

Nearshoring and reshoring: the changing sourcing strategies of South African apparel retailers

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02 August 2023



the dtic

Department:
Trade, Industry and Competition
REPUBLIC OF SOUTH AFRICA



TIPS FORUM 2023

Industrial Policy in an era of global structural change: Implications for Southern Africa

Presentation Outline

- Context, motivation & analysis
- Profile of SA retailers
- Observation 1: retailers offshoring strategies & implications
- Observation 2: retailers nearshoring shoring strategies & implications
- Observation 3: retailers reshoring shoring strategies & implications
- Policy considerations

Context, Motivation & Analysis

What do we do?

- Examine how retailers sourcing strategies have changed between 1995-2021
- Analyse the drivers and trends influencing Pepkor, The Foschini Group, Woolworths Holding Limited, Mr Price, and Truworths International's sourcing strategies
 - Interviews with retailers' and industry actors
 - Literature & company reports
 - Historical analysis of SA trade and industrial policy as it relates to T&A sector

Why we do it?

- Limited empirical studies on South Africa apparel retailers sourcing strategies
- To understand the implications of apparel retailers' sourcing strategies on the local and regional manufacturing sector

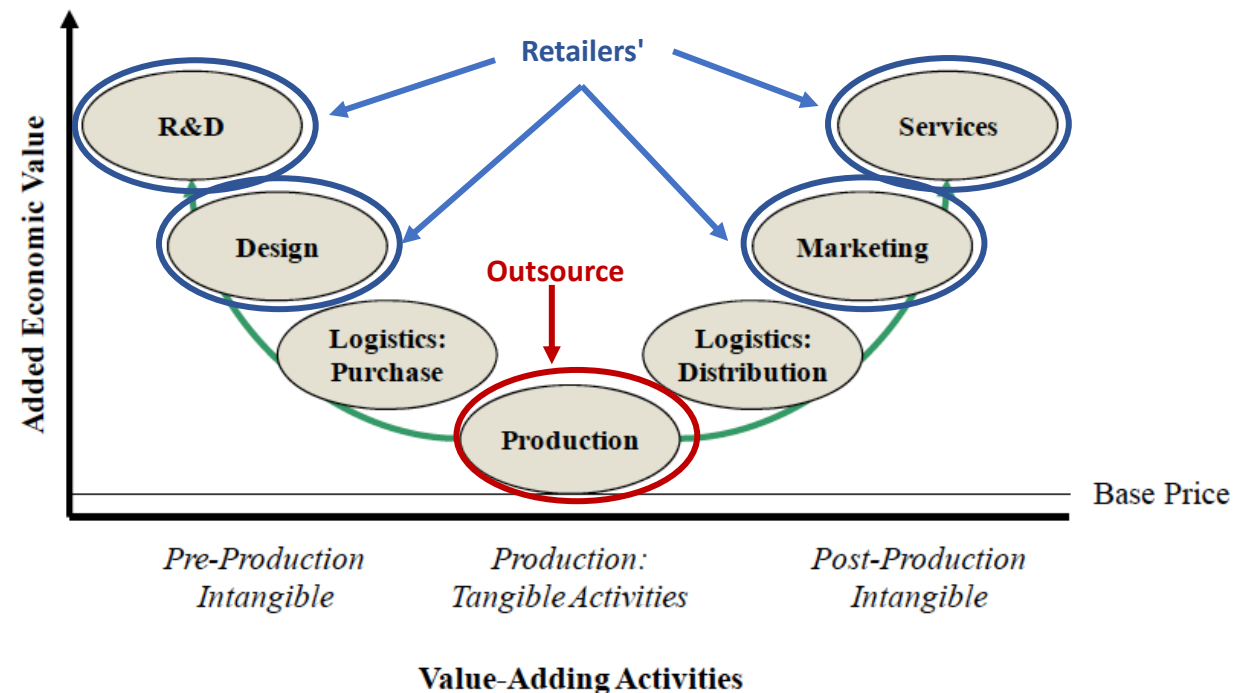
The SA retail sector is well established with local retail groups with apparel stores in SA and other countries

Key features

- Operating in SA for over 91 years except for Mr price (37 years)
- Groups cater to various customers ranging from lower- to middle-income and mid-to-upper income
- Sell own private clothing labels or third-party products
- The Groups have retail stores located in SA, SSA, UK and Australia
- Operate brick and mortar stores & online platforms
- Clothing segments contribute between 15 – 55% of Groups turnover in FY 2021/2

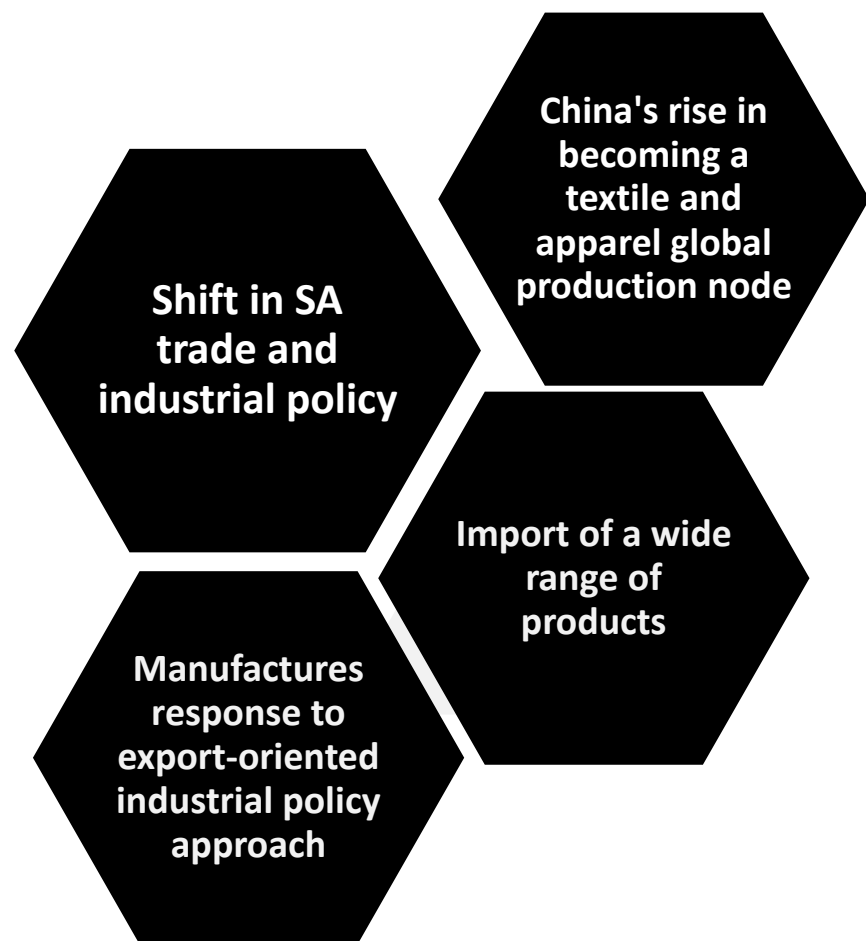
Operational focus

Lead firms/ retailers in buyer driven value chains tend to concentrate in higher value adding activities while outsourcing production



Observation 1: Between 1995-2010s retailers sourcing increasingly moved toward sourcing from large low-cost labour markets

Factors influencing retailers' decisions to increase offshoring

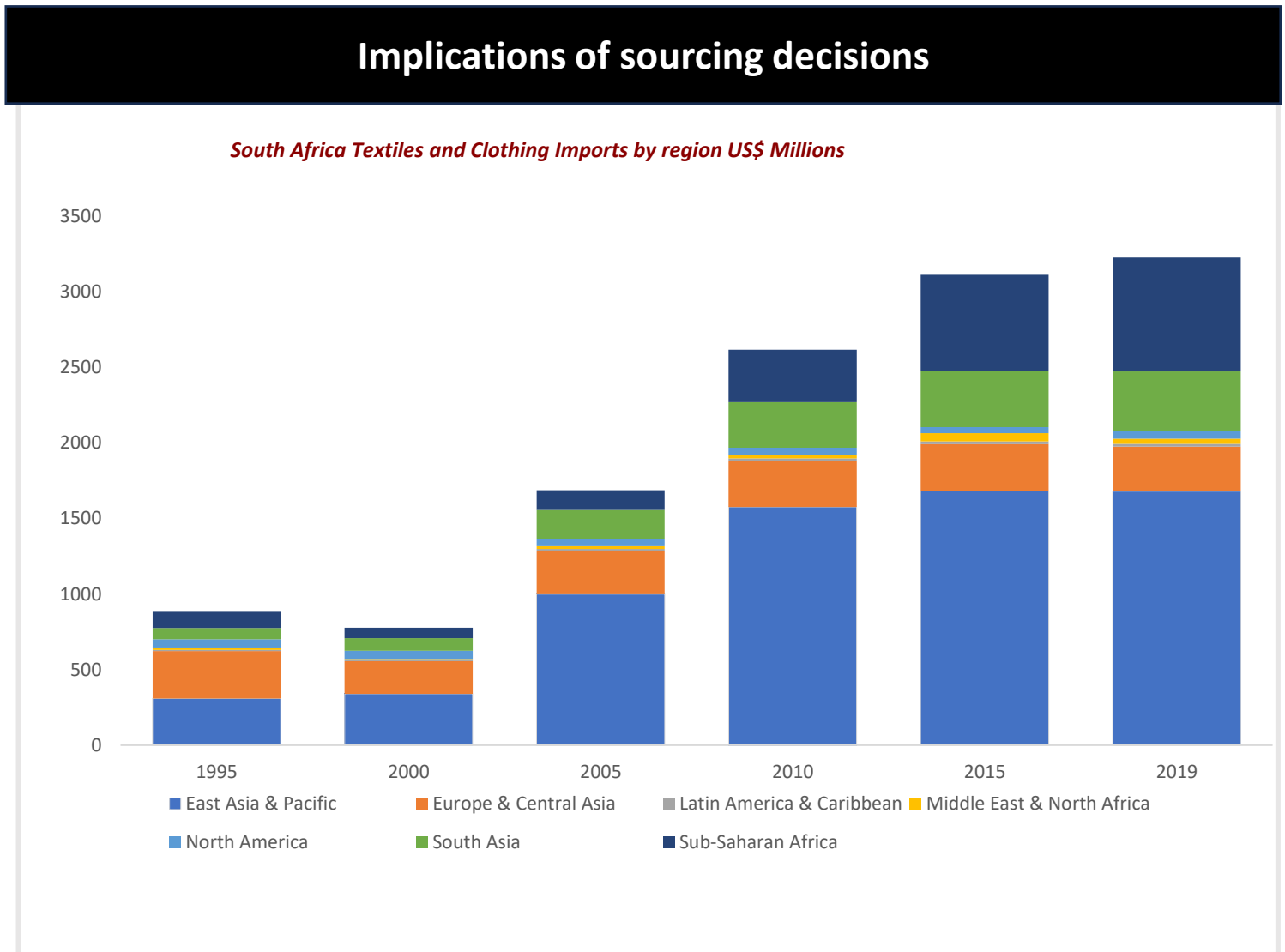
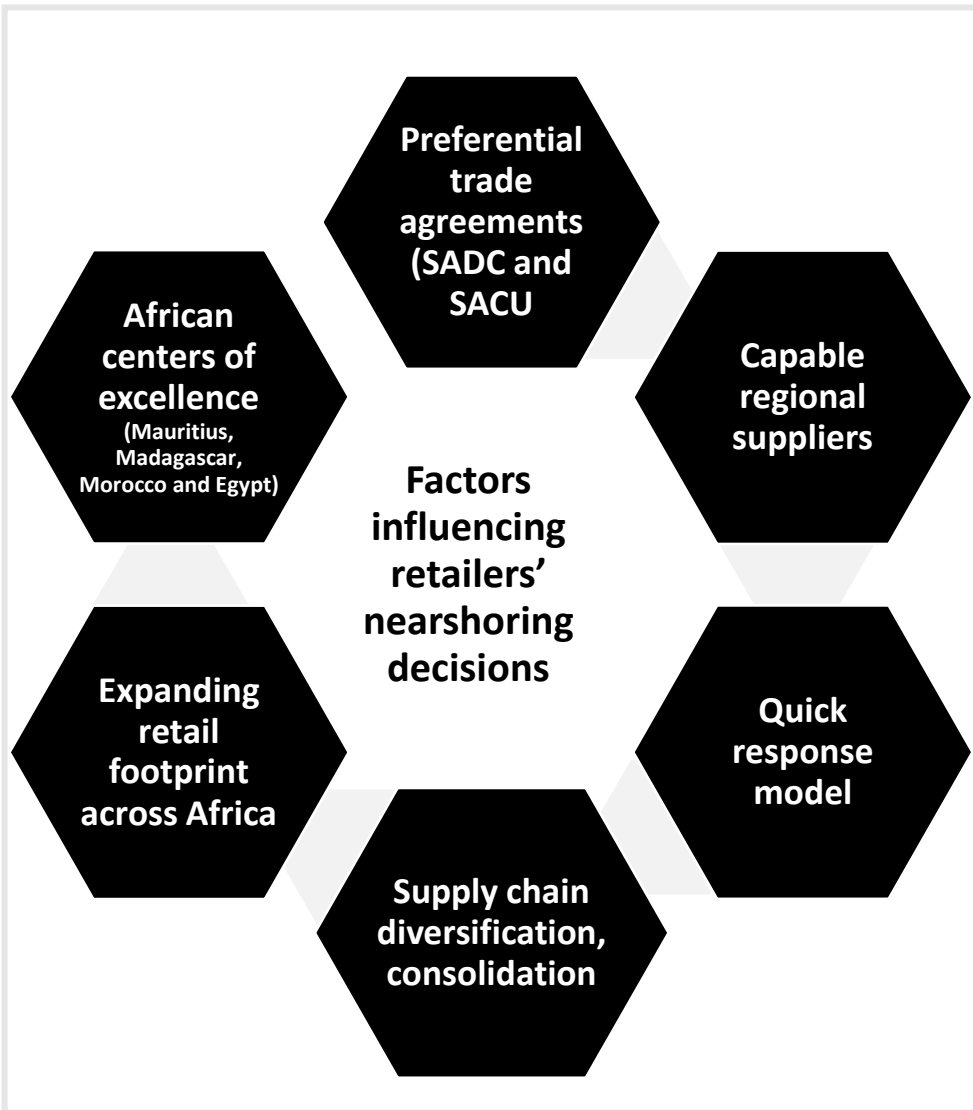


Implications of sourcing decisions

- Retailers **improved importing capabilities**
- Sourcing large-scale clothing imports from China resulted in a **dependence on Chinese imports**
- South African retailers did **little to support local manufacturers** and did not invest in upgrading supplier capabilities
- Textile and apparel manufacturers could not compete with increased competition - **job losses and factory closures and reduction in the variety of products manufactured**
- Apparel **manufacturers relocated production to SA non-metro areas** to take advantage of lower wages.
- **Tensions between upstream and downstream segment of the value chain**



Observation 2: Retailers improved importing capabilities resulting in diverting sourcing offshore and closer to home



Southern Africa is by far the largest destination for current intra-African trade in textiles & apparel products. In the region SA is the most significant destination for intra-African imports

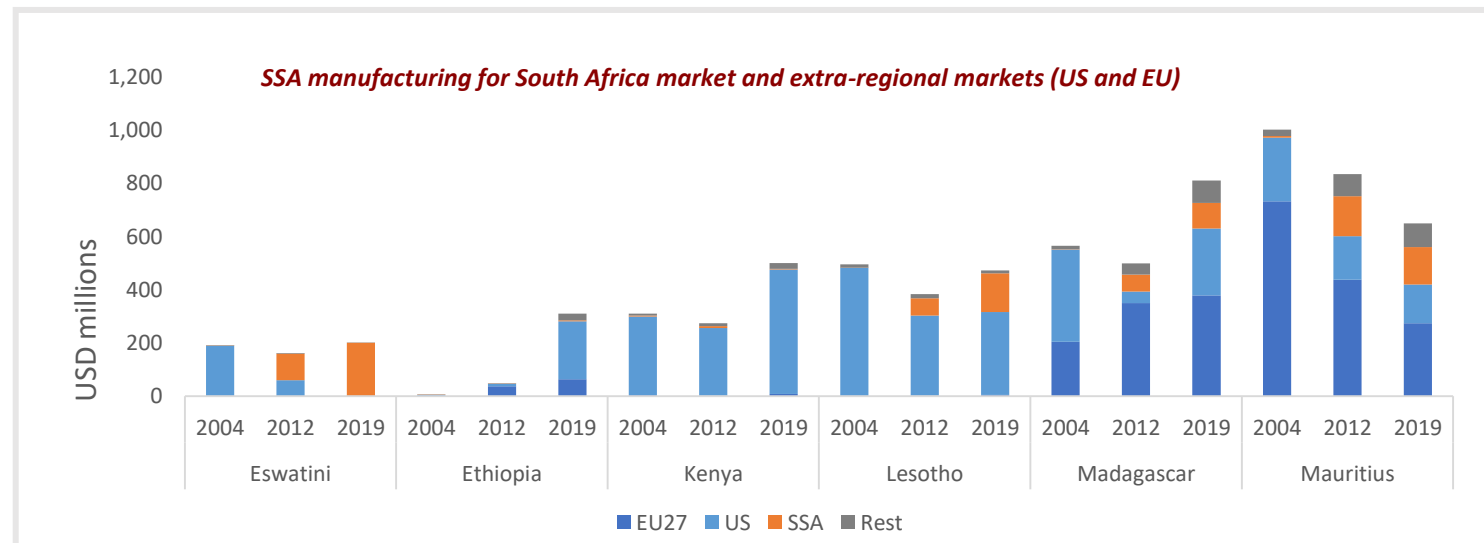
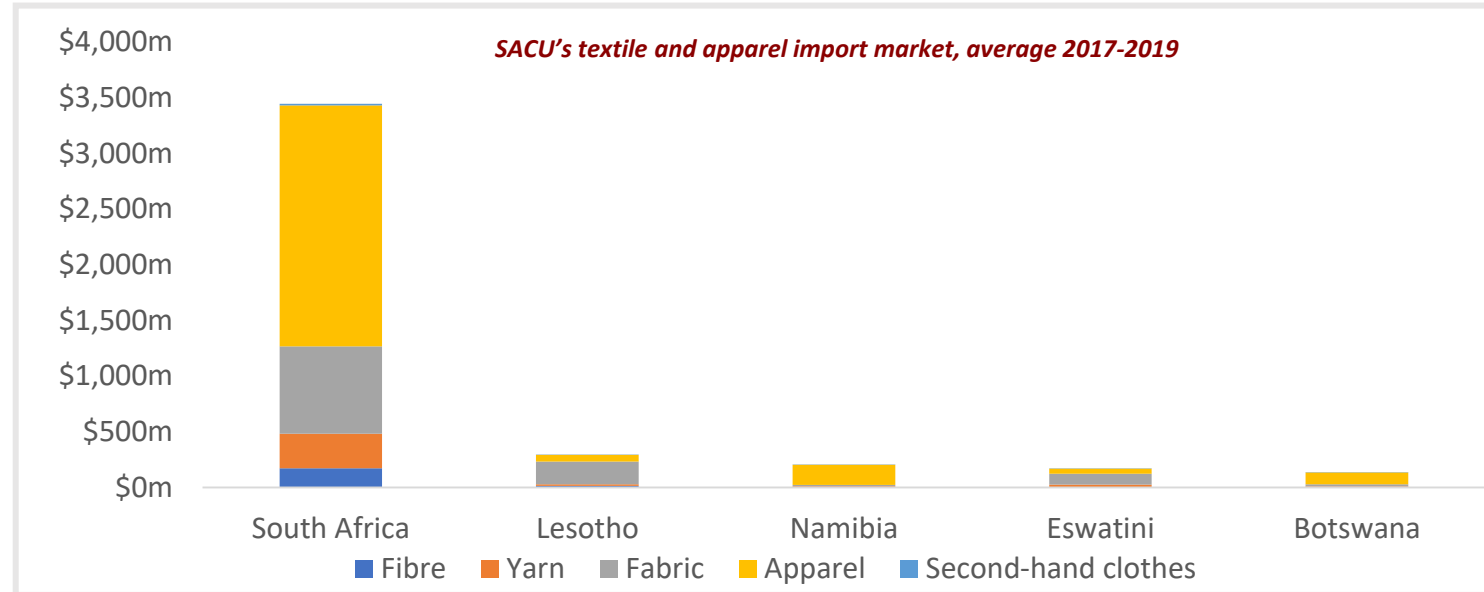
South Africa—cotton; some yarn & fabric, mainly for SA firms in Lesotho & Eswatini; retail

Mauritius— cotton woven and knit textile, vertically integrated; garment assembly; some branded products

Madagascar— Mauritian and foreign firms; garment assembly; limited textile; 15% textile from Mauritius

Lesotho & Eswatini— garment assembly; limited textile, 18-35% fabric from South Africa

- **Division based on a combination of costs & capabilities**
- **Manufacturing base unevenly distributed**



Observation 3: Retailers have been placed at the centre of the R-CTFL Master Plan and have committed to increasing local sourcing to 65% by 2030



Source: Company reports and interviews

Retailers have begun to increase local sourcing resulting in:

- Retailers actively participating in clusters aimed at assisting building manufacturers competitiveness
- Retailers developing quick response manufacturing model by either developing local supply chains that are tightly integrated into their own operating models or building their own in-house design, product development and manufacturing capabilities.
- Retailers consolidating their supply chains to work with a few global and local suppliers
- Retailers undertaking various supplier development interventions with strategic local and regional suppliers

Retailers are gaining greater control over supply chains by either developing in-house design and manufacturing capabilities or through working with strategic and preferred suppliers.

The Foschini Groups vertically integrated value chain approached

TFG has focused on building in-house design and manufacturing capabilities through acquisitions.

- Retailer focus on high-value-added segments of the value chain (intangible pre and postproduction) & manufacturing
- TFG has increased its manufacturing assets, capabilities and local production by acquiring manufacturing assets – owns 5 factors, has strategic partnership with 6 independent CMTs
- Investments into upgrading factories, production processes - lean and world class manufacturing
- To drive the demand for locally produced apparel TFG has acquired retail outlets
- In 2022, TFG announced that R2.1-billion, an increase of the Capex budget, will go towards the development of another ten manufacturing units
 - investment is expected to more than double employment opportunities in the Group's factories and strategic non-owned CMTs factories from 5,200 in FY22 to 11,200 by FY26

Woolworths supplier eco-system approach

Woolworths Fashion, Home and Beauty (FHB) has consolidated its supply chains to work with a few strategic global and local suppliers.

- Retailer focus on high-value-added segments of the value chain & outsources manufacturing capabilities
- Woolworths FHB has consolidated its supply base and sources 80% of its products from its top 50 suppliers.
- As part of its direct relationship with its suppliers, Woolworths FHB has either sourced from strategic suppliers, preferred suppliers or approved suppliers
- WSA FHB sources from seven strategic South African suppliers based in KZN, CPT, and PE, which exclusively supply to WSA FHB
- Retailers' suppliers can only source inputs/services from WSA preferred/approved eco-system of suppliers
- Supplier-to-supplier mentorship programme
- imports replacement programme and building local capabilities.

Is reshoring and nearshoring a real possibility?

Retailers' reshoring and nearshoring sourcing strategies suggest the emergence of a new business model that holds potential for rebuilding at least a part of the domestic T&A VC and the development of a more integrated regional value chains.

But ...

To what extent are retailers willing divert sourcing?

- There needs to be a commercial business case
- Retailers sourcing strategies are limited by the “missing middle” – limited textile production in SA and region.
- Import of a wide range of products fabric availability, costs, quality, and delivery
- Limited by fragmented manufacturing and limited economies of scale

Do tensions exist between retailers local and regional sourcing?

- Domestically and inward-focused industrial policies and the protectionist stance of the R-CTFL Master Plan undermines the development of textile and apparel manufacturing in the region and the potential benefits from the AfCFTA

Can supplier meet the increasing demands placed on them by retailers?

- Retailers are expecting suppliers to expand non-manufacturing capabilities such as input sourcing, product development, inventory management and stockholding, logistics, and financing

Retailers sourcing strategies cannot be seen in isolation from industrial and trade policy.

The link between Retailers sourcing strategies, industrial and trade policy highlights:

- The shift in policy design ———→ IPAP to R-CTFL master plan process
- The shift from reactive industrial policy focused on saving a struggling T&A sector vs a proactive/targeted industrial policy focused on addressing competitiveness constraints and linking manufacturers to customers/retailers
- Importance of a value chain analysis and understanding the tensions between industry actors and how opportunities can be unlocked

There is a need for policy measures that

- **Incentivise investments and create an enabling environment** for retailers to own/operate manufacturing assets or develop direct relationships with suppliers
- Connects inward-focused industrial policy with **domestic and regional policies** focused on the development of competitive regional production networks that can reduce efficiency losses from reshoring and the use of less competitive suppliers
- Increase national and **regional co-operation and coordination** amongst governments and industry actors in further driving the development of regional value chains in Southern Africa.
- Creates the space for **coordination amongst industry actors, trade and industrial policymakers** focused on identifying ways in which regional production networks can be developed - vertically integrated industrial ecosystems - regional textile hubs
- Connects retailers and suppliers from different regions by **mapping regional capabilities** and identify gaps/opportunities for local and regional sourcing
- Supporting and encourage **investment in skills development, technology and innovation and R&D** across the segments of the value chain and more importantly in developing textile production
- Incorporate global trends – sustainability shift, development of new fibres and technology

“There is no “the model” or “golden policy template” towards industrialisation, instead what matters is the approach and process, including “experimenting and learning” to craft appropriate interventions by a committed developmental state”. (Luke et al, 2023)

Trade & Industrial Policy Strategies

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