

**EXPORT MARKETING TREND
FOR
TEXTILE AND APPAREL INDUSTRY
IN SOUTH AFRICA**



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JULY 2004**

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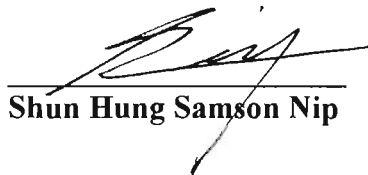
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Shun Hung Samson Nip

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

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Date..... 23 September 2009

ACKNOWLEDGMENTS

I am pleased to pay my respect and thank you to my supervisor MR MARC SALENCE.

EXECUTIVE SUMMARY

International business is much more complicated than domestic business because countries differ in many ways. Countries have different political systems economic systems. Cultural practices can vary dramatically from country to country, as the education and skill level of the population, and countries are at different stages of economic development.

Moreover, development of multinational strategies involves consideration of threats, opportunities, key success factors, and strategy options and issues that do not appear when the analysis is restricted to operations within a single country. In particular, the evaluation of a market must take into account the political and economic risks associated with individual countries. Thus the external analysis becomes much more demanding.

South Africa's trade and industrial policy has moved away from a highly protected, inward-looking economy towards an internationally competitive system that is able to capitalize on its comparative advantages. Enhancement of the competitiveness of industries on the domestic and international markets has consequently become a prime focus of the country's industrial policy.

International trade in textiles and clothing is conducted on an immense scale. Textile and clothing producers were responsible for 9.3 per cent of world exports of manufacturers in 2001. Barriers to entry for new firms and exporters are low, and consequently the degree of international competition is intense. Competitive advantage is very difficult to sustain for long periods of time. Newcomers speedily challenge successful exporters of basic products, and they must redirect their activities towards the production of higher value-added textiles and clothing in order to survive and prosper.

Textile industry represents a main role in South Africa's economy. However, during the year of 2003 Department of Trade and industry has recorded 20,000 job losses due to

significant increase in imports, largely from China, as well as a fairly noticeable decline in exports both facilitated by the strengthening of the Rand.

South Africa and Mauritius are the only countries in the region with established textile industries, but the cost of labour is relatively expensive and productivity is lower than in some competitor nations, such as China. The labour union - SA Clothing and Textile Workers Union (SACTWU) believes the root causes of the large-scale job losses was due to the South African government's rush to liberalise markets by cutting import tariffs in the mid- to late 1990s.

During the 1980s the clothing and textile industry benefited from protectionist tariffs levied on imported goods. However, this changed when South Africa signed the General Agreement on Trade and Tariffs (GATT).

The government agreed that clothing and textile tariffs would be reduced, but the union contends that they were cut more quickly and aggressively than the World Trade Organisation (WTO) had expected. The industry was not able to cope with that, and what followed were enormous job losses.

Multi-national organizations from South Africa have a choice to extend their global reach, due to the government export incentive programme, the mature companies can diversify their firms to emerging market in order to exploit their technological advantages and invest internationally. If a firm's primary goal is to maximize their shareholder's value, then they and probably the economy are better off if they invest or export where they can earn the best return.

As they do so, change in the global macro-environment further confounds the choices inherent in building a strategic organization. Some understanding of the organization's external and internal environment always drives strategy, as an international organizational better choice.

In the most general sense, the long-run monetary benefits of doing business in South Africa are a function of the size of the textile and clothing market, the present wealth (purchasing power) of consumers in the market, and the likely future wealth of consumers. Also the South African multi national companies can have the opportunity to gain export market in USA, Canada, Europe and other trade countries in South Africa.

In order to achieve economic growth and competitiveness in South Africa, it is recommend that the several issues cutting across the textile industrial sector need to be addressed through knowledge transfer, training, investment and management. Innovative technologies need to be developed to strengthen the competitiveness.

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1 INTRODUCTION

The South African government has followed a policy of export-led growth in the manufacturing sector, both through incentives and import liberalisation. The South African economy has historically been based on natural resource industries, and heavy industries linked to natural resources, such as iron and steel, have dominated manufacturing exports (Fine and Rustomjee, 1996; Roberts, 2000). Liberalisation aimed to reduce the disincentive to export for other sectors of manufacturing traditionally focused on the domestic market, and to encourage broader-based manufacturing growth. While manufacturing exports have grown strongly, particularly in recent years, there has been very low growth of output, and over the 1990s manufacturing employment fell.

The gains from exporting are part of the gains from trade through enabling greater specialisation in areas of comparative advantage. There are also potential gains from being able to realise economies of scale, greater exposure to technological developments and increased competitive pressures. Indeed it may make more sense to view exporting as part of the different dimensions of internationalisation of firms, including relationships governing technology, ownership and distribution within the global value chain & marketing mix. For example, in the textile sector many of the exports are in indirect form, being embodied in clothing products. Building those exports often means working together with the clothing manufacturer in design and delivery as well as price aspects.

Against this background, it is therefore interesting to examine the various relationships between trade liberalisation and firm development more closely. We do this through an analysis of the textile sector. This sector has historically been highly protected and inward oriented.

1.2 BACKGROUND

The textile and apparel industry is South Africa's sixth largest manufacturing sector employer and eleventh largest exporter of manufactured goods. After the mining industry, it is the second largest user of electricity and second largest source of tax revenue.

The textile and clothing industry in South Africa occupies an important role within the country's economy. Together, textiles and clothing account for about 14% of manufacturing employment and represent South Africa's second largest source of tax revenue. The industry directly employs 230,000 and another 200,000 in dependent industries such as transport and packaging. The Industrial Development Corporation (IDC) has calculated that for every worker in the textile industry, 2.5 jobs are generated in related industries.

According to SA Stats, total South African retail apparel sales exceeded R24.1 billion in 1997. It represents a 258% increase in retail sales since 1990 and a 146% growth since the elections in 1994. In 1997, the textile industry sales were R 11.9 billion. Global shifts in the clothing and textiles sector exemplify many of the intractable issues facing today's world economy, particularly the tensions caused by rapid and sweeping trade liberalization, increased international competitiveness, dumping and illegal imports.

South Africa experienced a huge increase in smuggling and fraud that needs to be effectively controlled through customs patrol. More efficient and effective control could be achieved by improving systems and procedures, rather than increasingly the amounts of human and capital resources to the problem. South Africans spend, on average, 7 percent of their annual income on clothing.

The sudden strengthening of the currency caught many by surprise as the strengthened Rand might inhibit exporters to get any overseas order. Due to this issue South African exporters, particularly in the clothing and textile sector, were not as competitively priced on international markets as two years ago. Because of strong Rand the cost of labour has become more expensive, relative to competitor countries.

Volume of production will be under pressure. Soft consumer demand and reduced disposable income will lead to fierce price competition and therefore a decline in local sales is expected. It is expected that exports of South African textiles will decrease as a

result of the strong Rand and the fact that South African manufacturers are increasingly breaking into foreign markets. Although production costs will be under pressure, an increase is expected due to increases in the price of raw material and higher wages. It is expected that technology and machinery will continue to be upgraded which will improve quality and productivity.

1.3 MOTIVATION FOR THE RESEARCH

South Africa (SA) has a substantial textile and garment market, well-developed financial institutions and capital markets, excellent communication and transport links, liberal repatriation of profits and other earnings, lower labour costs compared to industrialized countries, and inexpensive electrical power and raw materials. However, the dark side of the textile and apparel industry in this country is it continues to face a shortage of skilled labour, particularly in professional fields, the skill shortfall is the result of shortcomings in the educational system and departures of skilled labour from South Africa. Textile Companies have little power to lay off workers as well as finding appropriate black staff to fill quotas set by the employment equity legislation.

How can the South African textile industry treat the world market? Particular attention needs to be paid to the political, economic and social cultural environment of the markets that those textile companies in South Africa may wish to enter. These factors also influence the entry mode selected by those companies in the textile markets.

Buyer preferences in a foreign market may also lead a South African textile and apparel manufacturer to modify its product. Local customs, such as religious practices or the use of leisure time, often determine whether a product is marketable. The sensory impact of a product, such as taste or visual impact, may also be a critical factor. For example, Japanese tend to desire beautiful packaging. This has led many U.S. Companies to redesign cartons and packages that are destined for this market.

1.4 VALUE OF THE STUDY

To enter a foreign market successfully, a South African textile company may have to modify and understanding its product to conform to government regulations, geographic and climatic conditions, buyer preferences, or standards of living. The company may also need to modify its product to facilitate shipment or to compensate for possible differences in engineering and design standards.

Foreign government product regulations are common in international trade and are expected to expand in the future. These regulations can take the form of high tariffs or non-tariff barriers, such as regulations or product specifications. Governments impose these regulations to:

- Protect domestic industries from foreign competition;
- Protect the health of their citizens;
- Force importers to comply with environmental controls;
- Ensure that importers meet local requirements for electrical or measurement systems;
- Restrict the flow of goods originating in or having components from certain countries; and
- Protect their citizens from cultural influences deemed inappropriate.

To promote the local product to the foreign market, this dissertation investigate the following questions:

- What export activities do clothing and textiles companies undertake?
- Which are considered the most important?
- Does this pattern of activity differ depending upon the firm's objectives (e.g. promoting new products, entering new markets, or developing its market position)?
- What are the most important of the other routes to market?
- What specific features, such as design, colour, size, packaging, brand and

warranty should the product have?

1.5 RESEARCH METHODOLOGY

By answering the above questions the dissertation will bring in available theory, e.g. PEST analysis, Porter's diamond and Porter's five forces with practice together and add to the growing literature in the field.

Both desk and field research will be carried out. Desk research will focus on examining the literature on the FDI. Field research will use a case study approach by identifying a business where the role of strategies will be examined.

The main resources required will be different literature, including magazines, newspapers, reports and textbooks etc.

1.6 LIMITATIONS OF RESEARCH

In this research, the focus will only be on KwaZulu-Natal's environment because the majority of textile manufacturers are based in this province. The economy, cultural and demographic issue and related issues will be analysed.

1.7 STRUCTURE OF RESEARCH

The research is divided into five parts. Attention will be focused to provide an understanding of the complex and diverse South Africa business environment. In the first instance the background, value and research methodology of study will be presented

The second part, Introduction and Overview, presents an introduction to the concepts, methods, and strategy alternatives discussed and used in this dissertation, including the concept of a business strategy. It also provides an overview of strategic decisions based on a comprehensive flow model that serves to structure this dissertation.

The third part, Environment Analysis, which presents the analytical approach for understanding the export environments. It provides a way of viewing the distinctive nature of industry structure. How South Africa differs from the rest of the world with regard to their political, economic, legal, and cultural institutions.

The fourth part, Strategy Evaluation and Selection, define and select the most appropriate entry mode. Included are discussions and illustrations of alternative ways of obtaining sustainable competitive advantages by low cost or differentiation strategy.

The final part, Recommendation and Conclusion, concludes by briefly discussing trends affecting the future business environment in South Africa.

CHAPTER 2.

THE FRAMEWORK OF STRATEGY

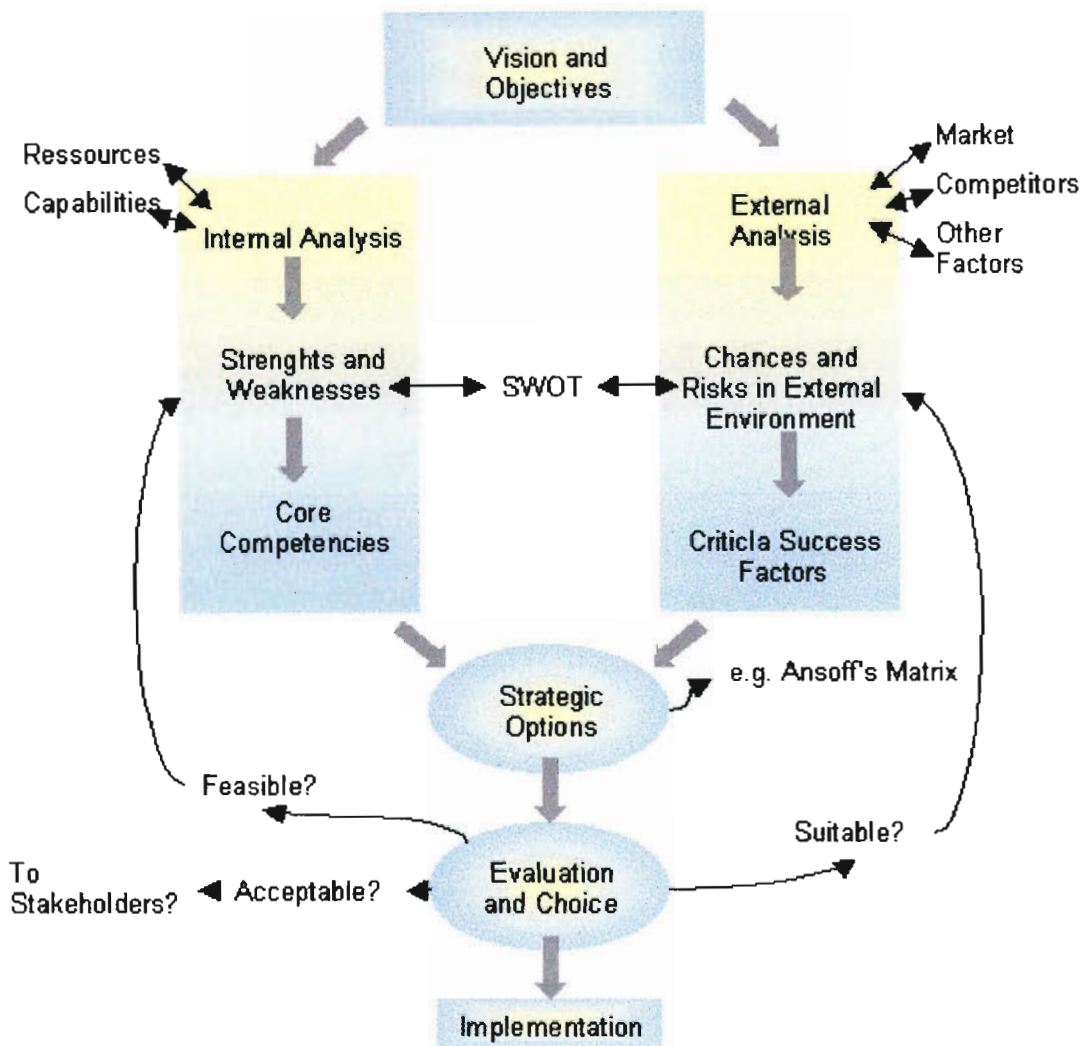


Figure 2.1 Strategic processes – derived from Mintzberg: Strategy Safari

2.1 INTRODUCTION

Without a strategy the organization is like a ship without a rudder
(Joel Ross and Michael Kami)

The term “strategy” ...is intended to focus on the interdependence of the adversaries’ decisions and on their expectations about each other’s behavior.
(Thomas C. Schelling)

Global market strategy is more complicated than treating the world as a homogeneous market place. What makes global marketing complex is the fact that not all businesses or marketing decisions lend themselves to central direction. In many markets where significant differences still exist among different countries, as in ethnic textile and clothing categories, the room for internationally coordinated marketing is limited. Even where opportunities for coordination or standardization exist, as in many consumer or industrial goods, not all marketing decisions lean themselves equally well to such international streamlining.

Overall, global marketing strategy is about winning in the marketplace to attract and retain customers, and outperform competitors. It requires the organization to create or leverage change in the environment by continually adapting its product offerings and by modifying and enhancing how it competes. It must anticipate changes in competitive conditions – the entry of new types of competitors, the introduction of new products, technology developments, and changes in customer’s taste. And most importantly, the strategies should be multifaceted, combining several elements and offering several inducements, and the strategies must be legal, affordable and effective.

Although global marketing offers certain economic advantages, a variety of barriers such as differences in socio-economic, cultural, technological, trade barriers, regulation, tariffs, and restrictions may make implementing a global marketing strategy difficult.

2.2 GLOBAL MARKET

I want to be a good Frenchman in France and a good Italian in Italy. My strategy is go global when I can and stay local when I must.

(Eric Johannson; President of Electrolux)

Increased globalisation of textile and clothing production and trade has been facilitated by a confluence of factors, including changes in policies and market practices in general and in those specifically related to clothing and textiles.

A key element in the successful development of export-oriented apparel industries has been access to imported inputs from world markets at world prices. For the exported final garment to remain cost-competitive in the consumer market abroad, garments must be assembled in countries where the internationally sourced fabric and trim required for assembly are imported at low or zero duties. Many developing countries had pursued strategies of import substitution to encourage domestic industrialisation back in the 1950s and 1960s, which meant that imports were subject to highly protective tariffs. In order to promote exports, these protective walls had to be circumvented. Some developing countries began to offer preferential duties and other advantages (e.g., relaxed labour codes, modernised power and telecommunications facilities) to enclave export industries, frequently organised in industrial parks known as "export processing zones" (Salinger, Savarese, and Amvouna, 1996). In addition to duty advantages, a nexus of efficient trade-related institutions such as customs services, port facilities, banking, telecommunications, domestic truck/rail transport, and sea/air transport in/out of the country are required. Finally, by managing local currency regimes to keep values at equilibrium levels, eliminating quantitative trade barriers, streamlining procedures for foreign capital inflows, and reducing or eliminating government intervention in the production and marketing of goods, governments have fostered economic policy environments conducive to international trade.

At the same time as international trade rules are changing, technological advances in electronic communications, international shipping, and management have facilitated the

cartelisation of manufacturing process. Reduction of manufacturing to small, simple tasks enables multinational firms to contract these tasks to foreign collaborators, partners, or suppliers around the world. Unskilled or semiskilled labour in developing countries is hired to carry out these simpler tasks, while the more complex aspects of design and co-ordination of production, trade, and commercial activities is managed by higher-paid skilled labour in developed countries. This international division of manufacturing labour will evolve as a broader pool of skilled labour is trained outside of the developed world. The result of this international division of labour has been a steep increase in import dependence by developed countries for certain products.

Countries across the globe are different due to the various economic, legal and political systems shaping them. To be successful in international business it is important that all employees in a company understand the mindset necessary for successful implementation of international strategy and that a company develops a corporate culture reflecting the global markets in which it operated.

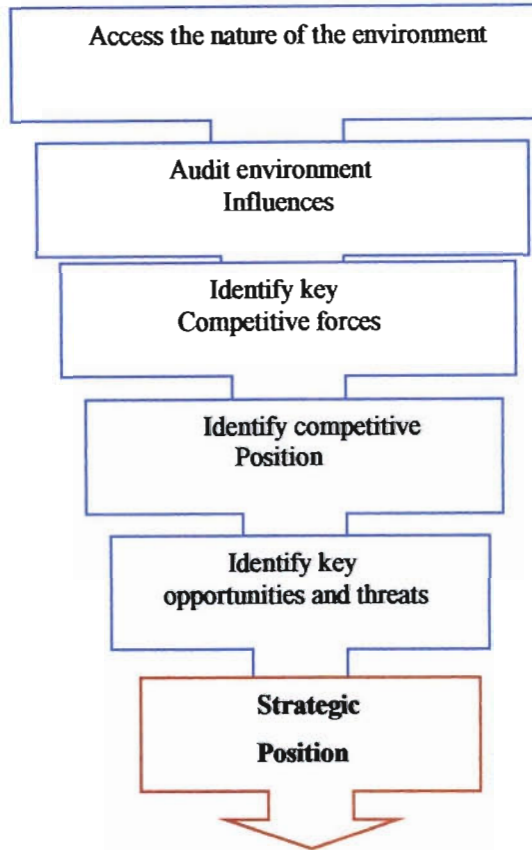
South African Multi-National Company (MNC) is confronted by the need for up-to-date and reliable investment intelligence to inform their choice. Therefore, it is essential for those companies to build themselves with the collective knowledge on this highly volatile micro and macro Southern Africa's environment.

To gain a better insight into these questions a PEST analysis along with a Porter's 5 Forces analysis will be done to determine factors that influence these changes. The segmentation of the market will be looked at in order to gauge the change in consumer preferences. Following this a marketing mix analysis and proposal will be conducted with an in depth view into the South African textile and clothing industry. Also in this chapter, attention will be focused on the process of analysing environment strategy (Figure 2.1) and the development of a marketing strategy that covers the marketing mix, to enter the markets that have been identified. Areas that must be covered include the "4P's" of marketing namely, product, promotion, place and price strategy. In addition to this attention will also be given to the 2 service "P's" including process, and people to ensure that a

comprehensive marketing strategy is developed.

2.3 ANALYSING THE ENVIRONMENT

Figure 2.2 Steps in environment analysis



Source: EXPLORING CORPORATE STRATEGY

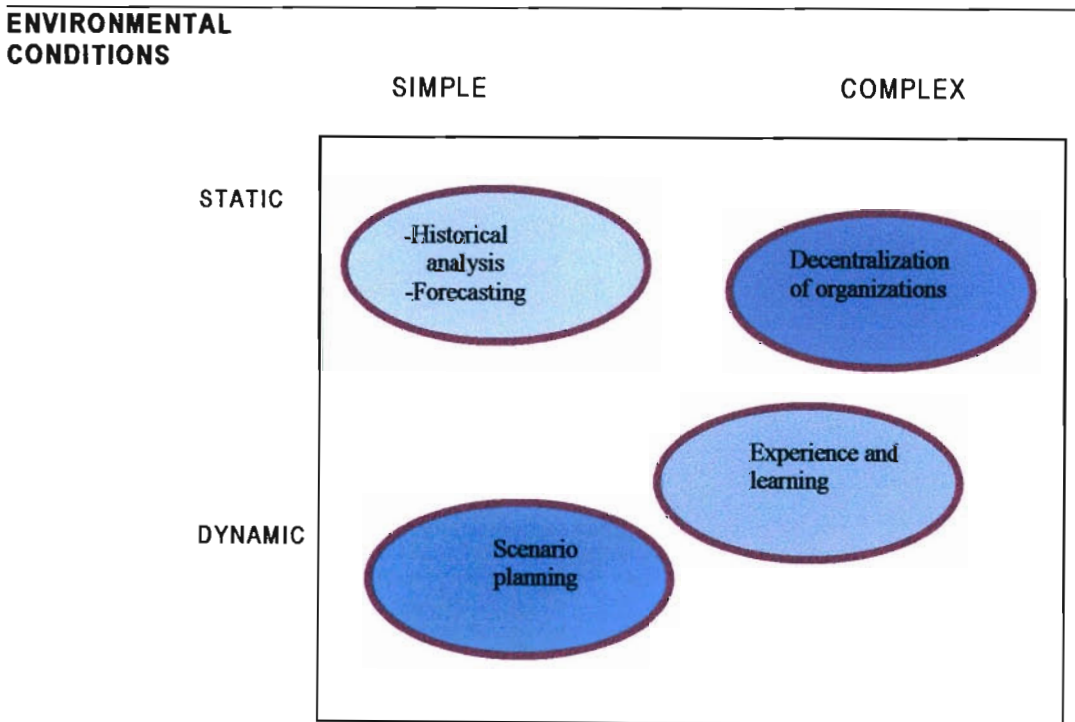
The frameworks of formulating competitive strategy are relating a company to its environment. It is useful to take an initial view of the nature of the industry's environment in terms of how uncertain it is. The macro environmental influences the organization's development and performance, therefore it is essential to audit the environment influences which involves identifying the political, economic, social and technological. It is known as a PEST analysis. Forces outside the industry are significant primarily in a relative sense, since outside forces usually affect all firms in the industry, the key is found in the differing abilities of firms to deal with them. It is also important to understand your competitor's position in relation to the attractiveness of the market in which it operates.

The aim of the environmental analysis is to develop an understanding of opportunities that can be built upon, and threats, which have to be overcome or circumvented according to the organization competence and their resource base. These frameworks are briefly illuminates in Figure 2.2.

2.4 UNDERSTANDING THE NATURE OF THE ENVIRONMENT

How to lay the foundation for tomorrow's success while competing to win in today's marketplace? "Winning today is never enough; unless the seeds of tomorrow's success are planted and cultivated, the organization will not have a future" (Fahey 1982). The environment in which tomorrow's success will be earned is likely to be quite different from the environment that confronts the organization today.

Figure 2.3 Approaches to making sense of the environment



Environmental conditions can distinguish into four conditions, such as stable, dynamic, simple or complex. Environmental uncertainty increases the more the conditions are dynamic or complex, and the approach to making sense of this may differ both by the extent to which the environment is stable or dynamic, and also the extent to which it is simple or complex, as shown in Figure 2.3.

When the environment is in a simple/static condition that means this environment is not undergoing significant change. Even though if change does occur, it is likely to be predictable, so it can analyse the environment extensively on an historical basis as a means of trying to forecast likely future conditions.

If it is in the dynamic situation, investors have to consider the environment of the future, not the past. They may need to use scenarios planning to view the different possible futures. The plan will be based on groupings the key environmental influences and drivers of change about which there is a high level of uncertainty.

Organization in complex situations faces an environment difficult to follow. It is difficult to handle complexity by relying primarily on analysis. Complexity as a result of diversity might be dealt with by ensuring that different parts of the organization responsible for different aspects of diversity are separate, and given the resources and authority to handle their own part of the environment.

2.5 MACRO ENVIRONMENTAL ANALYSIS: AUDITING ENVIRONMENTAL INFLUENCES

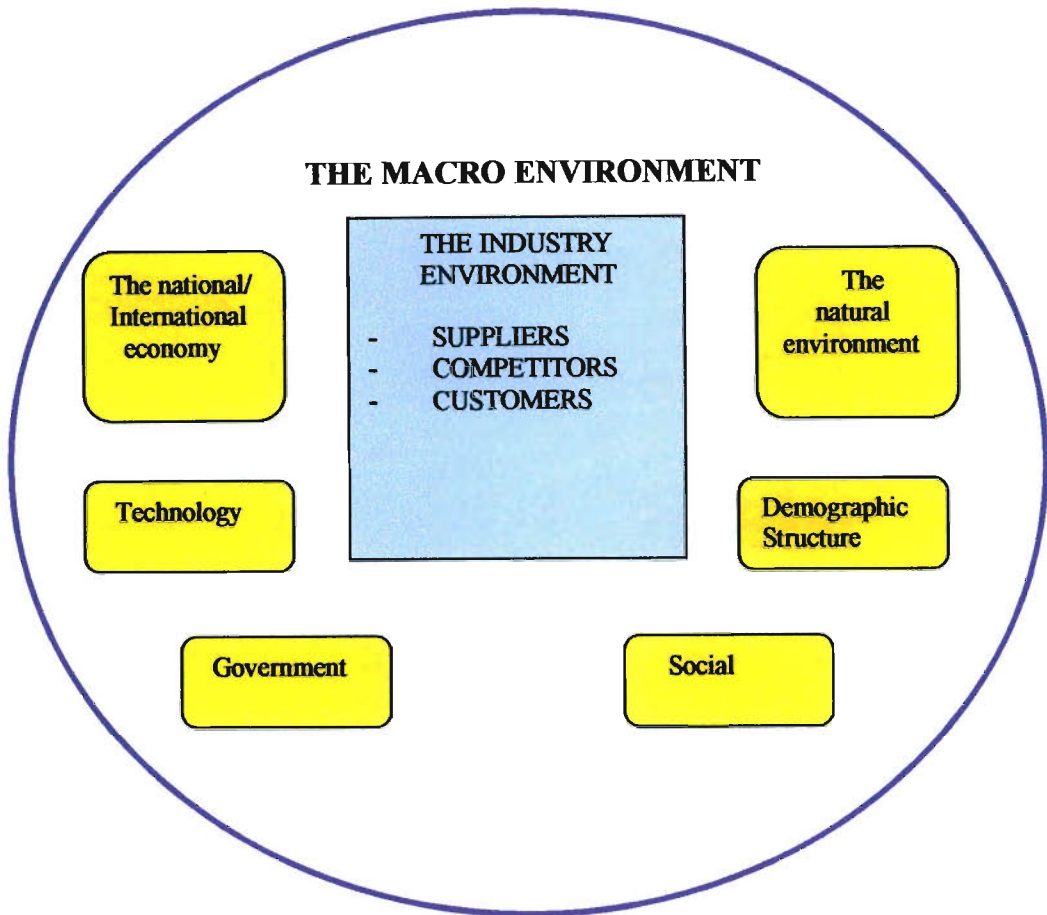


Figure 2.4 The Business Environment

A corporate acts minute-by-minute in a microenvironment that is represented by its operations, markets, and industry. The macro environment at times change rapidly and organisations either react or at times they are proactive.

To succeed in the new environment of tomorrow, the organization itself must undergo significant and sometimes radical change. Old ways of thinking have had to be challenged and reconceived when long held assumptions and beliefs ultimately have become incongruent with the changed environment. New operating processes or ways of doing things must be learned.

The prerequisite for effective environmental analysis is to distinguish the vital from the merely important. From the point of view of the firm, the core of its environment is its network of business relationships. These relationships comprise transactions with rival producers. Hence, competitors, suppliers, and customers form the core of the firm's environment. This arena is the firm's industry environment in Figure 2.4.

Local companies need to scan the environment in order to identify indicators or precursors of current and potential change and issues in the social, political, technological, and economic environments. One of the intend scanning is to alert the organization to predictable head-on collisions with its environment so that it will have as much time as possible to consider alternative actions. It is equally important that scanning be sensitive to consider new opportunities.

2.5.1 POLITICAL ENVIRONMENT

Politics is something we must understand as export marketers, even though we should avoid positions that put ourselves at risk of alienating any political faction. The export marketer might give attention to the following political factors in assessing markets:

- Assess level of government interference in trade and commerce.
- Focus on markets with favourable political climates.
- Does the product produce a net drain of scarce foreign exchange?
- Is competition likely to come from local manufacturers?

2.5.2 ECONOMIC ENVIRONMENT

The economic environment refers to the nature and direction of the economy in which business operates. It includes the stock of physical and natural resources and the aggregation of all the markets where goods and services are exchanged for payment. The more the companies know and understand about the economy and economic and social infrastructure of a market the better can they can place in developing marketing strategies. The export companies or marketer should research:

- The level of economic development

- National income in real terms
- The investment climate and political climate
- Labour supply and wage rates
- Balance of payments equilibrium
- The management of the economy and foreign exchange

2.5.3 THE SOCIAL SEGMENT

This segment consists of the demographics, life-styles, and social values. An analysis of this segment consists shifts in the structure and mobility of the population, how life-styles are changing, and whether social value change is taking place.

Factors that may also be considered are:

- Literacy and education levels
- Business, economic and technical education available
- Religious, racial and national characteristics
- Degree of urbanization and urban-shift

2.5.4 THE TECHNOLOGICAL ENVIRONMENT

It is concerned with the level and direction of technological progress or advancements taking place in a society, including: new products, processes or materials, general level of scientific activity, and advances in fundamental science.

To understand the concept of Micro and Marco environment, it is helpful to visualize the industry's environment. Without a clear and purposeful understanding of how possible futures in the PEST environments may affect evolution of individual industries.

2.6 ADDITIONAL CRITERIA USEFUL FOR SELECTION

In addition to the PEST criteria listed above additional factors such as geographic location also play an important role.

2.6.1 GEOGRAPHIC LOCATION

Geographic location is important for a number of reasons including proximity to home market, the clustering of similar markets and climatic conditions that may influence the success of the product in the marketplace (Hollensen, 2001).

Southern African markets provide the ideal basis for expansion into Africa due to the close proximity to the South African home market. Countries such as Namibia, Botswana, Swaziland, Mozambique and Lesotho are therefore ideal candidates for entry. However, as discussed above economic conditions in these, and other African Countries, may preclude the creation of suitably large markets that will help those South African textile and apparel companies to achieve its growth objective.

Climatic conditions also play a role in deciding which market to enter. Warmer climates such as those of the Americas, and Southern Europe are therefore suitable markets to enter. To a lesser extent countries such as Britain and France, with more temperate climates and a strong consumer base provide market growth opportunities.

2.6.2 COUNTRY OPENNESS

The PEST analysis above has given some indication as to the potential country markets that the local South African textile and apparel company could consider as part of its global expansion programme. Preliminary screening of these countries can be done using various models including the BERI (Business Environment Risk Index) or other similar models including the “Economic Freedom of the World” (EFW) index prepared by the Fraser Institute (Gwartney, 2002).

The EFW Index bases its analysis on various factors such as size of government, legal

structure, financial system, exchange rate and trade system, and regulation on credit, labour and business. The table below scores and ranks potential foreign markets using the EFW Index (Gwartney, 2002).

Country	ETW Index Score	Overall world ranking
Singapore	8.6	2
United States	8.5	3
United Kingdom	8.3	4
Ireland	8.1	7
Australia	8.0	9
Botswana	7.0	37
South Africa	6.7	47
Malaysia	6.7	47
Namibia	6.3	62
Mexico	6.1	69
Tanzania	5.8	81
Brazil	5.6	89
China	5.4	98
Swaziland	N/A	N/A

Source: Fraser Institute, 2002

Table One: Rank of potential Foreign Markets using the ETW Index

2.6.3 POTENTIAL MARKET SEGMENTS

Based on the above analysis it is possible to identify a number of key markets that the local South African textile and apparel company can enter to achieve its growth objectives:

1. Growth in **Australia** will provide it with the knowledge and skills to extend its international reach.
2. Geographical proximity to Australia, and distance from the fiercely competitive markets of Europe makes South East Asian countries such as **Malaysia** and **Singapore** ideal candidates to grow international revenues.
3. The **Brazilian** market with its growing middle-class population present further opportunity, although fierce competition in the ceramic tile industry may present challenges.
4. Entry into the **US** market is attractive due to its sheer size and the established D-I-Y culture that exists.
5. **Great Britain** and **Ireland** present opportunities due to the historical links to South

Africa and growing D-I-Y market.

6. **African** market provides opportunities as well, but growth will be limited due to the relatively small middle and upper-middle income consumer markets that exist in these countries.

Based on the above priority list the local South African textile and apparel company must decide which market segments to penetrate in these countries. Market segments can be identified using a number of variables including demographic/economic factors, lifestyles, consumer motivations, and geography and psychographics characteristics. The analysis above focussed mainly on demographic and economic factors although lifestyle, i.e. the existence of a DIY culture, also play a more in determining the market segments that the local South African textile and apparel company should enter (Hollensen, 2001)

2.6.4 MARKET ATTRACTIVENESS

Various criteria can be used to assess the market attractiveness of potential markets identified in the previous analysis. For example, a market attractiveness/competitive strength matrix can be used to identify specific strategies to be adopted in entering new markets (Hollensen, 2001). Once the local South African textile and apparel company has decided on the appropriate market and products further in depth and detailed analysis should be done on how the market will be entered. All Countries or markets in the upper left area of the matrix will be the most attractive for entry and growth i.e. those that rate as high on Country/market Attractiveness and high on Competitive strengths.

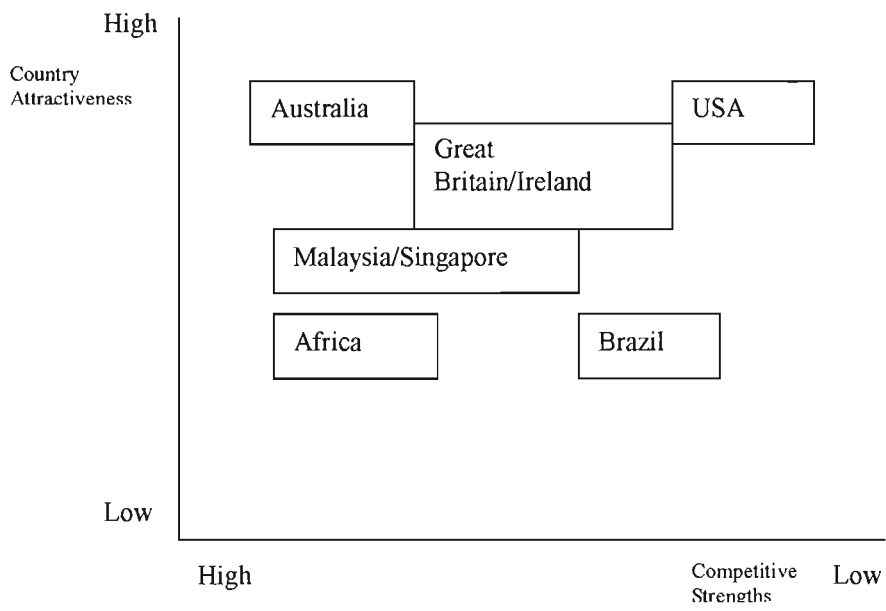


Figure 2.5: Country Attractiveness – Competitive Strength Matrix for local South African textile and apparel company

2.7 IDENTIFY KEY COMPETITIVE FORCES: PORTER'S FIVE FORCES

“Know the other and know yourself:
Triumph without peril.
Know Nature and know the situation:
Triumph completely” (Sun Tzu 300 B.C).

Porter's five forces model is one of the most effective and enduring conceptual frameworks used to assess the nature of the competitive environment and to describe an industry's structure. Figure 2.6 shows how these five forces interrelate to determine an industry's attractiveness. A highly attractive industry is one in which it is comparatively easy to make profits; an unattractive industry is one where profitability is frequently low or consistently depressed. The interrelationships along these five forces give the industry its own particular competitive environment.

Competitor Categories

Actual competitors
Potential competitors
Potential substitutes
Suppliers
Buyers

Competitive Forces

Intensity of rivalry
Barriers to entry
Substitution pressures
Supplier bargaining power
Buyer bargaining power

Force 1: The Intensity of Rivalry

The intensity of rivalry is the most obvious of the five forces in an industry. It is only one of the several forces that can determine industry attractiveness. If competitors have diverse objectives or attach high strategic stakes to their positions in an industry, they are likely to compete aggressively within it.

Force 2: The Barriers of Entry

One of the most potent forces affecting industry dynamics is the threat of entry of new competitors. New entrants pose a substantial threat when they are easily able to enter a market and when they are able to compete strongly through costs or other means. Some barriers reflect intrinsic physical or legal obstacles of entry, for instance government policy,

economies of scale, capital requirements, and access to distribution or proprietary learning curve.

Force 3: The Threat of Substitutes

The existence of substitutes that perform the same functions as the products or services being analyzed is a basic condition that caps the amount of value an industry can create. The analysis of the threat of substitutes can analysis on demand side, which it must focus on the customer function performed, not just on physically similar products.

Conceptually, analysis of the substitution possibilities open to buyers should be supplemented with consideration of the possibilities available to suppliers. Supply-side substitutability affects suppliers' willingness to provide required inputs, just as demand-side substitutability affects buyers' willingness to pay for products.

Force 4: Buyer Power

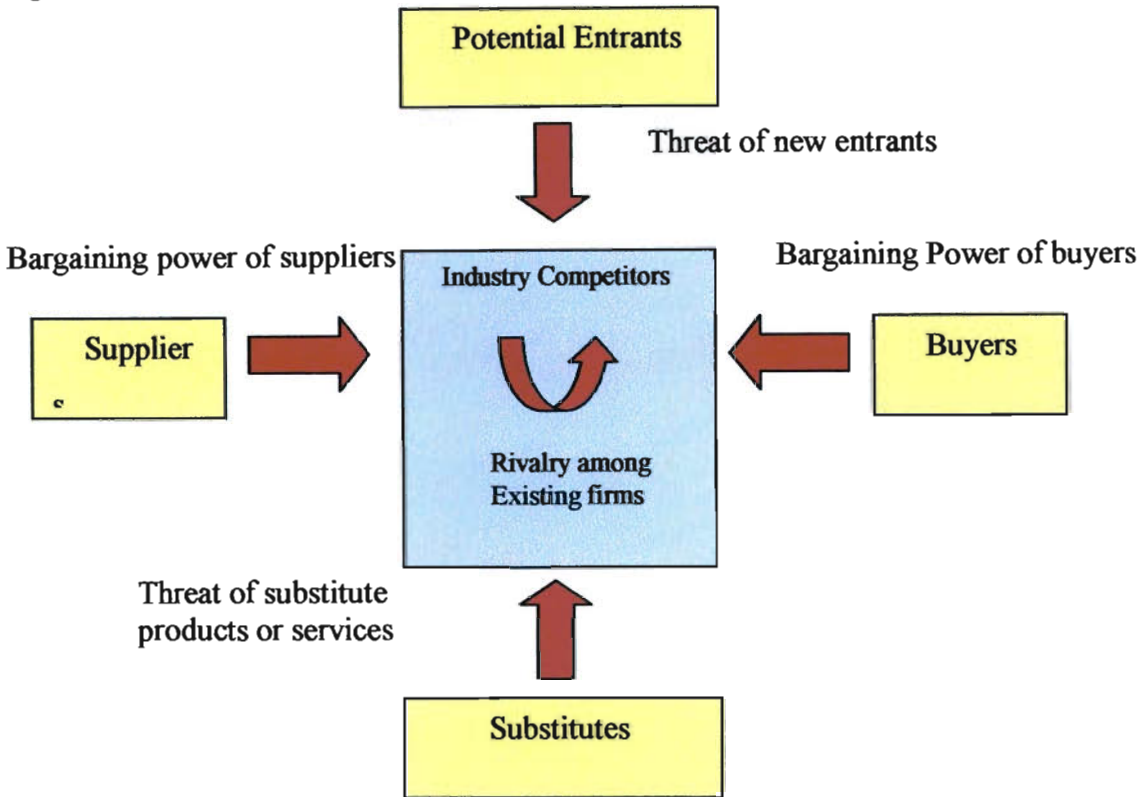
Buyer power is one of the two vertical forces that influences that appropriate the value created by an industry. Buyer power allows customers to squeeze industry margins by pressing competitors to reduce prices or to increase the levels of service offered without recompense.

Force 5. Supplier Power

Supplier power is the mirror image of buyer power. The analysis of supplier power focuses, first, on the relative size and concentration of suppliers relative to industry participants and, second, on the degree of differentiation in the inputs supplied.

Buyer and supplier power must always be balanced with the recognition that relationships between buyers and suppliers have important cooperative as well as competitive elements.

Figure 2.6 Forces driving industrial competition



The aim of competitive analysis is to identify the competitive pressures associated with each force, determine whether these pressures add up to a strong or weak competitive force in the market place. Further their think strategically about what sort of competitive strategy, given the “rules” of competition in the industry, the company will need to employ to (a) insulate the firm as much as possible from the five competitive forces, (b) influence the industry’s competitive riles in the company’s favor, and (c) gain a competitive edge.

2.8 IDENTIFY COMPETITIVE POSITION

Competition provides the rationale for strategy because without it there can be no game plan. It is concerned only with establishing objectives, forecasting the external environment, and planning resource developments. The essence of strategy is the interdependence of competitors. Because actions by one player affect outcomes for other participants, each player's decisions must take account of other player's expected reaction.

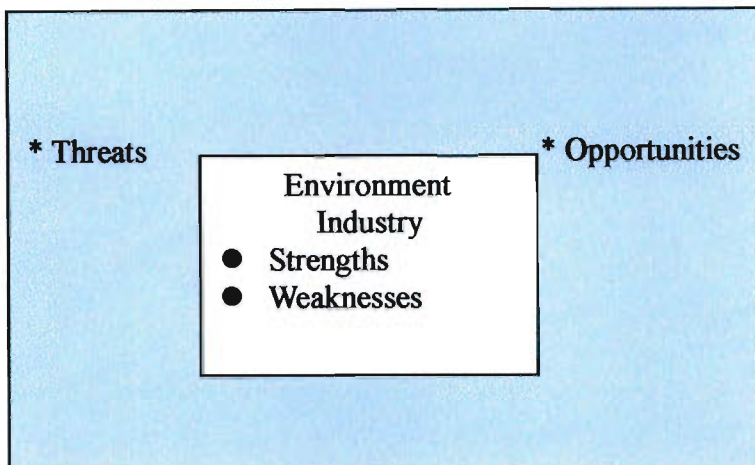
It is therefore important to understand the organization's competitive position and its implications in strategic terms. One technique for revealing the competitive positions of industry participants is strategic group analysis, the aim to identify organizations with similar strategic characteristics, following similar strategies or competing on similar bases. It helps identify who the most direct competitors are, on what basic competitive rivalry is likely to take place within strategic groups.

2.9 IDENTIFY KEY OPPORTUNITIES AND THREATS

The final output of the industry analysis is the identification of key opportunities emerging from the favourable factors affecting the industry and the key threats resulting from the adverse impact to industry attractiveness. The better the market opportunity; higher the long run average profitability of all the players in the market. These opportunities and threats should be the depositories of all of the critical issues detected during the environmental scanning process.

Excellent companies have developed the ability to interact effectively with their external environment, either by adapting themselves faster than their competitors, or by capturing opportunities that others have failed to recognize. This ability involves a thorough knowledge and a learning capability to anticipate environmental trends and to place the right bets on the uncertain outcomes associated with them. It all boils down to intelligent risk taking (Figure 2.7).

Figure 2.7 SWOT Analysis



This approach enhances the benefits of the framework, in particular by:

- Thinking through when future changes might occur and the resultant opportunity or threat.
- Challenging managers' mindsets about when an environmental change is an opportunity or a threat
- Matching external changes with internal repercussions, and attempting to gauge the size of the internal impact and identify key priorities for strategic attention.
- Providing a format for thinking about competitive positioning by comparing the impact of changes on the organization with that on competitors.

2.10 STRATEGIC OPTIONS

The choice of mode for entering a foreign market is a major issue with which international businesses must wrestle. For foreign direct investment's companies, the Expansion Method Matrix (Figure 2.8) explores in a structured way the methods by which market options might be achieved. By examining the industry's internal and external expansion opportunities and its geographical spread of activity, it is possible to structure the various methods that are available.

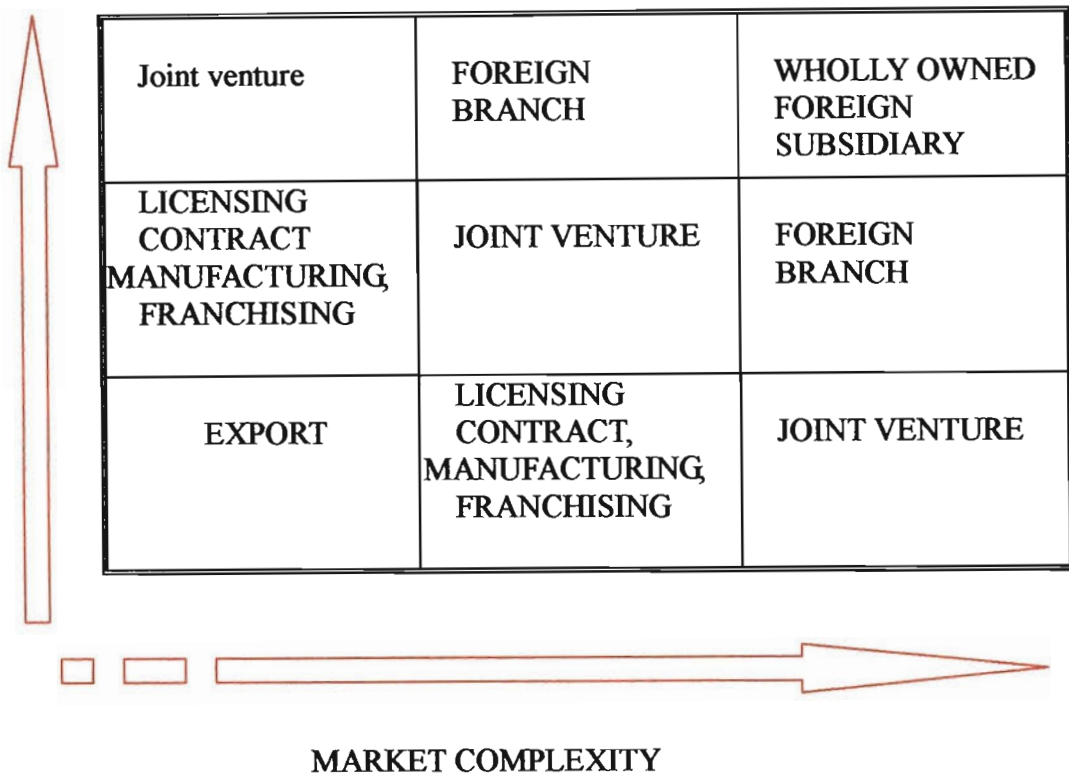


Figure 2.8 The Expansion Method Matrix

The various modes for serving foreign markets are exporting, licensing or franchising to host-country firms, establishing joint ventures with a host-country firm, and setting up a wholly owned subsidiary in a host country to serve its market. Each of these options has advantages and disadvantages. The magnitude of the advantages and disadvantages (see Table 2.1) associated with each entry mode are determined by a number of factors, including transport costs, trade barriers, political risks, economic risks, and firm strategy.

Ultimately, the choice must be based on an assessment of a nation's long run profit potential.

Table 2.2 Advantage and Disadvantage of Entry Mode

Mode	Conditions Favoring this Mode	Advantages	Disadvantages
<i>Licensing</i>	<p>Import and investment barriers</p> <p>Legal protection possible in target environment.</p> <p>Low sales potential in target country.</p> <p>Large cultural distance</p> <p>Licensee lacks ability to become a competitor.</p>	<p>Minimizes risk and investment.</p> <p>Speed of entry</p> <p>Able to circumvent trade barriers</p> <p>High ROI</p>	<p>Lack of control over use of assets.</p> <p>Licensee may become competitor.</p> <p>Knowledge spillovers</p> <p>License period is limited</p>
<i>Joint Ventures</i>	<p>Import barriers</p> <p>Large cultural distance</p> <p>Assets cannot be fairly priced</p> <p>High sales potential</p> <p>Some political risk</p> <p>Government restrictions on foreign ownership</p> <p>Local company can provide skills, resources, distribution network, brand name, etc.</p>	<p>Overcomes ownership restrictions and cultural distance</p> <p>Combines resources of 2 companies.</p> <p>Potential for learning</p> <p>Viewed as insider</p> <p>Less investment required</p>	<p>Difficult to manage</p> <p>Dilution of control</p> <p>Greater risk than exporting a & licensing</p> <p>Knowledge spillovers</p> <p>Partner may become a competitor.</p>
<i>Direct Investment</i>	<p>Import barriers</p> <p>Small cultural distance</p> <p>Assets cannot be fairly priced</p> <p>High sales potential</p> <p>Low political risk</p>	<p>Greater knowledge of local market</p> <p>Can better apply specialized skills</p> <p>Minimizes knowledge spillover</p> <p>Can be viewed as an insider</p>	<p>Higher risk than other modes</p> <p>Requires more resources and commitment</p> <p>May be difficult to manage the local resources.</p>

Exporting	Limited sales potential in target country, little product adaptation required	Minimizes risk and investment.	Trade barriers & tariffs add to costs.
	Distribution channels close to plants		Transport costs
	High target country production costs		Limits access to local information
	Liberal import policies		Company viewed as an outsider
	High political risk		
			Speed of entry
			Maximizes scale; uses existing facilities.

2.11 THE MARKETING MIX

Marketing is the process of matching the resources of the business with identified user or consumer needs and creating, maintaining and then exploiting competitive advantage to satisfy those needs profitably.

The marketing oriented company should put the customer at the center for its business and focuses activities towards creating satisfied customers.

The demand influencing variable in the marketing mix, and that can be addressed in marketing planning, are the traditional 4Ps of marketing – product, price, place and promotion – and the newer additions to this 4Ps approach of people, and processes.

Consideration to these 6Ps in the marketing mix is every bit as relevant in international as in domestic markets, and an export marketing strategy plan should give particular coverage of each of the key points of product, price, promotion, place, people, and processes. Table 2.3 illustrates some of the subordinate points under each of these key factors that the export marketer has to consider in developing his marketing strategy to ensure that he has the right product in the right place at the right price and with the right promotion to suit his markets, and with the right people and processes to suit his customer needs.

Table 2.3 Factors in the marketing mix

The Marketing Mix					
Product	Price	Promotion	Place	People	Processes
<ul style="list-style-type: none"> ➤ Range ➤ Portfolio mix ➤ Packaging ➤ Design ➤ Features ➤ Size variants ➤ Product variants, e.g. ➤ Taste/colour, etc ➤ Image ➤ Branding ➤ Quality ➤ Warranties ➤ Product support (After-sales service) ➤ Customer service ➤ Availability ➤ Use occasion 	<ul style="list-style-type: none"> ➤ Positioning in relation to comparative or alternative products ➤ List price ➤ Discounts and allowances ➤ Credit terms and payments periods ➤ Trader margins ➤ Value-added elements – user benefits 	<ul style="list-style-type: none"> ➤ Marketing communications (e.g. above the line) ➤ Personal promotion (selling, demonstrating, merchandising) ➤ Sales promotion (below the line, short term tactical tools) ➤ Public relations and brands publicity ➤ Direct marketing 	<ul style="list-style-type: none"> ➤ Trade channels ➤ Outlet coverage by sales term ➤ Sales support ➤ Distribution infrastructure ➤ Costs of distribution ➤ Product differentiation through segmented distribution ➤ Market dynamics ➤ Changing distribution patterns ➤ Trade channel inventories 	<ul style="list-style-type: none"> ➤ Impact of individuals on the marketing activities ➤ Relationship of individuals to customers level of customer contact ➤ Recruiting of suitable staff ➤ Corporate culture and image ➤ Training and skills: customer care, technical know-how, selling etc. ➤ Remuneration and motivation 	<ul style="list-style-type: none"> ➤ Ensuring all processes are geared to maximize customer satisfaction ➤ Strategic planning ➤ Business process re-engineering ➤ Product and information technology ➤ Research and development ➤ Distribution logistics ➤ Paperwork processing ➤ Category management

Marketing mix factors can apply in different ways to the distribution trade channels and the end users or consumers, complicating the decision choices facing the international marketer. He has to take these marketing mix decisions across a range of different countries and cultures, attempting to have a consistency in marketing strategy but reflecting local environments and conditions.

2.12 THE INNOVATION CULTURE WITHIN TEXTILE INDUSTRY

The innovation culture must be introduced and practice at every level in an industry or organisation. According to Daniel Vasella Chairman and CE of Novartis in Harward Business Review (Aug 2002) one way to foster innovation is to align business objectives with ideas. The alignment of objectives, ideals, and values contributes greatly to the motivation and thereby the energy that employees at all levels devote to their work.

These key traits are inherent in textile industry innovation processes and are a cornerstone of the high rate of product successes. However, a company's ability to create new products usually far surpasses its ability to secure consumer acceptance, even when these new products are superior to existing products on the market. In this survey, innovation is divided into three main types, product, production process, and labour process.

In organisations where innovation is a norm, every staff member is encouraged and given incentives to contribute ideas. This is encouraged through formal internal interactions (brainstorming sessions, problem solving sessions meetings, suggestion schemes etc) and other informal means.

2.13 THE VALUE CHAIN APPROACH AND THE PRODUCT LIFE CYCLE

“Unless we change our direction, we are likely to wind up where we are headed”

(Ancient Chinese Proverb)

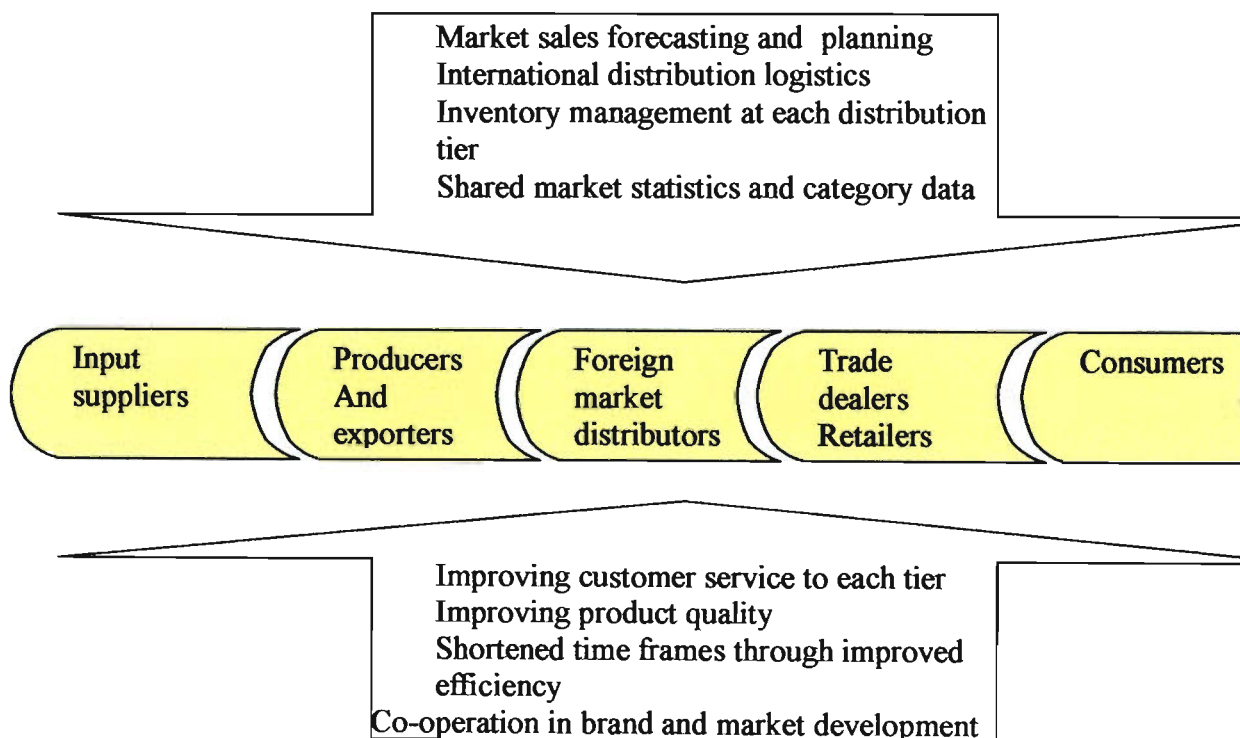
2.13.1 VALUE CHAIN

Marketing is focusing on the need for manufacturers to understand the ‘value chain’ and the importance of adding value throughout the distribution chain or pipeline, both to suppliers and distributors and on down the line to final consumers or users (Figure 2.9).

This is just as relevant to international marketing as it is in the domestic context.

Manufacturers and distributors in the foreign markets must work together to improve supply chain management and product category management, sharing more information and improving the profitability of each stage in the supply chain whilst also satisfying final consumer needs.

Figure 2.9 Adding value through the supply chain partnership



Successful companies need a thorough understanding of their industries, not just their business. Maps of industry interrelationships reduce the complexity of, and provide a framework for, understanding the components of the business and making better decisions. The value chain charts the connection between the upstream and downstream components of the business and their relationships to one another. Business processes organize the flow of an interrelated set of activities, information, and resources along the value chain and, in so doing, help achieve the strategy of individual organizations.

In international markets, it is just as important that the supplier focuses his resources on that part of the chain where his company has a distinctive differential advantage. That approach would encourage a company to out-source for things it is weaker at, and builds partnership relationships with other links in the chain. This differs from the traditional cut and thrust of the company, at the start of the supply chain, trying to knock down the prices its suppliers receive and imposing onerous supply terms, playing several suppliers off against each other, and at the later distribution stages of the chain also battling with the various tiers in the trade channels. In the partnership approach the company does want to minimize what it pays for inputs, but not at the risk of driving suppliers out of business. By more efficient production planning and sales forecasting from the company being passed back to input suppliers so that they can better schedule their production will make the input suppliers become more efficient and thereby reduce their cost structure. Similarly, further along the supply chain, the company should assist its international distributors increase their overall profits through the distribution and sale of company products. That will bind suppliers and distributors into a closer partnership. Information needs to be shared between links in the supply chain to ensure improved efficiency of market management with resultant cost benefits to each tier and the user/ consumer.

2.13.2 PRODUCT LIFE CYCLE

Life Cycle Analysis

The strategy a firm selects depends on both the industry environment and its own distinctive competences and strengths. Yet, the evolution of the industry environment can have a marked impact on how firms build different sources of competitive advantages. The

position within the life cycle can be determined in relation to eight external factors or descriptors of the evolutionary stage of the industry. These are: market growth rate, growth potential, breadth of product lines, number of competitors, spread of market share between these competitors, customer loyalty, entry barriers and technology. It is the balance of these factors, which determines the life cycle stage.

Table 2.4 Strategic Guidelines Based on Industry Maturity and Competitive Position

	Embryonic	Growing	Mature	Aging
Dominant	All-out push for share Hold position	Hold position Hold share	Hold position Grow with industry	Hold position
Strong	Attempt to improve position All-out push for share	Attempt to improve position Push for share	Hold position Grow with industry	Hold position or harvest Harvest
Favorable	Selective or all-out push for share Selective attempt to improve position	Attempt to improve position Selective push for share	Custodial or maintenance Find niche and attempt to protect	Harvest Phased withdrawal
Tenable	Selective push for position	Find niche and protect it	Find niche and hang on or phased withdrawal	Phased withdrawal or abandon
Weak	Up or out	Turnaround or abandon	Turnaround or phased withdrawal	Abandon

The purpose of the strategic guidelines (Table 2.4) is to establish the appropriateness of particular strategies in relation to the two dimensions, which consists the market situation and the competitive position. The crucial issue is establishing where an organization is currently positioned and therefore what types of strategy are most suitable.

2.13.3 SELECTION OF STRATEGIES

Strategies are selected in many different ways, not just through a formal analytical (planned) approach. It is important to understand the role which formal evaluation will play in difference processes of selection. If new strategies are enforced upon an organization, evaluation still has a place. Organizations that develop incrementally are likely to suffer from strategic drift. Formal evaluation is one way of attempting to minimize

this danger whilst acknowledging the preference for incremental or reactive change. It can help to promote learning and communication within the organization.

Many strategic choices are ultimately made by, one individual or a small group who have the authority to make sure decisions. So the role of the ‘analysis’ is to raise the level of debate amongst decision-makers. Table 2.5 provides a summary of the processes for selecting strategies:

Table 2.5 Processes for selecting strategies

APPROACH	DOMINANT PROCESSES	ELEMENTS OF GOOD PRACTICE	DANGERS
Planning	Analytical techniques Tested against objectives Quantifies where possible		No ownership Fragmented analysis Rigidity-lost opportunities Decision-makers disown analysis
Enforced choice	Bend to environmental “pressure”	Assess risk Prepare contingencies	“Victims of circumstances” Evaluation not done
Learning from experience	Reactive moves in separate parts of organization Cultural/Political context Important	Processes need credibility Avenues of challenge Promote inter-unit learning	Fragmented/inefficient Pragmatism Risk of strategic drift
Command	Dominant stakeholder Selects strategies	Inform / educate decision maker Need “completeness” Challenge the paradigm	Incomplete vision Vision institutionalized

2.15 CONCLUSION

Many of the world's national markets are becoming more uniform, and opportunities to enter new markets are increasing. However, it requires firms to deal with a host of unfamiliar elements, including customers in distant locations, governments pursuing different agendas, and competitors possessing unusual capabilities. Export marketing also brings with it very different competitors, many of them backed by home governments and industrial policies that may radically alter the competitive environment.

In this chapter, we have seen the framework of the strategy together with the internal and external industry analysis which can assist the MNC from South Africa to understand the industry analysis by which to establish a particular industry, is likely to prove attractive to the "average" competitors and can also shed light on profit difference among the local competitors in that industry. It can present a balanced view, the threats versus the opportunities uncovered during the situation assessment. The better the market opportunity, higher the long term average profitability of all the players in the market. More broadly, industry analysis illuminates the competitive landscape in a way that aids the formulation of effective strategies.

Macro-environmental analysis is useful only to the extent that it results in strategy related action and decisions. The integration of expectation of change and preparation for it does not just happen; it must be made to happen. Change must be managed; choices and alternatives need to be weighed, the consequences and operating issues involved in actions need to be examined, and resources need to be allocated.

From environmental change springs opportunities. Without change of the potential to affect change, organizations would neither confront nor be able to create opportunities. Without a managed flow of new opportunities, organizations cannot grow and prosper; they are destined to decline and die. Unfortunately, change is also the source of threats to the organization's current and potential strategies. Thus organizations must commit themselves to grappling with change and be able to understand and transform it into opportunity.

CHAPTER 3
ENVIRONMENTAL ANALYSIS



3.1 INTRODUCTION

The key to local or foreign investors effectively managing in less developing countries (LDC) such as South Africa is the capacity to analyse, understand, and manage the external forces enveloping the firm. The LDC's distinctive environment engulfs the firm with a complex multitude of pressures, demands and opportunities. Working within an analytical framework does not guarantee optimal decisions, but it provides a structure for the decision process and the answering of key managerial questions.

The fundamental task in environmental analysis is to identify and understand the channels through which external forces impact the firm. A broad view will be taken of the nature of the sector environment and forces shaping the environment in Southern Africa. Thus, the first step is to sort external forces into four categories of environment factors: political, economic, socio-cultural, demographic and technology.

The second step is industry analysis; it includes an analysis the marketing mix and product innovation for textile and apparel industry. A brief overview of the history will be given of the textile industry in South Africa.

External analysis involves an examination of the relevant elements external to the organization. The analysis should be purposeful, focusing only on what is most important and relevant to strategy development. One output of external analysis is an identification and understanding of opportunities and threats facing the organization. An opportunity is a trend or event that could lead to a significant upward change in sales and profit patterns, given the appropriate strategic response. A threat is a trend or event that will result, in the absence of a strategic response, in a significant downward departure from current sales and profits patterns.

3.2 THE NATURE OF THE TEXTILE ENVIRONMENT AND GLOBALISATION IN THE CLOTHING ENVIRONMENT

Exporting garments and textiles has been the way in which many East Asian and other developing countries have accelerated their development in the past thirty years. Garments are one of a number of labour-intensive industries in which low wage countries could be expected to have a comparative advantage. Developing countries are well represented among the major garment exporters in the world economy, with China the largest exporter. Textiles, though less labour intensive than garments, are normally more labour-intensive than manufacturing as a whole in most countries. Among the top fifteen textile exporters are China – as number one – and also Korea, Taiwan, India and Pakistan. Although textiles are exported indirectly in the form of fabrics made into garments, direct exports of textiles are important too, constituting 44% of world combined textile and garment exports. Textiles and garments are very trade-intensive sectors, which can be exported or imported at each stage of production from raw materials like wool and cotton, to fibres and yarns, unfinished and finished fabrics, and as apparel. There is great scope for specialisation and intra-industry trade. Thus some of the largest exporters of textiles, like China and Japan, are also the largest importers. In part, too, the direct trade in textiles reflects the importance of products other than fabrics, particularly industrial textiles and made-up textile goods (like curtaining and other home furnishings). The trade intensive nature of textiles and garments also makes them very sensitive to the domestic trade regime, and therefore to trade liberalisation.

Globalisation involves the increasing integration of countries into the world economy through trade liberalisation. It takes place in a context where firms increasingly plan their production on a worldwide basis, aided by developments in transport and communications. Trade liberalisation in a country aims to remove or reduce the anti-export bias associated with protection against imports, and generates gains from being able to realise economies of scale through exports, greater exposure to technological developments and increased competitive pressures on the import side. Many developing countries have had trade liberalisation forced upon them as part of the conditionality of the multilateral agencies

(Stiglitz 2002: 16-17). South Africa, in contrast, offers an opportunity to observe the effects (including the social costs) of a 'home-grown' trade liberalisation programme.

In recent decades developing countries' success at exporting has depended on their producers being able to gain access to international value chains. At one level an international value chain is simply a set of international and national input-output relations from the production of the raw materials through to the sale of the final product to the consumer. In principle goods and services can be passed through the chain by a series of arms-length purchases and sales on open markets. Increasingly, however, economic actors at particular stages of the chain are able to exercise power over the activities of other agents in the chain. These powers include the power to determine whether, and on what conditions, new producing countries and their firms can participate. They also include the power to impose and enforce labour and environmental standards, and to influence the possibilities for producers to upgrade their functions within a chain. Such power relations also influence the distribution of profits (*rents*) along the chain. Thus *governance* of the chain has become a key issue. In some cases, as in the motor industry, powerful producing firms may determine the worldwide pattern of production and trade in final products and components. Another type of governance occurs in what Gereffi (e.g. 1999) has popularised as *buyer-driven* value chains, of which garments is a prime example. In this case, final buyers such as department stores in Europe or the US, usually without garment or fabric factories of their own, organise production on a worldwide basis. Sometimes the organisation is direct, but it is often done through intermediaries based in newly industrialized countries like Hong Kong or Taiwan. In buyer driven chains, design and marketing are key activities leading to the generation of rent.

3.3 DIMENSIONS OF ENVIRONMENTAL ANALYSIS

Attention will be focussed on various factors to place the industry in context.

3.3.1 POLITICAL FACTORS

The first constellation of environmental factors focuses on political variables such as stability, trade policy, import policy, institutions, tax policies and international links.

STABILITY

South Africa today is one of the most sophisticated and promising markets globally. The unique combination of a highly developed first-world economic infrastructure and a huge emergent market economy has given rise to a strong entrepreneurial and dynamic investment environment. This makes the country a logical entry point for foreign trade with and investment in the 14 member countries of the Southern African Development Community (SADC). The SADC Trade Protocol, which has come into effect on 01 September 2000, has been developed to liberalize intra-regional trade. It calls for an 85% reduction of internal trade barriers over eight years. It also contributes towards the improvement of the climate for domestic, cross-border and foreign investment. It aims to enhance the economic development, diversification and industrialization of the region and to ultimately establish a Free Trade Area in the SADC region.

TRADE POLICY

There are two categories of South Africa's import tariffs - Most-Favoured-Nation (MFN) and General. The MFN rates are applied to most commodities imported from the World Trade Organisation members, for example: Hong Kong and the Chinese mainland.

Apart from customs tariffs, imports are subject to value-added tax (VAT). There are two VAT rates, zero and standard (14%). The zero rates apply to a number of basic food items. All other goods and services are taxed at the standard rate. However, goods imported for use in manufacturing or resale by registered traders may be exempt from VAT. The valuation of imported goods for VAT is based on the f.o.b. value plus 14% of that value, plus any non-rebated customs duty.

South Africa also adopts an import licence system. Imports are grouped into three main categories: the free list, covering about 700 items, for which no import permit is needed; goods licensed on the basis of certain requirements, which includes most industrial raw materials and plant and capital equipment; and items requiring a special permit, which includes finished machinery, spare parts not produced in South Africa, fish, fruit, dairy products, coffee, chocolate, gold, and petrochemical products.

The Ministry of Trade and Industry also sets compulsory safety and health standards for some products. Products like electrical appliances, electronic products and canned meat, are subject to the compulsory standards.

The South African Board on Tariff and Trade may initiate anti-dumping or countervailing investigation and impose duties when allegations are substantiated. Export controls are imposed on certain goods. An export permit is required for specific goods, for example, petrochemical products, ferrous waste and scrap of iron and steel, aluminium, copper, nickel, lead, zinc, tin, magnesium, cadmium, antimony, manganese and refined copper. An export permit is also required if motor vehicles are exported. Diamonds for export must be registered with the Diamond Board.

The European Union (EU) approved a Co-operation Agreement with South Africa in March 1999 to create a free trade area between South Africa and the EU. The trade liberalisation agreement was in force on 1 January 2000. Under the agreement, the proportion of South African goods subject to EU customs duty dropped to only 5% with an average duty rate of 1.5%.

IMPORT POLICIES

Under the Import and Export Control Act of 1963, the Minister of Trade and Industry may limit the import of certain goods into South Africa. For those goods subject to import control measures, importers must apply for import permits prior to the goods importation. Application forms that are available in electronic format on the website of the Department

of Trade and Industry (DTI) must be used. In recent years, the list of restricted goods requiring import permits has been substantially reduced as the DTI has tried to phase out import permits in favor of tariffs. The products still requiring import permits include: fish and fish products, used goods, scrap, waste, ashes, residues, petroleum products, ozone-depleting chemicals, firearms and ammunition, gambling equipment, and radioactive chemical elements. The Directorate of Imports and Exports within DTI controls the issuance of permits, though additional and prior authorization may be required from other departments that also have jurisdiction over the control of goods in question. Acquisition of a permit can be completed within 3 to 4 days, although applications should be filed at least two weeks prior to the date of shipment. There is no fee and permits may be issued for up to 12 months.

TARIFF STRUCTURE

To comply with its WTO commitments, South Africa has reformed and simplified its tariff structure, reducing the average tariff rate from more than 20 percent to an import-weighted average rate of 7 percent. Ninety-eight percent of South Africa's tariff lines are now bound. Tariff rates generally fall within eight levels ranging from 0 to 30 percent. However, in spite of these reforms, South Africa's tariff schedule remains complex and can create uncertainty for businesses that frequently import goods. The complexity of the system often makes it necessary to employ facilitators to assist with importing. Furthermore, some industries previously protected by non-tariff barriers have tried to increase tariffs to WTO-bound levels, which are usually substantially higher than applied rates.

Any South African producer may petition the Board on Tariffs and Trade (BTT) for tariff increases or reductions. If an application passes an initial assessment by the BTT, a consultation process is initiated. Although public comment on tariff protection requests is normally open for a 6-week period, a shorter period may be applied in emergency situations. After the consultations, the BTT investigates the matter further and then makes a recommendation to the South African Government for a decision. There is no statutory limit on the time the South African Government may take to reach a decision. Petitions for tariff protection are decreasing because of the South African Government's policy to lower

tariffs to improve competitiveness. During 2000, the DTI and the BTT have refused many but not all tariff increase applications and have removed or reduced the duties on a number of products. Of the applications finalized during the year, 13 were rejected and 8 recommended. Most duties are ad valorem, but specific duties are also levied for some products, particularly for agricultural products.

Some tariffs remain high. For example, although the South African paper industry is a modern, world-class industry, it receives a level of protection ranging up to 10 percent, and in some cases, higher. South African tariffs on manufactured wood products are also considered higher than world standards. The BTT has explained that South Africa increased tariffs on certain paperboard and paper products between 1992 and 1994 to achieve greater uniformity of tariffs. These increases were, however, followed in 1995 by a general phased reduction of tariffs on paper and paperboard that will bring most tariffs down to 10 percent by 2000 and to 5 percent ad valorem by 2005. Some rebate provisions have been introduced for categories of paper and paperboard not manufactured locally, authorizing full duty rebates on imports of some uncoated and coated kraft paper and paperboard, coated paper and paperboard, and tarred, bituminized or asphalted paper and paperboard.

In the Uruguay Round, South Africa agreed to a 12-year phase down in clothing and textiles, but since then has unilaterally moved to a 7-year phase down process. As of September 1, 2000 the following tariffs apply:

Apparel 54 percent

Yarns 20 percent

Fabrics 27 percent

Finished goods 30-37 percent

(household goods)

Fibers 0-12.5 percent

The end rates that South Africa expects to achieve in 2002 are:

Apparel 40 percent

Yarns 15 percent

Fabrics 22 percent

Finished goods 30 percent

(household goods)

Fibers 7.5 percent

Beyond this, the South African tariff code provides for maximum limits on actual tariffs to be paid. There are also minimum duty requirements. As a result, according to the BTT, goods imported from the United States are subject to an actual duty percentage as follows:

Apparel 40 percent

Yarns 15 percent

Fabrics 22 percent

Finished goods 30 percent

DUMPING

The number of anti-dumping petitions filed in South Africa remains high. The BTT says that the increase in petitions, which started in 1997, was expected as a result of tariffs being phased down. Previously, the BTT acknowledges, formula duties and even high rates of ad valorem or specific duties were sometimes used to counter dumping. But due to South Africa's WTO binding commitments and tariff policy, this practice is no longer followed. In a December ruling, the BTT reaffirmed the anti-dumping duties on poultry parts imported from the United States, preliminarily imposed in July 2000. The anti-dumping duties were finalized at 224c/kg for poultry parts exported by one major producer, 245c/kg for another major producer, and 696c/kg for other U.S. producers. The South African industry argued that poultry parts, e.g. dark chicken meat, were being dumped in South Africa below U.S. costs. U.S. industry argues strongly that international free market supply and demand factors alone account for the lower, more competitive price for U.S. exports of

dark poultry meat.

TAXATION

South Africa operates on a source-based income tax system rather than on residence. Income is subject to tax if it is from a source within or deemed to be within South Africa. Capital gains tax is implemented, and there are no significant tax incentives as the policy is to provide incentives outside the tax system. Profits remitted by the South African branch of a foreign company to its head office abroad are not subject to withholding tax.

Partnerships and joint ventures are not treated as separate taxable entities, and foreign income is not subject to South African tax.

TAX RATES

For companies other than branches of foreign companies:

- The first ZAR 10,000 is taxed at 15%
- Normal tax on taxable income is 30%
- Secondary tax on dividends distributed is 12.5%

For individuals:

- Progressive rates are from 18% to 42%
- Minimum income for tax liability is ZAR 21, 011.
- The maximum marginal rate applies to income over ZAR 200,000.

FOREIGN CONTROL POLICY

In general, there are no controls on the removal of investment income or capital gains by non-residents. Dividends may be paid to non-residents without the approval of the South African Reserve Bank (SARB), provided an auditor's certificate shows such dividends are a result of post-tax trading, or realized capital profits.

INVESTMENT INCENTIVES

South Africa supports its stimulatory policies with generous government incentives. Effort to liberalize trade and industrial development has seen the country established as a dynamic and internationally competitive investment location. Various financial incentive packages endorsed by the Department of Trade and Industry (DTI) are on offer to promote

investment and, thereby, to stimulate the economy and reduce unemployment. Such initiatives and measures, capitalizing on existing infrastructure and materials, include the following:

- Tariff reform
- An industrial strategy focusing on the supply side, with key features being small/medium manufacturing
- Reform of the regulatory environment

The accelerated depreciation programme allows qualifying small businesses to deduct the full costs of investments in manufacturing assets in one year instead of over five years. The purpose of the Export Marketing and Investment Assistance scheme is to partially compensate exporters for certain costs incurred in respect of activities aimed at developing export markets for South African products and to recruit new foreign direct investment into South Africa.

No government approval is required to invest, foreign investors are permitted 100 percent ownership, there are almost no restrictions on the form or extent of foreign investment, and there are no controls over the removal by non-residents of investment income.

Transfer of profits and dividends is not restricted, and businesses can be wholly or partly foreign owned, with local participation in business ventures encouraged but not a requirement. There are also liberal tax incentives in the form of deductions for business and operating expenses.

Small, Medium Enterprise Development Programme (SMEDP)

- Investments with a capital value greater than R 3 million.
- Foreign investment Grant (FIG): if relocating from abroad, manufacturers can obtain a tax-free grant of up to USD 250 000 for new machinery.
- Investments with a capital value not greater than R 3 million may qualify for tax free grants over a six year period as follows:
- An establishment grant of 10.5% a year on the value of qualifying assets, paid quarterly in the first year and annually for the following two years.

- A profit-output incentive for a further one year on the formula: 25% of profit before tax and incentives subject to a maximum payment equal to the establishment grant of R315 000 per enterprise, whichever is the lesser
- An extension of the profit-output incentive for a further two years if the enterprise maintains a ratio of 55% labour remuneration to value added.
- Foreign Investment Grant: if relocating from abroad, the manufacturer may obtain a grant of up to USD 5000 for new machinery.

FINANCIAL SCHEMES

Schemes for Export Marketing and Investment Assistance (EMIA) and Export Credit and Foreign Investment Reinsurance are aimed at providing prospective exporters with financial assistance. The EMIA comprises export marketing research, foreign direct investment research, outward-selling and investment research, outward-buying and investment missions, inward-buying and investment missions, and foreign exhibitions. The EMIA also offers assistance to industry-specific sectors and includes a special dispensation for SME exporters. An Export Credit Finance Guarantee scheme for SMEs has also been introduced. The Export Finance Scheme for Capital Projects is popular among financial institutions and contractors, with exporter able to compete internationally by offering reasonable repayment rates denominated in US dollars to prospective overseas buyers.

INTERNATIONAL LINKS

South Africa and the European Union (EU) recently implemented the trade provisions of their Agreement on Trade, Development and Cooperation. Under the Agreement, South Africa and the EU will establish a free trade area (FTA) over a transitional period of up to twelve years for South Africa, and up to ten years for the EU. Because the agreement calls for the reduction and eventual elimination of duties on trade between the EU and South Africa, some U.S. firms exporting to South Africa have expressed concern that their products may become less competitive in South African markets, limiting future trade and investment opportunities for U.S. companies. In addition, duty-free South African goods entering the EU are expected to increase by twenty percentage points over the next ten years. Many goods, especially agricultural goods, are currently subject to EU quotas.

These quotas will be increased under the FTA. The U.S. International Trade Commission is in the process of analyzing the EU-South Africa FTA to determine its probable economic effect on the United States, including the probable impact on U.S. exports to South Africa..

The African Growth and Opportunity Act (AGOA), which was signed into law by the United States of America, gives South Africa and a number of nations in Sub-Saharan Africa free access to the US market for eight years for an array of products. The African Growth and Opportunity Act came into effect in May 2000 and were amended in August 2002. The Act provides for duty-free and quota-free access to the US market for apparel made in eligible Sub-Saharan African countries from US fabric, yarn and thread. It also provides for substantial growth of duty-free and quota-free apparel imports made from fabric produced in beneficiary countries in Sub-Saharan Africa. AGOA is seen as bringing much needed relief to South Africa's textile and clothing manufacturers. It is reported that nearly 90,000 South Africans were employed in jobs linked to industries supported by AGOA and the country's AGOA exports contributed to 10 billion Rand to the national GDP in 2001. Meanwhile, the US is also proposing for a free trade agreement with the Southern African Customs Union (SACU), of which South Africa is a member. The SACU is a customs union agreement with participating countries including South Africa, Botswana, Lesotho, Namibia and Swaziland. Under the agreement, goods are traded free of duty between members of the customs union.

The exploratory phases of developing a free trade agreement between South Africa, Brazil and Mercosur is well advanced. Similar arrangements with Nigeria and India are expected to follow.

The Africa-Asia Business Forum contributes to efforts of strengthening economic relations between Africa and Asia, and provides another avenue for further deepening South Africa ties.

South Africa is a member of the Indian Ocean Rim Association for Regional Co-operation (IOR-ARC), a project based regional economic grouping of 15 countries washed by the

Indian Ocean. South Africa has established an Indo-South African Commercial Alliance and a Joint Ministerial Commission (JMC) with the Government of India (Appendix 1).

EXPORT SUBSIDIES

South Africa has an Export Marketing and Investment Assistance Scheme (EMIA) that provides financial support for trade missions, exhibitions, market research and outward and inward investment recruitment missions. Export financing for capital goods and projects is provided at fixed interest rates by a group of financial institutions contracted to DTI. An export finance guarantee facility for small exporters assists small and medium sized enterprises.

EXPORT REBATE

Rebate systems exist in South Africa for the textile and motor industry. The textile rebate system is intended to assist in the restructuring and development of the South African textile industry. Under this program, an exporter is permitted to import duty free an amount of textile products equivalent to 25 percent of its exports of clothing, 12.5 percent of fabrics and 8 percent of yarns. A similar program exists for the automobile industry known as the Motor Industry Development Program (MIDP).

3.3.2 ECONOMIC FACTORS

This is a major category which focuses on the differences on economic characteristics, such as capital, labour, infrastructure and foreign exchange. It provides a general view of the South African's economic development spectrum.

South Africa is a middle-income, developing country with an abundant supply of resources, well-developed financial, legal, communications, energy, and transport sectors, a stock exchange that ranks among the 10 largest in the world, and a modern infrastructure supporting an efficient distribution of goods to major urban centres throughout the region. At the start of 2000, President Mbeki vowed to promote economic growth and foreign investment, and to reduce poverty by relaxing restrictive labour laws, stepping up the pace of privatisation, and cutting unneeded governmental spending.

The current volatility of global financial markets and realignments of emerging market economies has impacted on South Africa heavily, making the government's ambitious reform and restructuring process difficult. The Asian Financial Crisis hit South Africa particularly hard, as Japan and Taiwan are South Africa's two largest trade and investment partners. As a direct result, the South African Rand has lost 25 percent of its value against the dollar since January 1998. South Africa is experiencing an economic slowdown, which began in the 3rd quarter of 1997. During the second quarter of 1998, GDP increased at .03 percent.

The partial privatisation of state assets and the East Asian financial crisis impacted on the value of FDI inflows. Part of the drop in FDI in 2000 can be attributed to the continued political and economic instability in the Southern African region (Figure 3.1). Foreign direct investment flows into SA rose substantially from the first quarter of 2001 to the second quarter.

Figure 3.1 FDI as percentage of GDP

Source from WTO 2001

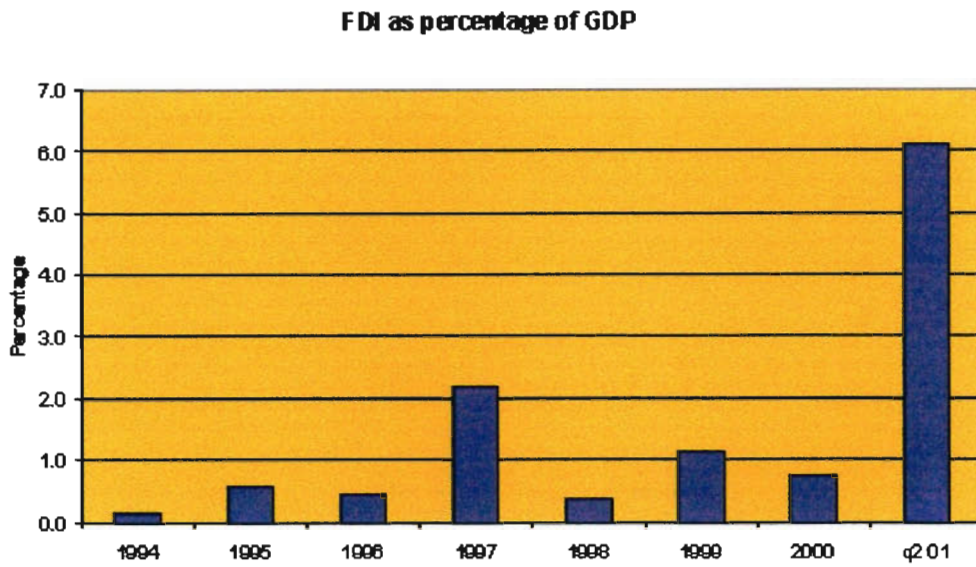
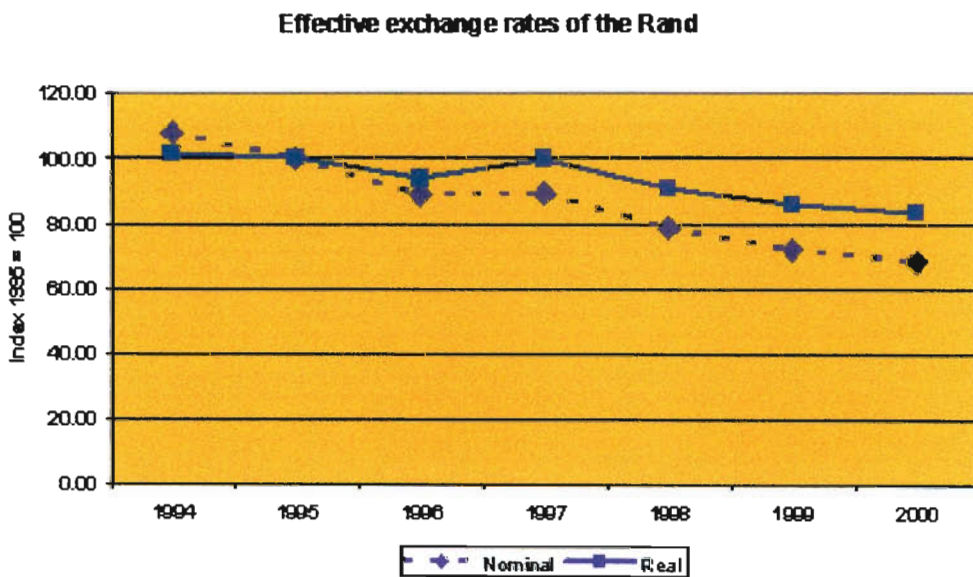


Figure 3.2 – Effective exchange rates of the Rand

Source from WTO 2001



The weighted value of the Rand declined by 8.5 per cent in 1994 and 3.6 per cent in 1995 (Figure 3.2). The sharp decline in the value of the Rand since mid-February 1996 has caught most of the importers by surprise and nullified most forecasts of the exchange rate. The devaluation of the Rand, from 3.65/USD in 1995 to 6.5/USD in September 1998, and to 11.2/USD in Dec 2001. However, during the most recent period, the Rand has been picking up to highest level within these 5 years and now it is trading as 6.01/USD. The continuing strengthening of the Rand inhibits exports from South Africa, as there are less competitive against the rest of the world. The total textile industry will suffer from business lost to imports due to the various rebate facilities, fraudulent imports and possible increase imports due to the strong Rand. South African exporters, particularly in the clothing and textile sector, were not as competitively priced on international markets as two years ago. In 2003 clothing and textile exports fell by 13 percent.

The nominal effective exchange rate declined by 18 per cent from the end of 1997 to the end of 1998 due to the emerging market currency crisis in 1998. After the round of speculative attacks in 1998 stability returned to the currency market in 1999 when the Rand strengthened, on balance, by about 15 per cent in 1999.

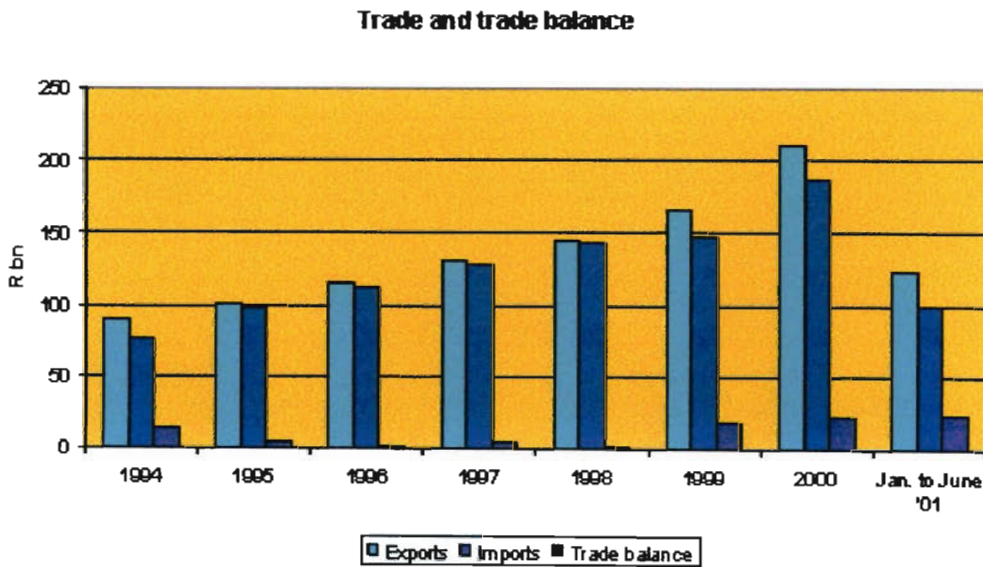


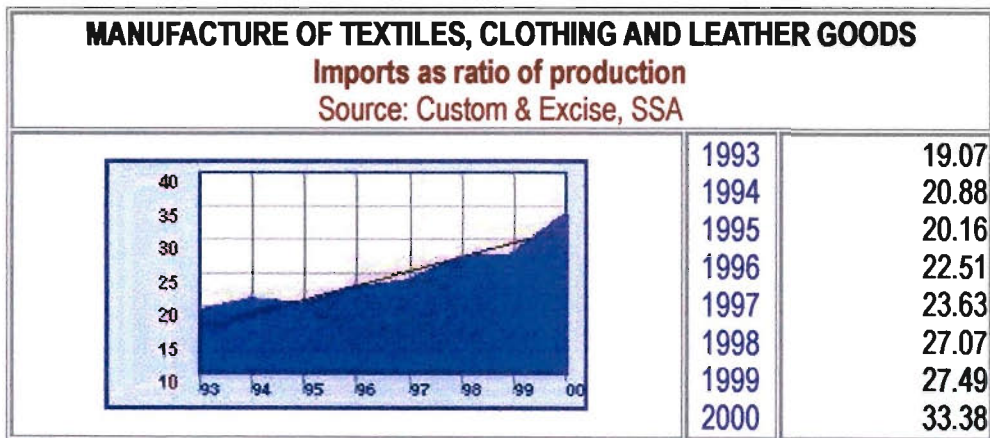
Figure 3.3 Trade and trade balance 1994 – 2001

Source from WTO 2001

South Africa's trade from 1994 to 2000 showed good growth in nominal terms (Figure 3.3). The biggest increase in exports was between 1999 and 2000 (27%). The average growth in nominal exports from 1995 to 2000 was 15.3 per cent. Average nominal import growth was 16.4 per cent over the same period. South Africa also posted a trade surplus since 1994.

Growth in exports in real terms declined marginally only between 1997 and 1998. Negative real export growth of 6.7 % was only experienced between 1998 and 1999.

Figure 3.4 IMPORTS AS RATIO OF PRODUCTION



On the import side, figure 3.4 show manufacturing of textile, clothing and leather goods are continuously growth. From 19.07% in 1993 to 33.38% in 2000, it had almost 57% growth on their production during these seven years period.

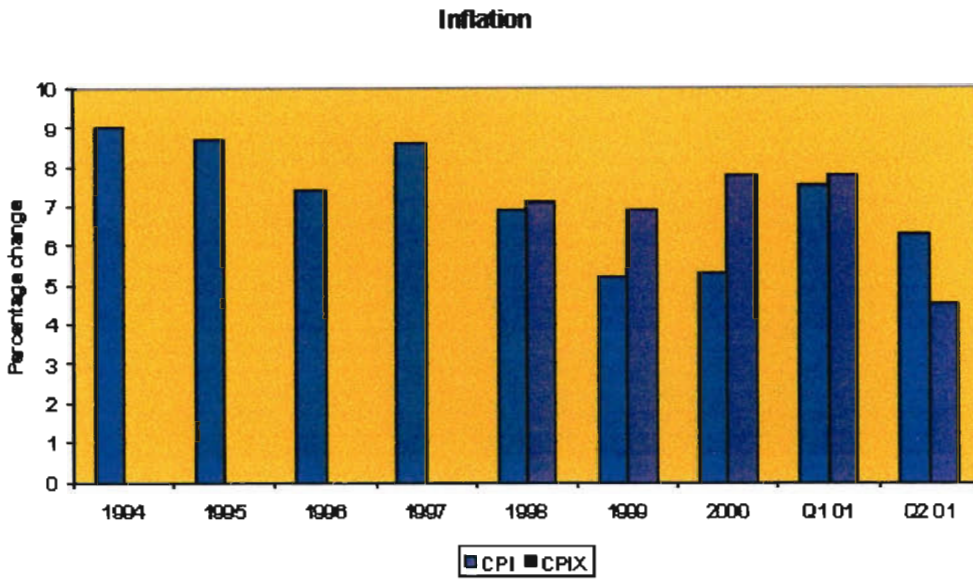
INFLATION

A consistent counter-inflation monetary policy started to pay dividends in the second half of 1995; when the rates of increase in both production and consumer prices began to subside. The slowdown of inflation in the second half of 1995 was assisted by lower increases and at times even decreases in food prices. The consumer price index (CPI), as measured by year-to-year changes in the overall CPI, decreased from 8,7 percent in 1995 to 7,4 per cent in 1996. The long-term downward trend in inflation continued when average consumer price inflation declined from 8,6 percent in 1997 to 6,9 percent in 1998. Inflation in the prices of consumer goods and services declined from 6,9 percent in 1998 to 5,2

percent in 1999. Overall consumer price inflation, rose quite steeply from 1,7 per cent in October 1999 to 7,8 per cent in February 2000, but then fell back to 6,3 per cent in June 2001 (Figure 3.5).

Figure 3.5 – Inflation

Source from WTO 2001



CPIX (overall consumer price inflation for metropolitan and other urban areas, excluding interest rates on mortgage bonds) is the inflation rate used for inflation-targeting purposes. CPIX decreased from 7,3 percent in March 1999 to 6,5 percent in October. Year-on-year CPIX inflation declined from 8.2 percent in August 2000 to 6.4 percent in June 2001. CPIX for June is only 0.4 percent above the upper limit of the inflation target range of between 3 and 6 percent set for 2002.

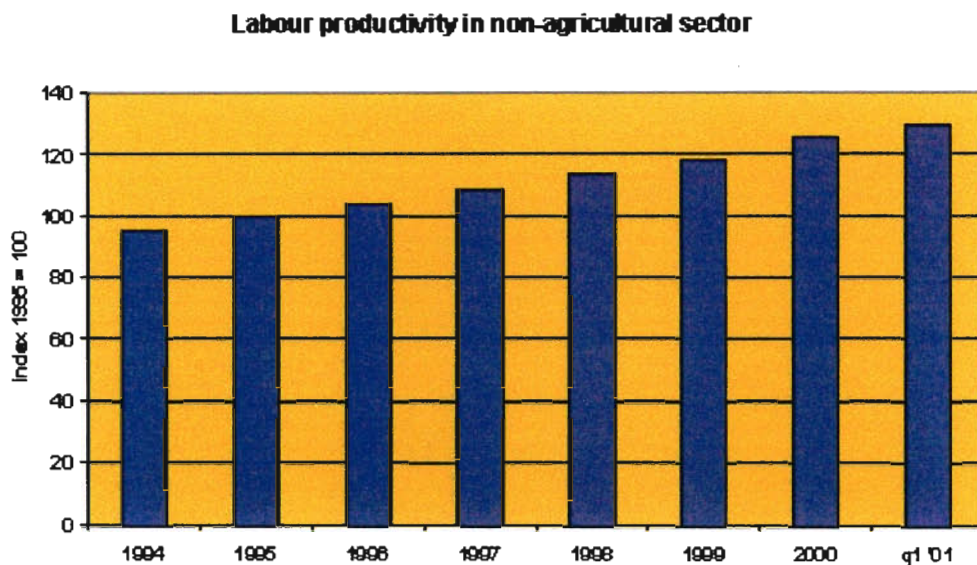
LABOUR RELATIONS

According to the South African Reserve Bank (SARB), labour productivity is in 6.2% in 2000, (Figure 3.6) compared to the same period in 1999. The SARB states that there was a definite slowdown in the growth of labour costs in the private sector over the past year. Nominal wage growth declined from 8.3% in 1999 to 6.1% in 2000. The average rate of wage settlements in collective bargaining agreements declined from 8.3% in the first

quarter of 2000 to 6.8% in the same quarter in 2001. Nominal wage growth in the private sector amounted to 8.5% in 2000, the lowest rate of increase in the past 30 years.

Figure 3.6 – Labour productivity in non-Agricultural Sector

Source from WTO 2001



The Labour Act of 1998 promulgates that the minimum wage law applies uniformly throughout South Africa. Minimum wages for unskilled workers range from R150 to R250 per week within major urban areas.

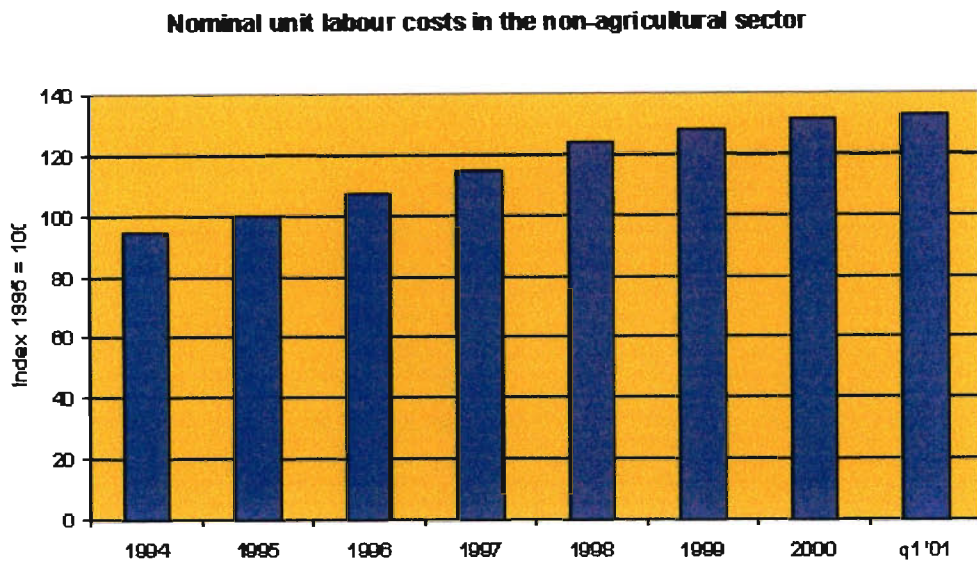
Average wages are as follows:

Unskilled ± R170.00 per week

Semi Skilled ± R250.00 per week

Skilled ± R420.00 per week

Figure 3.7 – Nominal unit costs in the non-agricultural sector
 Source from WTO 2001



The slowdown in the rate of increase in the nominal remuneration per worker and the relatively rapid growth in labour productivity led to a decline in the increase in nominal unit labour costs. The slowdown in the rate of increase in the nominal remuneration per worker and the relatively rapid growth in labour productivity led to a decline in the increase in nominal unit labour costs. Due to the strong growth in labour productivity, the year-to-year rate of change in nominal unit labour costs in the formal non-agricultural sector decreased from 9,1 per cent in 1996 to 6,8 per cent in 1997. The slowdown in average remuneration per worker led to lower growth in nominal unit labour costs from 6,3 per cent in 1997 to 6,0 per cent in the twelve months to March 1999. As a result of robust growth in labour productivity, growth in non-agricultural nominal unit labour cost was at a historically low rate of only 2,6 per cent in 2000.

LABOUR LEGISLATION

South Africa has a comprehensive legislative framework, which broadly enables promotion of sound and stable relations at the workforce, and protects the rights of workers and employers, big and small.

Herewith the summary of key legislation affecting labour: -

1. **Basic Conditions of Employment Act:** this Act sets a minimum floor of employment standards while also enabling conditions to be varied through collective bargaining, sectoral determinations, individual contracts of employment and through determinations made by the Minister of Labour.
2. **Labour Relations Act:** aimed at delivering a stable labour relations system, the Act has enhanced organizational rights for trade unions, entrenched the constitutional right to strike, simplified dispute resolution procedures, promoted sectoral collective bargaining and codified dismissal procedures.
3. **Employment Equity Act:** This Act seeks to eliminate unfair discrimination in employment and provides for affirmative action measures to correct the imbalances of the past with respect to access to employment, training, promotion and equitable remuneration – especially for black people, women and people with disabilities.

TRADE UNIONS

There is an active trade union movement in South Africa with three major federations, viz. COSATU, NACTU and FEDHUSA.

TERMINATION OF EMPLOYMENT

Employers may staff at will but cognisance must be given to the provisions of the Employment Act. The Labour Relations Act provides procedures for dismissals, to ensure that all dismissals are fair. There are very few closed shop agreements in operation at present. Most of those that do exist are no longer adhered to as current labour legislation has declared that a closed shop agreement is an unfair labour practice. Employers and employees wishing to terminate employment must give notice of their intention to do so. The period of notice is prescribed in labour legislation for each industry. On termination of employment the employees are entitled to be paid out in lieu of leave accrued but not taken.

PROVINCIAL ECONOMY

Economic activities in KwaZulu-Natal are mainly centred in the Durban-Pinetown/eThebeni metropole and Pietermaritzburg, with significant contributions in the Richards Bay/Empangeni area, the Ladysmith/Ezakheni area, the Newcastle/Madadeni regions as well as the KwaZulu-Natal South Coast regions.

KwaZulu-natal is claimed to have ‘the fastest growing, most diversified and outward orientated provincial economy in South Africa’, boasting the highest export propensity and the highest level of industrialization in the country. KwaZulu-Natal is second only to the province of Gauteng in terms of its percentage contribution to South Africa’s gross domestic product (GDP).

Based on contribution to national production, the most important economic sectors in Kwazulu-Natal are transport (including communication), manufacturing and agriculture. The majority of other sectors make substantial (and in most cases above average) contributions to production in South Africa. The continued strength and growth in KwaZulu-Natal’s manufacturing sector are of significance, especially viewed in the textile manufacturing in Newcastle. It has become the national textile capital with 65 percent of all South Africa’s textile manufacturing is headquartered in the surrounding industrial areas, including the largest producer of school wear in the country.

PHYSICAL INFRASTRUCTURE

KwaZulu-Natal’s strengths are greatly enhanced by the vital attraction of cheaper transport costs, with a comprehensive and cost-effective transport network in place. The sophisticated infrastructure includes the two major ports at Durban and Richards Bay as well as an international airport and excellent networks of railways and major roads.

Durban is strategically situated on major shipping routes, serving as ideal gateways to domestic and international markets. Providing important backward and forward linkages to southern Africa and the Indian Ocean rim, the port of Durban offer excellent opportunities

for the other provinces of the country to increase export and import processing.

RAIL NETWORK

The rail network in South Africa falls under the control of Spoornet and the South African Rail Commuter Corporation. Spoornet provides extensive rail transport mainly for goods and containers, as well as transport for passengers travelling long distances between major cities. Metrorail provides commuter rail services on an urban rail network basis that feeds into the major metropolitan cities in South Africa.

The province's well-developed rail infrastructure forms a sizeable part of the national network, with Spoornet providing a total logistical service to business. Along with other carriers, Spoornet plays a dominant role in sourcing traffic in and out of the Port of Durban, utilizing some 2000 kilometres of railway line and running numerous daily trains on the main line between Durban and Gauteng.

ROAD LINKS

KwaZulu-Natal's primary road network is approximately 39 400 kilometres in extent, linking main centres. National and provincial roads are peripheral to rural areas, with toll systems in place on modern freeways. Several business corridor developments are planned for various areas to allow companies to cover distribution routes with a minimum of delay.

WATER SUPPLY

KwaZulu-Natal has sufficient water to meet all its needs. The province also offers industrialists one of the lowest industrial electricity tariffs in the world.

KwaZulu-Natal's river systems are an integral part of the national water macro strategy, with the building of new dam sites providing vast employment opportunities. The success of irrigation schemes along the cane growing coastal belt has had a positive impact on industrial and commercial businesses, while the Thukela basin, with its abundance of quality water, has emerged as a focal point for manufacturing, agricultural and tourism

concerns. There is also abundant bulk water in the Mooi River area with its multiple river systems.

ELECTRICITY

The Southern African Power Pool was formed with the objective of establishing a regional electrical network through which electricity is traded in an economical and reliable manner. In the import and export of electricity, utilities in southern Africa boast more than four decades of experience, with numerous bilateral bulk supply agreements existing between countries. Due to the diversity of generation resources, the region has the potential to develop a large and efficient electrical energy market.

The rates basically consist of three charges:

1. Monthly charge: Ranging from R30 – R 150
2. KVA Charge: Ranging from R 25 – R 40 per KVA per month
3. KWH Charge: Ranging from 6c – 30c per KWH consumed

Every industrial area has a different formula for calculating their client's electricity charge, with the power factor KV/KVA being an additional component of the calculation. Connection fees to different factories / areas are a charge that may also vary considerably.

It is therefore important that a prospective industrialist supply their power consumption details to each Municipality for an estimate of prospective electricity charges (inclusive of any discounts or rebates for new buildings).

The province also offers industrialists one of the lowest industrial electricity tariffs in the world (Figure 3.8) The province has a large labour force offering a well-balanced mixture of skills and low levels of man days lost to strikes.

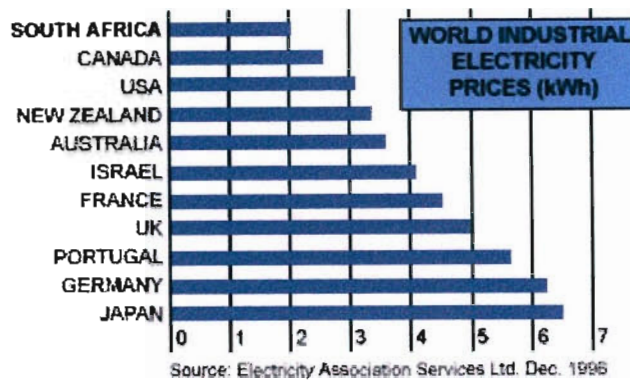


Figure 3.8 World Industrial Electricity

3.3.3 SOCIAL-CULTURAL

According to the SA Institute of Race Relations, the average mid 2001 population estimate for South Africa is 44,44 million with 54% of the population is urbanized. The estimated annual population growth rate is 2,2 percent. The potential-laden emerging consumer market in South Africa is young, with increasing purchasing power and a high propensity to consume.

Religions:	Christian 68% (includes most whites and Colour's, about 60% of blacks and about 40% of Indians), Muslim 2%, Hindu 1.5% (60% of Indians), indigenous beliefs and animist 28.5%
Languages:	11 official languages, including Afrikaans, English, Ndebele, Pedi, Sotho, Swazi, Tsonga, Tswana, Venda, Xhosa, Zulu
HIV/AIDS - adult prevalence rate:	19.94% (1999 est.)
HIV/AIDS - people living with HIV/AIDS:	4.2 million (1999 est.)
Labour force:	17 million economically active (2000)
Labour force - by occupation:	Agriculture 30%, industry 25%, services 45% (1999 est.)
Unemployment rate:	20.7% (1996), 30% (2000 est.) (see table 3.4)
Life expectancy at birth:	Total population: 48.09 years male: 47.64 years female: 48.56 years (2001 est.)
Legal system:	Based on Roman-Dutch law and English common law; accepts

	compulsory ICJ jurisdiction, with reservations
Ethnic groups:	Black 75.2%, white 13.6%, Colour 8.6%, Indian 2.6%
Infant mortality rate:	60.33 deaths/1,000 live births (2001 est.)
Total fertility rate:	2.43 children born/woman (2001 est.)

Fertility rates appear to have been declining for some years now, leading to a declining population growth rate. The increasing prevalence of HIV/AIDS is contributing to a faster slowdown in this growth rate. It is estimated that from a 2,6% growth rate in 1995, the population growth rate declined to 1,6% in 2000. Population growth is projected to reach zero by 2008.

Table 3.3 Literacy rate

	Black		White		Coloured		Asian		Total	
	Illiterate	Literate	Illiterate	Literate	Illiterate	Literate	Illiterate	Literate	Illiterate	Literate
KwaZulu-Natal	1,613,144	2,272,697	12,136	461,936	9,776	64,036	73,744	457,306	1,708,800	3,255,977

Table 3.4 Economically Active Population Aged 15 - 65 Years by Population Group (%)

KwaZulu-Natal	African / Black	Coloured	Indian / Asian	White	Unspecified / Other	Total
Employed	26.2%	50.2%	50.3%	65.8%	27.8%	32.2%
Unemployed	24.3%	14.7%	7.4%	3.3%	18.8%	20.7%
Not economically active	49.4%	35.1%	42.2%	30.9%	53.4%	47.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: StatsSA (Census 1996)

Table 3.5 Skills Structure

KwaZulu Natal	
Legislators, senior officials and managers	49,079
Professionals	144,273
Technicians and associate professionals	89,794
Clerks	109,067
Service workers, shop and market sales workers	126,425
Skilled agricultural and fishery workers	51,696
Craft and related trades workers	186,319
Plant and machine operators and assemblers	118,776
Elementary occupations	377,072
Unspecified/Other	318,073

Source: WEFA, Regional Economic Focus, 1999

The adult literacy rate for KwaZulu-Natal stands at just over 80 percent, which function literacy over 90 percent (Table 3.3). The proportion of the population in possession of a senior certificate or better is about 23 percent (Table 3.5). Supportive measures are being taken to assist in the development of economic literacy among the unemployed and the youth of the province.

CHANGING CONSUMPTION TRENDS

South African consumers are changing their consumption patterns. Over the longer term, the services component of household consumption has been the fastest growing of the four, with durable consumption having been the slowest. The reason for the shift towards services is probably based to a certain extent on increasing specialization of functions in a modern economy. It is an economy in which households prefer to utilize services as opposed to performing tasks themselves. A further reason is the perceived poor quality of certain government services, driving a greater demand for security services, medical and education services. Finally, certain services that are relatively new to South Africa, such as gambling and cellular phones have experienced dramatic growth in demand.

The poor performance of durable goods consumption may have much to do with high real interest rates. These imply high financing costs for products such as motor vehicles, for which few consumers can afford to pay cash. Non-durable household consumption, for example food, is more strongly linked to population growth. Given that population growth

rates are declining, it is not surprising that this component is expected to experience a mediocre performance. Beverages and tobacco are furthermore experiencing substantial cost-increases as a result of hikes in “sin taxes”, while also possibly suffering from being a potential substitute for gambling. Consumption of semi-durable goods, dominated by the clothing and footwear component, appears to be experiencing sound growth, with rates not far behind services demand.

CULTURAL

The most famous study of how culture relates to values in the country was undertaken by Geert Hofstede (1991). Hofstede defines culture as the “software of the mind” that guides us in our daily interactions. “Culture is always a collective phenomenon, because it is at least partly shared with people who live or lived within the same social environment, which is where it was learned. It is the collective programming of the mind which distinguishes the members of one group or category of people from another” (Hofstede, 1991:55).

Hofstede’s model isolated four dimensions that he claimed summarized different cultures – power distance, uncertainty avoidance, and individualism versus collectivism and masculinity versus femininity.

According to Hofstede (1991), South African is in high- power distance countries, subordinates tend to be afraid of their bosses, and bosses tend to be paternalistic and autocratic. People in the management level tend to be more on the individualism and are expected to look out for themselves. However, the unskilled and semi-skilled labours are more collectivism with strong family and group relations. In the feminine S.A countries, conflicts can be resolved by negotiation. A high rate of avoidance of insecurity was found in low-skilled labours. The need for personal development is low, average age is high in important positions for decision-making, rules should not be exceed, risks should be avoided and individual competition is disliked. When the future is unpredictable people become nervous, worried about the future, considered not capable of taking initiatives or have ambitions.

3.3.4 TECHNOLOGY

Technological change is one of the most important sources of change in the economy; it alters the mix of products, industries, businesses and work. The technology capacity in South Africa has not been adequately translated into dynamic textile and clothing industry. The level of business creation is low, especially in small factories. The main reason is due to a lack of entrepreneurial behaviour of most of the South African people. The economy remains largely dependent on natural resources, primary processing and manufacturing and, for the most part, on imported technologies.

TELECOMMUNICATIONS

The country's technological infrastructure is becoming a major asset in ensuring its future competitiveness. As the leading economy on the continent, South Africa has a modern telecommunications infrastructure, with a network that is of a standard unsurpassed elsewhere on the African continent and possessing the highest capacity. Innovative in its use of technology, South Africa ranks 23rd in telecommunications development and 17th in Internet use in the world.

As the most significant implementing agent in the telecommunications sector, the national telephone utility, Telkom, has established Vision 20000, a five-year expansion and modernization programme to boost telecommunications access and resulting in a fully digital, world-class network. Through this programme, three to four million new lines are being added to the network, with replacement of existing lines that use obsolete equipment.

The South African government also committed to license a second supplier no later than January 1, 2004, to compete against the parastatal, Telkom, the current monopoly supplier, in long-distance, data, telex, fax and privately leased circuits services. South Africa will also consider the feasibility of licensing additional suppliers. Telkom's exclusivity period continues until May 2002, but may be extended for a further year if Telkom meets its telephony rollout targets. Competition for the second network operator may begin as early as 2001. Until Telkom's exclusivity ends, Internet Service Providers (ISPs) and Value-Added Networks (VANS) may continue to face problems from Telkom. Although

value-added services do not appear to fall within the scope of Telkom's monopoly, Telkom has claimed that VANS and ISPs are resellers of basic services and thus infringing on Telkom's monopoly. Telkom has subsequently refused to provide new facilities to VANS operators. South Africa's new telecommunications regulatory authority (ICASA), not Telkom, has the sole authority to determine whether these services are illegal. Until then, Telkom is obliged to continue providing service. However, ICASA has not effectively asserted its authority over Telkom. Decisions taken by ICASA are often challenged by Telkom, which delays implementation of ICASA's rulings. The United States continues to monitor South Africa pursuant to Section 1377 of the Trade Act of 1988 for compliance with its commitments in the WTO. After the intervention of the U.S. Government, Telkom resumed the provision of telecommunications facilities to certain VANS providers. However, on November 21, 2000, Telkom filed a complaint with ICASA, alleging that certain providers were using facilities to provide services outside the scope of its VANS licenses. ICASA was established during 2000, but enforcement and regulatory oversight of the dominant operator's activities remains problematic. ICASA is in the process of collecting comments on draft VANS regulations and, in a separate proceeding, on whether virtual private networks are VANS. One regulation causing concern proposes that no less than 15 percent of ownership and control of a VANS license should be held by historically disadvantaged individuals. This regulation, if adopted, would have serious ramifications for U.S. companies that are currently providing or would like to provide VANS in South Africa as it will effectively limit foreign ownership to 85 percent.

3.4 UNDERSTANDING INDUSTRY STRUCTURE

“Every enterprise needs a concept of its industry... different concepts among the enterprises involved are likely to express competitive forces in their most vigorous and most decisive form.”
Alfred P. Sloan, JR. General Motors

The South Africa’s economic, political, cultural and demographic characteristics tend to give a special shape to the competitive environment at the industry level. The immediate competitive environment for a firm is its industry; therefore the third component of our Environmental Analysis Framework (EAF) aims to understand the distinctive nature of industry structure.

The rate of return on invested capital (ROI) in an industry, relative to the industry’s cost of capital, is determined by five sources of competitive pressure, which impinge upon the firms within the industry. The Porter “Five Forces” model is largely based on analysis markets, industries and experience.

In South Africa, government’s influence is so pervasive and powerful over the textile and clothing industry structure. It can constitute to be a sixth competitive force joining Porter’s five. Government is the gatekeeper determining who has access to key resources; it is the controller determining the prices and costs. Its actions do not affect all actors or other competitive forces in the industry uniformly. By themselves, its actions can create competitive advantage, or, more important, companies within an industry can create competitive advantage by the nature of their response to government actions.

Government as shaper of the competitive environment

One of the significant features of South Africa is the relatively greater role that governments play in the economy. Their actions often substitute for and change the dynamics of the market forces in an industry. Consequently, the competitive environment can be drastically altered.

3.4.1 INTENSITY OF RIVALRY

Because the government is the gatekeeper to many critical resources such as foreign exchange, tariff, and import licenses, one of the key forms of competition within the textile and clothing industry is SAG frequently have sectoral policies that significantly influence the growth rates of the textile industries. Expansive policies will tend to reduce rivalry, for firms do not have to fight each other for market share to grow.

Among the major factors determining the nature and intensity of competition between established firms are:

- Concentration
- Diversity of competitors
- Product differentiation

Concentration

Seller concentration refers to the number of competitors in an industry and their relative sizes. Seller concentration is most commonly measured by the concentration ratio, which is the combined market share of the leading producers. 65 percent of South Africa's textile manufacturing is headquartered in Newcastle (Kwazulu Natal). It has become the national textile capital. Since 01/01/1982 to 31/12/2000, 77 industrial stands totally 72,7186 hectares have been sold at selling price of ZAR 3096,841.00 to prospective industrialists.

Diversity of Competitors

The ability of the firms in an industry to avoid competition depends not only upon the number of firms, but also on their similarities in terms of origins, objectives, costs, and strategies. More than 80 Chinese entrepreneurs from Taiwan, China and Hong Kong have established undertakings in Newcastle, employing 8000 people in the manufacture of products. In year 2000, there were 15 factories opened and created 2002 job opportunities. Majority of these factories are manufacturing clothing, footwear and shoes. The size of the factories are small / medium level, they are either family business or state-own enterprise from China.

One of the largest local textile manufacturer is the Frame Group, which have employing 5700 employees with an annual turnover in excess of USD 200 million. They are a world-class producer of yarn, woven, non-woven, and knitted fabric, made up home textiles and industry related chemicals.

Product Differentiation

The more similar are the offerings of rival firms, the more willing are customers to substitute between them, and the greater is the incentive for firms to cut prices in order to expand business. Large amounts of the FDI manufacturing industries are taking advantage on the SAG's SMMDP, their productions are either sell it locally or exporting to USA. The products requirements are very similar according to the US's free quotas standard.

3.4.2 BARRIERS TO ENTRY

Government affects competitive dynamics by influencing the entry of potential competitors through tariff barrier. SAG seems intent on conforming to the standards of the WTO, the legacy of an import substitution policy supported by high tariffs and import permits has left the South African apparel industry largely non-competitive on the world market. The final and capital goods are threatening the successful attainment of the inflation target ranges set for 2002 and 2003. The uncertainty created by volatile Rand movements is also likely to make international investors nervous and increasingly reluctant to commit investment funds to this economy.

Economies of Scale

In the manufacturing sector with capital intensive, efficiency requires producing at a very large scale. New entrants are faced with the choice of entering either on a small scale of drastic under utilization of capacity while they build up sales volume.

Capital Requirements

The capital costs of getting established in the textile industry in SA can be so large as to discourage all but the largest foreign companies. Generally, sunk costs exist where entry requires investment in industry-specific assets, which cannot be recovered on exit.

Access to Channels of Distribution

Limited capacity within distribution channels, risk aversion, and the fixed costs associated with carrying an additional product result in distributors' reluctance to carry a new manufacturer's product.

Distribution channels are the traditional weak point of the foreign firms. No matter how strong the company's product or how attractively priced, it will not succeed unless it has access to distribution services able to get it to prospective purchasers at the time and in the condition required. The problem for the newcomer is first of all identifying the particular channel structure.

3.4.3 BUYER POWER

The textile and clothing industry operate in two types of market: The markets for inputs and the market for outputs. In the markets for inputs they purchase raw materials, components, finance, and labour services from the suppliers of these factors of production; in the markets for outputs they sell their products and services to customers, who may be distributors, consumers or other manufacturers. In both these markets the relative profitability of the two parties to a transaction depends upon relative economic power.

As competitions are so intense, and the productions are normally similar to the competitors. Therefore, buyers tend to be high price sensitivity, especially for the productions for export. Basically, it is a cutthroat business, product price need to be attractive in order to achieve the economies of scale.

3.4.4 SUPPLIER POWER

Analysis of the determinants of relative power between the producers in an industry and their suppliers is precisely analogous to the analysis of the relationship between producers and their buyers. Since the factors that determine in the effectiveness of supplier power against the buying power of the industry are the same as those that determine the power of the industry that of its customers, they do not require a separate analysis.

However, governments can influence access to supplies and the most common policy instrument affecting supply access is import controls. These could be direct tariffs or indirect (foreign-exchange allocations for imports). The more restriction the import controls, the greater bargaining power local suppliers have, because the purchasers' supplier alternatives are reduced.

3.5 MARKETING MIX FOR TEXTILE INDUSTRY

3.5.1 PRODUCT

Product remains a key element in the textile & clothing market offering and every global marketing plan must understand the product it is trying to sell, as well as the potential target market. As consumer preferences are changing. Consumers in developed and newly industrialising countries no longer demand standardised products, but rather products that will distinguish their wearer from the masses around him or her. Thus, textile mills which provide specially-treated fabrics offering unique looks or wear characteristics and apparel companies which can provide sophisticated, quality products will more successfully appeal to end consumers and achieve higher returns than those which supply standard cotton knits and woven. Moreover, increasingly sophisticated consumers are demanding increased variety of product choice. This is leading to shorter product seasons, more rapid product cycle turnover, and smaller lot sizes. The competitive apparel firm must be responsive to these changed demand parameters as well.

In textile and apparel industrial costs of production are defined as the costs of assembly and delivery to an export point, these costs usually represent a minor portion of total cost. The largest component of total cost today is the value of all the services bundled into the final cost of goods. Today's vendors of differentiated consumer products must also expend for product design, rapid turnaround of designs, the overhead costs associated with developing international market linkages, merchandising, service, inventory management, lead times, transport and trade, and quality control in order to nuance their products in the eyes of the purchaser.

As a consequence of shorter product cycles and more rapid turnaround, retailers are assuming a much more pivotal role in the design and merchandising process in the U.S. and elsewhere. Private labels designed by retailers are beginning to take market share from established brand labels in many markets. Assembly of private label clothing is much more heavily dependent on imported garments in the U.S., as retailers seek the lowest cost platforms to contract for the manufacture of their wares. While this trend bodes well for

foreign apparel suppliers, it brings increased responsibilities for them in terms of inventory management, order control, and delivery of goods. Foreign suppliers need to adopt more sophisticated, computerised systems, which can follow inputs, cut-ups, and final goods through every stage of the apparel, export process. Firms, which can manage this pipeline effectively, and communicate regularly with their clients at every stage of the process, will out compete those that cannot.

Another aspect of consumer responsiveness is quality. Increasingly, consumers expect fabrics whose colours do not run and clothes whose seams are finished and whose fit is right. One strategy being pursued by large apparel manufacturers in the U.S. today to counter substandard product quality is automation. By computerising cutting and particularly tricky assembly operations, standard sizing and enhanced end-product quality can better be assured. The U.S. industry is also actively pursuing demand-activated manufacturing technologies, i.e. technologies which will allow manufacturers to more accurately and rapidly respond to tailor-made style and size orders. The use of whole-body scanners by manufacturers and retailers will allow customers to order clothing cut and assembled according to a large array of computerised patterns so that the final product fits individual body types correctly. The use of snapshot fashion ordering systems and digital fabric printing will allow mass customisation to be realised, i.e. the manufacture on a large scale of speciality products tailored to individual consumer style and colour preferences (Pine, 1993; Anderson et al., 1997).

3.5.2 PROMOTION

Once a product or service is developed to meet consumer needs and is properly priced and distributed, the intended consumers must be informed of the product's availability and value. International promotion consists of those activities used by the marketer to inform and persuade the consumer to buy. A well-designed promotion mix includes advertising, sales promotions, trade fairs, and public relations that are mutually reinforcing and focused on a common objective. In terms of textile and apparel industry, promotion is the most visible area of the marketing mix, and also one that most actively tries to influence the foreign consumer in the decision making process (Hollensen, 2001).

Promotion is about communicating with existing consumer and potential consumers. Adapting promotional strategy to cultural peculiarities that exist among the world's markets is the challenge confronting the international marketer. For SA textile and apparel firm, it is about persuading people from the overseas countries to buy the goods from this country and not other country.

It is very important that SA textile and apparel firm to develop an advertising strategy that has global reach but that is also adaptable to local conditions and to a large extent due to cultural diversity reflected in local tastes, attitudes and lifestyles. If the existing advertising is working in Australia or South Africa, it does not mean that it will work in North America or Europe.

The advertising strategy should therefore reflect the dominant cultural characteristics of the market that may either be individualistic or collectivist in nature. Generally speaking, in individualist cultures such as Australia or European countries, society emphasizes individual initiative and achievement. An individual's identity is mostly determined by the individual self-interest. It is generally agreed that western values are viewed as individualism, modernity, materialism, self-satisfaction and self-interest. On the other hand, in collectivist cultures such as those of North America, society places more emphasis on the social networks to which an individual belongs and an individual's identity is shaped by membership within a group.

Internet is rapidly becoming a major feature in international promotional activities. Many believe that as consumers are exposed to the web site that buying preferences will become increasingly similar; resulting in the creation of a homogeneous consumer culture.

Besides traditional media such as radio and television, international direct mail has also found an important place in many companies strategies. Campaigns must be carefully thought out, as there are considerable opportunities to get it wrong.

Trade fairs can also be an effective means to introduce products into a specific foreign market. Government agencies often help to locate the best fair and frequently promote sponsored trips. For example, the DTI in South Africa, provide import and export

incentives to attract the foreign investor to invest in this country. The benefit of trade fairs is that it will introduce products to potential business partners. Trade fairs therefore create significant opportunity to create business leads that if followed up effectively can lead to the entry into new markets.

3.5.3 PLACE

South African textile & apparel products have been exported to various countries, therefore careful market research must be undertaken to identify and move into similar industrial park developments in the foreign markets. This information would be relatively easily available through trade offices in host countries.

South African textile & apparel exports are mainly to European countries (especially the UK) which accounted for over half of all exports in 1999, although the share has been declining over the decade. This is followed by Asia, accounting for 17%, Africa (14%) and North America (11%). Exports to North America have grown particularly fast, from a share of just one per cent in 1990. Asian countries accounted for the largest proportion of imports with a share of 47% in 1999, followed by Europe with 36%, Africa at 9% and the Americas at 8%. The proportion of imports from Asian countries has risen from 1996, when the share was 41%, while the share of imports from African countries fell from 12.7% in 1998 to 8.6% in 1999. This mainly reflects a temporary suspension of a trade agreement with Malawi, as a result of allegations of misreporting of the origin of products, as well as disputes over textile trade flows between South Africa and Zimbabwe.

3.5.4 PRICE

The use of price as a marketing tool is a vital component in selling a particular product to consumers. It is, in one sense, a means of communicating information about the product. Too low a selling price and the product could be seen as being cheap in quality and this in turn impacts on the image of the product and consumer perceptions. Too high a price can result in fewer buyers, which in turn affects company profitability. High price is often associated with high quality though this may not always be the case (Hollensen, 2001). South Africa Textile and apparel firms needs to set it's price carefully with due

consideration given to the market segment that it is targeting. The difference in pricing strategies is reflected in the different store environments.

Price setting in the international context is complicated by factors such as foreign exchange rates, different competitive situations, different labour costs and inflation. Regional and local laws and regulations also have to be considered in setting prices. There are three strategies to consider when setting prices for the international markets, namely, skimming, market pricing, and penetration pricing. The *skimming strategy* will be used to target the affluent markets and its success will depend on product designs that offer additional features, which will appeal to this sector. In the *market pricing* approach prior knowledge of existing products, world market prices and product life cycle stage must be known before commencing expansion into these markets. The execution of this strategy will further depend on those textiles and apparel firm's ability to make a satisfactory profit margin in these markets, by using retrograde calculations.

Penetrating pricing policies must be used in markets where there is intense competition from rival companies and where the income levels of the local consumers are low. This strategy will aim at capturing market shares by deliberately offering the products at low prices in order to stimulate growth. This strategy may be appropriate as it enters the U.S. market.

Enhanced Marketing Mix

Although the extended or enhanced marketing mix has traditionally been applied to service industries, perception of service quality is an important aspect of the customer satisfaction.

3.5.5 Process

Store processes must be designed to facilitate and smoothly transition the shopping experience into a decision to purchase. This however could vary for different countries. Consumer habits will have to be studied to see what differences exist in shopping nuances throughout the purchasing experience to keep shoppers delighted in the stores. Information about current and up-and-coming developments in the tile industry must be readily

available in a format and presentation that is comfortable and attractive for the market in which the store operates.

3.5.6 People

An ongoing issue in the clothing and textile sectors is that of training and skills. In most textile and apparel factories, a period of in-house training follows initial hiring, with a close link between the intensity and length of this training and the type and range of garments being produced. Hence producers of high-quality garments offer a longer period of in-house training than producers of low-quality or relatively basic garments. The clothing and textile workers' union and employers are engaged in a debate concerning the recognition and development of skills.

With regard to more specialised skills, in South Africa's design skills are not globally competitive and could be improved. Firms need to hire appropriate designers, and that domestic training programmes for designers are inadequate, obliging some firms to seek such skills from abroad

3.6 PRODUCT INNOVATION RELATED TO TEXTILE EXPORT MARKET

One concern is with respect to the degree of innovativeness of the firm. Broadly speaking, innovation may be in the product or the process of production. In this survey, innovation is divided into three main types, product, production process, and labour process.

In the clothing industry, the main type of product innovation comes from design or fabric choices. Process innovations are divided here into two types, production and labour process. Production process innovations are those that arise from changes in the machinery producing outputs or organization of non-labour inputs. Labour process innovations are those that involve changes in the organization or use of labour in the production process. Introduction of a new machine or a new type of fabric glue would be construed as a production process innovation, while introducing group or team work would be considered a labour process innovation.

Production process innovations are further divided according to the nature of the innovation, large-scale or incremental. Large-scale innovations are characterized by new, expensive and technologically-sophisticated machinery, examples of which are automated cutting and stitching machines or automated conveyor systems to move and allocate work. Incremental innovation is based on adaptation of existing technology and/or machines. Examples are modifying templates to the specific stitching required for a particular style or adapting fabric spreaders to new types of fabric. These are innovations in the sense that existing capacities are changed to improve the quality or speed of production of the garment. Such adaptive innovation tends to occur gradually but continuously, hence the term incremental innovation. Managers, mechanics, and workers all may contribute to this process of adaptation and typically it happens on a small scale, without wholesale transformation of production.

Comparing the nature of capital and levels of innovation across firm types, several characteristics are implicated in success. First, although differences in vintage or automation are not great between growing and contracting firms, high growth firms do exhibit much higher indices for modernity and automation in inventory and design capital. Second, growing as well as high growth firms are much more innovative in product. Looking at the indices related to the nature of the innovation process, we find that high growth firms are more innovative in both large-scale and incremental process innovations. The advantage, however, is greater in large-scale than in incremental process innovations, suggesting either that incremental changes are relatively strong in the less successful firms or that large-scale change is more effective than incremental.

Evidence on innovations in the labour process paints a more mixed picture. While innovation is more labour-driven in the growing than contracting firms, the opposite is true for innovations in the labour process itself. All indices of labour process innovation are low and differences across groups are very small, but the high contraction firms turn out to be the sample firms with the highest level. Again, there are several possible interpretations of this result. It may be that threatened firms are more willing to introduce more participatory workplaces, seeing it as the last hope (Flaherty, 1985). Firm size is also relevant, since

small firms are more likely to have participatory practices. Firms introducing large-scale process innovations, which in the sample are disproportionately growing firms, are less likely to introduce participatory practices.

Two final indicators of innovation have been constructed from the sample data. Firms are classified according to whether the process of innovation is worker-driven. Worker-driven innovation occurs when workers suggest or initiate adaptations of processes. The second characteristic of firms included among innovation indicators is the effect of innovation on workers. Firms may be classified according to whether the innovations it pursues results in the deskilling or reskilling of its workers, or is neutral in its effect on workers.

3.7 ADVANTAGES OF TEXTILE AND APPAREL EXPORT FROM SOUTH AFRICA

South Africa's economic and social policies are ensuring the international reintegration of the country's economy and the creation of an environment for sustained export growth, healthy net capital inflows and improved investor confidence. The highly developed economic infrastructure, vast scope, and a huge emergent market economy have given rise to a strong entrepreneurial and dynamic investment environment with many competitive advantages and opportunities.

Initiatives for export-driven manufacturing are able to take advantage of the devaluing currency and the export policy direction of the government. This situation creates an incentive to locate manufacturing plants closer to international transport routes. As a vital center for multi-modal transportation and value-added activities, KwaZulu-Natal is able to assume a role as a continental gateway to Southern Africa. The following factors enhance the province's potential as an ideal investment location:

- An unmatched strategic geographical position provides easy accessibility to local, national and global markets. Placed on the crossroads of east and west, the region has ties with Indian Ocean Rim nations, the best access to the Pacific Rim and links deep into the African continent. As a gateway to all the major markets in South Africa, there

is perfect placement for the servicing of industries and consumers in the country's other provinces, as well as being a springboard to the developing markets of sub-Saharan Africa.

- South Africa's agreements on trade, development and cooperation facilitate the expansion of secure markets for business.
- Physical infrastructure is comparable to developed world standards, with an extensive network of railways and roads, as well as the largest capability for handling containerised sea traffic.
- There is an abundance of established intermediate industry inputs and support from downstream industry, with prime sites in industrial parks situated close to transportation routes. Based on consideration of costs, certain selected industrial undertakings can be operated more profitably if established in KwaZulu-Natal than in other competing investment regions in the world.
- World-class information technology provides access to global telecommunication highways, with high-speed international links and a mobile communications network regarded as one of the best.
- Comparatively low industrial electricity tariffs are available, with the entire province linked to the national power grid.
- There are ample water resources, with huge storage dams supplemented by many natural lakes and water supply of excellent quality available at low cost.
- A comprehensive network of public and private health facilities and hospitals has been established, with highly specialized medical care services available.
- One of the world's most enviable lifestyles may be enjoyed, with a temperate climate, friendly people and an idyllic living environment, as well as access to innumerable sporting, recreational and cultural facility. Fully serviced residential properties may be purchased at a significant discount compared to similar properties in the western world.

KwaZulu-Natal represents a microcosm of the economic and social conditions of South Africa as a whole, with several studies confirming the phenomenal growth trends and high economic potential of this province. The province traditionally attracts more investment in

new industrial projects than any other province and has proven to be area in which investors can enjoy higher returns at the faster pace.

As at 11 May 2001, five of the defined forty-eight Sub-Saharan Africa (SSA) countries have been approved by the United States for benefits under AGOA, and are permitted duty-free access for clothing exports into the USA.

The first two countries to be approved were Mauritius and Kenya, followed on 6 March by the approval of South Africa and Madagascar and by Lesotho on 23 April. At present there are 8 other beneficiary SSA countries, where applications for approval under AGOA are pending. The next most likely countries to be approved are Malawi, Botswana and Ethiopia.

At present, AGOA only provides for the duty-free access of clothing under strict rules of origin to the USA. Various categories of duty-free access for clothing articles are provided for. These can be summarized as follows:-

1. Duty-free and quota-free access for clothing manufactured in SSA from fabric wholly formed and cut in the USA from yarns wholly formed in the USA;
2. Duty-free access for clothing manufactured in SSA from fabric manufactured in SSA from yarn originating in the USA or SSA, but subject to a quota equivalent to 1,5% in year 1, rising in year 8 to 3,5% of the value of total clothing imports into the USA;
3. Duty-free access for clothing manufactured in lesser-developed SSA countries, regardless of the origin of the fabric up until September 2004 and subject to the above quota;
4. Duty-free and quota-free access for sweaters of cashmere or of 18,5 micron or finer wool, knit-to-shape in SSA;
5. Duty-free and quota-free access for clothing manufactured from fabric or yarn not available in commercial quantities in the USA; and
6. Duty-free and quota-free access for hand-loomed, hand-made and folklore articles.

Certain concessions are provided for in the case of the use of foreign origin interlinings, finishing and trimmings in the manufacture in SSA of clothing as long as the value of these items does not exceed 25% of the value of the clothing article.

Another concession is that non-USA or non-SSA fibre and yarn is permitted in the manufacture of clothing up to 7% by weight of the garment.

The legislative process is currently underway in the USA, whereby proposed additions and amendments to AGOA are being considered: the so-called AGOA II or Bush's African Enterprise Initiative. Aspects that will be important for South Africa and indeed many other SSA countries to have changed would be the extension of AGOA beyond September 2008, the termination on 30 September 2004 and the non-extension to higher developed SSA countries of the third country fabric concession, the inclusion of yarns, fabrics and household textiles as qualifying for duty-free access and a number of the other existing provisions of AGOA.

It is important that - this time round - industry and government work in concert to achieve these objectives.

Human Resource Development is receiving urgent attention in South Africa. Many policy interventions have been initiated in this field to make South Africa more competitive in the World economy. The Department of Labour has introduced an ambitious programme that seeks to enhance skills development through education and training.

3.8 DISADVANTAGES OF TEXTILE AND APPAREL EXPORT FROM SOUTH AFRICA

In spite of an improvement in the political and economic environment since 1994, ongoing investor uncertainty regarding the long-term future of the country remains. Some probable reasons for this uncertainty and lack of confidence, and the resultant Rand weakness experienced in the second half of the 1990s, are as follows:

- The poor quality of the labour force due to a highly unequal skills distribution. This has largely been brought about by the past inequalities in education, skewed along racial lines.
- Labour market inflexibility.
- A highly unequal income distribution and high levels of poverty. This situation, if not addressed, has the potential to exert pressure on the government to implement populist policies in future years, abandoning its currently business-friendly policies laid down in the GEAR strategy.
- High levels of corruption, crime and violence, adding to the cost of doing business in South Africa.
- Government's incoherent policy outside of monetary, fiscal and trade policy. Currently, a prominent issue is the slow pace of privatisation and deregulation as well as the uncertainty surrounding the future timing of such privatisation and deregulation initiatives. The best example is the current uncertainty surrounding the telecommunications sector policy and the listing of Telkom.
- Troublesome neighbouring states. Political turmoil in Zimbabwe, and its possible contagion effect on South Africa is one of the current concerns. However, a further problem results from the fact that neighbouring states offer very limited markets to South African businesses.
- South Africa's classification as an emerging market has exposed it to additional volatility at times when emerging markets fell from favour, as was the case in 1997/98. Currently, the global slowdown has brought the economic well being of this group of markets into question.

In Table 3.9 the most significant obstacles identified by foreign and locally owned firms are shown, it is demonstrated that the locally-owned companies are more concerned than foreign owned companies regarding South Africa crime and related social problems.

Table 3.9 Most Significant Obstacles identified by firms

Foreign owned	%	Locally owned	%
Crime and related social problems	42	Crime and related social problems	56
High levels of interest rates	40	High levels of interest rates	51
Labour regulations	35	Labour regulations	41
Poor sales outlook	31	Fluctuations in the interest rate	40
The level of the exchange rate	30	High company tax rates	39
Exchange rate instability	30	Uncertainty over labour relations	39

Source: National Enterprise Survey

3.9 CONCLUSION

This chapter completes the elaboration of the environmental analysis framework. The first component of the EAF is the categorization of environmental phenomena into economic, political, cultural, demographic and technology factors. These four interrelated groups allow the MNC to scan and analysis their business environment more systematically and with a sharper focus. The second component of the EAF enables the MNC to analyse the five forces in the textile and clothing industry in South Africa. The third component of the EAF, through the marketing Mix and product innovation identifies the distinctive nature of the key success factors in South Africa.

The globalisation of the South Africa 's economy offers a wide range of opportunities, well-developed infrastructure, excellent communication and transport links, lower labour costs compared to industrialized countries, and inexpensive electrical power. South Africa actively encourages direct and indirect investment by non-resident persons and companies. Virtually all business activities are open to local or foreign investors and there are generally no restrictions on foreign investment. However, it also exposes numerous challenges, the country continues to be faced with a shortage of skilled labour, particularly in professional fields, The skills shortfall is the result of shortcomings in the educational system and departures of skilled labour from South Africa. Companies have little power to lay off workers as well as finding appropriate black staff to fill quotas set by the employment equity legislation. Furthermore, high AIDS infection levels pose further problems, high levels of crime, fluctuating currencies, nepotism, corruption, and multiple layers of obstructive bureaucracy all frustrate businesses in South Africa.

Barriers to entry for new firms and exporters are low, and consequently the degrees of international competitions are intense. Competitive advantage is very difficult to sustain for long periods of time due to the product similarity. A nation's factor endowments exert a strong influence over its competitive advantage in the production of goods and services.

By applying the EAF, MNC can systematically examine environmental characteristics,

country strategies and industry structure and dynamics so as to formulate more effective company strategies.

CHAPTER 4
STRATEGY EVALUATION
AND
SELECTION

Chance favours the prepared mind

Louis Pasteur

Fit between a parent and its businesses are a two-edged sword:
a good fit can create value: a bad one can destroy it.

Andrew Campbell

4.1 INTRODUCTION

This chapter describes the multifaceted task of matching strategy to a firm's external and internal situations by considering the textile and clothing industry and its macro-environments. It is important to be sure that the customized aspects of the proposed strategy are well matched to the firm's competencies and competitive capabilities and the strategy addresses all strategic issues the firm confronts.

An evaluation will be presented of the attractiveness of the South Africa's manufacturing textile and clothing industry. Then an examination will be made of the options of entry mode strategies and the third part will deal with the assessment of competitive strength and performance potential of its business, and deciding on what strategic actions to take.

The ultimate commitment is to develop a foreign manufacturing subsidiary to service the host country markets. Therefore, poor choices of strategic direction are costly. How can the likelihood of bad decisions be reduced, and decisions be encouraged? This chapter proposes a series of challenging test questions that are critical to any strategy review.

Each of the test question formulated is posed as a measure of the credibility of a proposed strategy; the answers determine whether the MNC has confidence that the promised returns on the investment will be realized.

Assessments of market attractiveness must consider events and trends in the macroeconomic and industry environment as well as conditions within the segments of the market the strategy proposes to target.

How attractive is the market opportunity?

Market attractiveness analysis should present a balanced view – the threats versus the opportunities uncovered during the situation assessment. Included here is the anticipated impact of events and trends in the aptly named PEST environment (the political, economic, social, and technological forces covered in Chapter 3). Supplementing these factors are the

specific attributes of the competitive market to be served (Table 4.1).

Table 4.1 Attractiveness of the manufacturing textile and clothing industry.

Criteria	
Size	Small / Medium
Growth	Moderate
Cyclically	Low
Intensity of competition	High
Access of channels	Easy
Break-even share	Moderate
Costs to serve	Moderate
Overall attractiveness	+++

The overall attractiveness of doing business in South Africa’s manufacturing textile and clothing industry depends on balancing the likely long term benefits of doing business in the country against the likely costs and risks.

A principal consideration in evaluating a diversified company’s business makeup and the calibre of its strategy is the attractiveness of the industries it has diversified into. The better the market opportunity measures up on these criteria, the higher the long-run average profitability of the FDI companies in the market.

4.2 STRATEGY OPTIONS

An understanding of strategy and of an organization’s external and internal environment in and of itself does not generate strategy. MNC need to transform knowledge about the industry, about the environment outside the industry, and about their own organization’s resources and competencies into opportunities. Thus companies should develop a range of strategy alternatives.

The optimal entry mode for these foreign companies from South Africa depends to some degree on the nature of their core competencies. South African companies willing to expand internationally to earn greater returns from their core competencies, transferring the skills and products derived from their core competencies to any foreign markets where

indigenous competitors lack those skills.

Choosing the right mode of entry is a complex decision because of the multitude of relevant variables. According to the Business Map categories of firm intentions (Table 4.2), new investments, expansions in productive capacity, mergers and acquisitions, failed investments; liquidations and disinvestments, mergers and acquisitions increasingly dominate investment types. This trend differs from the Southern Africa region, which is dominated by new ventures and suggests that the South African economy offers a greater set of opportunities for joint ventures than its neighbours.

Table 4.2 Kind of investment by percentage

KIND	% (1994-99)
MERGERS & ACQUISITIONS	60.4
EXPANSION	17.3
NEW	16.7
INVESTMENT	4.5
INTENTION	3.1
LIQUIDATION	-0.6
DISINVESTMENT	-1.5

(Source: Business Map's on-line SA FDI database)

Analysis of the choice of entry mode has traditionally focused on financial, managerial, and legal issues. The height of entry barriers is an additional issue that both affects the traditional ones and has an impact of its own.

Licensing and joint venture arrangements should be avoided if possible so that the risk of losing control over that technology is minimized. Joint ventures involve more commitment than either exporting or licensing and have more risk and less flexibility associated with them.

Direct investment, unlike a joint venture, allows control over the operation. There needs to be no concern that the lack of experience, commitment, judgment, or competence of a partner will cause it to fail. Further, the shared management problems and the loss of flexibility associated with joint ventures is avoided.

Some of the same motivations for joint ventures apply to direct investment. It can be an approach to overcome political resentment of exporters exploiting a foreign market and the associated import restriction that either exist or may be threatened; it can also be a way to exploit local assets in terms of labour, raw materials, or facilities.

Direct and acquisition entry are both appropriate ways of entering a new market, they involve entirely different processes. It actually saves calendar time to choose acquisition to another local factory. Sometimes, it takes time to mount product development efforts, build production facilities, create distribution network, and gain market acceptance.

In terms of the financial implications for the entrant, direct entry is more likely to be fundable from internally generated funds, because of the typically incremental use of funds.

The SAG has implemented 7 years tariff phase down for textiles and clothing was introduced in 1995 and by September 1999, duties had been substantially reduced so that barriers of entry has reduced, it is favourable to direct entry.

Direct entry is typically more risky because there is no guarantee that there will ever be an ongoing business of the required size and profitability. The typically long initial period of start up losses imposes many strains and career risks.

However, cultural variances can cause major communication barriers. Based on the cross-cultural, joint ventures and acquisition will create the communication gap. Managers from the home country need to identify, understand, and managerially interpret the cultural force.

Based on the analysis provided in this study it is clear that South African investors face a number of challenges in the manufacturing textile and clothing industry. There are a number of strategic approaches they can adopt in meeting these challenges in South

Africa. These strategies are either generic or specific in nature and to some extent also depend on the position that the MNC in South Africa to determine the target export country market. To effectively compete in its selected markets a combination of strategies are recommended.

4.3 GENERIC STRATEGIES

A company's competitive strategy consists of its business approaches and initiatives to attract customers and fulfil their expectations, to withstand competitive pressures, and to strengthen its market position. The core of a company's competitive strategy consists of its internal initiatives to deliver superior value to customers. But it also includes offensive and defensive moves to counter the manoeuvring of key rivals; actions to shift resources around to improve the firm's long-term competitive capabilities and market position, and tactical efforts to respond to the market conditions prevailing at the moment. Generic strategies refer to those South Africa textile and apparel firms as a general or broad orientation to competition and consist of two main approaches namely a low-cost leadership strategy and a broad differentiation strategy.

4.3.1 LOW-COST LEADERSHIP STRATEGY

Striving to be the textile and clothing industry's overall low-cost provider is a powerful competitive approach in markets where many buyers are price sensitive. The aim is to operate the business in a highly cost-effective manner and open up a sustainable cost advantage over local rivals.

There are a number of reasons to use a cost leadership strategy in textile and clothing industry:

- It can give the firm above-average returns even in the face of strong competitive forces.
- It can defend the firm against rivalry from local competitors because it is difficult for competitors to force the firm out on the basis of price.

- It can defend the firm against powerful buyers because buyers can exert pressure only to drive prices down to the level of the next most efficient competitor.
- It can defend the firm against powerful suppliers by providing flexibility to deal with input cost increases.
- It can put the firm in a favourable position to defend against substitutes from the firm's competitors.
- As a rule, the more price sensitive buyers are and the more inclined they are to base their purchasing decisions on which seller offers the best price, the more appealing a low-cost strategy becomes.

4.3.2 DIFFERENTIATION STRATEGIE

A differentiation strategy involves doing something so that the product is perceived as unique in the textile and clothing industry. There are many general approaches for accomplishing differentiation, for example brand image, design image, technology, quality image and features. As we illustrated in Chapter 2, the essence of a differentiation strategy is to be unique in ways that are valuable to customers and that can be sustained. The potential advantages to use differentiation strategy as follow:

- It can provide protection against competition because of brand loyalty by customers and their resulting willingness to support higher prices for brand items.
- It can increase margins because of the ability to charge a higher price.
- Through higher margins, it can provide flexibility for dealing with supplier power (such as raising the cost of raw materials).
- It can mitigate buyer power because there are no comparable alternatives
- Because of customer loyalty, it can put the company in a favourable position to fend against substitutes from competitors.

4.4.3 BEST-COST PROVIDER STRATEGY

This strategy aims to become the low-cost provider of a product or service with good to excellent attributes, and then use the cost advantage to under price brands with comparable attributes.

Best Cost Provider emphasis on more than minimal quality, service, features and performance. The aim is to create competitive advantage by giving buyers more value for the money. This can be done by benchmarking, matching close rivals on key quality-service-features-performance attributes and beating them on the costs of incorporating such attributes into the product or service.

Each of these three strategic options represents an area that every business can usefully explore. As shown in Table 4.3, there are certain requirements for skills and resources intensive industry.

Generic strategy	Commonly Required Skills and Resources	Common Organizational Requirements
Overall cost leadership	<ul style="list-style-type: none"> -Sustained capital investment and access to capital -Process engineering skills -Intense supervision of labour -Products designed for ease in manufacture -Low-cost distribution system 	<ul style="list-style-type: none"> -Tight cost control -Frequency, detailed control reports -Structured organization and responsibilities -Incentives based on meeting strict quantitative targets
Differentiation	<ul style="list-style-type: none"> -Strong marketing abilities -Product engineering -Creative flair -Strong capability in basic research -Corporate reputation for quality of technological leadership -Long tradition in the industry or unique combination of skills drawn from other businesses -Strong cooperation from channels 	<ul style="list-style-type: none"> -Strong coordination among functions in R&D, product development, and marketing -Subjective measurement and incentives instead of quantitative measures -Amenities to attract highly skilled labour, scientists, or creative people
Best Cost Provider	<ul style="list-style-type: none"> -Low-cost distribution channel -Sustained capital investment and access to capital -Process engineering skills Strong marketing abilities 	<ul style="list-style-type: none"> -Benchmarking -Tight cost control -Innovation -Subjective measurement and incentives instead of quantitative measures -Structured organization and responsibilities

Table 4.3 Skills, resources, and organizational requirements of generic competitive strategies

4.4 HOW SUSTAINABLE IS THE COMPETITIVE ADVANTAGE?

Diversification is sometimes the only way to achieve growth for a company, or the only way to survive when sales and profitability of the core business are declining in their home country. Consequently, diversification is and will be a strategic option largely used to reach the long-term objectives planned to ensure the future of the firm.

The reinforcement of the lowering costs and/or increasing differentiation leads to a better competitive position and consequently to higher profits.

Sustainable differentiation usually has to be linked to unique internal skills, core competencies, and capabilities. When a company has competences and capabilities that competitors cannot readily match and when its expertise can be used to perform activities in the value chain where differentiation potential exists, then it has a strong basis for sustainable differentiation.

The competitive advantage of a best-cost provider comes from matching close rivals on quality, service, features, performance and beating them on cost. To become a best-cost provider, a company must match quality at a lower cost than rivals, match features at a lower cost than rivals, match product performance at a lower cost than so on

4.5 ANALYSING ACCEPTABILITY

One of the primary objectives of an industry analysis is to determine the attractiveness of an industry to current and potential participants. Industry attractiveness, the industry's profit potential as measured by the long-term return on investment (ROI) achieved by its participants, will provide an important input into the product-market investment decision.

ROI is based on forecasts of future financial returns from the proposed strategy, however, if we using a *low cost* provider strategy, the biggest pitfall is getting carried away with overly aggressively price-cutting and ending up with lower, rather than higher, profitability.

For Foreign investment companies, most of their core competences (raw material, equipment) will be imported from the home country. After a depreciation of some 19% (year-on-year) in the average value of the Rand against US dollar during 2001, a falling currency is likely to exert strong upward pressure on the general price level. It will affect their inputs cost increase.

Differentiation adds cost. The direct costs of differentiation include such elements as the costs of higher-quality inputs, the costs of larger inventories in order to guarantee speedy filling of orders. In addition there are indirect costs of differentiation, which arise through the interaction of differentiation variables with cost variables. To the extent that differentiation narrows the product-market scope of a firm, it also limits the potential for exploiting scale economies. To the extent that differentiation requires product innovation and the introduction of new models, it hampers the exploitation of experience curve economies. Sometimes, it is difficult to estimate of extra costs incurred in differentiation can be recovered from the customer.

Another consideration of the industry cost structure is to determine to what extent experience curve strategies are feasible in the industry. Can our local textile and apparel firms develop sustainable cost advantages based on volume? Are there large fixed costs that would generate economies of scale?

Capacity utilization is a big cost driver for value chain activities that have substantial fixed costs associated with them. Higher rates of capacity utilization allow depreciation and other fixed costs to be spread over a larger unit volume, thereby lowering fixed costs per unit. The more capital-intensive the business and / or the higher the percentage of fixed costs as a percentage of total costs, the more important this cost driver becomes because there's finding ways to operate close to full capacity on a year-round basis can be important source of cost advantage.

4.6 RISK ASSESSMENT

The overall level of risks reflects the vulnerability of key results if pivotal assumptions are wrong or critical tasks are not accomplished.

On the political front, there is the issue of political risk. SA tends to be greater in experiencing social unrest and disorder. Social unrest typically finds expression in strikes of the labour and causing violent conflict.

On the economic front, economic risks arise from economic mismanagement by the government of a country. One visible indicator of economic mismanagement tends to be the SA's higher inflation rate and higher interest rate with lower value of the currency. Unstable floating exchange rate diminishes the profit return from the foreign investors. It is difficult to adjust or predict their future profit margin.

In regard to the legal front, risks arise when a country's legal system fails to provide adequate safeguards in the case of protect property rights or against crime and corruption. When legal safeguards are weak, the foreign investors are more likely to break the contracts and pull out the their investment in South Africa.

Will the forecast financial results be achieved and increase export product value?

A number of political, economic, and legal factors determine the costs of doing business in South Africa. With regard to political factors, the costs of doing export business in S.A can be increased by a need to pay off the politically powerful in order to be allowed by the government to do business.

With regard to economic factors, one of the most important variables is the sophistication of a country's economy. It may be more costly to do business in SA because of the lack of skill-intensive labour and advanced technology. The strengthened Rand during the most recent periods will also push up the cost of production as a result it become less competitive to those countries who are doing the similar export business.

All strategy alternatives must eventually be tested for their financial attractiveness. The raw materials for this test are valid assumptions about the future revenues, costs and investment requirements to be achieved by each alternative.

4.7 LIMITATIONS

Any strategy needing new investment will be justified only if the promised returns are greater than the cost of capital. This process involves much more than a comparison of the promised financial results, using common criteria such as market share gains, payback of investment, or return on investment. However, in this research, we have limitation on the quantitative data. Clearly, the baseline strategy recommendations need to be considered suggestive and not definitive.

4.8 STRATEGY SELECTION

Strategies for multinational firms include exporting, licensing, joint ventures, and foreign direct investment. The choice involves in part a trade-off between flexibility versus commitment with its associated risk. The larger the share of textile and clothing market leaders; the more likely they are to react against entrants and the greater their market power to implement resistance. High levels of concentration should therefore favour acquisition entry as a means of avoiding both reaction and scale barriers. A joint venture provides political advantages and the use of a partner's assets and expertise but also involves commitment that will reduce flexibility. The substantial operational problems can be alleviated by using a dominant partner arrangement and by negotiating the business plan prior to finalizing the joint venture. Direct investment involves higher risks but provides control over the operation. In addition to investment recovery risks there are also risks to profitability caused by changing market conditions and government taxes and regulations.

Winning business strategies are grounded in sustainable competitive advantage. A company has competitive advantage whenever it has an edge over rivals in attracting

customers and defending against competitive forces. To succeed in building a competitive advantage, a company's strategy must aim at providing buyers with what they perceive as superior value – a good product at a lower price or a better product that is worth paying more for.

It is not enough to understand that a company's basic competitive strategy options are overall low-cost leadership, broad differentiation, and best-cost producers. South African firms must also understand that the array of strategic options is narrowed and shaped by the nature of industry and competitive conditions and a firm's own competitive capabilities, market position, and best opportunities.

A best-cost provider is the most powerful competitive approach for a parent company to implement into the new host market. It can strive relentlessly to become a lower-and-lower-cost producer of a higher-and-higher-calibre product, aiming at eventually becoming the industry's absolute lowest-cost producer and, simultaneously, the producer of the industry's overall best product.

A best-cost producer strategy can be more advantageous than either a pure low-cost producer strategy or a pure differentiation strategy keyed to product superiority. This is because a best-cost provider can position itself near the middle of the market with either a medium-quality product at a below-average price or a very good product at a medium price. Often the majority of buyers prefer a midrange product rather than the cheap, basic product of a low-cost producer or the expensive product of a top-of-the-line differentiator.

Other local/foreign competitors will invariably find ways to share the wealth of the market leader. Attractive opportunities always motivate competitors to try to match, leapfrog, or offset the advantage the leader has achieved. Thus, the anticipated extra profitability that a competitive advantage promises may not materialize or may quickly dry up.

Technology and communication are weaving together an interconnected planet, spreading the tools of economic and social progress, and equalizing the human condition.

The barriers will be broken down, not just between economies and trade, but also between people, giving it a shared interest in prosperity and peace.

4.9 CONCLUSION

Two critical organizational issues were discussed. First was the choice of South Africa textile and apparel firms to enter the foreign market by (export, licensing, acquisition, joint ventures and foreign direct investment). These alternatives can be systematically evaluated using two sets of variables related to the industry environment, competitive situation. The industry environment variables emerging from the EAF are economic (market size and growth, cyclically, and intensity of the competitors), political (risk, regulatory control), and cultural (compatibility). To decide on the entry mode, the manager from home country ascertains which of the entry forms are favoured by the prevailing conditions of each of these variables, and then assesses the relative importance and interaction of these variables.

The second area evaluated the best generic strategies (cost leadership, differentiation and best-cost provider) for this dynamic textile industry. The test questions work best when there is a rich array of strategic alternatives from which to choose. The variety gives the parent company a basis for comparison and enhances creativity by suggesting combinations of different strategies.

CHAPTER 5
RECOMMENDATIONS
&
CONCLUSION

Far better an approximate answer to the right question, which is often vague, than an exact answer to the wrong question, which can always be made precise.

John Turkey,
Statistician, Princeton University

5.1 RECOMMENDATIONS

Being a major sector of the South Africa's economy, textile and clothing industry has been operating for years in a comfortable but unreal world, sheltered from overseas competition by high import tariffs. As a result, few local textile firms have felt the need to invest or deal with problems of over manning. However, the situation has changed dramatically. Tariffs have been progressively reduced and the market has opened up to outsiders.

South Africa actively encourages direct and indirect investment by non-resident persons and companies. Virtually all business activities are open to foreign investors and there are generally no restrictions on foreign investment. The prospects for superior profitability depend on the attractiveness of the market opportunity and the ability of business to gain and sustain a competitive advantage.

Although SAG encourages investments that strengthen, expand, or enhance technology in textile industries. At the same time, South Africa's tariff system is still consider as a complex structure and is subject to rapid change. SAG seems intent on conforming to the standards of the WTO, the legacy of an import substitution policy supported by high tariffs and import permits has left the South African apparel industry largely non-competitive on the world market. Due to this lack of competitiveness coupled with the high unemployment rate in South Africa, the government has vigorously explored WTO-permissible supply-side measures designed to facilitate worker re-training and technological innovation.

Companies having little power to lay off workers as well as finding appropriate black staffs to fill the quotas set by the employment equity legislation (affirmation actions). An abundant of unskilled labour cannot fulfil the labour-intensive textile industry.

The actual value of FDI remained fairly low largely because of the perception that the risk premium in South Africa was not being reduced by macroeconomic developments South Africa's image, the perception rather than the reality is being damaged by current problems in Zimbabwe.

Corruption, ranging from demands for “facilitation” payments to bribes to secure major contracts, it is one of the most serious operational risks facing investors. There is often a gap between global principles and local realities, and it is essential for businesses to have an effective response to demands for bribery to ensure that they avoid entanglement in corruption which can bring legal sanctions at home without losing the commercially.

Through high rates of violent crime make it difficult for South African criminal and judicial entities to dedicate adequate resources to anti-corruption efforts, the government is committed to a tough stance on corruption. Crime has been a far more serious problem than either corruption or political violence, and an impediment to and a cost of doing business in SA.

The continuing strengthened Rand might inhibit exporter from taking overseas export orders. Also the total textile industry will suffer from business lost to imports due to the strong Rand and various rebate facilities for import, fraudulent imports and possible increased imports due to the general reduction in customs duties.

Volume of production will be under pressure. Soft consumer demand and reduced disposable income will lead to fierce price competition and therefore a decline in local sales is expected.

Tax rates in South Africa were regarded as “excessively high” compared to other countries in transition. It puts South Africa at a disadvantage in the worldwide competition for exporting by making the cost of doing business higher than elsewhere.

Capitalizing on the mentioned constraints is a major challenge for the home country, because market imperfections and resource inadequacies abound. Rather than let these gaps and deficiencies stifle operations, the home country must see them as opportunities. Each one that a firm overcomes can be a source of competitive advantage. Solutions are not easy or immediate, but finding ways to do without scarce resources or creating ways to

carry out essential tasks can lead to superior results.

To be successful in the textile industry, the company coming into the country will need competency in strategic analysis and functional management. To meet the distinctive demands of the South Africa environments, it should recommend the capabilities that stand out as particularly critical in this particular situation..

South Africa textile and apparel firms need to adopt a global strategic approach, seek to develop international competitive strengths which are not available to the domestic market. Such international strengths are based on (1) their experience curve with efficiencies of international scale and volume, that is, products and production processes geared to international markets; (2) the international transfer of lessons, ideas, and experience from one country to another; (3) an international image and reputation; (4) shifting financial and other resources from one part of the world to support operations in another; (5) superior access to place economies, such as low-cost raw materials, skills, labour, and other inputs; and (6) the ability to provide an international service. All of these depend on the firm's ability to coordinate its resources internationally.

Cost efficiency may no longer be a guarantee of security and profitability in today's fast-changing markets, but in almost all industries it is pre-requisite for success. In manufacturing textile and clothing industry where competition has always been primarily price-based, increasing intensity of competition is requiring more intensive and radical approaches to cost reduction.

Handling business-government relations carefully is essential to success in developing countries. Government is a mega-force; its actions permeate the business environment. Awareness is important of who the key government and political actors are, their goals and interest and the basis of their power. The home country must understand the host country's government official's perspective; the capacity to empathize is crucial to comprehension and communication. Understanding public policy is a prerequisite to formulating effective strategies.

The parent company can shift production from one country to another to take advantage of exchange rate fluctuations, to enhance its leverage with host country governments, and to respond to changing wage rates, energy costs, or trade restrictions. They can enhance its brand reputation by consistently incorporating the same differentiating attributes in its products in all worldwide markets where it competes.

It is also important to cultivate a good relationship with customers, and associated with suppliers and distribution outlets. The ability to engage in joint problem solving is essential to coordinate numerous activities. Concentrate purchases on fewer suppliers in order to increase bargaining power and facilitate cooperation. Increase frequency of deliveries by suppliers to permit just-in-time component supply.

Managing change is a critical capability, because the business environment is often in a tumultuous state of flux, both economically and politically. The concentration of economic activities and the fragility of institutions expose the business environment to significant disruptions resulting from economic events, such as a large price drop in S.A major export or an eruption of inflation.

Unstable exchange rate and inflation in South Africa create problem areas in the financial environment. To manage under inflationary conditions, the parent company should set up their management information systems to monitor and forecast price changes. Accounting methods have to be adjusted to recognize the continual rise in costs; a focus on the future rather than the past is required. Foreign exchange exposure arises from shifts in a country's exchange rate. As with inflation, monitoring and predicting changes in the exchange rate become an important part of financial information flows. Since currency exchange rates vary in response to changing economic conditions, an international business must develop policies for dealing with exchange rate movement. A firm that adopts a wrong policy can lose large amounts of money, while a firm that adopts the right policy can increase the profitability of its international transactions.

Diversification raises the problem of the managerial and operational skills that need to be

developed and reinforce over the next few years to guarantee the long-term prosperity of the firm.

Establishing the firm's name and reputation plays a key role. A strong brand name serves as a proxy for quality and creates positive images in consumer's minds. It is significant and durable advantage because it represents a long history of superior value that cannot easily be matched by imitators. A strong brand name also helps for the MNC to deal with their export markets; it eases their extension into new markets or product categories.

Exploit economies of scale through concentrating production of each component type on single plant. Contract out production of all components where scales of production or run lengths are sub optimal, or where independent suppliers have technology advantages.

Increase labour productivity through automation. Improve capability utilization through improved sales forecasting and bigger promotions during seasonal downturns. To lower costs of quality control and warranties, reduce defects through improved employee morale and increase employee involvement.

Being culturally sensitive is essential to ensuring that a business's economic strategy is compatible with cultural dictates. International business is different because countries are different. It is important to understand how cultural differences across and within nations can affect the way in which business is practiced. Hofstede (1991) defined a relationship between specific cultural values. In order to minimize the conflict of two countries, communication is the important tool to bridge the relationship. Formal and informal communication channels can be utilised to foster the company's own philosophy and 'way of life'.

The concept of shared values or dominant beliefs underlies culture by specifying what is important. The values need to be shared by everyone in the organization so that they are reinforced and widely accepted.

To be more competitive as an exporter, those textile and apparel firms need to be aware of strike activity happening in this industry in South Africa. Workers fight for wage increase during upswing and attempt to prevent reductions during the downswing. Firms need to build a balance of power between labour and capital depends upon the relative organizational strengths and attitudes of unions.

Managerial skills are also important in the context of diversification strategies. The management of a diversified company requires different managerial abilities in order to succeed in diverse businesses. The diversity or the strategic variety of business units can be assessed on several dimensions such as the required operational capabilities, the degree of turbulence of the environment, the degree of maturity of the demand. Due to the cross-cultural differences, management team should recognise that they need to adjust to the organization structure and acquire new management skills. This could in turn result in a higher satisfaction for local employees and a more effective management of organizations.

To be able to compete with other foreign competitors, the South Africa textile and apparel firms must learn to adapt and upgrade, installing more advanced machinery, increasing their R&D and searching for niche markets. Investment in higher-quality inputs enables most company to retain their competitive advantage, especially in more specialized markets. As textile industries move along their life cycles, they progress from a situation in which cheap disciplined labour is the foundation of competitive advantage to one in which technical knowledge and management skills are critical.

The implementation of Total Quality Management (TQM) is necessary. The most important person in the entire TQM process is the customer; basically, all efforts must be directed toward meeting this individual needs. Increased quality or add value to the product will help the firm develop a reputation and gain market share. It also sharply drives down costs and increases profits.

Being socially concerned is integral to responsible management. A developing country like S.A is beset with pressing socio-economic problems and social needs. The intensity and

pervasiveness of poverty produce widespread human suffering. Therefore textile and apparel firms must view their businesses as part of this larger community and define their responsibility as helping to meet community needs. In fact, social responsibility and ethical sensitivity are essential to strategic management.

Thinking globally is the final imperative, given the growing economic integration of the developing country. The South Africa textile and apparel firms need to determine the roles that their LDC operations will play in their global production, marketing, and financing strategies and networks. Firms operating in only one country still need to have a global perspective for sourcing and for dealing with import competition. The managers from the host country should explore opportunities for creating new types of alliances and arrangements in and across the border or expand their business overseas.

5.2 CONCLUSION

One of the most important phenomena of the twentieth century has been the international expansion of industry. Today virtually all-major firms have a significant and growing presence in business outside their country of origin. Textile and apparel industry has played a key role within South Africa over the past 50 years, and will become more bright in the future. The South African textile industry is an established industry covering the entire value chain from fibre production to apparel manufacture. The industry is becoming increasingly focused on exports, with the EU Trade Bill and the USA Growth and Opportunities Act (AGOA) acting as stimulants for growth.

South Africa's trade and industrial policy has moved away from a highly protected, inward-looking economy towards an internationally competitive system that is able to capitalize on its comparative advantages. Enhancement of the competitiveness of industries on the domestic and international markets has consequently become a prime focus of the country's industrial policy.

As textile and clothing industry is one of the biggest light industries in South Africa, with the import incentives scheme (SMMDP), and a reduction of the textile industry tariff slowly allied with WTO and all the benefit gain from foreign trade agreements. One is the Southern African Development Community (SADC) Free Trade Agreements, which allows textiles to be traded duty-free among a number of countries within Southern Africa. The other one is EU-South Africa, Trade Development and Cooperation Agreement (TDCA) and the, most significant development is the US African Growth and Opportunity Act (AGOA). These trade agreements place South Africa in a unique position as the "economic giant of the African continent."

However, South Africa on the other hand, face an enormous internal problems in their struggle to develop. Foreign direct investment plays a critical role in the development process. South Africa must develop a competitive, sustainable, fast-growing economy that creates national prosperity. The extent to which these challenges will be met relies on overseas enterprise transfer their multi-disciplinary knowledge in order to build a

competitive industrial base with knowledge, innovation and productivity in South Africa.

Multinational companies from South Africa take a long-term view of national opportunities and profitability in order to prepare a heavy commitment of resources and personnel (capital and management) in pursuit of long-term market penetration. They need to recognize that the task of managing in foreign markets is differing from that of managing a business in South Africa. Countries differ in their cultures, political systems, economic systems, legal systems, and levels of economic development. It requires understanding the rules governing the international trading and investment system.

The purpose of diversification is to build shareholder value. Diversification builds shareholder value when a diversified group of businesses can perform better under the auspices of a single corporate parent than they would as independent, stand-alone businesses. The major disadvantage of direct investment is that the risks are usually high. The first are the macro-risks, those affecting the country as a whole. The second are micro-risks, those affecting only some industries of the foreign companies. Macro risks are the least common but the most visible. It involves political & economic uncertainties that can be a threat to the recovery of the investment. Micro-risks impact more on the profitability and cash flow than on asset recovery.

Managing in developing country such as South Africa, business-government relations should be approached strategically. Strategy will be determined by the company's relative bargaining power and the relative importance of the issues. The host company need to pay special attention to three operating aspects of managing business-government relations: designing and implementing the communications process, organizing responsibilities and functions for interacting with the government, and dealing with practical and ethical aspects of corruption.

Inflation and devaluation are the problem areas in the financial environment of S.A that are especially strategic because of their effects can be potentially devastating to the country. Therefore, the challenge for the home company is to avoid the myopia of defining inflation

or devaluation as narrow technical problems and to recognize the larger implications for adjustments in a company's overall strategic plan.

To be successful in this competitive intense textile industry, a best-cost provider strategy has great appeal from the standpoint of competitive positioning. It produces superior customer value by balancing a strategic emphasis on low cost against a strategic emphasis on differentiation. A best-cost provider strategy will allow the new exported to penetrate the market. Increasing labour productivity and achieving economies of scale to keep unit cost down can preserve sustainability.

The research suggests that this investment in South Africa for export industry could result in a highly profitable business, if an appropriate strategic plan is adopted. The prospective enterprise from those exporters must take advantage of the import incentives, lower tariffs, competent and low-wage workforce and the kaleidoscope of opportunities within the South Africa market to boost long-term profitability.

As with any emerging economy, there are always pros and cons to investing in that country. When analysing the various criteria, it is clear that South Africa is an attractive market with potential to expand. With SAG committed towards a market economy, the benefit of investing in South Africa for export far out-ways the limitations.

APPENDIX I - Trade Countries

European Free Trade Association (EFTA)

Iceland

Liechtenstein

Norway

Switzerland

Southern African Development Community (SADC)

Angola

Botswana

Democratic Republic of Congo (DRC)

Lesotho

Malawi

Mauritius

Mozambique

Namibia

Seychelles

South Africa

Swaziland

Tanzania

Zambia

Zimbabwe

European Union (EU)

Austria

Belgium

Denmark

Finland

France

Germany

Greece

Ireland

Italy

Luxembourg

Netherlands

Portugal

Spain

Sweden
United Kingdom

Mercado Común del Sur (MERCOSUR)

Argentina
Bolivia
Brazil
Chile
Paraguay
Uruguay

Asia-Pacific Economic Cooperation (APEC)

Australia
Brunei
Canada
Chile
China
Hong Kong
Indonesia
Japan
Malaysia
Mexico
New Zealand
Papua New Guinea
Peru
Philippines
Russia / Russian Federation
Singapore
South Korea
Thailand
Vietnam
Taiwan
United States of America

North American Free Trade Area (NAFTA)

Canada
Mexico
United States of America

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