Closure workshop

Phase 1 of Namibian CTFL capacity development and retail linkage programme

A programme for the Namibia Trade Forum, funded by the GIZ and SA NCRF

Windhoek, 21st June 2018

Programme

14:00	Welcome and workshop introduction
14:15	Analysis of South African retailer requirements
14:45	Analysis of Namibian firm-level benchmarking findings
15:15	Tea break
15:30	Industry development recommendations
16:00	Questions and answers
17:00	Closure

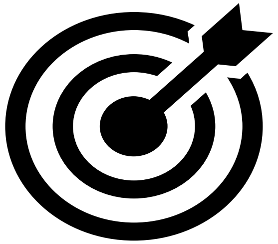
Welcome and introduction

Analysis of South African retailer requirements

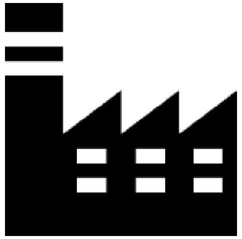
The retail CTFL value chain

Key retailer requirements

- Pre-production capabilities



- Competitiveness

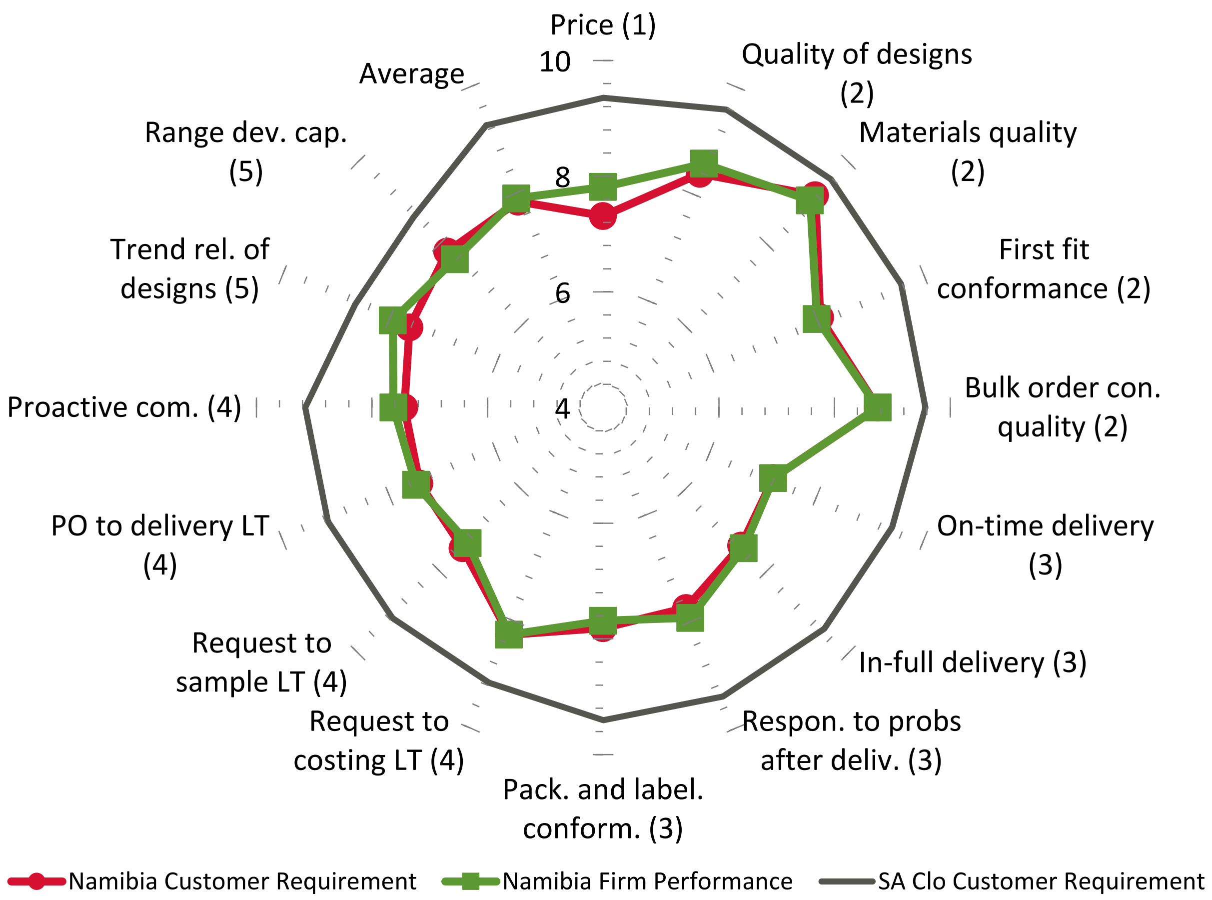


- Production capabilities

- Logistics and distribution

Customer survey

Namibia – Customer assessment (n=4)*



Customer performance rating versus supplier demands (n=4)			
Performance criteria	Customer requirement	Supplier rating	Performance gap
Price (1)	7.3	7.8	0.5
Quality of designs (2)	8.4	8.6	0.2
Materials quality (2)	9.2	9.1	-0.1
First fit conformance (2)	8.1	8.0	-0.1
Bulk order con. quality (2)	8.8	8.8	0.0
On-time delivery (3)	7.2	7.2	0.0
In-full delivery (3)	7.4	7.4	0.1
Respon. to probs after deliv. (3)	7.8	7.9	0.2
Pack. and label. conform. (3)	7.8	7.7	-0.1
Request to costing LT (4)	8.3	8.3	0.0
Request to sample LT (4)	7.4	7.3	-0.1
PO to delivery LT (4)	7.4	7.5	0.1
Proactive com. (4)	7.4	7.6	0.2
Trend rel. of designs (5)	7.6	7.9	0.3
Range dev. cap. (5)	7.8	7.6	-0.2
Average	**7.9**	**7.9**	**0.1**

* Numbers in brackets indicate market driver that specific criterion is allocated to

Pre-supply compliance

- Legal compliance and company standards
- Company owners need to provide identity documents, proof of address and proof of tax compliance
- The same applies to the company itself along with registration forms to be a supplier (address, bank account proof etc.)
- An Service Level Agreement (SLA) and agreement to abide by the retailers code of conduct and ethics. This often relates to issues of labour regulation adherence, commitments to good labour practices, demonstration of the company organogram and other similar documents.
- If the supplier is to export product, relevant export licenses would need to be provided
- Retailers interviewed indicated that they would assist and guide the completion of documentation as well as the on-boarding process

Quick response model

- A growing need of retail is service and product speed and flexibility to support their growing speed to market or ‘Quick Response’ (QR) requirements
- This service requires suppliers to have strong design and pre-production capabilities that are used to monitor market trends and convert market intelligence into desirably products
- The design and pre-production technical capabilities of a QR supplier are significant and require highly skilled fabric expertise, pattern-makers, graders and sample hands
- All of this has to be underpinned by at minimum, basic technologies to speed up processes and increase accuracy. A simple example of this would be automated marker making and printing.

Competencies needed

Fashion product capabilities

Only one firm makes a product that is suitable as a retail fashion product, with one firm making a product that is aligned to the "basic" commodities in retail

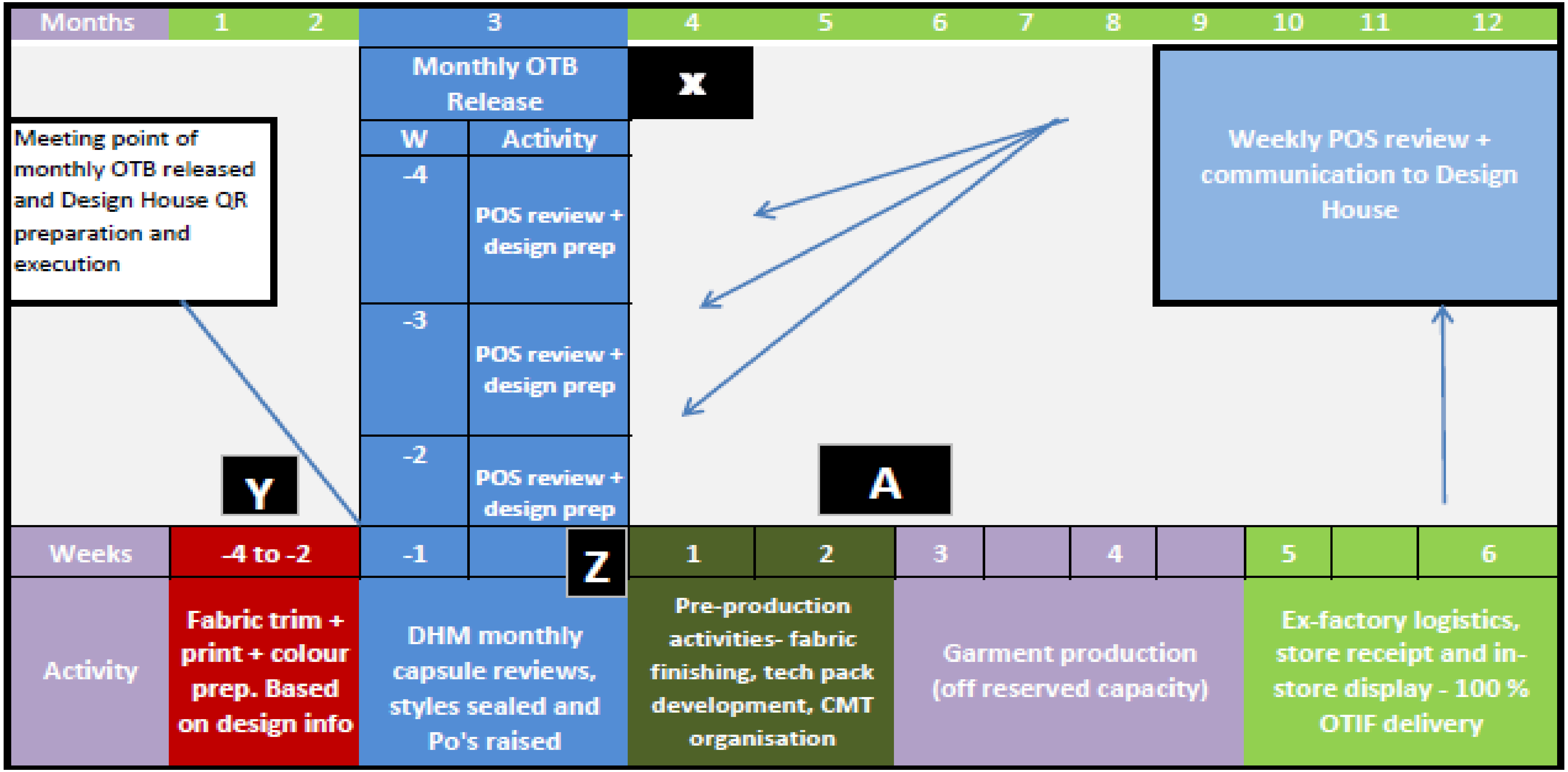
- High fashion products
- Trend dependent
- Best lean time model: Quick Response (QR)

- Up-styles basics
- Trend independent to predictable
- Best lead time model: Mix of QR for more trend dependent products and traditional merchandise plan

- A seasonal, perennial product
- Predictable long in advance of PIS
- Best lead time model: Traditional

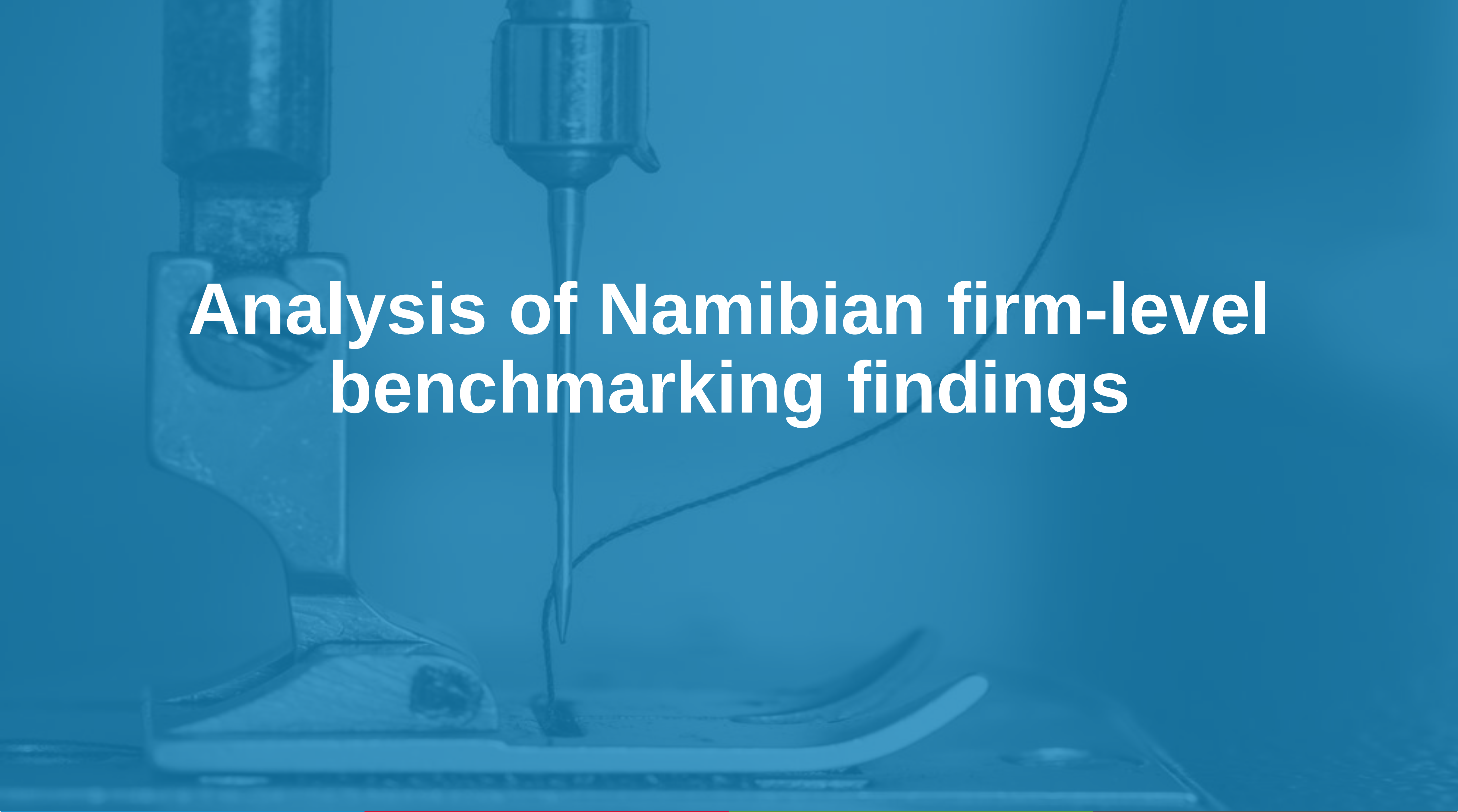
Source: Adapted from Abernathy et al., 1999

Role of the Design House



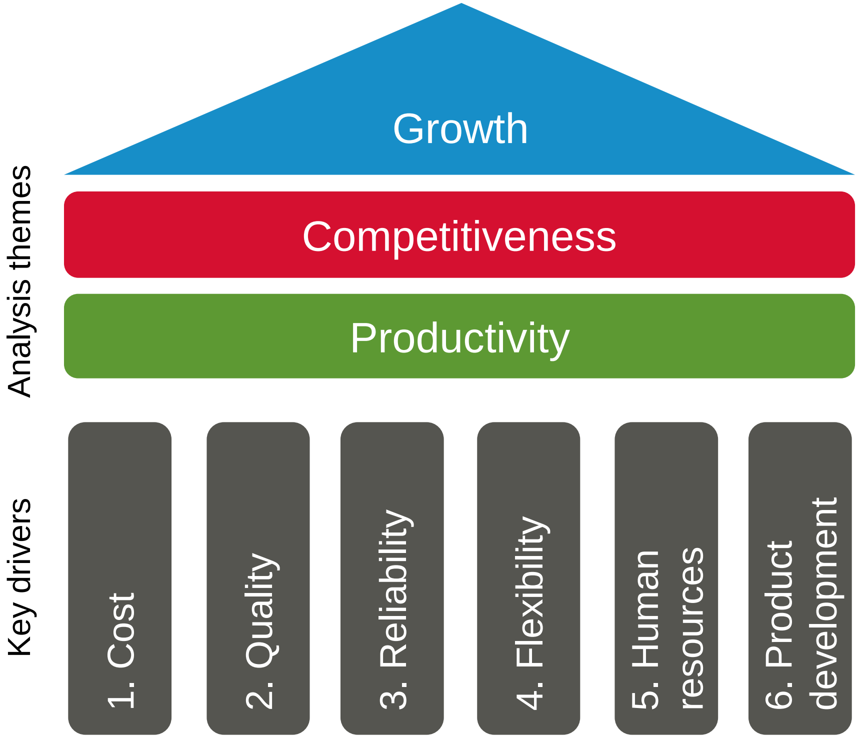
Retailers' production capability requirements

- Factory need to be lean or "world-class" – ensure ability to complete orders rapidly and at low cost while moving between orders and product types seamlessly
- Firms need to have verifiable monitoring systems that include quality (i.e. number of reworks/ repairs done), reliability (i.e. time lost due to breakdowns), flexibility (i.e. time lost due to doing style changeovers) and human resource (i.e. absenteeism levels) parameters
- Ability to supply all store orders - for a South African retailer this ranges from 3,000 to 100,000 units
- Only one Namibian firm is sufficiently large to make orders at the lower end of this scale
- Logistics, packaging, and order management capabilities need to be highly organised and aligned with retail purchase order requirements



Analysis of Namibian firm-level benchmarking findings

Methodology



- Benchmarking assessments based on B&M Analysts' '**Market Driver**' methodology
- The methodology defines six key drivers of **competitiveness performance**
- The findings are analysed in respect of the three core themes of **growth, competitiveness** and **productivity**

Methodology

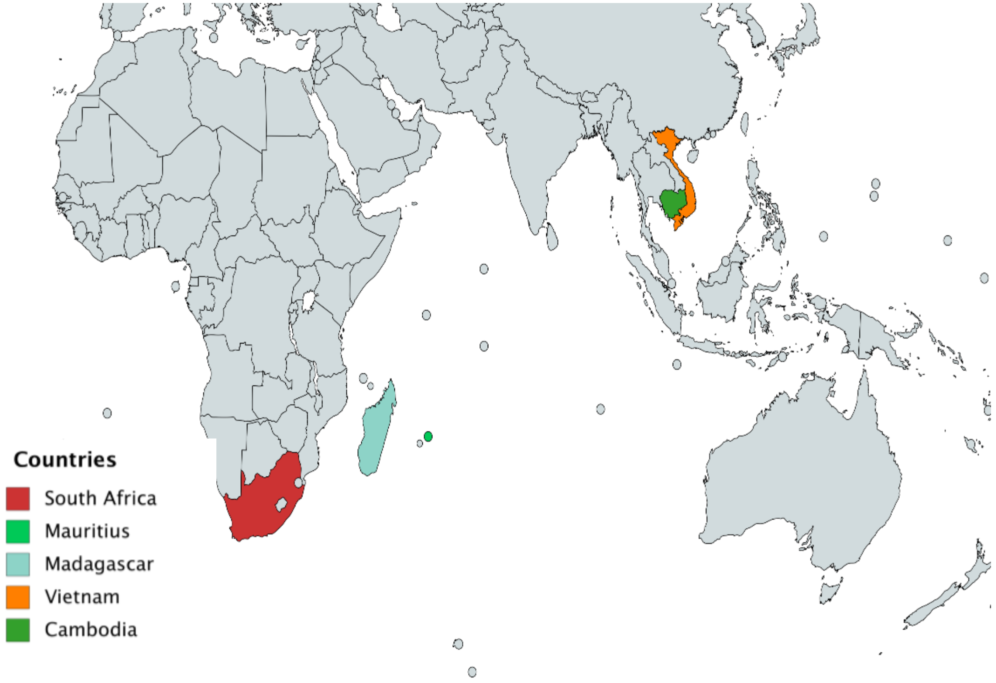
	Key Drivers	Significance
1	Cost	Cost is often the most significant competitiveness driver. In this report we focus on the portion of cost that is most within the firm's control, namely the cost associated with operational waste.
2	Quality	Whilst customer returns may reveal customer quality satisfaction, it is equally important to understand the drivers and cost of internal quality performance, such as defect rates and supplier quality
3	Reliability	On-time and in-full delivery to customers indicates reliability, with key determinants of this being internal production reliability and supplier reliability
4	Flexibility	Value chain flexibility is determined by the speed at which firms accept an order and convert this to a delivered product (lead time), with key determinants being the efficiency of operations and the flexibility of suppliers
5	Human Resources	The most critical resource that determines whether or not firms adapt their operational capabilities to meet their customers demands is that of human resources, deployed in a committed, safe and productive environment.
6	Product Development	A key success factor for most manufacturing firms is the ability to develop attractive new products and effectively market those to customers

Comparator profile

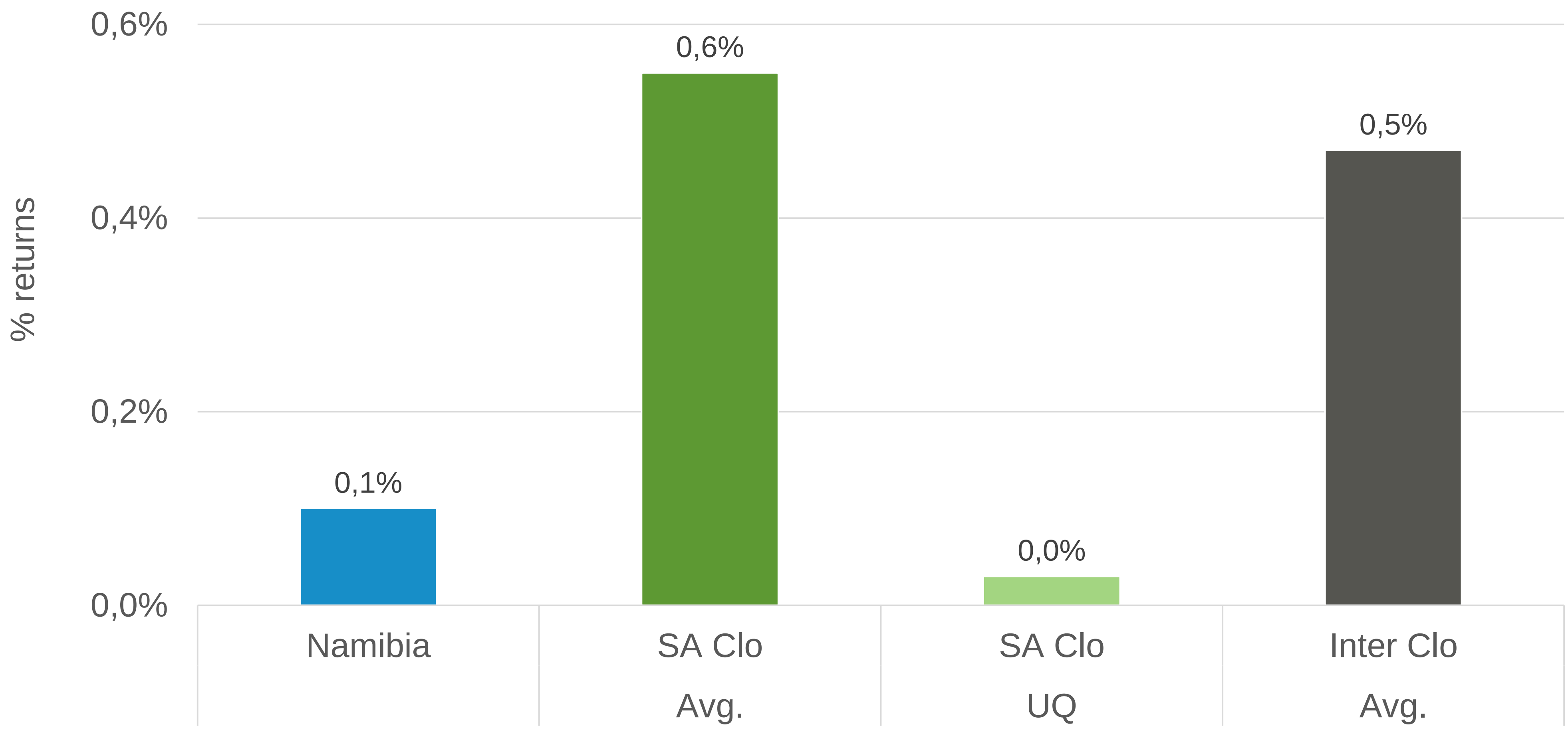
- For the purpose of the benchmark analysis undertaken for the Namibian clothing suppliers, comparators are grouped according to the following categories:
  - Namibia clothing suppliers (Namibia; n=4*)
  - South African clothing suppliers (SA Clo; n=41)
  - International clothing suppliers (Inter Clo; n=17)
- The analysis includes the Average (Avg) and Upper Quartile (UQ) performance levels of the comparators

* While 5 firms were visited as part of the NTF benchmark programme, only 4 supplied benchmark data

- The benchmark exercise comprises comparators from:

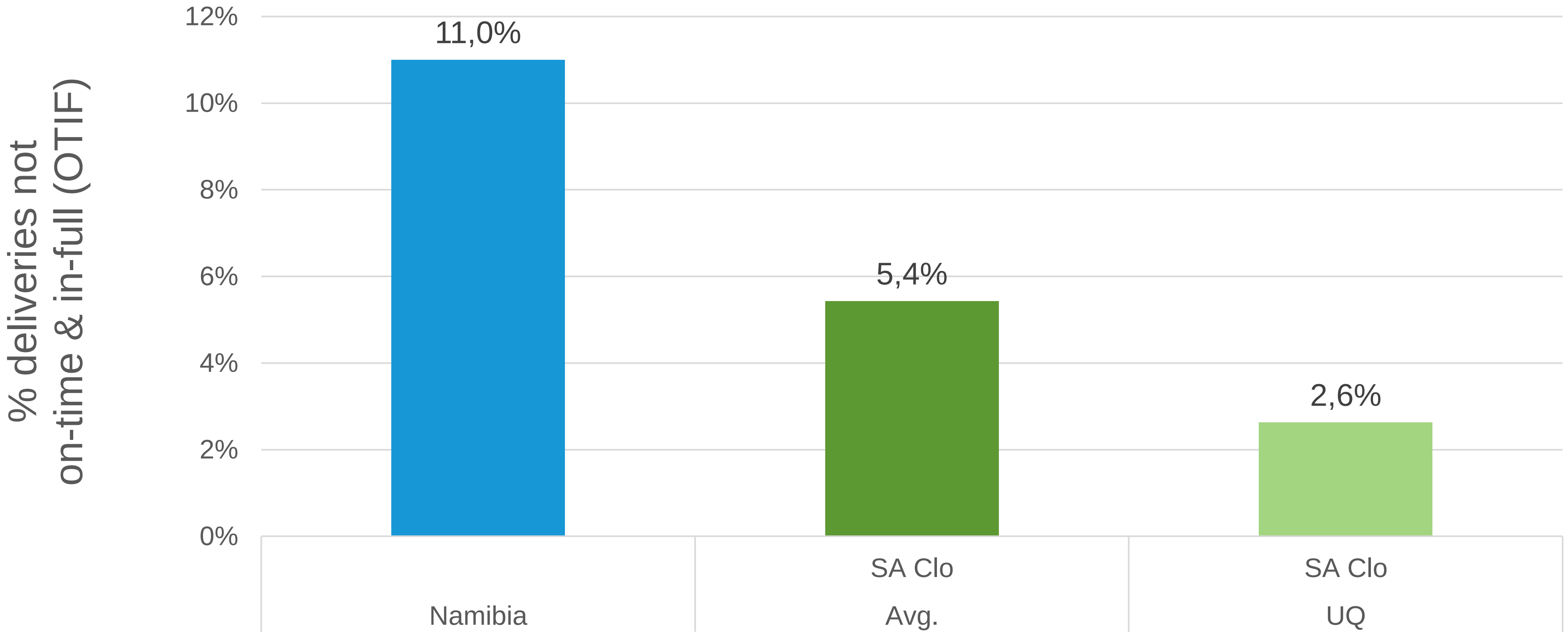


Customer return rates



* Namibian sample size = 1

Delivery reliability to domestic customers



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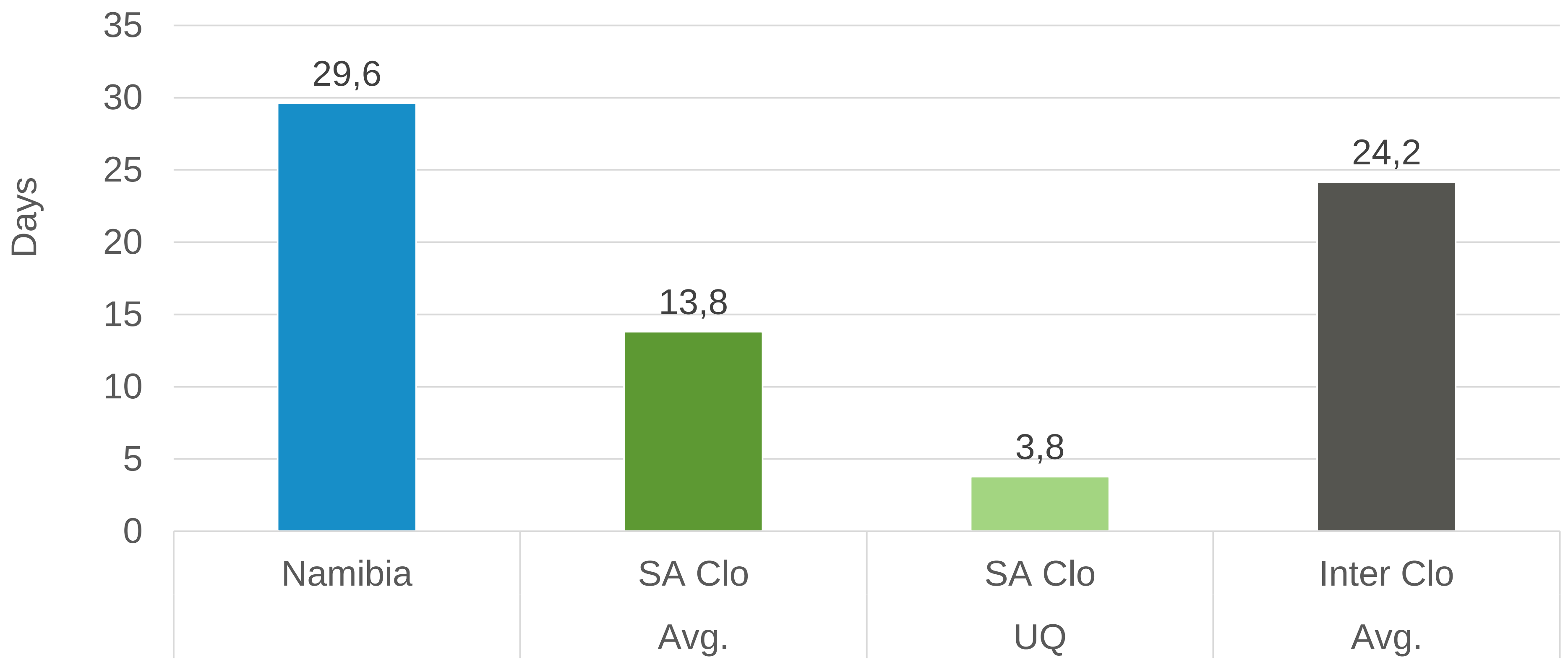
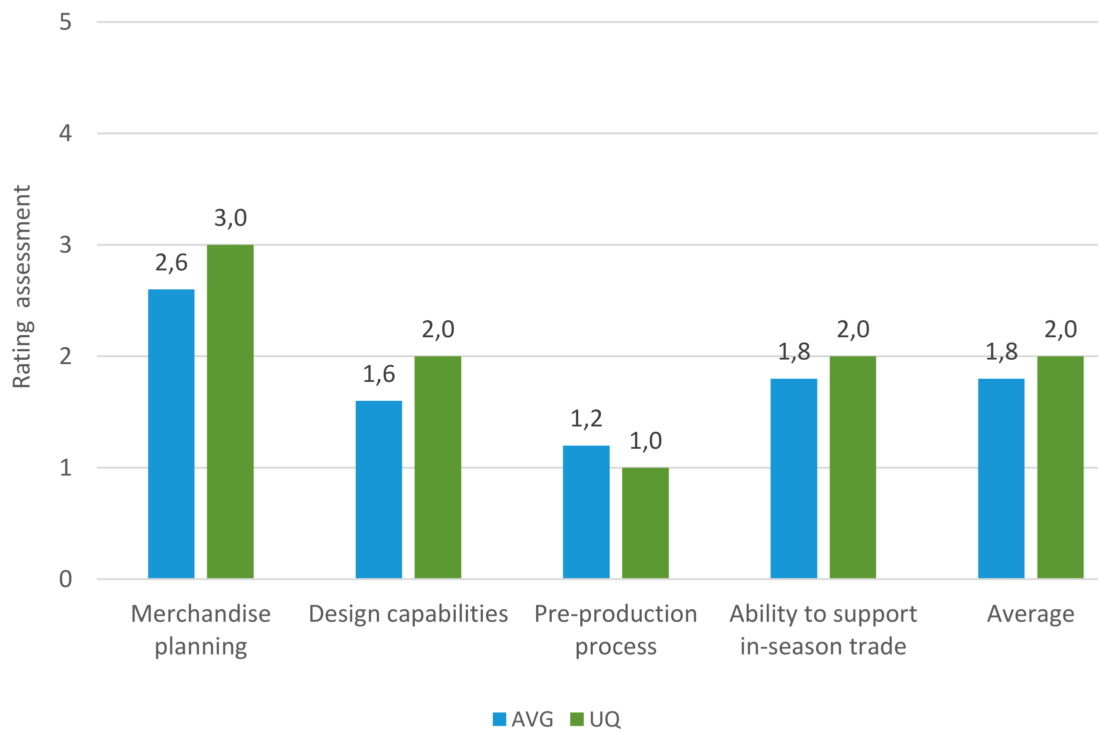
Cost competitiveness: Raw material inventory holding



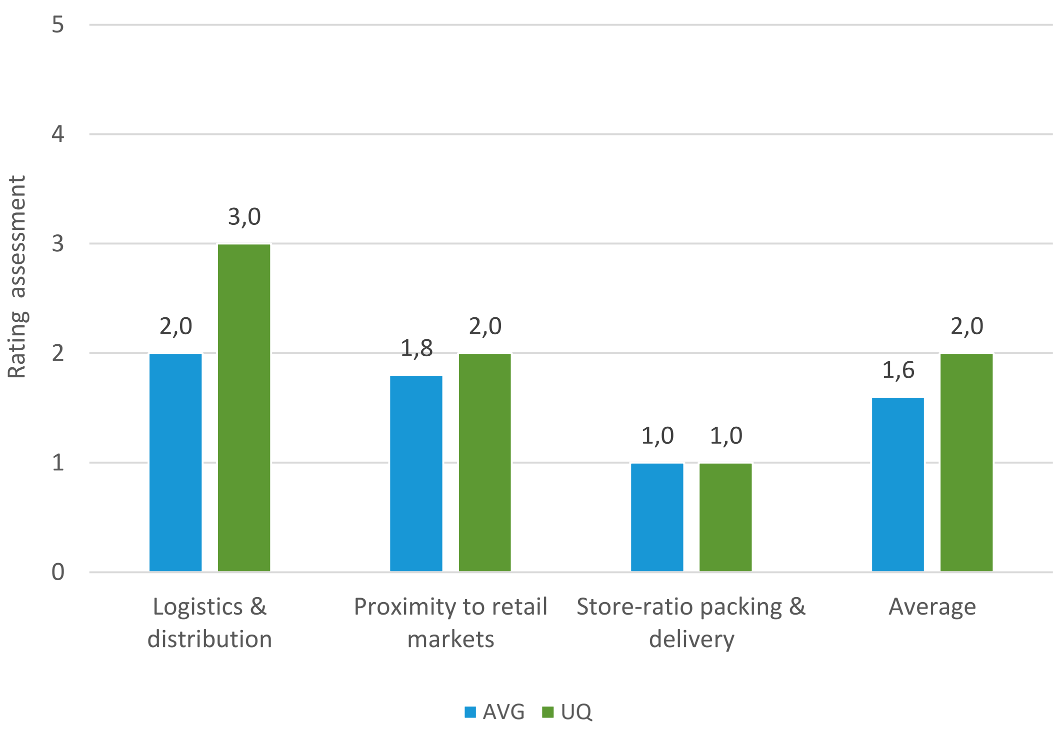
Summary assessment

Effective managing the pre-production aspects of the value chain, as well as the key logistics and distribution elements, is vital for any firm to succeed in the clothing manufacturing environment

Pre-production assessment



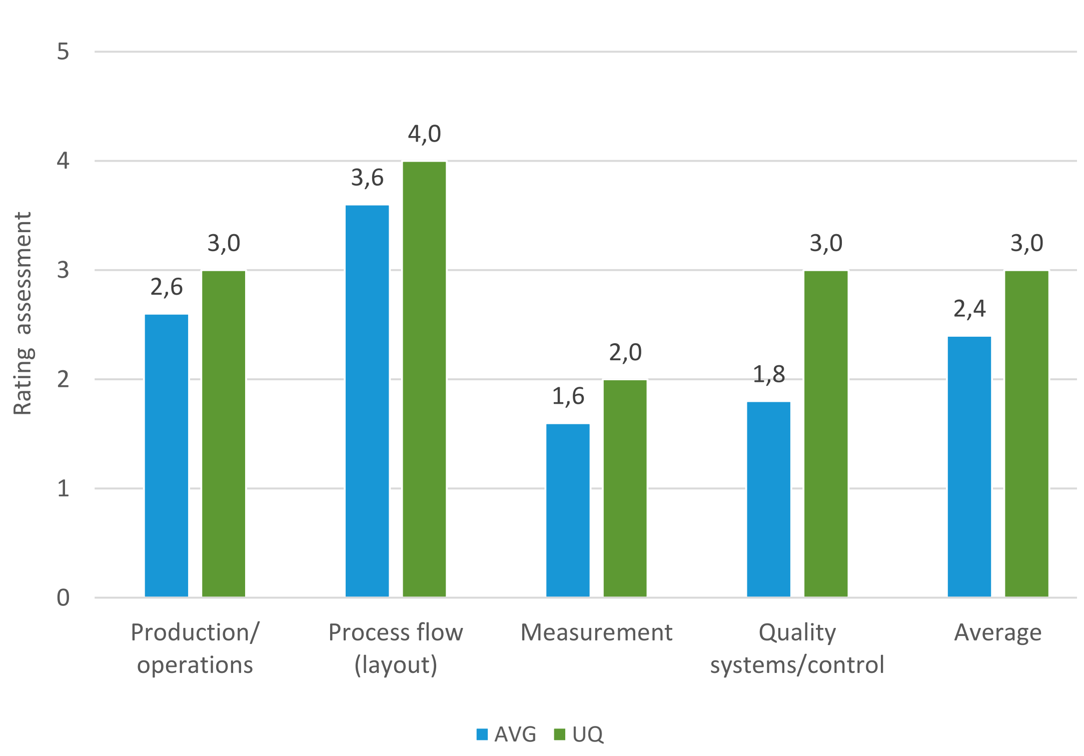
Logistics and distribution assessment



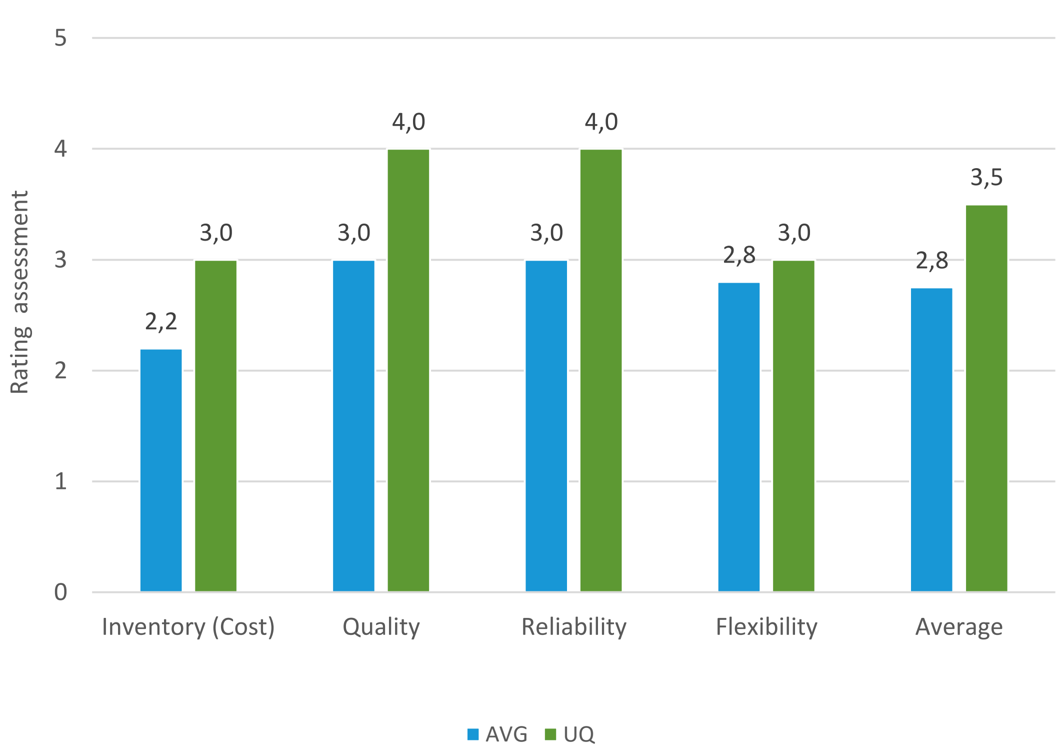
Summary assessment

Management of the various aspects of the production environment is vital to all manufacturing firms, as well as ensuring that performance in the key operational areas is highly competitive

Production assessment



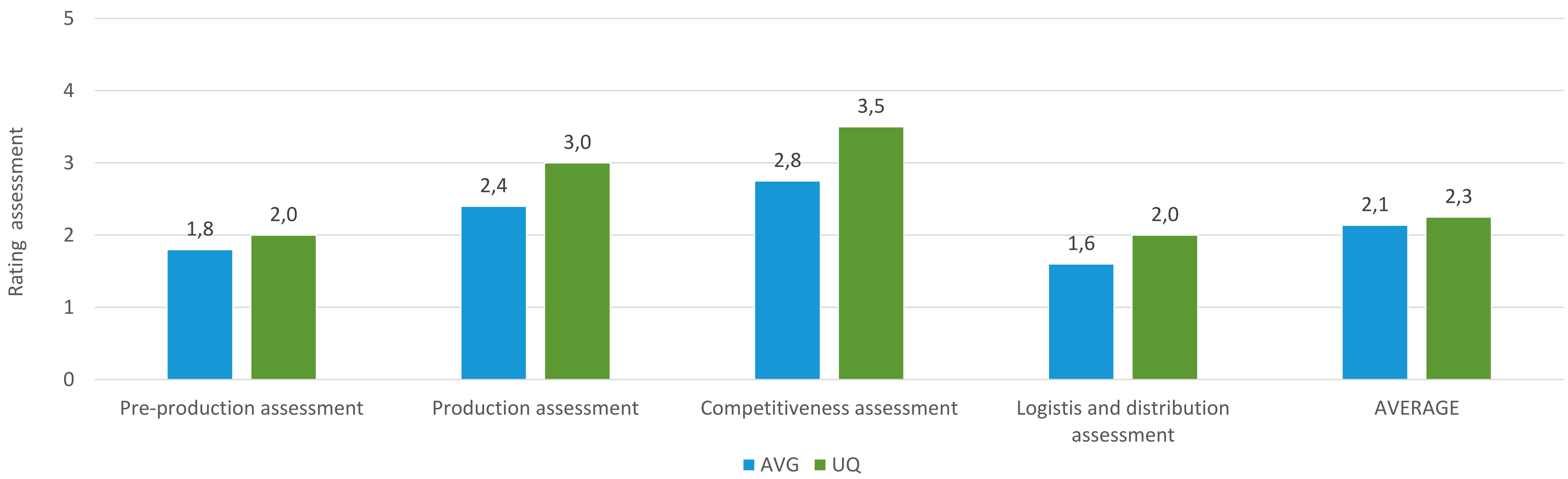
Competitiveness assessment



Summary assessment

Ensuring strong performance is dependent on firms ability to effectively manage their pre-production, production and competitiveness profiles, as well as logistics and distribution

Benchmarking assessment



Rating assessment summary

Extremely limited to very basic pre-production capabilities evident amongst Namibian firms

Besides obvious proximity to retail market challenges, formalised packing, logistics and distribution lacking at the firms

Bar isolated exceptions, there is a lack of measurement and monitoring systems in place a firms

Highly varied competitiveness performance noted amongst Namibia firms – not structured to supply retail market

Major benchmark findings

Benchmark findings	Outline of findings
Lack of operational measurement and monitoring systems environment	A major benchmarking challenge exercise was the lack of operational measurement and monitoring systems in place. As a result, the accuracy of data supplied, in particular any operational data, is highly questionable, with factory observations supporting this
Challenges associated with effective production flow, management and control	While some evidence of batch production flow and management was evident, this was limited. The benchmark visits identified major challenges in this key area: Limited to no evidence of retail-standard production control and management systems/tools being in place
Limited retail clothing supply knowledge and understanding	General knowledge and an understanding of retail clothing supply is mostly lacking. As a result, opportunities to operate within this environment will be severely constrained in the short term
No retail-associated pre-production capabilities in place	**A major weakness** is the non-existence of suitable retail-related pre-production capabilities. Without this function being in place, and operating effectively, no firm, irrespective of their operational and competitiveness performance, will be able to access the retail market

In conclusion…

- There is a lack of general knowledge and understanding of supply to clothing retailers
- None of the five suppliers demonstrated advanced design and pre-production capabilities required to service retail in terms of QR
- None of the suppliers are of a sufficient size to carry a large overhead for high volumes and would have to scale up significantly to carry the cost of this capability - ruling out this opportunity in both the short term, as well as on an individual basis
- Majority of Namibian suppliers feed into a distinctly different value chain by making corporate and school wear. To make an independent leap into retail value chains is unlikely due the extent of the technical and resource challenges that would need to be overcome.
- Therefore, no obvious immediate commercial link exists between SA retailers and Namibian firms

Recommendations

Our recommendations

1. Provide upgrading support to Namibian manufacturers to improve their production capabilities to feed into their current value chains:
   - Process improvements
   - Functional upgrading
   - Product deepening and broadening

2. Facilitate limited entry into South African retailers' Namibian retail space

3. Co-ordinate existing capabilities and convert these into a CMT development (fashion) cluster – for larger scale supply into regional retail supply chains

1a. Process improvement

- Setting up operational performance monitoring systems
- Interventions to support improved production environments (e.g. lean production processes and layouts) and associated skills development
- Firm-level development programme required - focused on supporting the development of technology, skills and knowledge to better supply existing customers (and potentially retailers in the future)

Main controls:

- **Quality** (i.e. no. of reworks/ repairs done)
- **Reliability** (i.e. time lost due to breakdowns)
- **Flexibility** (i.e. time lost due to doing style changeovers) and human resources (i.e. absenteeism levels
- **Stock holding** (i.e. how many days of raw materials, work-in-progress and finished goods are in place)

1b. Functional upgrading

- Development of a broader Namibian value chain strategy focusing on work and corporate wear to ensure the policy, regulatory and business environment is conducive to manufacturing growth
- Development of factory engineering expertise, advice and assistance in securing fabrics and reducing logistics costs
- Provision of expert assistance to more effectively link firms into the broader workwear and school markets - in the form of advertising and marketing assistance

1c. Product deepening and broadening

- Range of opportunities could be explored:
  - Manufacture of fashion retailers' workwear (specific to each retailer)
  - Fashion retailers providing overrun fabrics at cost price to Namibian CMTs – to be made and sold independently or provided to deserving schools/communities as a CSI type initiative
  - Strengthening of the preferential procurement legislation and associated procurement systems in Namibia to assist manufacturers to secure orders – and monitor designated purchasing

2. Limited entry into retail space

- Allocate retail store concession areas to promote locally made products (promotional items, products with an non-seasonal demand profile, craft type embroidered T-shirts for example)
  - However, this would likely be ad-hoc, small volume, and capability specific
  - Challenge of blending retail requirements with fundamentally different workwear and school markets
- Manufacture of other retail products, e.g. shopping bags – bioplastics, recycled plastic fibre base preferably (MRP as an example)
- Support for the development of a specific local brand with a presence in SA retailer stores (such as My Republik - provided pricing and merchandise assortment is appropriate)

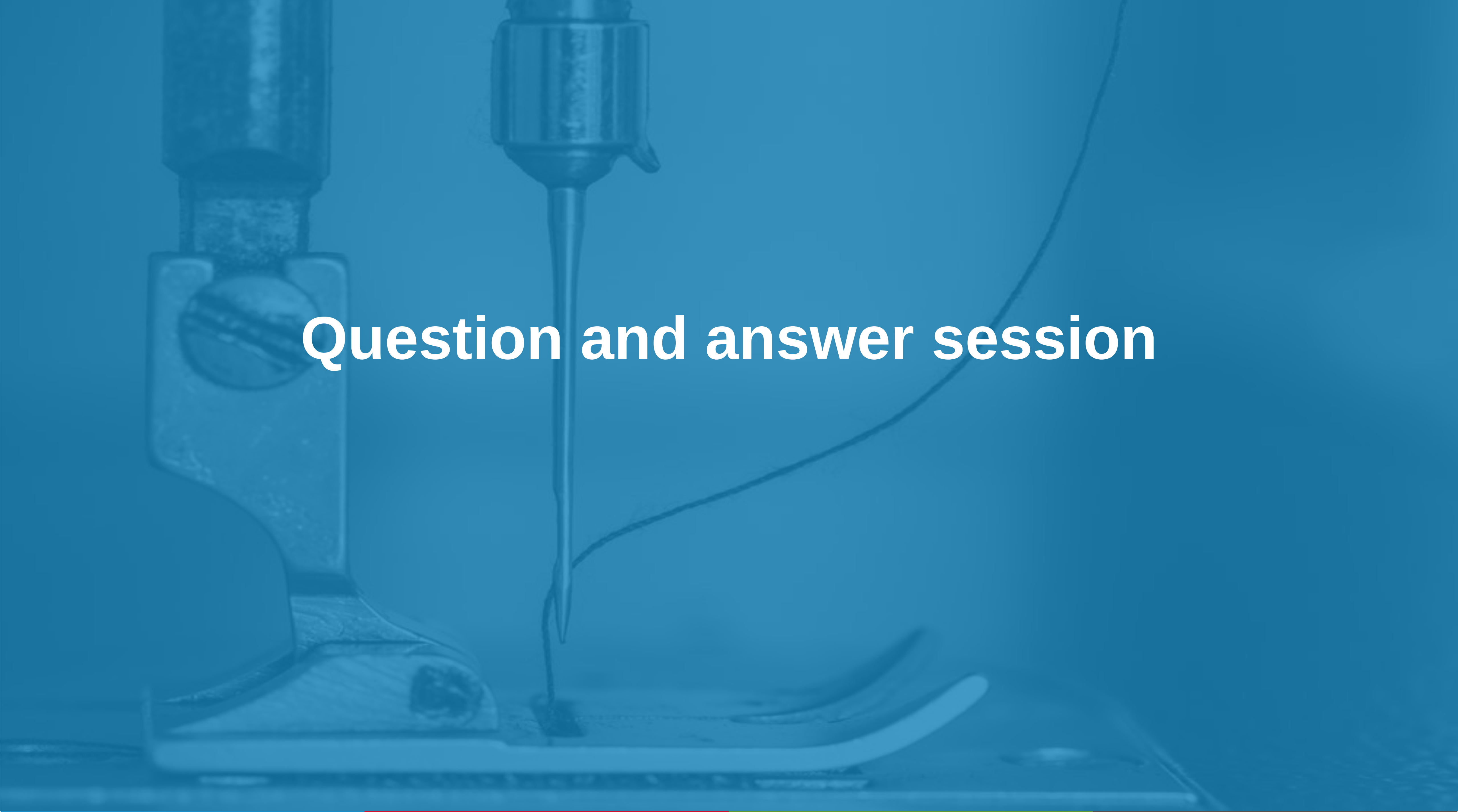
3. Namibian CMT development (fashion) cluster

- Link Namibian CMTs to South African Design Houses and manufacturers
- Can be done from a distance, but potentially involves establishment of back-end of Design House in Namibia to play pre-production and centralised planning function
- Considerations here include:
  a. Needs investment (private and/or public) - capital equipment required (product development and manufacturing – automated grading and marking, technical pack management, sample room, fabric management and warehousing, and high volume fabric cutting capabilities)
  b. Design facility and staffing key – skills development essential
  c. Requires potential government contributions: reduced rates and taxes, other incentives
  d. Namibian production package to be accurately costed to determine feasibility

Major cost, major risk, but also potentially major benefit – escapes binding constraint of small Namibian market

Project elements	Project activities	Activity outcomes	Months																				
			4-6			7-9			10-12			13-15			16-18			19-21			22-24		
a. Launch of NPC development programme	NTF-stakeholder workshop	Public launch of NPC programme	X																				
b. Strategic alignment with SA retailer requirements	Best practice study tour to SA retailers and manufacturers	Exposure to SA retailer/ manufacturing business models																					
	Fashion retail strategy workshops	Understanding of fashion retail business models																					
	Engage SA retailers on Namibian progress/ strategic alignment	Updated view on Namibian firm progress																					
c. Implementation of company-specific development plans (3 firms)	Company specific development plans	Clear company specific project charters																					
	Consultant support for firm-level upgrading interventions	Implementation of firm-specific project charters																					
	Company progress M&E	Evaluation of project charter progress									X						X						X
d. Skills development	Management training (joint)	Management development																					
	Technical skills training (joint)	Technical capacity development																					
	Development of operator skills (firm-specific)	Operator skills advancement																					
e. Infrastructure support	*Engage Namibian stakeholders on infrastructure alignment*	*Identified infrastructure to support firms*																					

Implications for Phase 2 of the NTF capacity development programme?



Question and answer session

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