do you evaluate its impact on the organisation.

- The daily management is based on existing plans; they are drawn up and altered on the basis of available and current information. 3

5. What are you doing to improve the administration? In light of your assessment, how do you evaluate its impact on the organisation.

- Under the direction of a committee, we have an ongoing process to improve the firm. Tasks are routinely automated if the outcome simplifies administration and satisfies worker's demands. 3

From the above we can state that the MIS at KCG offers the organisation average competitive advantage, however, new challenges have to be dealt with and incorporated. Their management information system should not merely reflect on processes, procedures and data warehousing, but also needs to be an integral part of strategic dialogue and design of the enterprise. Their MIS needs to be used to manage internal as well as external relationships with customers and suppliers. The design and flow of information should also improve productivity and decision-making. Apart from providing top management with information, information needs to be collected, stored, and synthesized in such a manner that it will answer important operating and strategic questions.

4.4.6. A Summary of the Value Chain at KCG

From the value chain analysis conducted and company information from the previous chapter, we can assume that KCG has chosen strategies that aim to create and sustain competitive advantage. The two most prominent sources of competitive advantage they have derived, has come from the businesses cost structure and its ability to differentiate its business from its competitors. Although, they have attempted to achieve competitive advantage in these areas of their strategy, they have still not achieved above-average profitability. This was visible in the financial analysis conducted. Therefore, the organisation needs to review their strategy in order to attain above average profitability. So the challenge for business managers at KCG is chose business strategies based on core competencies and value chain activities that sustain both types of competitive advantage simultaneously.

4.4.6.1. Evaluating KCG's Cost Leadership Opportunities

The company has achieved cost leadership by offering its products at a cost below what their competitors can achieve. Through the skills and resources identified in the figure below, they have been able to accomplish one or more activities in its value chain activities – procuring materials, processing them into products, marketing the products, and distributing the products or support activities – in a more cost effective manner than that of its competitors.

- Skills an Resources that Foster Cost Leadership at KCG
 - Sustained capital investment and access to capital.
 - Process engineering skills.
 - Intense supervision of labour or core technical operations.
 - Products or services designed for ease of manufacture or delivery.
 - Low cost distribution system.

- Organisational Requirements that Support and Sustain Cost Leadership Activities at KCG
 - Tight cost control.
 - Process engineering skills.
 - Continuous improvement and benchmarking orientation.
 - Structured organisation and responsibilities.
- Examples of Ways KCG Achieves Competitive Advantage via Cost Leadership

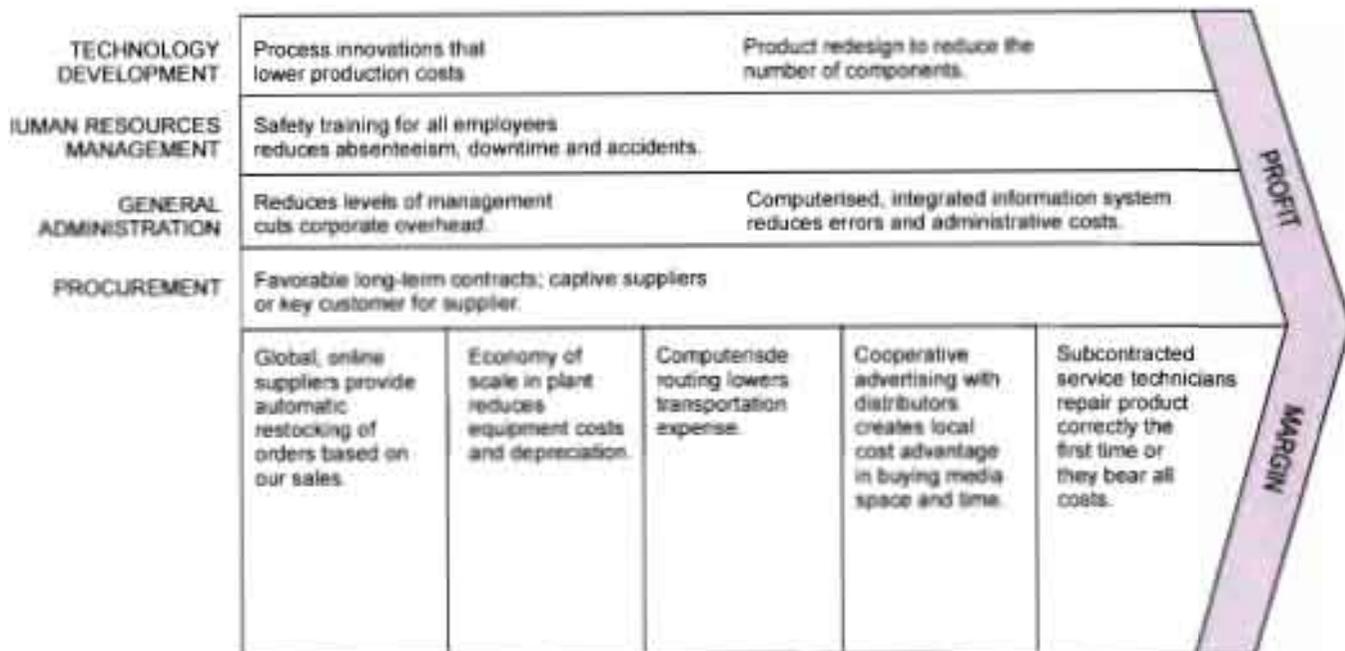


Figure 4.14 – Competitive Advantage via Cost Leadership

4.4.6.2. Evaluating KCG's Differentiation Opportunities

In pursuing differentiation opportunities to achieve competitive advantage, KCG aims to provide buyers with something uniquely valuable to them. Their successful differentiation strategy has allowed them to provide products at of perceived higher value to buyers at a "differentiation cost" below the "value premium" to their buyers. Sustainable activities that have provided more than one opportunity relative to key industry forces has become the basis for differentiation aspects of the business's competitive strategy.

- Skills an Resources that Foster Differentiation at KCG
 - Strong marketing abilities.
 - Product engineering.
 - Creative talent and flair.

- Corporate reputation for quality.
 - Long tradition in an industry or unique combination of skills.
 - Strong cooperation from channels.
 - Strong cooperation from suppliers of major components of the product.
- Organisational Requirements that Support and Sustain Differentiation Activities at KCG
- Strong coordination among functions in product development and marketing.
 - Amenities to attract to caliber of management and skilled labour.
 - Tradition of closeness to key customers.
 - Some personnel skilled in sales and operations – technical and marketing.
- Examples of Ways KCG Achieves Competitive Advantage via Differentiation

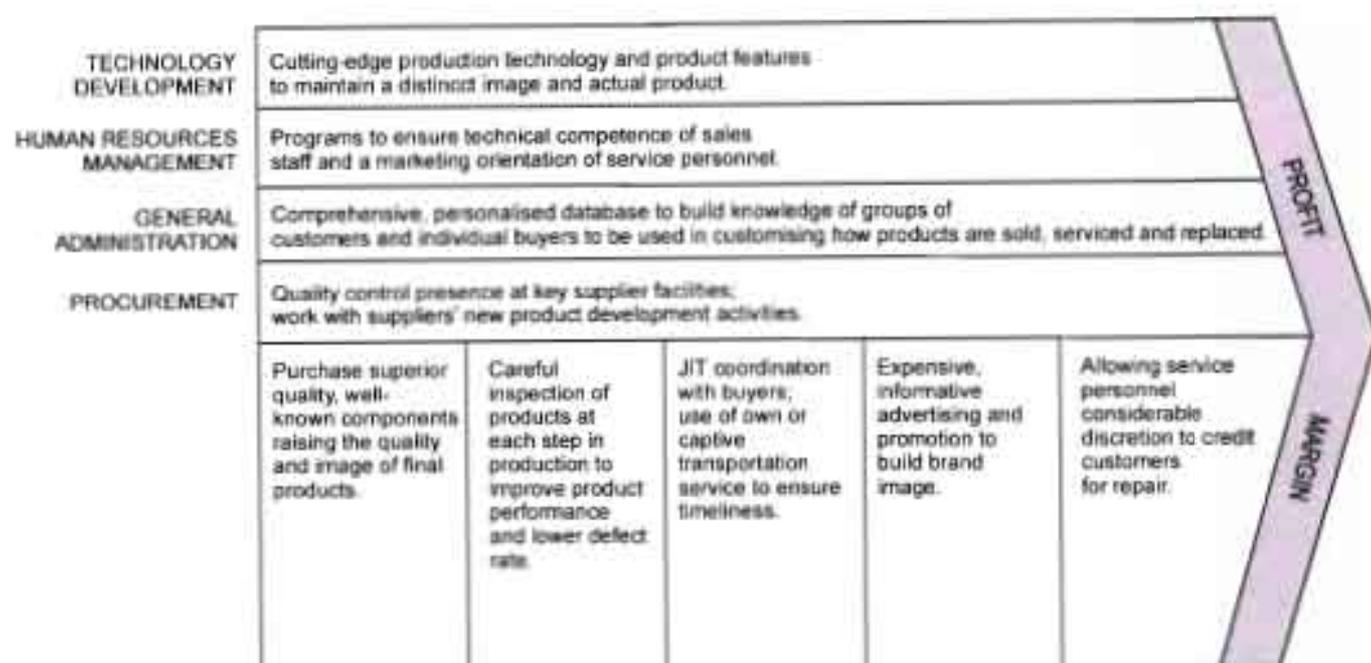


Figure 4.15 – Competitive Advantage via Differentiation

4.7. Evaluating the Performance of Clothing Manufacturers against Expectations of Their Customers

According to research carried out by Nikki Dunn, retailers were asked to rate the performance of their manufacturers against their expectations. Retailers were asked to rate a number of criteria according to how important each criterion was when choosing a supplier. Or put differently, each criterion was rated according to how important it was for the retailer's market success. Criteria were rated on a scale of 1 to 5, where a rating of 1 meant that a criterion was not important for the retailer performance, and hence unimportant when selecting a supplier.

Using the same set of weightings, retailers were then asked to rate the actual performance of their South African suppliers against their expectations. Once again the ratings were based on a scale of 1 to 5, where 1 meant that performance failed to meet demands and 5 meant that performance fully met retailers demands. Finally a similar exercise was carried out asking retailers to rate the performance of their overseas suppliers' actual performance. The resulting information can be usefully displayed in radar charts such as the one below. Radar charts clearly provide two useful sets of information. Firstly, they can be read to determine the relative importance of a particularly criterion, or the relative performance of a supplier in terms of a number of criteria. Secondly, they can be used to determine the gaps between retailer expectations and supplier performance, or as we shall see in the section on imports, the gaps between the performance of local and foreign suppliers.

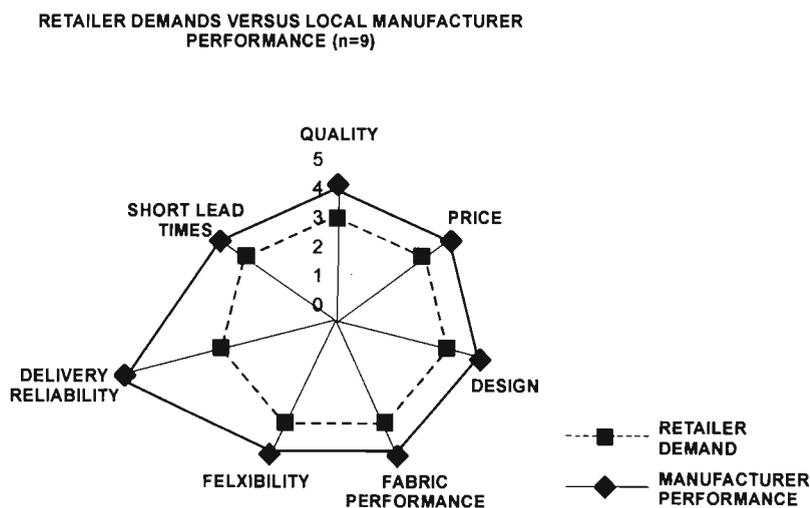


Figure 4.16 – Retailer demands versus Local Manufacturer Performance

Interestingly, as the above figure shows, on average South African retailers rate delivery reliability as the most important competitive criteria. While this is partly accounted for by the fact that there was greater variation in the ratings of other criteria than was the case for delivery reliability, it still indicates the critical importance of this often underrated aspects of competitiveness. One respondent went some way to explaining the importance of this criterion when he pointed out that promotions were planned around certain items being in the stores at a particular time. Quality, and the related criterion of fabric performance were rated as next in

importance, with price in fourth place. Interestingly, quality ratings showed less variation than did price ratings, indicating that retailers are putting pressure on suppliers to lower prices without necessarily compromising on quality demands. This was borne out by the interviews which suggested that customers, although extremely price conscious, were becoming increasingly discerning, and hence placing greater demands on retailers.

Short lead-times were the next most important competitive criterion from the retailer's perspective, followed by flexibility and design. As we have seen, South African retailers depend heavily on trends established in the USA and Europe, and it is perhaps not surprising that design therefore rates as relatively unimportant. The least important criterion was supplier location, and this issue was discussed in some depth in an earlier section.

The radar chart also shows the relative performance of South African manufacturers in terms of the criteria in question. South African manufacturers are thought to be performing best in terms of quality and the related criteria of fabric performance followed by price, manufacturing flexibility and short lead times. The worst performance is in the area of delivery reliability.

Perhaps more important than absolute ratings of performance are the gaps between retailer expectations and manufacturing performance. The biggest gap is in the area of delivery reliability where retailers are clearly far from happy with the performance of their South African suppliers. Significant gaps between demand and performance also exist in areas of design, price and quality. Several retailers complained about the poor quality of South African manufactured garments, with one stating that quality is "definitely no First World". It is of real concern that manufacturers fail to meet the demands of their customers in three of the four most important areas determining competitiveness. While gaps also exist in terms of flexibility and short lead times, these are very small, and South African manufacturers are for all intents and purposes meeting the requirements of their customers in this regard.

▪ Imports

It is clear from the interviews at the retail chains that legal imports are undeniable growing. On average imports stand at 19% with the lowest level of imports being noted (followed by 4%) and the highest 43%. Price seems to be the leading reason for retailers to source offshore. With the phasing out of import tariffs of critical importance in making imports more attractive to retailers. Garments that are not particularly labour intensive are the most likely to be imported. At the same time, certain products are imported simply because they cannot be sourced locally. This

generally refers to some knitwear, and to fabric types that require particular machinery or skills to deal with.

Imports come predominantly from the EASE, notable, Malaysia, Indonesia, China, India, Taiwan and Thailand. Other imports come from Portugal and Turkey. There appears to be very little importing from neighboring countries largely because of quality problems associated with such imports. It was noted, however, that some local manufactures do have factories or CMTs in Losotho and Mozambique, and possible other neighbouring countries. It was suggested that past claims of “imports” from other neighbouring countries was largely a reflection of import regulation loopholes. Most retailers import through an agent in the East, although this by no means suggests that they are unaware of the source of their imports. Retailers tend to visit the foreign manufacturers to satisfy themselves about quality and other performance issues. Agents help to introduce retailers to foreign manufacturers, consolidate orders prior to shipping, and relieve retailers of some of the burden of d dealing with foreign manufacturers.

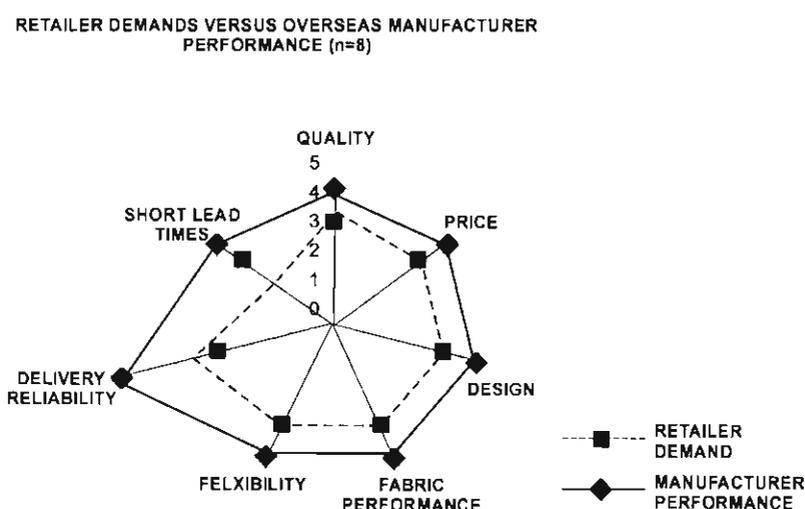


Figure 4.17 – Retailer Demand versus Overseas Manufacturer Performance

The above figure compares retailer expectations with the performance of overseas suppliers. Overseas suppliers perform best in the areas of design, quality and price. The lowest performance ratings are in the areas of flexibility and lead times. Clearly flexibility and lead times problematic in the case of imports, in the former instance because the difficulty of communication over distance makes changing specifications more difficult, while in the latter delays in sending samples and in transportation can be problematic.

Imports meet retailer demands in terms of fabric performance and design, and come close to meeting quality demands. Although the quality of imports from the East are often publicly slated, the relatively small gaps in the areas of quality and fabric performance suggest that South African retailers are generally fairly happy with the quality of imports. Despite the fact that price was given as the leading reason for importing, South African retailers are clearly still not happy with the price of imports. The biggest gaps between expectations and performance lie in the areas of delivery reliability, lead times and flexibility. This has interesting implications for South African suppliers; as this is obviously an area where distance works against performance and where South African suppliers are at a potential advantage.

Opinions on whether South African manufacturers have tried adequately to meet new demands are mixed. While price is a criterion on which few retailers expect South African manufacturers to ever be able to compete with imports, it is generally agreed that sourcing from local manufacturers should be advantageous for local retailers, once the obvious price problems are excluded. However, in truth there are frequent complaints not just about the price, but also the quality and general service performance of local manufacturers. Retailers are not without scruples regarding the issue of importing, and many profess to favouring local producers, either as a matter of policy or preference. However, such policies are ultimately regarded as unrealistic when the consumer, even at the upper end of the market attaches a premium to price. At the same time it was suggested that imports could have a positive impact on South African manufacturers to the extent that they force upgrading.

The figure below compares the performance of South African and overseas suppliers. The results show a mixed picture, with overseas suppliers outperforming their South African counterparts in some areas, and South African suppliers performing better in others. It is not unexpected that imports perform better than locally manufactured garments in terms of price. However, it is far more worryingly that imports are also rated better in terms of design and quality. One retailer pointed out that while the finish on imports was much better, the adherence to specifications was worse. With locally manufactured garments it is much easier to follow up on specifications, so performance tends to be better. While there are a number of variables affecting price, which remain outside the control of local suppliers, the quality issue is one which can, and should be addressed by local manufacturers. Perhaps of greatest concern is the fact that overseas suppliers outperform local suppliers in terms of delivery reliability! While part of the

explanation no doubt lies in the fact that retailers have lower expectations in terms of the delivery performance of imports, it remains astounding that South African suppliers are failing to capture a competitive advantage, which is so readily available to them. This is even more so given the obvious importance attached to this criterion by South African retailers. Of course, it remains true that the poorer performance of South African garment issues are equally important, and improved performance on the part of domestic textile manufacturers would both relieve the need to import textiles and might have an impact on fabric performance ratings.

As the diagram shows, South African suppliers do have areas of strength. South Africa suppliers show an advantage over their overseas counterparts in terms of both flexibility and lead times. It is in the areas of flexibility, delivery reliability and short lead times that distance necessarily works against overseas suppliers, and likewise, it is in these areas that South African suppliers are most likely to build a competitive advantage. This argument was supported by comments of retailers who felt that it was in the areas of flexibility and quick response where South African clothing manufacturers had the greatest advantage. Finally, South African suppliers also surpassed their overseas counterparts in terms of fabric performance.

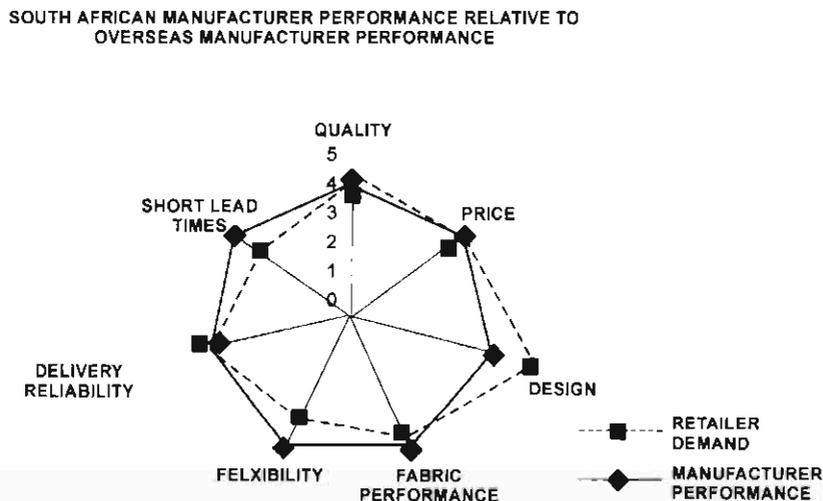


Figure 4.18 – South African Performance Relative to Overseas Manufacturer Performance

Expectations about future import trends depend very much on the target market. While retailers operating at the lower end of the market are sure that imports will increase, retailers at the upper end of the market seem to expect less substantial increases. Nonetheless, imports are likely to remain a fact of life for the South African garment sector. This is partly because the price differential makes a failure to consider imports a potentially risky strategy for retailers, and

partly because imports offer a diversity that is lacking in the small South African garment-manufacturing sector. This echoes the IRP's 1996 study, which states:

“It is envisaged that in the future production and sourcing will increasingly move off-shore, with designing houses and distribution centres located domestically” (Harrison and Dunne 1998)

However, the situation seems less dire than predicted in the above report: while imports have grown, retailers still seem to see production as being closely integrated with other supply chain activities. There is no move to the CMT-type production arrangements suggested above whereby the retailer fully controls design and fabric purchasing, as well as marketing and simply out-sources production to a low wage country. Rather South African retailers continue to work closely with manufacturers, both locally and overseas around such issues as design and fabric selection. Given this situation, all retailers agreed that there would always be scope for local manufacturers. Imports can also be a logistical nightmare and quality is difficult to control over great distances. At the same time imports mean longer lead times, less flexibility and greater risks. Generally, it is thought to be easier to control the “service element” of supply locally, and for many retailers that is clearly just as important as price.

Finally, it should be noted that the level of imports is extremely difficult to accurately estimate. Most retailers point out that their suppliers are (or may be) importing themselves. Manufacturers are increasingly thought to be subsidising their own manufacturing with imports. Similarly, some imports come through a local wholesaler and for records purposes would be viewed as having been sourced locally.

4.6. Analysing KCG's Resource Strengths and Weaknesses and its External Opportunities and Threats – A SWOT Analysis

Potential resource strengths & competitive capabilities	Potential resource weaknesses & competitive deficiencies
<ul style="list-style-type: none"> • A powerful strategy supported by competitively valuable skills and expertise in key areas • A strong financial condition; ample financial resources to grow the business • Strong brand name image/company reputation • A widely recognized market leader and an attractive customer base • Ability to take advantage of economies of scale and/or learning and experience curve effects • Proprietary technology/superior technological skills/important patents • Superior intellectual capital relative to key rivals • Cost advantages • Strong advertising and promotion • Product innovation skills • Proven skills in improving production processes • Sophisticated use of e-commerce technologies and processes • Superior skills in supply chain management • A reputation for good customer service • Better product quality to rivals • Wide geographic coverage and/or strong global distribution capability • Alliances/joint ventures with other firms that provide access to valuable technology, competencies, and/or attractive geographic markets 	<ul style="list-style-type: none"> • No clear strategic direction • Obsolete facilities • A weak balance sheet; burdened with too much debt • Higher overall unit costs relative to key competitors • Missing some key skills or competencies/lack of management depth/a deficiency of intellectual capital relative to leading rivals • Sub par profitability because ... • Plagued with internal operating problems • Falling behind rivals in putting e-commerce capabilities and strategies in place • Too narrow a product line relative to rivals • Weak brand image or reputation • Weaker dealer network than key rivals and/or lack of adequate global distribution capability • Sub par e-commerce systems and capabilities relative to rivals • Short on financial resources to fund promising strategic initiatives • Lost of underutilized plant capacity • Behind on product quality and/or R&D and/or technological know-how • Not attracting new customers as rapidly as rivals due to ho-hum product attributes
Potential company opportunities	Potential external threats to company's well-being
<ul style="list-style-type: none"> • Serving additional customer groups or expanding into new geographic markets or product segments • Expanding the company's product line to meet a broader ranger of customer needs • Utilizing existing company skills or technological know-how to enter new product lines or new businesses • Using the Internet and e-commerce technologies to dramatically cut costs 	<ul style="list-style-type: none"> • Likely entry of potent new competitors • Loss of sales to substitute products • Mounting competition from new Internet start-up companies pursuing e-commerce strategies • Increasing intensity of competition among industry rivals – may cause squeeze on profit margins • Technological changes or product innovations that undermine demand for the firm's product

<p>and/or pursue new sales growth opportunities</p> <ul style="list-style-type: none"> • Integrating forward or backward • Falling trade barriers in attractive foreign markets • Openings to take market share away from rivals • Ability to grow rapidly because of sharply rising demand in one or more market segments • Acquisition of rival firms or companies with attractive technological expertise • Alliances or joint ventures that expand the firm's market coverage or boost its competitive capability • Openings to exploit emerging new technologies • Market openings to extend the company's brand name or reputation to new geographic areas 	<ul style="list-style-type: none"> • Slowdowns in market growth • Adverse shifts in foreign exchange rates and trade policies of foreign governments • Costly new regulatory requirements • Growing bargaining power of customers or suppliers • A shift in buyer needs and tastes away from the industry's product • Adverse demographic changes that threaten to curtail demand for the firm's product • Vulnerability to industry driving forces
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Table 4.8 – SWOT Analysis of KCG

4.8. Conclusion

Having completed the analysis on KCG we are now in a position to map the future direction of the organisation. The conducting of a strategic analysis or audit on the organisation, allowed us to systematically analyse various corporate functions and activities. It allowed us to pinpoint problem areas and highlight organizational strengths and weaknesses. Some of the common problems, which result from a strategic analysis are usually in relation to the implementation of strategic change and include:

- Time period of implementation.
- Unanticipated major problems.
- Activities were ineffectively coordinated
- Inadequate training.
- Key implementation tasks and activities were poorly defined.
- Managers provided inadequate leadership and direction.

As a follow up to the analysis and evaluation of KCG's strategy, key recommendations will be made in the final chapter.

CHAPTER 5 – CONCLUSIONS AND RECOMMENDATIONS

“E = IR is a basic equation of electricity.” Translated it means the electromotive force equals current times resistance. One implication of this relationship is that the greater the resistance, the smaller the amount of current you get flowing around the circuit for a given level of force. Business is very similar. No matter how powerful the strategic plan that emanates from the top, it will lead to a trifling amount of action if it meets with resistance from layers of middle management who are ignorant of the direction in which the company is headed (Clem Sunter in his foreward: “The Power of Strategy).

5.1. Introduction

Linking back to chapter one, having performed the “gap analysis” and answered the questions on where the Kingsgate Clothing Group is at present with its strategy in light of the industry conditions, we now aim to close the gap by recommending strategies that will lead the organisation into the future. According to Ambrosini (1998), having found these gaps, management at KCG has three alternative courses of action:

- Redefine the objectives – this implies that when a discrepancy between objectives and forecast is found is to check that the objectives are realistic and achievable. If objectives have been set at a very high level to stimulate action, it is usually advisable to set less. High and intermediate objectives.
- Do nothing – This option is under utilised by the manager, but should always be considered. Re-organisation and redirection is commonplace in the business environment, but it is clear that people become ‘change weary’ and that continual change can lead to defensive behaviour, increased staff turnover, decreased levels of satisfaction and lower levels of commitment. Sometimes giving people time to ‘bed in’ to a new structure and new ways of doing things pays greater dividends than another change.
- Change the strategy – When a gap is found between objectives and forecast and the first two options have been considered and rejected, the only option is to change the current strategy and develop a new one.

In light of the above courses of action, this chapter aims to provide various strategy recommendations to the KCG.

5.2. The Clothing Industry Environment

The South African apparel textiles industry is undergoing change and is in the process of developing to meet the needs and challenges of a dramatically changing environment. The industry is striving to recover from one of the most difficult periods in its history. The indications are that AGOA could herald the dawning of a new and prosperous era for the industry.

The strength of the industry lies in the cotton-processing sector and to a lesser extent in the wool sector. Production capacity is limited in cotton but not in wool. Technology in cotton processing needs urgent upgrade. The SADC region needs to focus on developing the cotton pipeline, bearing in mind that not all SADC cotton is compatible with SA spinning equipment.

Production capacity in synthetics, especially polyester, and man-made fibres is extremely limited. The future will be highly competitive with a downward pressure on prices that will affect the viability of plants. The industry has the opportunity to make a quantum leap into a major growth phase. Prioritisation and initiation of the major strategy proposals in this report by the DTI will ensure that the growth path is attained.

5.2.1. Strategy Alternatives for the Industry

Alternative strategies are proposed, as it will be for the DTI to consider the most appropriate course of action. The DTI also requested at the progress report stage that this approach be adopted. The departure point for future strategy is based on the strength in cotton, the need for technological competitiveness and the need to expand production capacity to meet the demand from the clothing manufacturing sector for the local and export markets. In addressing the production capacity constraints, there are short and long term implications.

5.2.1.1. Long-Term Strategy

The main issues are the upgrade of technology and the expansion of production capacity by existing operations and by external investment. The main focus should be cotton orientated. Further, the direction should be more towards yarns and fabrics for men's wear and active wear (e.g. T-shirts, "golf" shirts). The direction should be flexible and allow the individual investor to decide where the potential exists. Certain potential exists in polyester. The main thrust should be in polyester staple. This is required for poly-cotton blends. It will also complement the trend towards value added and fancy yarn type products. Use of staple fibre will ensure that the pipeline will benefit from world surplus capacity and the associated low prices. Technological upgrade will be dependent on the results of the strategy being developed by the textile industry.

This strategy will, however, be more broad-based than just apparel textiles. The critical factor will be availability of financial instruments to encourage this. The IDC will need to develop a capital loan fund at interest rates below normal commercial rates. The alternative method would be for the DTI to underwrite loans for specific projects at preferential interest rates, subject to satisfactory viability studies. The increase in production capacity by expansions of existing operations and by new investments

5.3. Strategy Alternatives/Recommendations for the Kingsgate Clothing Group

Having done the internal analysis on KCG in chapter two and concluding with the SWOT analysis we have been able to create an overview if the company’s strategic situation. The SWOT analysis was conducted so that key external opportunities and threats were systematically compared with internal resources and competencies that is, strengths and weaknesses, in a structured approach. The following conclusions were drawn:

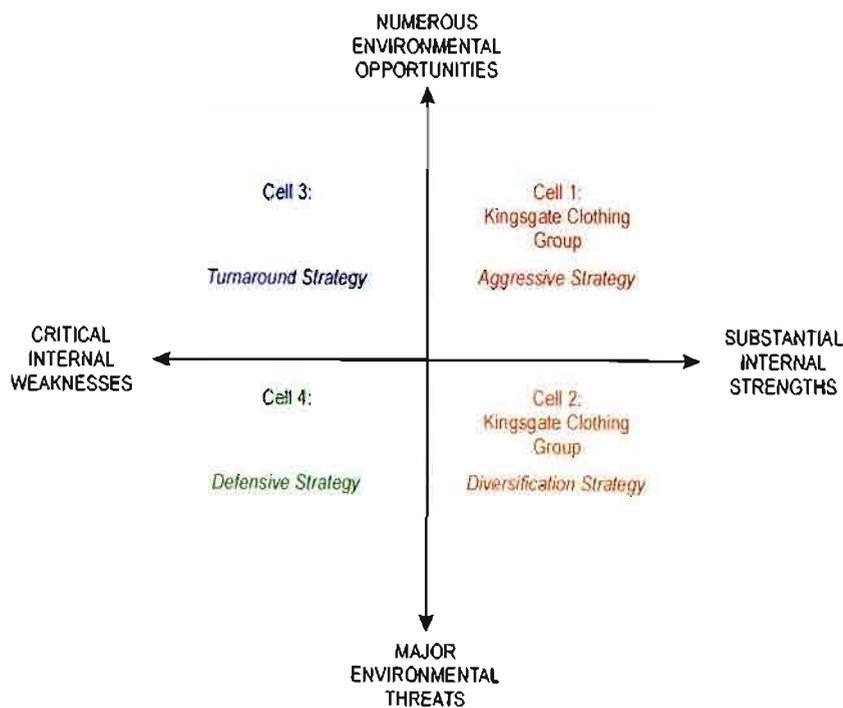


Figure 5.1 – SWOT Analysis Diagram

From the above it can be determined that KCG lies between cell 1 and cell 2, and therefore needs to engage in a combination of strategies. These include an ‘aggressive strategy’ and a diversification strategy.

We are able to conclude on the position of the company based on the different stages of industry evolution. The following diagram illustrates the position of KCG on the industry life cycle.

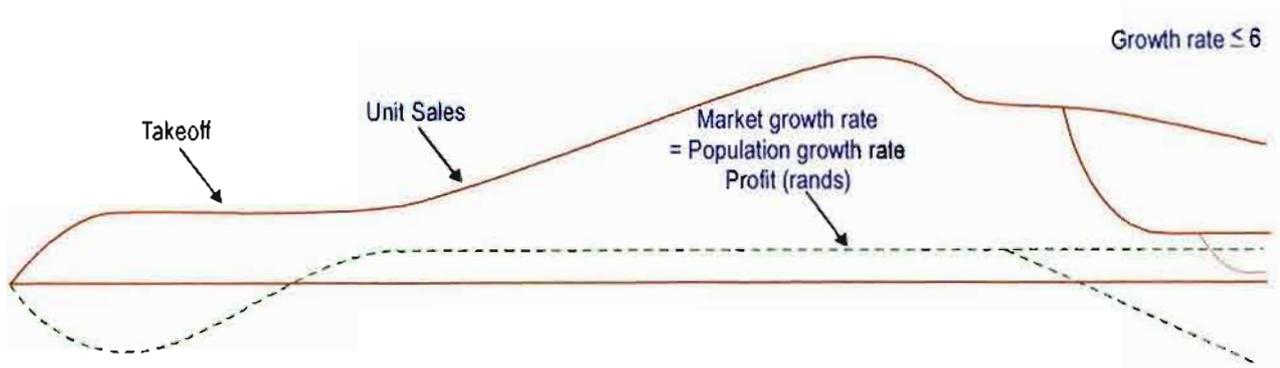


Figure 5.2 – Strategy Implications for KCG on the Industry Life Cycle

KINGSGATE CLOTHING GROUP				
STRATEGY	INTRODUCTION	GROWTH	MATURITY	DECLINE
COMPANY STRATEGY		React to competitors with marketing expenditure and initiatives	Expensive to increase market share if not already market leader, seek cost reductions	
CUSTOMER STRATEGY		Growing group of export customers, quality and reliability important for growth	Mass market, Little new trial of products, Brand switching	
COMPETITOR STRATEGY		Market entry into export markets, Attempt to innovate and invest in export markets	Competition largely on advertising and quality, lower product differentiation, lower product change	
IMPACT ON PROFITABILITY		Profits should emerge here but prices may well decline as competitors enter market	Profits under pressure from need for continuing investment coupled with continued distributor and competitive pressure	
MARKETING		Ability to establish brand recognition,	Skills in aggressively promoting products	

		find niche, reduce price, solidify strong distribution relations, and develop new channels	to new markets and holding existing markets, pricing flexibility; skills in differentiating products and holding customer loyalty	
PRODUCTION / OPERATIONS		Ability to add product variants, centralise production or otherwise lower costs; ability to improve product quality, seasonal subcontracting capacity	Ability to improve product and reduce costs; ability to share costs; ability to share or reduce capacity; advantageous supplier relationships; subcontracting	
FINANCE		Ability to finance rapid expansion, to have net cash outflows but increasing profits, resources to support product improvements	Ability to generate and redistribute increasing net cash flows; effective cost control systems	
HUMAN RESOURCES		Existence of an ability to add skilled personnel, motivated and loyal work force	Ability to cost effectively, reduce work force, increase efficiency	
KEY FUNCTIONAL AREA & STRATEGY FOCUS		Sales: consumer loyalty, market share	Production efficiency, successor products	

Table 5.1 – Strategy Implications Across Key Functional Areas based on KCG’S Position on the Industry Life Cycle

5.3.1. Financial Strategy Recommendations

There needs to be effective implementation of KCG’s financial strategy in this should take into account the following considerations:

- Ability to raise short-term capital.
- The company needs to focus on ‘return on equity’ as this is most important to the business, as it measures the absolute return delivered to the shareholders. A good figure will bring

success to the business as it makes it easy to attract new funds. This will enable the company to grow, given suitable market conditions, and this in turn leads to greater profits. All this leads to high value and continued growth in the wealth of its owners.

- Debt to equity needs to be carefully managed because if it goes wrong KCG will have a real long term problem and one which could become terminal. Debt increases both profit and risk therefore it is the job of the CEO and financial director to maintain a proper balance between the two.
- Corporate level resources need to need to be structured into budgets across the different departments.
- The organisation's cost of capital should be relative to that of the industry and competitors.
- Strong relations need to be maintained between owners, investors and stockholders.
- There needs to be flexibility in the company's leverage position that is, the capacity to utilise alternative financial strategies, such as lease or sale and leaseback.
- The organisation should have effective cost control and should focus on ways to reduce costs.
- There should be effectiveness and efficiency in accounting system for cost, budget and profit planning.

5.3.1.1. Linking Budgets to Strategy

Implementing and executing strategy at KCG should force managers to consider how the firm's resources are being allocated. Organisational units need sufficient budgets and resources to carry out their parts of the strategic plan effectively and efficiently. Managers with budgetary responsibility must screen subordinates requests for more people, bigger operating budgets, and more or better facilities and equipment, distinguishing between requests that would be nice and requests that hold promise for making a cost-justified contribution to strategy execution and enhanced competitive capabilities. A change in strategy will call for budget reallocations. Strategy implementers need to be active and forceful in shifting resources, downsizing some areas and upsizing others, to not only amply fund activities but also to avoid inefficiency and achieve profit projections.

5.3.2. Value Chain Recommendations

Value chain recommendations will guide KCG on the manner in which it performs each of its activities and guide the evolution of their business and internal operations, its strategy and the approaches it is using to execute its strategy.

5.3.2.1. Marketing Strategy

The following marketing strategy recommendations need to be considered:

- Effectiveness of market research to identify customer segments and needs.
- The firm's products/services should be looked at that is the breadth of the product line.
- A line needs to be drawn between the concentration of sales in a few product ranges or to fewer customers.
- Innovation in sales promotion and advertising. There needs to be larger focus on this specifically on the international markets to promote exports.
- Evaluation of alternate distribution channels.
- Motivation and competence of sales force should be enhanced. Focus on knowledge of customer needs.
- Development of an image of quality and a favourable reputation.
- Extent of brand loyalty among customers.
- Extent of market dominance within the market segment or overall market.
- After sales service and follow up.

5.3.2.2. Production/Operations Strategy

The following production strategy recommendations need to be considered:

- Soundness of material and inventory control systems with focus on inventory turnover.
- Efficiency of raw material warehousing activities with a focus on location and layout of facilities.
- Economies of scale needs to be achieved in production.
- There should be technical efficiency of facilities and utilisation of facilities.
- Efficiency and cost benefit of equipment.
- Effectiveness of operation and control procedures in terms of design, scheduling, purchasing, quality control, and efficiency in order to reduce costs.
- Appropriate automation of production processes.
- Efficiency of production plant layout and workflow design.
- Timeliness and efficiency of delivery of finished goods.
- Development of alternate sources for inputs to minimise dependence on a single supplier.
- Procurement of raw materials on a timely basis, at the lowest possible cost and at acceptable levels of quality.

5.3.2.3. Technology, Innovation and Creativity

▪ E-Commerce

The initial impact of the Internet was on marketing. This has changed drastically. KCG needs to engage in Business to Consumer (B2C) trade, which is selling items directly to consumers via their web site. They will be able to supplement their current distribution network with direct selling through their own internet site. Business to business (B2B) is also important for the company which will be aimed at electronically connecting buyers with suppliers, strengthening collective purchasing activities, and auctioning inventory.

The B2B consortium is a recent example of the use of cooperative strategies to obtain competitive advantage. Traditional competitors are forming Internet consortia to centralise many activities, such as purchasing, which had been previously done internally. The organisation's business-to-business commerce needs to move through four stages of development:

- Stage 1 - Information, such as demand forecasts and sales data, is exchanged. Companies work to define common standards for inventory and point-of-sale to allow better planning.
- Stage 2 - Companies move beyond data transfer to exchanging information. The sharing of information allows the companies involved to perform better.
- Stage 3 - Companies exchange the right to make decisions.
- Stage 4 - Companies exchange work and roles. The manufacturer becomes a retailer and the retailer moves to a support role.

The launch of KCG into the 21st century should be the creation of a direct marketing channel, that is, via the internet. The convenience of shopping needs to be expanded through on-line stores to bring the total brand to on-line shoppers. Now customers nationally and anywhere in the world can shop with the Group at any time. This is a perfect opportunity for people who do not have the time to physically get to outlets, or maybe they like the fact that the Group offers and delivers value, service and style to their doorstep. This avenue has great potential and the Group will seek to give customers "total access" to their brands.

5.3.2.4. Human Resource Planning

The following production strategy recommendations need to be considered:

- Effectiveness of procedures for recruiting, training and promoting all levels of employees.
- Appropriateness of reward systems for motivating and challenging employees.
- A work environment that minimizes absenteeism and keeps turnover at desirable levels.
- Managing relations with trade unions.
- Active participation by managers and technical personnel in professional organisations.
- High levels of employee motivation and job satisfaction.

- Management of labour relations costs compared to those of industry and competitors.

In order to produce profits through people at KCG, the company needs to engage in the following:

- Employment Security

Most research on the effects of high performance management systems has incorporated employment security as an important dimension. The idea of providing employment security in today's competitive world seems somehow outdated or impossible and very much at odds with what most firms seems to be doing. But employment security is fundamental to the implementation of most other high performance management practices.

- Selective Hiring

If KCG is serious about obtaining profits through people they will expend the effort needed to ensure that they recruit the right people in the first place. This requires several things. First, the organisation needs to have a large applicant pool from which to select. Second, the organisation needs to be clear about what are the most critical skills and attributes needed in its applicant pool. Third, the skills and abilities sought need to be carefully considered and consistent with the particular job requirements and the organisation's approach to its market. Fourth, the organisations should screen primarily on important attributes that are difficult to change through training and should emphasise qualities that actually differentiate among those in the applicant pool. Ironically, many firms select for specific, job relevant skills that, while important, are easily acquired. Meanwhile, they fail to find people with the right attitudes, values and cultural fit – attributes that are harder to train or change and that are quite predictive of turnover and performance. A great deal of research evidence shows that the degree of cultural fit and value congruence between job applicants and their organisations significantly predicts both subsequent turnover and job performance.

- Self Managed Teams and Decentralisation as Basic Elements of Organisational Design

Numerous articles and case examples, as well as rigorous, systematic studies, attest to the effectiveness of teams as a principle of organisation design. Perhaps one the greatest payoffs from team based organisations is that teams substitute peer based control for hierarchal control of work. KCG as a team – based organisations will be largely successful in having all of the people in the firm feel accountable and responsible for the operation and success of the enterprise, not just a few people in senior management positions. This increased sense of responsibility stimulates more initiative and effort on the part of everyone involved. In addition, and perhaps most importantly, by substituting peer for hierarchal control, teams permit removal of layers of hierarchy and absorption of administrative tasks previously performed by specialists, avoiding

the enormous costs of having people whose sole job it is to watch people who watch other people do the work.

- **Comparatively High Compensation Contingent on Organisational Performance**

It is often argued that high compensation is a consequence of organisational success, rather than its successor, and that high compensation (compared with the average) is possible only in certain industries that either face less competition or have particularly highly educated employees. But neither of these statements is correct. Obviously, successful firms can afford to pay more, and frequently do so, but high pay can also produce economic success.

Contingent compensation also figures importantly in most high performance work systems. Such compensation can take a number of different forms, including gain sharing, profit sharing, stock ownership, pay for skill, or various forms of individual or team incentives. When employees are owners, they act and think like owners. However, little evidence suggests that employee ownership, by itself, affects organisational performance. Rather, employee ownership works best as part of a broader philosophy or culture that incorporated other practices. Merely putting in ownership schemes without providing training, information sharing, and delegation of responsibility will have little effect on performance. Even if people are more motivated by their share ownership, they don't necessarily have the skills, information, or power to do anything with that motivation.

- **Extensive Training**

Training is an essential component of high performance work systems because these systems rely on changes in work methods, and to take responsibility for quality. All of this requires a skilled and motivated work force that has the knowledge and capability to perform the requisite tasks. Training can be a source of competitive advantage for KCG. While training is an investment in the organisation's staff, in the current business environment it virtually begs for some sort of return on investment calculations. But such analysis are difficult, if not impossible, to carry out. Successful firms that emphasize training do so almost as a matter of faith and because of their belief in the connection between people and profits. The company needs to embrace the vision of the government, and should introduce programmes, which will achieve greater equity in the workplace, increase the competency of their workforce through training, and engenders employee satisfaction. Their programmes need to focus on providing bursaries to staff and to their children to study in relevant fields. These should encompass increasing IT training, conducting a structured and ongoing Adult Basic Education and Training (ABET) programme, and sending staff on accredited training courses. All programmes should be accredited, with the sector SETA. A Training Committee, representing all stakeholders in the

Group, needs to monitor training and development initiatives. Black staff should be prioritised in training initiatives to achieve Employment Equity objectives as well as to optimise their human resources and enhance both the Group's standards of performance and the advancement prospects of the trainees.

- Reduction of Status Differences

The fundamental premise of high performance systems is that organisations perform at a higher level when they are able to tap the ideas, skills and effort of all their people. In order to make all of KCG's members feel important and committed, they need to reduce the status distinctions that separate individuals and groups and cause some to feel less valued. This is accomplished in two principal ways – symbolically, through the use of language and labels, physical space, and dress, and substantively in the reduction of the organisation's degree of wage inequality, particularly across levels.

- Sharing Information

Information sharing is an essential component of high performance work systems. The sharing of information on such things as financial performance, strategy, and operational measures will convey to KCG's members that they are trusted. Even motivated and trained people cannot contribute to enhancing organisational performance if they don't have information on important dimensions of performance and training on how to use and interpret that information.

5.3.2.5. Information Systems Strategy

The widespread acceptance of the internet has created demand for the development of intranets in most large organisations. An Intranet is an internal Internet created for the use of a organisation's employees. The availability of the World Wide Web, servers, chat rooms, bulletin boards, and electronic mail will allow KCG to use their existing technologies to build intranets without needing additional investment in hardware or software. Intranets support the development of virtual teams, disseminate information about the company's products and services, provide information about internal job openings and health benefits, plus offer e-mail and file transfer services so that people can transfer project information from one personal computer to another. The general public cannot access information posted on them without being provided explicit access privileges. Intranets are protected from unauthorized entry through "firewalls," software programs that check and verify the credentials of potential users. Research has shown that the vast majority of companies report a positive return from their intranet investment. Intranets can be either static (updated periodically) or dynamic (updated continuously). Examples of static information are phone directories, internal job openings, employee benefits information, company news releases, corporate events, technical documents,

and company policies and procedures. Examples of dynamic information are sales, inventory, and expense account transactions.

Having an intranet will provide KCG with the following advantages:

- Speed, effectiveness, and relatively low cost - Less time and money is spent on printing reams of paper and disseminating it to employees who often just dump it in the trash.
- Elimination of time and space barriers - People can find answers to their questions regardless of the time or the location.
- Can use existing infrastructure - once the firm has the hardware in place to use the internet, it is very easy to create an intranet.
- Ease of use - accessing information on an intranet is much simpler and faster than digging into file cabinets to find policy folders or calling friends to find an expert on a particular problem.
- Enhances productivity - The time spent in searching for information is significantly reduced.

5.4. Overall Strategy Recommendations

The following recommendations will provide a guideline to KCG on improving its corporate and business strategy in order to become a market leader.

5.4.1. Improving Productivity

To many the concept of piece rates in the clothing industry still harks back to an era of sweatshops where workers are unable to make a living wage. The reality is, however, that in today's industry the piece rate system is seen rather as an incentive scheme to increase productivity as well as the potential earnings of workers. The debate, unfortunately, does not seem that simple. On the one hand some employers and consultants submit that a sophisticated system to determine remuneration based on piece rates will indeed benefit the worker – while others raise some concerns as to the practicality of the system within a fast changing, short run manufacturing reality.

According to Stuart Gottschalk (2002), the productivity levels of the local clothing industry is considered low when compared to standard norms of globally exporting countries and he believes that piecework as an incentive system would solve motivational problems if rewards for above standard rate resulted in “tangible benefits.”

“The ideal is to create three levels of incentives – for operator, line and factory – to ensure that everyone is committed to the scheme,” he says, but adds that the factory necessarily needs to get enough benefit through this gained productivity to be able to pay the incentive bonuses.”

“There needs to be a balance in labour legislation to protect both employers and employees,” says Gottschalk who has seen the piece rate incentive scheme operating successfully within the clothing sector of Lesotho which operates on a global scale using Taiwanese standards.

Admitting that the basic wage in Lesotho is lower than that of South Africa, Gottschalk says that workers are earning meaningful bonuses based on a percentage of their basic wage rate. Looking at Mauritius, too, which also benefits from the African Growth and Opportunity Act (AGOA), he says that Chinese contract labour is used; they work overtime at above standard rates and quality is superb. “So it can be done,” he says, although adding that training in skills would also impact enormously on productivity in the local industry.

Certainly many would seem to agree that a move towards a sophisticated piece rate scheme would impact positively on productivity within the clothing sector and perhaps contribute towards improved competitiveness provided that a reasonable basic rate could be negotiated.

Another solution to increasing productivity is worker participation schemes. This can be accomplished through a Participative Problem Solving Programme where groups are appointed within departments who choose projects and come up with creative solutions. Management would meet with the groups to discuss the issues. The process would also allow workers to quantify how much the company would save if such measures are introduced. Management will judge the group presentations and will reward the most innovative group with a financial incentive. The vital aspect of this plan is to provide recognition to the workforce in the way they are assisting the company and indirectly themselves.

This emphasises the role that workers can play, in conjunction with management, rather than be isolated and face a trickle – down from the top approach. Needless to say, this consultative process does highlight a far-sighted management strategy of involving its workforce. Another way to involve workers and illicit better degrees of productivity is in the area of quality control. In the past, management has left quality control to the end of the production line. Workers should act as their own inspectors – all the way down the line. This will assist in preventing cheap and poor quality garments hitting the shelves as well as minimizing lost working hours due to a time-consuming correction process. The buzz phrase is therefore: “Make it right the first time.”

Naturally, productivity is also based on a desire to render customer satisfaction. It is this mental orientation that is currently separating us from our counterparts in the Far East. In Asia, workers are skilled in aspects of customer satisfaction long before they enter the workplace. In fact, much of this information is instilled in them at school. So where can we make our mark? To capitalise on this we should opt for quality and service in short runs to capture more niche markets both domestically and overseas. Big retailers still demand small exclusive runs which offer exciting styling and innovative fabrics. This is an area in which the domestic industry can perform.

While there is light at the end of a somewhat dark tunnel, it must be stressed that productivity remains a mindset issue. And, while workers need to participate holistically within a company's activities, there has to be an understanding that like it or not, South Africa and the international trading and financial scene is largely based on the extraction of profit. This precludes a more socialist view of worldwide economic activity and a mindset change to a more socially responsible and responsive capitalism might well be an additional aid in establishing worker motivation. To this end, workers do need to be involved in the process and need to feel the fruits of their labour.

5.4.2. Supply Chain Management

Detailed analysis of sales leads to good forecast of stocks, and quick response to trends keeps the right product in the right store at the right time. Despite the cost, regardless of the pain, Supply Chain Management (SCM) is so critical that KCG needs to implement these systems. It will not be easy, not all the answers readily exist and it will always take more time and money than expected, but to cope with the complexities of modern supply chain demands, it is mandatory.

What is meant by SCM anyway? Depending on your position in the pipeline, it may have various meanings, but the ultimate aim is to seamlessly link design, production, merchandise, planning and inventory systems across continents and sales channels – spurred on in no small way by the move into B2B and e-commerce. The Next Big Thing (NBT) is then to link your SCM system with your customers and suppliers, to fully integrate the process. Key to all of this is integration. Integration is only achievable when you look beyond the box of your own company, and start meaningful co-operation with suppliers and customers. The first stage in SCM is to establish a fully implemented and integrated ERP and financial solution that is 100% digital, the Enterprise Resource Planning (ERP) requires full manufacturing capabilities, appropriate to your own segment of the industry. While in-house written systems are often the

most closely matched system for your needs, time constraints and rapid change dictate today that packages are purchased, and fine tuned by either configuration of programming to meet your exact needs. This process requires full management commitment, allocation of suitable resources, and costs money. Many CEO's bemoan the expenditure as non-productive, like saying buying a loom, mainly because this facet of the industry is usually poorly understood. Once a well-oiled ERP is established, and a company knows exactly what it is doing, with the flexibility to change plans and analyse the implications of changes, SCM systems can then be contemplated. As with e-Commerce, you cannot start to enter the global market without a suitable digital backbone.

Collaborative planning has been taken to high levels in some countries with excellent results. By taking a helicopter view of the whole supply chain, kinks can be ironed out much more easily. This also encourages vertical operations to take a closer look at inter-departmental delivery kinks as well. Studies reveal that collaborative forecasting and supply chain synchronization result in constantly better results. The merging of collaborative and e-commerce is being dubbed c-commerce, the standard way to conduct business in the future.

5.4.3. Creating a Learning Organisation

From our analysis we have determined that KCG is operating in an in a dynamic and complex environment. To be competitive in dynamic environments such as those that have existed in years past, competitive strategy simply involved defining a competitive position and then defending it. As it takes less and less time for one product or technology to replace another, companies are finding that there is no such thing as a permanent competitive advantage. In order for KCG to sustain their competitive advantage, lies not in doggedly following a centrally managed 5-year plan but in stringing together a series of strategic short-term thrusts. This means that KCG must develop strategic flexibility – the ability to shift from one dominant strategy to another. Strategic flexibility demands a long-term commitment to the development and nurturing of critical resources. It also demands that the company becomes a learning organisation – an organisation skilled at creating, acquiring, and transferring knowledge, and at modifying its behaviour to reflect knowledge and insights. Organisational learning is a critical component of competitiveness in a dynamic environment. It is particularly important to innovation and new product development. For example, the use of an extensive network of informal committees to transfer knowledge among the organisation's crossfunctional teams to help spread new sources of knowledge quickly. Learning organisations are skilled at 4 main activities:

- Solving problems systematically.
- Experimenting with new approaches
- Learning from their own experiences and past history as well as from the experiences of others.
- Transferring knowledge quickly and efficiently throughout the organization.

Learning organisations avoid stability through continuous self-examinations and experimentation. People at all levels, not just top management, need to be involved in strategic management – helping to scan the environment for critical information, suggesting changes to strategies and programs to take advantage of environmental shifts, and working with others to continuously improve work methods, procedures, and evaluation techniques. For example, an action learning format can be developed in which people from marketing product development and manufacturing meet to argue and reach agreement about the needs of the market, the best new product, and the schedules of each group producing it. Organizations that are willing to experiment and are able to learn from their experiences are more successful than those that do not.

5.4.4. Achieving Synergy

One of the goals to be achieved in strategy implementation is synergy between and among functions and business units. Synergy is said to exist for a divisional corporation if the return on investment (ROI) of each division is greater than what the return would be if each division were an independent business. Synergy can take place in the following forms:

- Shared Know-how – combined units often benefit from sharing knowledge or skills. This is a leveraging of core competencies.
- Coordinated strategies – aligning the business strategies of two or more business units may provide KCG with significant advantage by reducing inter-unit competition and developing a coordinated response to common competitors (horizontal strategy).
- Shared tangible resources - combined units can sometimes save money by sharing resources, such as common manufacturing facilities, design facilities.
- Economics of scale or scope – coordinating the flow of products or services of one unit with that of another unit can reduce inventory, increase capacity utilisation and improve market access.
- Pooled negotiating power – combined units can combine their purchasing to gain bargaining power over common suppliers to reduce costs and improve quality. The same can be done with common distributors.

- New business creation – exchanging knowledge and skills can facilitate new products or services by extracting discrete activities from various units and combining them in a new unit or by establishing joint ventures among internal business units.

5.4.5. Improving Organisational Structure

Two alternate organisational structure recommendations can be made for KCG. These include

5.4.5.1. Network Structure – The Virtual Organisation

This type of network structure is a somewhat new and radical structure and could also be termed ‘non-structure’ by its virtual eradication of in-house business functions that is many activities should be outsourced. Such an organization is often called a virtual organization because it consists of a series of project groups or collaborations linked constantly by changing nonhierarchical, cobweb-like networks. This structure is most valuable when the environment of the firm is unstable and is expected to remain so which is typical of the clothing industry environment. Under such conditions there is usually a strong need for innovation and quick response. Instead of having salaried employees, KCG may long-term contract with suppliers and distributors and replace the services that the company could provide for itself through vertical integration. Electronic markets and sophisticated information systems reduce transaction costs of the market place, thus justifying a ‘buy’ over a ‘make’ decision. Manufacturing maybe subcontracted to other companies in low cost locations around the world. For control purposes KCG can maintain an “umbilical cord” by assuring production planning for all its sub contractors, planning material requirements for them, and providing them with bills of labour and standard prices and costs, as well as technical assistance to make sure their quality is up to KCG’s standards. In essence, the network organization is a series of independent firms or business units linked together by computers in an information system that designs, produces, and markets a products or services. Such an organisational structure will provide KCG with increases flexibility and adaptability to cope with rapid technological change and shifting patterns of international trade and competition especially since the clothing industry is largely export driven. It allows a company to concentrate on distinctive competencies, while gathering efficiencies from other firms who are concentrating their efforts in their areas of expertise.

5.4.5.2. Cellular Organisational Structure

This organisational structure is composed of cells (self-managing teams, autonomous business units, etc.) that can operate alone but can interact with other cells to create a more effective and competent business mechanism. It is this combination of independence and interdependence that allows the cellular organisational form to generate and share the knowledge and expertise to

produce continuous innovation. The cellular form includes the dispersed entrepreneurship of the divisional structure, customer responsiveness of the matrix and self-organising knowledge and asset sharing of the network. Beyond knowledge creation and sharing the cellular form adds value by keeping the firm's total assets more fully in use than any other type of structure.

5.4.6. Re-engineering and Strategy Implementation

Through reengineering KCG will be able to break away from the old rules and procedures that have developed over time and have become ingrained in the organisation over the years. These may be a combination of policies, rules, and procedures that have never been seriously questioned because they were established years earlier. They may range from "credit decisions made by the credit department" to "local inventory which is needed for good customer service." These rules of the organisation and work design may have been based on assumptions about technology, people, and organizational goals that may no longer be relevant. Rather than attempting to fix existing problems through minor adjustments and fine-tuning existing processes, the key to reengineering is to ask: "If this were a new company, how would we run this place?"

KCG should adopt the following principles in order to attempt reengineering:

- Organise around outcomes, not tasks. Design a person's or a department's job around an objective or outcome instead of a single task or series of tasks.
- Have those who use the output of the process perform the process. With computer-based information systems, processes can now be reengineered so that the people who need the result of the process can do it themselves.
- Consider information-processing work into the real work that produces the information. People or departments that produce information can also process it for use instead of just sending raw data to others in the organisation to interpret.
- Treat geographically dispersed resources as though they centralised. With modern information systems, the company can provide flexible service locally while keeping the actual resources in a centralised location for coordination purposes.
- Link parallel activities instead of integrating their results. Instead of having separate units perform different activities that must eventually come together, have them communicate while they work so that they can do the integrating.
- Put the decision point where the work is performed, and build control into the process. The people who do the work should make the decisions and be self-controlling.

- Capture information once and at the source. Instead of having each department developing its own database and information processing activities, the information can be put on a network so that all can access it.

5.4.7. Downsizing

Due to the volatile nature of the industry, the KCG may need to consider downsizing (sometimes called “rightsizing”) which may entail the planned of positions or jobs. If not done properly, however, downsizing may result in less, rather than more, productivity. A study conducted on downsizing found that a 10% reduction in people resulted in only a 1.5% reduction in costs, profits increased in only half the firms downsizing, and that the stock price of downsized firms increased over 3 years, but not as much as did that of firms which did not downsize. Why were the results so marginal? The results showed either the wrong jobs were eliminated or blanket offers of early retirement prompted managers, even those considered invaluable, to leave. After the layoffs, the remaining employees had to do not only their work, but also the work of the people who had gone. Because the survivors often didn’t know how to do the departed persons work, morale and productivity plummeted. Creativity drops significantly (affecting new product development) and it becomes very difficult to keep high performers from leaving the company. In addition, cost conscious executives tend to defer maintenance, skimp on training, delay new product introductions, and avoid risky new businesses – all of which leads to lower sales and eventually to lower profits. Therefore, KCG needs to undertake successful downsizing through undertaking a strategic reorientation, not just a bloodletting of employees. Research shows that when companies use downsizing as part of a larger restructuring program to narrow company focus, they enjoy better performance. The company needs to consider the following guidelines proposed for successful downsizing:

- Eliminate unnecessary work instead of making across-the-board cuts. Spend the time to research where money is going and eliminate the tasks, not the workers, if it doesn’t add value to what the firm is producing. Reduce the number of administrative levels rather than the number of individual positions. Look for interdependent relationships before eliminating activities. Identify and protect core competencies.
- Contract out work that others can do cheaper. Outsourcing may be cheaper than vertical integration.
- Plan for long–run efficiencies. Don’t simply eliminate all postponable expenses, such as maintenance and advertising, in the unjustifiable hope that the environment will become more supportive. Continue to hire, grow, and develop – particularly in critical areas.

- Communicate the reasons for actions. Tell employees not only why the company is downsizing, but also what the company is trying to achieve. Promote educational programs.
- Invest in the remaining employees. Because most “survivors” in a corporate downsizing will probably be doing different tasks from what they were doing before the change, firms need to draft new job specifications, performance standards, appraisal techniques, and compensation packages. Additional training is needed to ensure that everyone has the proper skills to deal with expanded jobs and responsibilities. Empower key individuals / groups and emphasise team building. Identify, protect, and mentor people with leadership talent.
- Develop value added jobs to balance out job elimination. When no other jobs are currently available within the organization to transfer employee to, management must consider other staffing alternatives.

5.4.8. Managing Cultural Change through Communication

Communication is key to the effective management of change. Rationale for strategic changes should be communicated to workers not only in newsletters and speeches, but also in training and development programs. This needs to be done in the following manner:

- The CEO and other top managers at KACG need to have a strategic vision of what the company could become and should communicate this vision to employees at all levels. The current performance of the company needs to be compared to that of its competition and constantly updated.
- The vision should be translated into the key elements necessary to accomplish that vision. For example, if the vision called for the company to become a leader in quality or service, aspects of quality and service should be pinpointed for improvement and appropriate measurement systems be developed to monitor them. These measures need to be communicated widely through contests, formal and informal recognition, and monetary rewards, among other devices.

5.4.9. Management by Objectives

According to Wheelen and Hunger (2002): “Management by Objectives (MBO) is an organisation wide approach to help ensure purposeful action toward desired objectives”. MBO links organisational objectives and the behaviour of individuals. Because it is a system that links plans with performance, it is a powerful implementation technique that could enhance the strategic capability of KCG. The MBO process involves:

- Establishing and communicating organisational objectives.

- Setting individual objectives (through superior subordinate interaction) that help implement organisational ones.
- Developing an action plan of activities needed to achieve the objectives.
- Periodically (at least quarterly) reviewing performances as it relates to the objectives and including the results in the annual performance appraisal.

MBO provides an opportunity for KCG to connect the objectives of people at each level to those at the next higher level. MBO, therefore, acts to tie together corporate, business, and functional objectives, as well as the strategies developed to achieve them. One of the real benefits of MBO is that it can reduce the amount of internal politics operating within the organisation. Political actions within a firm can cause conflict and create divisions between the very people and groups who should be working together to implement strategy. People are less likely to jockey for position if the company's mission and objectives are clear and they know that the reward system is based not on game playing, but on achieving clearly communicated, measurable objectives.

5.5. Recommendations on Strategy to Increase KCG's Competitiveness for Exporting

Exporting is fundamental to KCG's future strategy and the following are guidelines on how to improve and enhance their export capabilities.

5.5.1. Invest in technology

- Technology (for example EDI systems) is the theme that reappears when talking about partnering with government, developing infrastructure and partnering across regions. The reality is that few Lamb firms, for example, have the capability to invest in these platforms. There may be an opportunity in attracting technology firms from Europe, Asia, and the US to invest in Africa. Some creative joint venture plans between apparel firms, textile firms and high tech firms are worth investigating.
- Investment in technology is a means to being transparent to the customer and it is also a means to account for all activities.

5.5.2. Paradigm Shift in Interaction with the US Customer

- AGOA must be understood as a trade vehicle, not a trade policy.
- AGOA itself is a marketing tool. One way to maximise the most from each trade legislation is to link up certain product costs with certain trade agreements. This gives them an advantage over their competitors in Asia.

5.5.3. Understand the Merchandising Philosophy of Your Customer

- Merchandising concept in the USA must be understood. For example, garments in the US are merchandised according to pricing goals, grouped by fabrication, displaying garments by color breakdown is important, and each retailer has different ratios between (e.g.) tops and bottoms or between knits and wovens. In addition, merchandising strategies are driven by the particular retailer's calendar of seasons. An understanding of this approach to merchandising would clarify why such stringent demands are put on suppliers for timely delivery, color consistency and flexibility in changing styling or fabrication.
- Develop pre-production capabilities to quicken the turnaround time – it is said that this is an area where China has improved.

5.5.4. Marketing Mix

The New Positioning by Jack Trout and Steve Rifkin (1996) suggests methods that companies can adapt to position themselves in their target market given the environment of change. They cite four major factors that contribute to companies losing market position.

- The fast pace of changing technology.
- The quick and unpredictable shifting of consumer attitudes.
- The increase in competition within the global economy.
- The increase in competition among creative executives in US companies.

They define positioning simple, as “concentrating on an idea – or even a word – that defines the company in the minds of consumers.” Upper management must be completely committed and must “emotionally” buy into the repositioning process because all others in the company will follow their lead to become fully vested in the positioning process.

KCG doing business under AGOA is operating in an environment of major change that is unsettling and fast paced. However, if they could encapsulate their critical added value components in a simple phrase or sound bite, then that phrase could be a guide to help them focus on internal competencies and strengthen their market position. This would be accompanied by an investigation into branding their services as a manufacturer. Retailers are not the only segment of the apparel supply channel that can have a branding philosophy that connects to the lifestyle of their customer. A manufacturer with a clear branding strategy receives a dual benefit: recognition in the market place, and a focal point for internal development and revision.

Additionally, a selling culture and strategy must be adopted. This means that within the organisational structure of the firm there should be sales teams dedicated to supporting and servicing particular clients in the US. Investment in staff who are accountable for knowing the details of customers' needs and new opportunities, should pay off in more efficient and accurate product development and delivery.

- Product

The company should continue to target mass specialty chains. There are opportunities to deliver specialty high fashion garments depending on access to a diverse range of fabrics. They will need to respond to quick turnaround times and deliver large quantities spread out over 3 to 6 months. Commodity type products such as t-shirts would not be the advisable focus for exports. This is because such low price commodity products enter the US market from Asian countries at very low prices points – prices with which it would be difficult for South African exporters to compete.

- Price

The goal is to get prices competitive with the FOB level of Southeast Asian competitors. Improvements in productivity would contribute to more competitive pricing. The savings in duty-free and quota free shipments from AGOA compliant countries is a major draw for US retail firms to add in Africa to their sourcing strategy. The price advantages that AGOA has afforded are clear. However, it is important to build in other key competences (quality control, delivery standards, or sample development – for example) to remain attractive to current customers once quotas globally disappear and competition based on price alone becomes stiffer.

- Promotion

Trade shows - trade shows in the United States are industry specific – from handicrafts to gift shows. Factories tend to go to sourcing shows (for example a factory which is manufacturing a private label line for a US retailer). Firms that distribute brands, tend to go to “brand shows”, for example the Magic Show in Las Vegas. Ideally, KCG will want to work with trade shows whose management can assist them with logistics and financing. The Cyber Merchants Company is an example of a firm that provides that assistance. Cyber Merchants produces the ASAP (Apparel Sourcing Associates Pavilion) show, held every February and August in conjunction with the MAGIC Show in Las Vegas. The types of things that Cyber Merchants helps exhibitors with includes finding buyers, opening a letter of credit, offering a training program as to how best to interact with the US customer / firm, assistance with acquiring the visa application to get into the United States, and setting up meetings before the show to partner exhibitors with

potential customers. The cost for the August 2003 show is \$ 5800.00 which includes the header, room / board hangers and trash bins.

The ASAP show in February 2003 had an increased turnout in exhibitors from Africa. In August 2002, there was one factory from Africa, in February 2003, there were 12 factories from Africa. The goal for August 2003 is to have twenty-five factories from Africa. In February 2003 there were four factories from Mauritius (sweaters, denim and knits), one factory from Kenya (underwear and denim), and a few factories from South Africa (sweaters, denim and underwear). Attendance was down because of the severe snowstorms. However, attendees included importers, manufacturers, private label buyers and retailers. The African firms who did attend were vertically integrated, and knew what they were doing; this was not new ground for them. They were either going direct or relying on an agent. A lot of mid-tier specialty chains attend the ASAP show and this is important for KCG to be aware of given their current strengths. Some of the feedback that ASAP organisers had for African exhibitors were that they have digital photos of their operations available to let inquiring attendees know what their company is about.

Other types of trade shows include:

Magic Show – this is a branded show. Marketing funds are needed to have a presence.

Material World – this is a sourcing show sponsored by the American Apparel and Footwear Association and also includes machinery manufacturers. It is primarily targeted towards the Caribbean region.

World Source – this is also a sourcing show.

ASAP – was described earlier. It is the largest sourcing show with over thirty countries represented. What is key about the ASAP show are the support services offered.

Agents - Their added value is that they know the US market and have relationships with potential customers. Agents usually charge a fee of a percentage of sales as a fee. Some agents also have upfront charges. These costs are prohibitive for some of the smaller size African apparel firm. Another disadvantage of working with agents is that their efforts are sometimes spread thinly between many suppliers trying to enter the US market.

Door to door - This is not only a financial cost but also a cost in time and human capital reserves. The benefit is that relationship building is most likely to be stronger with the one on one contact. Also, the door-to-door approach affords an opportunity to shop the US markets in person and observe trends without the filter of an agent or third party reports.

Vendor Profile - a detailed vendor profile (as explained on page 34) is key to a firm effectively promoting itself and educating the potential customer.

- **Distribution**

The distribution channel options are varied and complex in the United States. What is key is that department stores are losing their market share, while mass discounters and specialty chains are gaining market share. This translates into pressures on the manufacturer to offer lower prices.

- **Competitive analysis**

There are two major external competitors - Southeast Asian manufacturers and Caribbean manufacturers. Southeast Asian producers have the benefit of time to achieve the learning curve of understanding the US customer. They also have an established and developing textile supply base. Their productivity is higher than among African firms mainly due to integration of technology and formal training institutions. KCG needs to build in technology to link with the US customer in order to respond to the demand for more transparency, manufacturers taking on more responsibility in inventory control, and more logistical control to account for heightened security. Manufacturers in the Caribbean have already begun to surpass their Mexican competitors in high quality deliveries. They have invested in research and training to improve in delivering full package services to US retailers. There is also the obvious advantage of shorter lead – times from the Caribbean to the United States (when compared to African manufacturers).

5.6. Strategies to Enhance long Term Competitiveness at KCG

KCG needs to operate their business in a highly cost-effective manner and open up sustainable cost advantage over their competitors.

5.6.1. Low-Cost Provider Strategies

The aim of management at KCG should be to operate their business in a highly cost effective manner and open up sustainable cost advantage over competitors. The following are ways in which to gain cost advantage:

5.6.1.1. Controlling the Cost Drivers

- **Economies of scale** – This can be done through simplifying the product line, scheduling longer production runs for fewer styles, and using common parts and components in different garments.
- **Learning and experience curve effects** – this can be accomplished through improving plant layout and workflows, product design modifications that enhance manufacturing efficiencies, redesigning machinery and equipment to gain increased operating speed, and to tailor parts and components in ways that streamline the garment assembly process.

- How well KCG manages the costs of acquiring key resource inputs will be a big driver of costs. This can be achieved through employing non-union labour, having a high bargaining power with suppliers and locational factors.
- Link with other activities in the KCG value chain or clothing industry value chain – This can be done through linking KCG’s quality control costs to the activities of suppliers cost and thereby allowing cost savings to occur in quality assurance procedures, just-in-time delivery, integrated materials supply, and online order processing.
- Sharing opportunities with other organisational or business units within the organisation – through the same order processing and customer billing systems, utilising a common sales force, and share the same warehouse and distribution facilities. Cost sharing can also help to achieve scale economies, shorten the learning curve, and promote fuller capacity utilisation.

5.6.1.2. Revamping the Value Chain

KCG can revamp its value chain in the following manner:

- Shifting to e-business technologies.
- Use direct-to-end-user sales and marketing approaches.
- Simplifying product design.
- Stripping away the extras.

5.6.2. Strategies for Competing in Turbulent, High-Velocity Markets such as the Clothing Industry Environment

Competitive success for KCG in fast changing markets like the clothing industry, will hinge on their ability to improvise, experiment, adapt, reinvent, and regenerate as market and competitive conditions shift rapidly and sometimes unpredictability. This must be done in the following manner:

- Invest aggressively in R&D and new technologies in order to stay on the leading edge.
- Develop and maintain the organisational capability to respond quickly to the moves of competitors with surprising new developments.
- Rely on strategic partnerships with outside suppliers and with making tie-in products. An outsourcing strategy also allows a company the flexibility to replace suppliers that fall behind on technology or product features or that cease to be competitive on price.
- Initiate fresh action every few months not just when a competitive response is needed. KCG can be proactive by making time-paced moves – introducing new products more frequently, rather than when the market tapers off or a rival introduces new developments.

- Keep the company's product ranges fresh and exciting enough to stand out in the midst of all that is taking place. The marketing challenge here is to keep the firm's products in the limelight and, further to keep them innovative and well matched to the changes that are occurring in the marketplace.

The illustration below highlights the ways in which to meet high-velocity change in fast and turbulent markets.

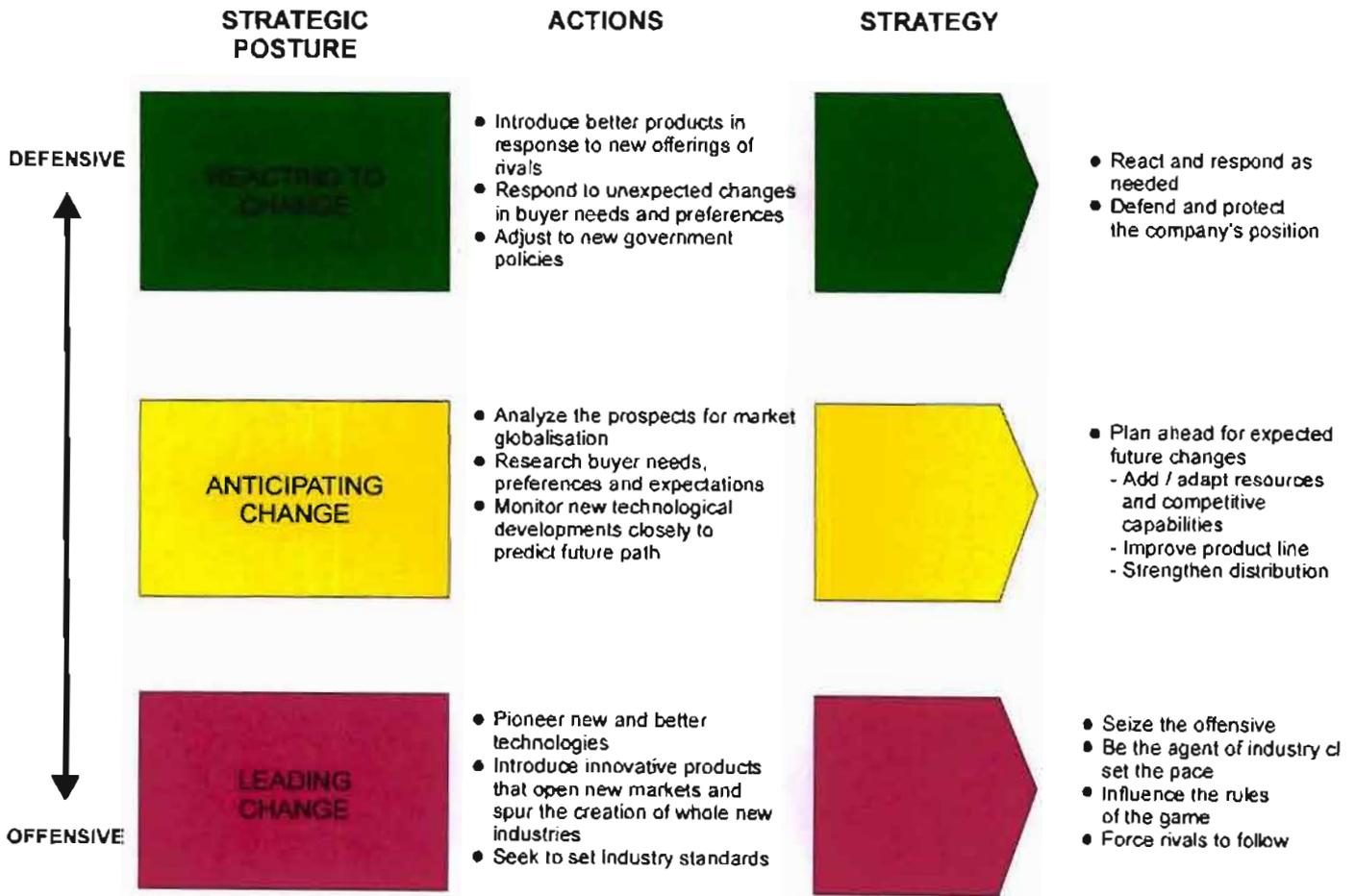


Figure 5.3 – Model to Guide KCG in Order to Meet the Challenges of Their Fast Moving Environment (Source: Adapted from Brown,S.L and Eisenhardt,M. 1985. Competing on the Edge as Structured Chaos: page 5)

5.6.3. Strategies for Sustaining Rapid Company Growth

In order for KCG to grow their revenues and earnings at a rapid pace year after year, compared to their current performance, which needs to be improved and sustained, the organisation will need to craft a portfolio of strategic initiatives covering three horizons (Beinhocker,D.E: 1999):

- Horizon 1 – Strategic initiatives to fortify and extend their position in their existing business. This entails constantly adding new items to their product ranges, expanding into new geographic areas where the company does not have a geographic presence, and launching offensives to take market share away from rivals. The objective is to capitalise fully on whatever growth potential exists in the company’s present business.
- Horizon 2 – Strategic initiatives to leverage existing resources and capabilities by entering new businesses with promising growth potential.
- Horizon 3 – Strategic initiatives to plan the seeds for ventures in businesses that do not yet exist.

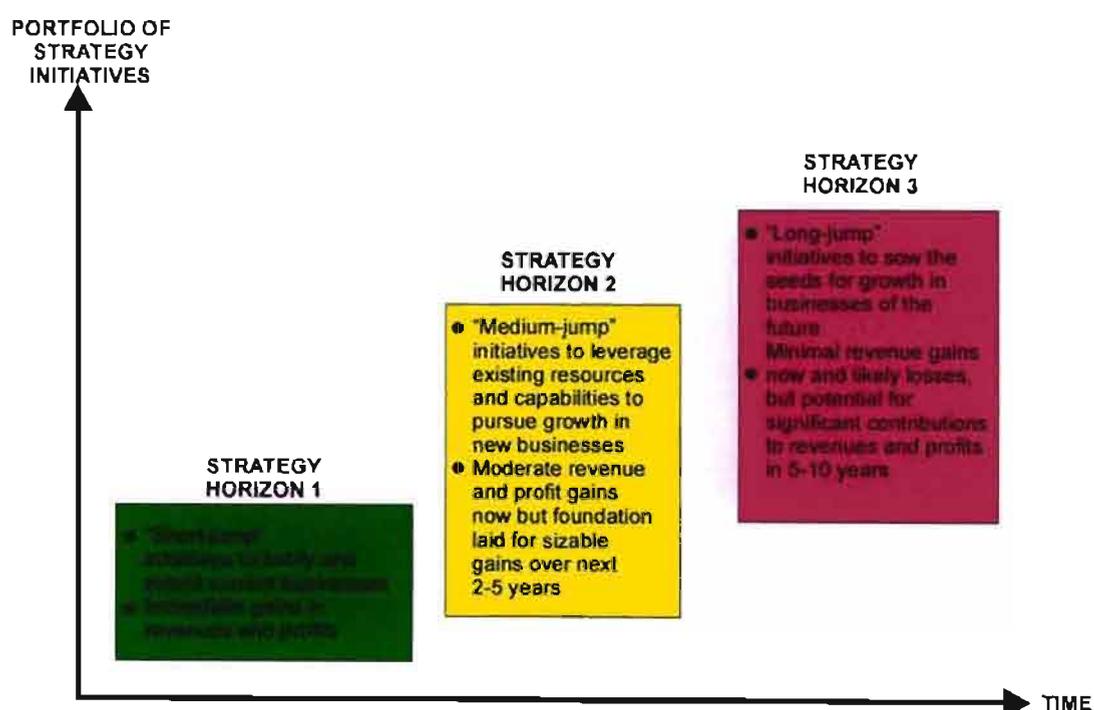


Figure 5.4 – The Three Strategy Horizons for Creating and Sustaining Rapid Growth at KCG

5.7. Guidelines on Strategic Leadership to Enhance Strategy Execution and Implementation

The CEO and management at KCG have five leadership roles to play in approaching for good strategy execution:

- Staying on top of what is happening, closely monitoring progress, debating out issues, and learning what obstacles lie in the path of good execution.
- Promoting a good culture and esprit de corps that mobilises and energises organisational members to execute strategy in a competent fashion and perform at high levels.

- Keeping the organisation responsive to changing conditions, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities.
- Exercising ethics leadership and insisting that the company conduct its affairs like a model corporate citizen.
- Pushing corrective actions to improve strategy execution and overall strategic performance.

5.8. Conclusion

Since 1996, political and economic changes in South Africa have had a profound effect on the clothing sector in South Africa. Social and cultural changes in the country have led to dramatic changes in the marketplace. Global exposure has increased, and this has had a major impact on customer demands and the awareness of fashion trends. Customers are mobile and have access to more information through advertising and the media. Quality, choice and image are becoming more important. Manufacturers are having a difficult time to redefine their focus to compete in increasingly pressurized markets, and at the same time are having to take cognisance of customer demands for better prices and quality. It is only through intimately understanding how consumer expectations are translated into retailer demands that manufacturers can adequately respond to meeting these needs.

A major challenge for the SA apparel industry is to expand markets geographically; and particularly to direct overseas market expansion. Manufacturers need to forge international linkages in order to establish a pipeline through which resources, technology, skills, etc. will flow from the lead firms in global-scale production networks.

The terms of competition and trade in the apparel industry have changed quite considerably over the last decade. Sustainable competitive advantage in the industry, both locally and internationally, is determined by dynamic differentiation, networking and effective organisational learning. In the global economy competitive advantages are attached to process-oriented improvements, information flows, and on agility. Fast learning and effective, coherent organisational responses have become crucial.

Throughout the pre and post apartheid decades, the Kingsgate Clothing Group has displayed great determination and triumphed over tough social, economic and political barriers to develop into one of South Africa's leading, privately-owned clothing manufacturers. From its humble

beginnings with a staff of forty, the Group today employs a workforce of about 7,000 people, both directly within its in-house factories and indirectly via the approximately 90 cut, make and trim (CMT) firms that it utilises. The company sold almost 12 million garments in the latest financial year ended 28 February 2003, equivalent to almost 1 million units per month or 54,000 garments per day. With most production taking place locally and 85% of fabric purchased from South African textile mills, the Group provides ancillary employment opportunities to a large number of South Africans through related industries.

The past financial year was characterised by a great deal of uncertainty, which flowed from instability in several of the key factors, which help to determine economic progress. These included abnormal currency volatility and continuing international political tension across a wide front. The United States was particularly affected in both these respects as well as by apparent fraudulent management in a number of major businesses and institutions. The resultant loss of confidence, particularly among consumers and international investors, saw the US dollar weaken, its domestic economy slow down and a spill over into other leading world economies.

The impact of this recession has been uneven internationally, as well as regionally. Internationally, some areas of the world have been more affected than others, while regionally some countries experienced more difficulties than others. The retail sector of the South African economy has shown remarkable resilience in the face of the prevailing conditions. It has weathered the worst effects of a world recession and performed encouragingly in the circumstances. Retail conditions in the domestic sector were more buoyant than those enjoyed by the industry for a long time. Meaningful tax-breaks particularly favourable towards middle and low-income households, contributed towards increasing consumer spending.

Internationally, the United States Dollar lost value against most currencies. The strengthening of the South African Rand has been a mixed blessing. While it has allowed KCG to source raw materials from overseas at keener prices and to be consequently more competitive domestically as a result of improved garment prices, the converse has been to make South African companies less competitive in the export market.

However, arguably more challenging than the Rand's appreciation has been its volatility. The value of the Rand has, on occasion, appreciated or depreciated by as much as three to five percent in a single day. This lack of predictability has greatly increased the risk inherent in quoting prices, particularly in export markets, where prices have to be very keen and fine-tuned

to meet international competition. Against this background, KCG has done well to show significant improvement in all the key criteria of performance.

The factors outlined above, and in particular the uncertainties in global political affairs, will most likely delay the recovery of the global economy. However, as a result of sound macro-economic policies South Africa will continue to weather this volatility. The currently declining fuel price, the latest interest rate cuts and additional tax-breaks announced by Minister Trevor Manuel in March, should help to boost consumer spending, for the business climate to remain vigorous. Further decline in interest rates and inflation must be achieved as a matter of priority, or otherwise, disposable income, and with it consumer spending, will remain under pressure. This is especially critical for the clothing sector, which is so reliant on disposable income. Inflation and high interest rates also result in excessive wage demands. This situation cannot be sustained in a context where tariffs on clothing are continuing to decline. To remain competitive in an increasingly demanding market, in exceptional cases where high volume units for speedy deliveries are required at short notice, the Group is forced into a situation to source the particular merchandise category from overseas manufacturers.

KCG needs to continue to nurture exports in order to be well positioned when world markets recover. They need take advantage in particular of the Africa Growth and Opportunity Act (AGOA) and explore new markets in SADC countries, the Middle East and Asia. In this regard we eagerly await developments in the textile industry, response from the DTI about the use of Duty Credit Certificates and conditions around this, and particularly the total removal of duties on inputs not produced in the local market.

The Kingsgate Clothing Group's philosophy for crafting successful strategies should be based on the following principles:

- Place top priority on crafting and executing strategic moves that enhance the company's competitive position for the long term. The best way to protect their long-term profitability is with a strategy that strengthens their long-term competitiveness.
- Be prompt in adapting to changing market conditions, unmet customer needs, buyer wishes for something better, emerging technological alternatives, and new initiatives of competitors.
- Invest in creating sustainable competitive advantage. Having a competitive edge over rivals is the single most dependable contributor to above average profitability.

- Avoid strategies capable of succeeding only in the most optimistic of circumstances. A good strategy works reasonably well in the worst of times.
- Don't underestimate the reactions and commitment of rival firms. Rivals are most dangerous when they are pushed into a corner and their wellbeing is threatened.
- Consider that attacking competitive weakness is usually more profitable and less risky than attacking competitive strength.
- Be judicious in cutting prices without an established cost advantage.
- Strive to open up very meaningful gaps in quality or service or performance features when pursuing a differentiation strategy.
- Avoid 'stuck in the middle' strategies that represent compromises between lower costs and greater differentiation and between broad and narrow market appeal.

To keep pace with the changing business environment, KCG'S approach and thinking on strategy needs to remain fluid and adaptable, rather than fixed and unbending.

A few closing words to management of the Kingsgate Clothing Group to guide them into the future:

- **“Think Big”** – Explore the environment in which you operate and how it could possibly change to your benefit or detriment.
- **“Think Competitive Advantage”** – Analyse the structure, lifetime and profitability of your industry and what alternatives customers have for spending their money.
- **“Think Added Value”** – Examine every aspect of your customer's needs, not just locally but globally to. You want to surprise and delight your customers and thereby keep them for life (marriage works the same way).
- **“Think Positioning”** – Crystal-clear positioning and identify how you are going to differ from your competitors and stand out in the market. Then you must organise yourself to deliver on that unique front, because 'you do not get apples from a lemon tree'.
- **“Think Performance”** – How can you do it better. World standards have arrived and therefore you have to be world-class to succeed. But you must play to your strengths – core competencies as they are called now days – like any top tennis or golf pro. You will need to assess how valuable your skill is to the customer and benchmark yourself against the level of skill of others in the market.
- **“Think Action”** – Needs to be learn't and practiced because many companies suffer from analysis paralysis.

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APPENDIX

Appendix 1 – Strategy Development Questionnaire (SDQ) – A Sample Questionnaire

This questionnaire considers the process by which strategy is developed within organizations. It is designed to discover **your perceptions** of how strategic decisions are made in your organization. Strategic decisions are those, which are characterized by a large commitment of resources and deal with issues of substantial importance to the organization usually with longer rather than just short-term impact or significance; they usually involve more than one function and involve significant change.

The following pages comprise a number of statements. When considering these statements please:

- assume each applies to _____, and respond to the statements as such
- think of your organization as it **exists at present**, not as it has existed in the past or how you would like it to exist in the future
- evaluate each statement in terms of the extent to which you **agree** or **disagree** with it in relation to your organization.

Thank you for your co-operation.

How to complete the questionnaire

- Please answer all the statements (it will take approximately 5-10 minutes to complete)
 - Give the answer that first occurs to you. Do not give an answer because you feel it is the right thing to say or you feel it is how things should be.
 - Respond to each of the statements by circling the appropriate number on a scale of 1 (you **strongly disagree** with the statement in relation to your organization) to 7 (you **strongly agree** with the statement in relation to your organization).
-

Your name: _____

Name of your organization: _____

What industry does your organization mainly operate within? _____

	Strongly Disagree						Strongly Agree	
	1	2	3	4	5	6	7	
We have definite and precise strategic objectives	1	2	3	4	5	6	7	
To keep in line with our business environment we make continual small-scale changes to strategy	1	2	3	4	5	6	7	
Our strategy is based on past experience	1	2	3	4	5	6	7	
The influence a group or individual can exert over the strategy we follow is enhanced by their control of resources critical to the organisation's activities	1	2	3	4	5	6	7	
The strategy we follow is directed by a vision of the future associated with the chief executive (or another senior figure)	1	2	3	4	5	6	7	
Our strategy is based on past experience	1	2	3	4	5	6	7	
We evaluate potential strategic options against explicit strategic objectives	1	2	3	4	5	6	7	
We keep early commitment to a strategy tentative and subject to review	1	2	3	4	5	6	7	
Our organisation's history directs our search for solutions to strategic issues	1	2	3	4	5	6	7	
. The information on which our strategy is developed often reflects the interests of certain groups	1	2	3	4	5	6	7	
. Our strategy is closely associated with a particular individual	1	2	3	4	5	6	7	
. Our freedom of strategic choice is severely restricted by our business environment	1	2	3	4	5	6	7	
. We have precise procedures for achieving strategic objectives	1	2	3	4	5	6	7	
. Our strategies emerge gradually as we respond to the need to change	1	2	3	4	5	6	7	
. There are beliefs and assumptions about the way to do things which are specific to this organization	1	2	3	4	5	6	7	
. Our strategy develops through a process of bargaining and negotiation between groups or individuals	1	2	3	4	5	6	7	
. The chief executive determines our strategic direction	1	2	3	4	5	6	7	

. We are not able to influence our business environment; we can only buffer ourselves from it	1	2	3	4	5	6	7
	Strongly Disagree					Strongly Agree	
. We have well-defined procedures to search for solutions to strategic problems	1	2	3	4	5	6	7
. We tend to develop strategy by experimenting and trying new approaches in the marketplace	1	2	3	4	5	6	7
. The strategy we follow is dictated by our culture	1	2	3	4	5	6	7
. Our strategy is a compromise which accommodates the conflicting interests of powerful groups and individuals	1	2	3	4	5	6	7
. Our strategic direction is determined by powerful individuals or groups	1	2	3	4	5	6	7
. Barriers exist in our business environment which significantly restrict the strategies we can follow	1	2	3	4	5	6	7
. Our strategy is made explicit in the form of precise plans	1	2	3	4	5	6	7
. Our strategy develops through a process of ongoing adjustment	1	2	3	4	5	6	7
. The strategies we follow develop from 'the way we do things around here'	1	2	3	4	5	6	7
. The decision to adopt a strategy is influenced by the power of the group sponsoring it	1	2	3	4	5	6	7
. Our chief executive tends to import strategic decisions (rather than consulting the top management team)	1	2	3	4	5	6	7
. Many of the strategic changes which have taken place have been forced on us by those outside this organization	1	2	3	4	5	6	7
. We make strategic decisions based on a systematic analysis of our business environment	1	2	3	4	5	6	7
. Our strategy is continually adjusted as changes occur in the marketplace	1	2	3	4	5	6	7
. There is resistance to any strategic change which does not sit well with our culture	1	2	3	4	5	6	7

. Our strategies often have to be changed because certain groups block their implementation	1	2	3	4	5	6	7
. A senior figure's vision is our strategy	1	2	3	4	5	6	7
. Forces outside this organization determine our strategic direction	1	2	3	4	5	6	7

Appendix 2 – SDQ Scoring Sheets of remainder of KCG Management

	PLANNING	INCREMENTALISM	CULTURAL	POLITICAL	COMMAND	ENFORCED CHOICE
	1 7	2 6	3 5	4 6	5 7	6 5
	7 7	8 5	9 5	10 4	11 5	12 4
	13 5	14 5	15 5	16 4	17 4	18 3
	19 5	20 4	21 5	22 4	23 4	24 3
	25 6	26 5	27 3	28 3	29 4	30 3
	31 5	32 5	33 5	34 1	35 3	36 1
COLUMN TOTAL	35	30	28	22	27	16
	-24	-24	-24	-24	-24	-24
SCORE	11	6	4	-2	3	-5

Joint Deputy Chairman –Mehmoud Haffejee

	PLANNING	INCREMENTALISM	CULTURAL	POLITICAL	COMMAND	ENFORCED CHOICE
	1 6	2 6	3 6	4 6	5 7	6 6
	7 5	8 5	9 5	10 5	11 4	12 5
	13 5	14 4	15 5	16 5	17 6	18 4
	19 5	20 4	21 4	22 4	23 3	24 3
	25 6	26 5	27 3	28 3	29 3	30 3
	31 5	32 5	33 4	34 4	35 5	36 1
COLUMN TOTAL	32	30	27	27	28	22
	-24	-24	-24	-24	-24	-24
SCORE	8	5	3	3	4	-2

Financial Director – Daniel M Chetty

	PLANNING	INCREMENTALISM	CULTURAL	POLITICAL	COMMAND	ENFORCED CHOICE
	1 5	2 7	3 4	4 7	5 7	6 4
	7 4	8 4	9 5	10 6	11 4	12 4
	13 3	14 6	15 6	16 5	17 6	18 4
	19 5	20 2	21 4	22 6	23 6	24 5
	25 3	26 6	27 6	28 7	29 2	30 4
	31 2	32 7	33 6	34 4	35 5	36 2
COLUMN TOTAL	22	32	31	35	30	23
	-24	-24	-24	-24	-24	-24
SCORE	-2	8	7	11	6	-2

Head of Public Relations – Ahmed Dhai

	PLANNING	INCREMENTALISM	CULTURAL	POLITICAL	COMMAND	ENFORCED CHOICE
	1 4	2 5	3 6	4 5	5 6	6 6
	7 4	8 5	9 5	10 3	11 2	12 4
	13 3	14 4	15 6	16 4	17 2	18 5
	19 5	20 3	21 5	22 4	23 3	24 3
	25 5	26 4	27 4	28 3	29 2	30 6
	31 5	32 5	33 3	34 5	35 4	36 2
COLUMN TOTAL	22	26	29	24	19	26
	-24	-24	-24	-24	-24	-24
SCORE	2	-2	5	0	-5	2

Head of Human Resources – Hawa Asmal

	PLANNING	INCREMENTALISM	CULTURAL	POLITICAL	COMMAND	ENFORCED CHOICE
	1 5	2 5	3 3	4 4	5 7	6 3
	7 4	8 6	9 4	10 6	11 1	12 4
	13 6	14 7	15 6	16 4	17 7	18 3
	19 5	20 6	21 7	22 2	23 4	24 5
	25 6	26 7	27 3	28 1	29 1	30 1
	31 6	32 7	33 5	34 2	35 7	36 1
COLUMN TOTAL	32	38	28	19	27	17
	-24	-24	-24	-24	-24	-24
SCORE	8	14	4	-5	3	-7

Head of Operations – Abdullah Amla

	PLANNING	INCREMENTALISM	CULTURAL	POLITICAL	COMMAND	ENFORCED CHOICE
	1 5	2 6	3 6	4 5	5 6	6 6
	7 4	8 5	9 6	10 5	11 2	12 5
	13 5	14 5	15 6	16 6	17 3	18 3
	19 5	20 5	21 5	22 5	23 5	24 3
	25 4	26 5	27 3	28 5	29 2	30 2
	31 6	32 5	33 5	34 3	35 4	36 2
COLUMN TOTAL	28	31	31	29	22	21
	-24	-24	-24	-24	-24	-24
SCORE	4	7	7	5	-2	-3

**Head of Marketing & Sales –Yunus Hasan
(Domestic Sales Division)**

	PLANNING	INCREMENTALISM	CULTURAL	POLITICAL	COMMAND	ENFORCED CHOICE
	1 7	2 7	3 7	4 4	5 7	6 7
	7 4	8 6	9 6	10 5	11 1	12 4
	13 7	14 6	15 7	16 2	17 7	18 3
	19 7	20 5	21 1	22 3	23 1	24 3
	25 7	26 7	27 1	28 1	29 1	30 1
	31 7	32 6	33 1	34 1	35 7	36 1
COLUMN TOTAL	39	37	23	16	24	19
	-24	-24	-24	-24	-24	-24
SCORE	15	13	-1	-8	0	-5

Head of Procurement – Mr. Ebrahim Paruk

Appendix 3 – Questionnaire To Managing Technology and Innovation

Please answer this questionnaire in light of your experience with your organization. To assess the level of technology, innovation and creativity in your organization's culture, score your level of agreement or disagreement with the statements below as follows :

Strongly agree(5 points), mildly agree(4), neutral(3) , mildly disagree(2), strongly disagree(1)

VALUES

- ___ 1. We believe that our work can change the world.
- ___ 2. The organization actively promotes a positive quality of life in our surrounding communities.
- ___ 3. People here really believe our products and services are vital to other's well being.
- ___ 4. Virtually all who work here continually study and question the basic nature of their job and the technologies – human, organization, technical – they work with.
- ___ 5. Working here fills me with a sense of personal well being and commitment to my higher values.

MISSION AND VISION

- ___ 6. Principles of justice and compassion directly and significantly influence strategy, design and development.
- ___ 7. We explore the fundamental practices and principles of our industry and its disciplines as a source of creativity, values, and purposes.
- ___ 8. We can fail without fear for our jobs.
- ___ 9. My organization takes the long view
- ___ 10. Employees are free to develop their own vision of what their jobs entail

IDEAS

- ___ 11. This organization cultivates the growth of knowledge into wisdom and views wisdom as a guide to action.
- ___ 12. Organizational structure is shaped by innovative, idea driven approaches to our challenges and tasks.
- ___ 13. Organizational responses to crisis are thoughtful and imaginative, not reactive and typical.
- ___ 14. The organization respects thinkers.
- ___ 15. I am respected for all my talents, whether or not they contribute to the bottom line.

EXCHANGE

- ___ 16. My organization rewards those who display mastery at their jobs and seeks their advice, whatever the title or position
- ___ 17. Institutionalized procedures enable anyone to make suggestions or raise objections.

- ___ 18. Intellectually exciting and stimulating conversation directly influences product development and delivery.
- ___ 19. "Idea people" share their vision with other employees and invite feedback.
- ___ 20. The groups uses conflict as an opportunity for personal and organizational growth

PERCEPTION

- ___ 21. How we perceive our tasks, our expertise and the group itself is a legitimate object of inquiry.
- ___ 22. Whole minded thinking, including activities based on movement and heightening awareness of the 5 senses is encouraged.
- ___ 23. Employees are taught to and encouraged to think creatively.
- ___ 24. We continually re-vision our groups' place within its industry and society as a whole.
- ___ 25. Clear problem solving algorithms are taught, practiced, developed and applied wherever a need is perceived, without regard to concerns of status, tradition, or company politics.

LEARNING

- ___ 26. To be viewed as continuous learner at work benefits one careers.
- ___ 27. We regularly challenge group norms, and anyone can initiate this process.
- ___ 28. My organization is constantly engaged in learning about itself and the environments in which it operates.
- ___ 29. The organization allocates resources toward employee involvement in cultural events as attendees, participants, or learners.
- ___ 30. Projects are undertaken by integrated teams whose members bring multiple disciplines and diverse perspectives to the task.

SOCIAL

- ___ 31. Our relationships at work are relaxed, irreverent, warm, and crackling with ideas.
- ___ 32. People from different departments and organization levels socialize together either during or after work.
- ___ 33. Committee meetings are reasonably productive and amicable.
- ___ 34. When we form teams to work on special projects, the work is integrated into our day-to-day schedules.
- ___ 35. We always produce effective leadership when and where we need it.

FESTIVA

- ___ 36. Social occasions are planned and designed in highly creative ways.
- ___ 37. The line between work and play is virtually non existent
- ___ 38. Developments in art, politics and other fields not directly related to our work are discussed in

relation to their impact on our organization and industry.

___ 39. We have a strong group vocabulary of terms and symbols that promotes communication, community, and creativity.

___ 40. We are encouraged to play whimsically with ideas, materials, and objects as well as with new ways of doing things.

TOTAL SCORING : _____

40 – 79 Dead zone : A place where it is virtually impossible for creativity to flourish

80 – 159 I-zone : Where management thinks in terms of the next quarter and creativity is seldom transmitted from one person to another

OR

O-zone : Where creativity is valued but not consistently incorporated into the organisation's strategy.*

160-200 Hot-zone : Where creativity is intense and productive

* Note – I-Zone organisations score higher on Values, Ideas, Perceptions, and Social questions.

- O-Zone organisations score higher on Mission and Vision, Learning, Exchange and Festiva questions.

Appendix 4 – Questionnaire To Audit Human Resource Management at KCG

HOW BUSINESS DRIVEN IS YOUR HRM ACTIVITY ?

	A	B	C	D
Is HRM consulted while strategies being considered?	Never	Rarely	Often	Usually
Does this advice have any impact on decisions?	Never	Rarely	Often	Usually
Is the HR proactive?	Never	Rarely	Often	Usually
Will risks be taken to give unpopular advice?	Never	Rarely	Often	Usually
How many specific examples can be given where HRM has contributed to strategic success of the business in:*				
. Overall HR	None	1 or 2	3 to 5	Over 5
. Remuneration	None	1 or 2	3 to 5	Over 5
. Recruitment	None	1 or 2	3 to 5	Over 5
. Management development	None	1 or 2	3 to 5	Over 5
. Training	None	1 or 2	3 to 5	Over 5
. Succession	None	1 or 2	3 to 5	Over 5
. Others	None	1 or 2	3 to 5	Over 5
Is there a clear strategy and policy for each HR area?	No	Some	Most	Yes
Does this derive specifically from business strategies etc.?	No	Loosely	Partly	Totally
When were all HR policies and strategies last reviewed?	Don't know	Years ago	Last year	This year
Are such reviews made regularly?	No	Infrequently	Periodically	Yes
Does top management play a part in such reviews ?	No	Not much	Informally	Formally
Is line management involved in such reviews ?	No	Not much	Informally	Formally

Have performance criteria been set for HR ?	No	A few	Most areas	All areas
Are the criteria derived from the business needs ?	No	A few	Mainly	Totally
Do you know the costs of activities for HRM?	No	A few	Some	All
Do you measure HR time spent on HR projects?	No	Roughly	In part	Fully
Are HR actions such as training evaluated ?	Never	Rarely	Sometimes	Often
How are priorities decided when allocating the HR budget?	None	Whim	Gut feel	Corp need
Are HR actions in different parts of organization coordinated to give priority to business needs?	No	Rarely	Sometimes	Always
What sort of image does your organization have as an employer?	Don't know	Poor	Good	The best
How do the HR performance measures compare with competitors ?	Don't know	Badly	Same	Better
World class organizations ?	Don't know	Badly	Same	Better
Do line managers think HRM is a good strategic partner?	No	Sometimes	Mainly	Yes

- Scores for these sub-questions should be averaged

SCORING RULES

SCORE :

A – 0

B – 1

C – 2

D – 3

MAXIMUM SCORE $21 \times 3 = 63$

MINIMUM SCORE 0