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INDUSTRIAL POLICY IN AN ERA OF GLOBAL STRUCTURAL CHANGE: IMPLICATIONS FOR SOUTHERN AFRICA

NEARSHORING AND RESHORING: THE CHANGING SOURCING STRATEGIES OF SOUTH AFRICAN APPAREL RETAILERS

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Abstract

In line with global trends, South African apparel retailers have gradually shifted towards nearshoring and reshoring production as part of a broader transition towards strengthening supply chain efficiencies. This shift has been driven by a push for greater supply chain resilience following the trade disruptions experienced following the COVID-19 pandemic, which added to the existing pressures emerging from the technology revolution, growing economic nationalism and sustainability imperatives.

We examine the shift in South African apparel retailers' sourcing decisions and the implications retailers' sourcing strategies have had on the restructuring of the South African and Southern African textile and apparel manufacturing sectors from the early 1990s to 2020. The study has been undertaken via in-depth interviews with retailers, industry actors and policymakers. Secondary sources have complemented primary data to understand retailers' sourcing strategies holistically.

From the late 1990s to 2010, retailers' sourcing strategies shifted from sourcing locally and focused on offshoring production to global and regional suppliers. The shift towards regional sourcing resulted in retailers and South African-based investors emerging as the drivers of Southern African regional textile and apparel production. Consequently, assembly firms were established in Lesotho and Eswatini, and retailers increased sourcing from Mauritius. During this period, retailers provide local textile and apparel manufacturers with little to no support contributing to the further detonation of the textile and apparel manufacturing sector. Since 2010 there has been a shift in retailers' sourcing strategies from importing from East Asia to increasing orders from local and regional textile and apparel suppliers, thus furthering nearshoring. In recent years, retailers are supporting localisation targets set out in the SA Retail Clothing Footwear Leather Master Plan and thus supporting the reshoring of production. Changes in retailers' sourcing strategies are resulting in a restructuring of the textile and apparel sector. This time, retailers are more incentivised to support suppliers through various supplier development interventions.

The study argues that redesigning apparel retailers' value chains from fragmented to more consolidated production networks positioned closer to retailers and end markets has some benefits, such as implementing quick response models. However, retailers must weigh the impact of reshoring and nearshoring on their supply chain. This includes the need for improved communication and collaboration between suppliers. Furthermore, increased production costs are possible due to local labour and material costs. Lastly, such sourcing strategies require the development of national industrial and trade policies and retailer supplier development programmes that address shortfalls in competitiveness.

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Contents

Abbreviations

AGOA	Africa Growth and Opportunity Act
ATC	Agreement on Textile and Clothing
BCI	Better Initiative Cotton
CMT	Cut Make Trim
CTCIP	Clothing and Textile Competitiveness Improvement Program
CTFLGP	Clothing, Textiles, Footwear and Leather Growth Programme
DCCS	Duty Credit Certificate Scheme
Dtic	Department of Trade, Industry and Competition
EAC	East African Community
ECOWAS	Economic Community of West African States
ESD	Enterprise and Supplier Development
EOI	Export Oriented Industrialization
GATT	General Agreement on Trade and Tariffs
GBJ	Good Business Journey
GVC	Global Value Chains
IDC	Industrial Development Corporation
IPAP	Industrial Policy Action Plan
ISCP	Integrated Supply Chain Programme
ISI	Import Substitution Industrialization
KZN	KwaZulu Natal
KZNCTC	KwaZulu-Natal Clothing and Textile Cluster
LDC	Least Developed Country
MFA	Multi Fiber Agreement
NBC	National Bargaining Council for the Clothing Manufacturing Industry
NIPF	National Industrial Policy Framework
R-CTFL	Retail Clothing Footwear Leather
SACTWU	South African Clothing and Textile Workers Union
SACU	South African Customs Union
SADC	Southern African Development Community
SAP	Structural Adjustment Program
SMME	Small and Medium-Sized Enterprises
SWOT	Strength, Weakness, Opportunity, and Threats
TFG	The Foschini Group
TIPS	Trade and Industrial Policy Strategy
U.S	United States
WC	Western Cape
WCM	World Class Manufacturing
WTO	World Trade Organization
WHL	Woolworths Holdings Limited
WSA FBH	Woolworths South Africa Fashion, Beauty, and Home
WTO	World Trade Organisation

1. Introduction

There is a growing argument that the wave of fragmentation that has underpinned global value chains (GVCs) in recent decades may have reached its limits. The restructuring of global trade over the past few years has been marked with an increasing shift in value chain directionality towards reshoring and near-sourcing production (UNCTAD, 2019; 2020). These trends are also apparent in the global apparel sector. This paper sets out to examine how they manifest in South and Southern Africa by assessing the changing strategies of the large South African garment retail chains. Global multinational retailers operating in rapidly evolving market conditions manage and coordinate fragmented production networks and suppliers via their sourcing and production strategies (Söderbaum, 2015; Qiang et al., 2021). Apparel retail sourcing includes searching, selecting, and managing suppliers to secure inputs or final apparel products. The sourcing process also involves retailers' decisions regarding the location where production will take place.

Global retailers are looking to source from more consolidated production networks located closer to their home countries and end markets**.** Moreover, retailers are looking to source from countries with vertically integrated supply chains with a significant part of the supply chain (from yarn to garment) in that country or neighbouring countries. This is exhibited by retailers increased emphasis on nearshoring and reshoring sourcing strategies (Whitfield & Triki,2023). Reshoring can be defined as the strategy firms adopt when a company decides to move all or part of their production from a host country to the home country, either by closing operations abroad to open them at home or by switching from international to domestic suppliers (Pegoraro et al.2022). Near-shoring refers to the decision to move production to countries that are close to the home country (Colamatteo et al, 2022).

In recent decades, retailers' sourcing decisions have focused on improving retailer's competitiveness in global markets by offshoring production to low wage regions (Contractor et al. (2010), Gereffi 2014, Davis et al. (2018), Horner & Nadvi (2018), Tsang et al. (2020), Kaiser & Obermaier, (2020), Arrigo, 2020). Changes in retailers' sourcing decisions exhibited by a shift to nearshoring and reshoring is motivated by a greater emphasis on building resilient supply chains driven by factors apart from just labour costs (Abernathy et al., 2006; Morris et al., (2016). Morris & Barnes (2014), Whitfield & Triki,2023). These other factors include the impact on logistics and supply chains resulting from the COVID pandemic, technological developments, rising wages and production costs in China, growing economic nationalism and sustainability imperatives. The result is growing efforts to shorten global supply chains, diversify risk and reduce vulnerability (Pegoraro et al., 2022, Whitefield & Triki,2023)

The emerging literature on apparel retailers' reshoring or nearshoring sourcing strategies is mostly based on the experience of advanced economy-led firms in the global West (Del Carmen & Chi, (2015) Robinson &Hsieh, (2016), Samit, et al (2021), Cuervo-Cazurra, & Pananond, 2023). Implications for reshoring and nearshoring may differ for lead firms from the global South.

Similarly, to global apparel retailers, South African retailers have embarked on the gradual shift to nearshoring and reshoring production as part of a broader transition towards strengthening supply chain efficiencies driven by a push for greater supply chain resilience. South African apparel retailers' sourcing strategies from mid-2010 shifted from a strong focus on importing from East Asia to increasing orders from local and regional textile and apparel suppliers. These changes have been driven by the global shifts mentioned above as well as by developments in South Africa’s trade and industrial policy.

The aim of this paper is to examine the shift in South African apparel retailers' sourcing decisions, and the implications retailers' sourcing strategies have had on the restructuring of the South African and Southern African textile and apparel manufacturing sectors from the early 1990s to 2020. To contextualize retailers sourcing decisions, in section two we provide a history of the development of the South African and Southern African textile and apparel industry over this period.

In sections three and four we examine two shifts in South African retailers' sourcing strategies between the late 1990s to the mid-2010s. Firstly, to take advantage of trade liberalization in the mid-1990s and China's rise to becoming a dominant global player, retailers increased sourcing from East Asia. This shift contributed to the restructuring and further decline of the domestic textile and apparel manufacturing sector and the establishment of informal apparel manufacturing firms. Secondly, the shift in retailers' sourcing strategies and trade policy during this period resulted in retailers and South African-based investors emerging as key drivers of Southern African regional textile and apparel production. Assembly firms were established in Lesotho and Eswatini, and retailers increased sourcing from Mauritius. Historically domestic retailers chose not to invest in upgrading their suppliers' capabilities. This lack of investment perpetuated a cycle of diminishing capabilities, firm closures and increasing imports.

In section five we conduct a broad exploratory assessment of South African apparel retailers’ sourcing decisions from the early 1990s to 2020. The assessment is in the form of a multiple case study of Pepkor, The Foschini Group (TFG), Woolworths Holdings Limited (WHL), Mr Price, and Truworths International sourcing strategies and supply chain management approaches. This is based on qualitative primary data collected via in-depth interviews with TFG Head of Manufacturing and WHL Global Head of Sourcing, Quality and Innovation, industry actors and policymakers between November 2021 and November 2022. Primary data has been complemented by other secondary sources to obtain a holistic understanding of retailers’ sourcing strategies.

South African retailers sourcing strategies began to change as retailers faced growing competition from international retail corporations from 2010. Retailers' sourcing strategies shifted from importing from East Asia to increasing orders from local and regional textile and apparel suppliers. Retailers' reshoring agenda gained further impetus in 2018 through the development of a sector-specific industrial policy, the South Africa Retail-Clothing, Textile, Footwear and Leather Value Chain Master Plan to 2030. Retailers have increasingly sought competitive advantage based on quick response which requires increased localisation of investments in building the local supply base, including textile production for fabrics made in South Africa. Section six concludes and discusses policy recommendations.

2. Profile of South African apparel retailers

The SA clothing retail industry is dominated by a small number of large publicly listed apparel retail groups, most with head offices in the Western Cape (WC) and KwaZulu Natal (KZN) provinces, exercising sizeable degree of value chain power and have a direct impact on the South African textile and apparel manufacturing sector. KZN offers greater capacity and capability in terms of fabric production and finishing. The WC hosts a diverse range of firms active at every stage in the value chain, from large retailers through to small, outsourced garment manufacturing operations (Green Cape, 2019, p. 2). Table 1 provides a consolidated overview of the main operational features and performance of the top five dominant JSE listed SA retail groups[1] with apparel stores and brands.

Table 1: South Africa retailers' profiles

Retail group	Main Features and performance
Pepkor Holdings Limited	• Pepkor Limited with headquarters located in Cape Town has been in operation for 106 years in SA. • The group houses clothing and general merchandise segment includes all clothing, footwear, and homeware (CFH) retail brands and divisions including Pep, Pep Africa, Ackermans, Refinery, Dunns, John Craig, S.P.C.C (Stronger as a collective) CODE. • Retailer is a fashion and price value retailer catering to the lower- to middle-income market. • The Group has 5 500 retail stores located in SA and SSA • Pepkor's FY 2022 revenue amounted to R81.4 billion with the CFH segment delivering most of the group's revenue and profit.
The Foschini Group (TFG)	• The Foschini Group based in Cape Town has been in operation in SA for 98 years. • The Company's segments include TFG Africa, TFG London and TFG Australia. TFG Africa segment consists of the following apparel divisions Exact, The FIX division, the Foschini, Jet division Markham and Sport divisions. TFG Africa operates 4 085 outlets across 32 countries in Africa, as well as online. • Retailer is a premium, aspirational and fashion value retailer catering to mid-to-upper income. • Customers. • TFG's group turnover amounted to R43.4bn with TFG Africa delivering most of the group's revenue and profit.
Woolworths Holdings Limited **(WHL)**	• Woolworths Holdings Limited is a multinational retail company with head offices in Cape Town and has been in operation in SA for 91 years. WHL owns the South African retail chain Woolworths SA, and Australian retailers David Jones and Country Road Group. • WHL has 1 386 store location in SA and globally. WSA FBH operates in SA and 10 countries across SSA and has 32 019 employees under WSA FHB • Woolworths SA Fashion, Beauty, and Home (FBH) consists of apparel brangs/divisions including Woolworths SA, David Jones Country Road, Witchery and Ternary. • Retailer is a premium, aspirational and fashion value retailer catering to mid-to-upper income. • WHLs group turnover amounted to R87bn with WSA FBH contributing 15.6% to group turnover
Mr Price Group Limited	• Mr Price with head offices based in Durban has been in operation for 37 years in SA. • The group's apparel segments include Mr Price, Mr Price Sports, Milady's, Power Fashion, Studio 88. Mr Price apparel divisions operates across 1 175 stores in SA and SSA, as well as online. • Retailer is an aspirational, fashion and price value retailer catering to lower- to middle-income market. • MR Price's FY 2022 revenue amounted to R28.1bn billion with the Mr Price divisions retail sales & other income largest contributor to revenue -50.1% out of all the apparel divisions
Truworths International	• Truworths International, an investment holding company listed on the JSE, • with head offices based in Cape Town Has been in operation for 105 years in SA. • The group main operating companies, Truworths Ltd (Truworths, operating primarily in South Africa) and Office Holdings Ltd (Office, operating primarily in the United Kingdom), are leading retailers of fashion clothing, footwear, homeware, and related merchandise. • The Truworths division is a premium, aspirational and fashion value retailer catering to the middle to upper income market with over 728 stores in South Africa and 49 in the rest of Africa. The division houses the following brands Daniel Hechter Ladies, Ginger Mary, Glamour, LTD Ladies and Earthaddict, Truworths Man, Uzzi, Daniel Hechter Mens and LTD Mens, LTD Kids, Earthchild and Naartjie), Identity, YDE • The Groups FY 2022 revenue amounted to XXX billion with Truworths retail sales amounting to R14.0bn in 2022

Source: author, compiled from retailers 2021/22 annual financial statements and retailers' websites

[1] In 2020 Edcon Holdings signed a purchase agreement to sell Edgars to Retailability. Retailability is a retail fashion holding company of retail brands including Legit, Beaver Canoe, and Style, operating in over 460 stores across South Africa, Namibia, Botswana, Lesotho, and eSwatini. Despite these changes Edcon has not been included in the big six as the Pasquali et al., (2020) outline the big six for the 2018/9 period.

As indicated in Table 1 four of the five retailers have been in operation in SA for ninety years or more. The retailers mainly sell their own-brand products and third-party brands. The retailers' brands and stores span various market segments ranging from value (lower)-to the upper-income markets and have a wide store footprint nationally, across Sub-Saharan Africa and globally in the UK and Australia[2]. Despite only illustrating the retail group's clothing stores and brands in Table 1, it must be noted that all groups have other operational divisions and merchandise categories operating outside of apparel retail[3], to varying degrees.

Outside the markets served by the major groups, there are small- medium sized- fashion brands and designers that service higher-end markets for speciality stores. These stores either form part of a group or are independently owned and managed. Over the years many small retailers have been placed under liquidation, closed operations, or acquired by larger retail groups. The Platinum Group, for instance, operated in 54 higher-end market speciality stores nationwide and comprised leading designer clothing labels, but was placed under liquidation in 2015 (Pooe & Mugobo, 2020; Britton, & Oberholzer, 2015). Fashion label Stoned Cherrie also closed its flagship store in Rosebank (in the Gauteng province), followed by the termination of a two-year partnership with Foschini. In addition, Stoned Cherrie experienced a short-lived partnership with Woolworths, which was discontinued in 2009. Truworths acquired fashion design brands such as the Young Designers Emporium, which retails emerging and established South African fashion designers, Naartjie and Earthchild (Pooe and Mugobo, 2020, p. 68-67).

In 2020, revenues generated from the sales of Clothing, Textile, Footwear, and Leather (CTFL) goods in South Africa began to show signs of recovery. According to Statist (2021) revenues driven by the clothing segment of CTFL subsector are expected to increase to over $17.5 billion in 2023. Increasing retail revenues and local demand had a trickle-down effect on local suppliers where retailers sourcing and/or supply chain development strategies have indicated a proactive approach in increasing orders from local suppliers[4]. In contrast, the South African textile and clothing manufacturing industry performance has been declining. In 2018, it was estimated that 800 clothing manufacturers operated in the country and generated revenue of R19 billion. This is in comparison to the retail sales value of CTFL of more than R175 billion (Jenkin & Hattingh,2022, p.12). The textile and clothing industry has exhibited declining contribution to total manufacturing output, declining export share and significant contraction in sector employment (Barnes & Hartogh, 2018). The CTFL manufacturing subsector's contribution to manufacturing value added has declined from 7% in 1994 to around 3% in 2019 and has grown more slowly than the rest of the manufacturing subsectors[5] (TIPS, 2021, p.2). Between 2016-2020, capacity utilisation in the textile sector remained less than 70%, while clothing is less than 80%. Insufficient demand has been cited as the reason for the under-

[2] For instance, TFG London makes up 5%, TFG Australia makes up 16%, and TFG Africa makes up 67% of TFG's retail outlets (TFG 2021 Integrated Report).

[3] PEPKOR Limited, for instance, comprises four operational divisions: apparel, FinTech, Furniture, appliances, electronics, and building materials. In comparison, the Mr Price Group comprises Mr Price (apparel), Mr Price Sports (including apparel and sports equipment), Mr Price Home, and Mr Price Money (includes Mr Price's cellular and insurance). TFG comprises of TFG Africa, TFG Australia, and TFG London and sells various merchandise categories, including apparel, cellphones, cosmetics, homeware, furniture, and Jewellery. Woolworths Holding Limited comprises Woolworths Fashion, Home and Beauty and Woolworths Food. Lastly, Truworths International comprises Truworths and The Office

[4] Insights from interviews with retailers and industry actors between November 2021- November 2022

[5] Fabric accounted for around 10% of gross value added in CTFL from 2010 to 2019; textile products 27%; apparel other than knits accounted for around 35%; and knits fell from 7% to 4% over this period[5] (TIPS, 2021, p.3).

utilisation of production capacity, partly due to the continued increase in imports (Cotton SA, 2021, p.10).

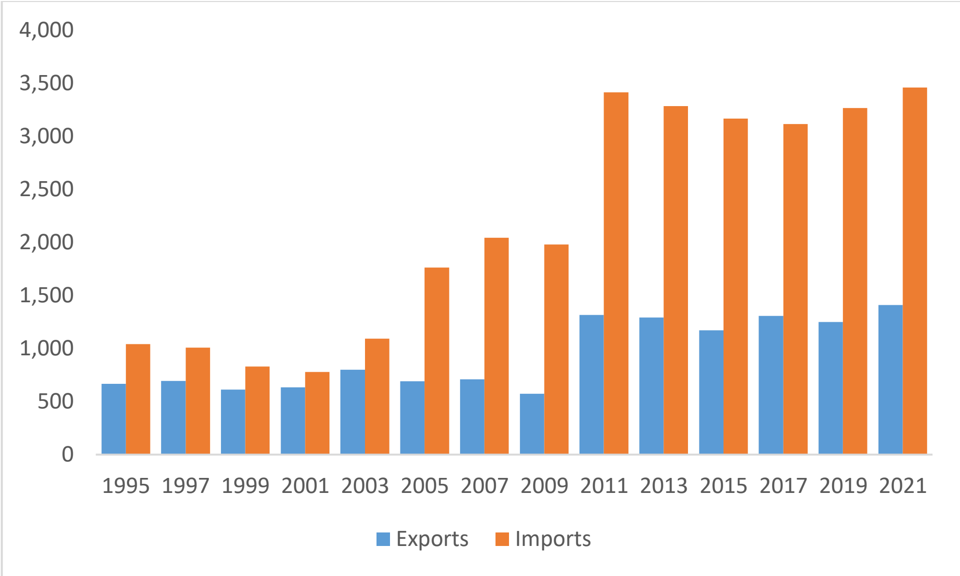
The SA clothing and textile industry is a significant employer, particularly of women. Jenkin & Hattingh, (2022) and TIPS, (2021) observe that employment provides a higher contribution share to the GDP however exhibits the same downward trend as the number of employees in the sector have declined. In the early 1990s, South Africa had a booming clothing and textile industry which accounted for a quarter of a million jobs. Two-thirds of jobs were lost in the two decades after the end of Apartheid (Hertantyo, 2022). Despite the continued challenges faced by the textile and apparel manufacturing sector, it remains a priority sector for the government due to its potential to absorb labour and the high employment multiplier effect within the broader economy.

3. Offshoring: Restructuring of the domestic retail value chain between 1995 and 2010

SA retailers are operating in well-established apparel and textile industry, established by the second half of the twentieth century. The industry developed under the isolation of apartheid sanctions and import substitution policies that created protective tariffs. The SA textile and clothing sector has been increasingly exposed to international competition since the 1980s, a process that was significantly accelerated after South Africa joined the World Trade Organization's (WTO) Textile and Clothing Agreement in 1994 (van der Westhuizen, 2006, Morris & Barnes, 2014). Prior to South Africa’s introduction to the world trading stage post-apartheid, the textile and apparel industries were protected from international competition through targeted import quotas, import substitution industrial policy and high, product-specific tariffs (Morris & Levy, 2014). Following the WTO's Textile and Clothing Agreement, the government initiated a radical garment tariff phase-down which saw the elimination of import quotas and a significant reduction in nominal tariffs[6] (Morris & Barnes, 2014). The clothing and textiles tariffs were dismantled faster and over a shorter period than required by the Textile and Clothing Agreement. This translated into the industry being ill-prepared for the consequential rise in clothing imports, with the bulk originating from China. Figure 1 below illustrates that between 1995 and 2019, the South African textiles and clothing industry has always run a trade deficit.

Figure 1 South Africa textiles and clothing trade with the world (US$ Million)

[6] Whereby ad valorem tariffs were halved over a shorter period than required—7 instead of 12 years—to a maximum of 40 per cent by 2004. (van der Westhuizen, 2006, p.5).



Source: authors calculations based on the World Integrated Trade Solution (WITS) database

Between 1993 and 2006, government shifted policy directives from import substitution towards export orientation industrialisation (Gonzales-Nunes, 2010). To encourage apparel firms to export, the South African government launched the Duty Credit Certificate Scheme (DCCS) in 1993 as a bridging measure when the Structural Adjustment Programmes were discontinued. The government also implemented an incentive programme to boost manufacturers' export production by providing manufacturers customs duty rebates on imported inputs. This scheme encouraged apparel firms to export by allowing firms to claim a rebate of duty on imported fabrics if they were used to produce apparel exports. However, firms were allowed to sell the rebates to any other importer of clothing or textiles, which resulted in most credits being sold to retailers, who then used them to import clothing (Barnes 2005). As a result, this industrial policy had little effect on stimulating apparel exports or helping firms become more competitive.

The shift towards the export-oriented industrial policy approach coincided with the Rands drastic depreciation, from around R6 per US$1 in 1999 to around R12 per US$1 in 2001 (Morris & Reed, 2008). The depreciation lowered the price of South African clothing in foreign markets, thereby making the country an attractive destination for international buyers to source clothing. In turn, many South African clothing manufacturers saw this as an opportunity to increase exports in 2001 to the U.S. through the African Growth and Opportunity Act (AGOA)[7]. Local apparel manufacturers signed various export orders to U.S. retailers. Total apparel exports at nominal prices increased from R471 million in 1995 to R1901 million in 2001 and R2.5 billion in 2002 (Barnes & Morris, 2014, p.9). Local manufacturers did not have sufficient capacity to supply both the export and the domestic markets. Therefore, many local firms consequently cancelled their orders to the local retail chains in favour of the more profitable export market. South African firms' exports were, however, constrained by production capacity given the shortage of domestically produced fabrics and limited variety of fabrics produced locally, and by factory size, which could not meet the order volumes demanded by U.S buyers. Overall, the limited range of export quality products that could be sourced from the South African industry reduced U.S buyers' interest in South Africa, as they preferred to

[7] The African Growth and Opportunity Act (AGOA) provides duty-free treatment to goods of designated sub-Saharan African countries (SSAs). AGOA extended the U.S. Generalized System of Preferences access to qualifying African countries, and the textile and apparel industries were two critical industries that were potential beneficiaries (Barnes & Morris, 2014).

source from countries that had larger industries which could offer a diverse range of products and thus limit transaction costs for the buyers.[8]

Additionally, South Africa's higher cost structure meant that firms found it difficult to compete with low-cost competitors, such as China, India, Indonesia, Turkey, and Pakistan (Barnes, 2005). Moreover, in the case of textiles and apparel, the benefits of AGOA were overshadowed by the expiry of industry protection offered by the Multi-Fibre Agreement (MFA) in 2005 (Truett, & Truett, 2008). The expiry of the MFA ended all quotas on the trade of textile and apparel between World Trade Organisation (WTO) member states. China, which joined the WTO in 2001, benefited the most, as it had the ability to produce a large range of items at international quality standards. Apparel imports from China increased from 16.5% of the total Rand value of clothing imports in 1995 to 74.2% in 2005 (Barnes & Morris 2014, p. 10). By November 2004, the Rand/US$ exchange rate had appreciated to R5.73 (Barnes & Morris, 2014, p.10). The stronger rand weakened competitiveness in the domestic and export markets. Export competitiveness was further constrained due to the triple transformation requirements under the AGOA rules of origin and the South African government's unwillingness to extend the Duty Credit Certificate Scheme (DCCS) (Barnes, 2005; Morris & Reed, 2008; Barnes & Morris, 2014). Apparel exports, therefore, declined dramatically, with manufacturers defaulting on their export orders. Additionally, Barnes (2005) argues competitiveness was eroded as SA textile and apparel manufacturing firms were inefficient; lacked capital, technology, and innovation; and had high labour and management costs relative to output.

In addition to trade dynamics and market fluctuations, it has been argued that the industrial policy approach undertaken by the SA Government from the late 90s to mid-2000s was ineffective in assisting local manufacturers to compete with the influx of Chinese imports. In 2007, the government imposed the China Restraint Agreement, a two-year quota plan to restrict clothing and textile imports from China (Reed, 2012). The objective of the quotas was to allow manufacturers to upgrade their operations and improve competitiveness levels (Reed, 2012). The quotas did little to stimulate growth and employment as intended. Instead, quotas encouraged retailers to continue to seek alternative supply bases, thus further shifting sourcing away from domestic manufacturers. Furthermore, such interventions have been argued to be regressive in their impact. As suggested by Barnes (2005), Nattrass and Seekings (2013), Morris and Reed (2008) and Morris and Barnes (2014), the government-imposed clothing and textile import quotas from China drove local firms down the value chain toward basic, low-value-added garments. Morris and Barnes, (2014) note that the government could not take the necessary steps to assist domestic firms in raising their systemic competitiveness by aligning with retailers as drivers of the textile and apparel value chains. Government's liberalisation of the industry and attempt at creating an export orientated textile and apparel manufacturing sector was therefore unsuccessful.

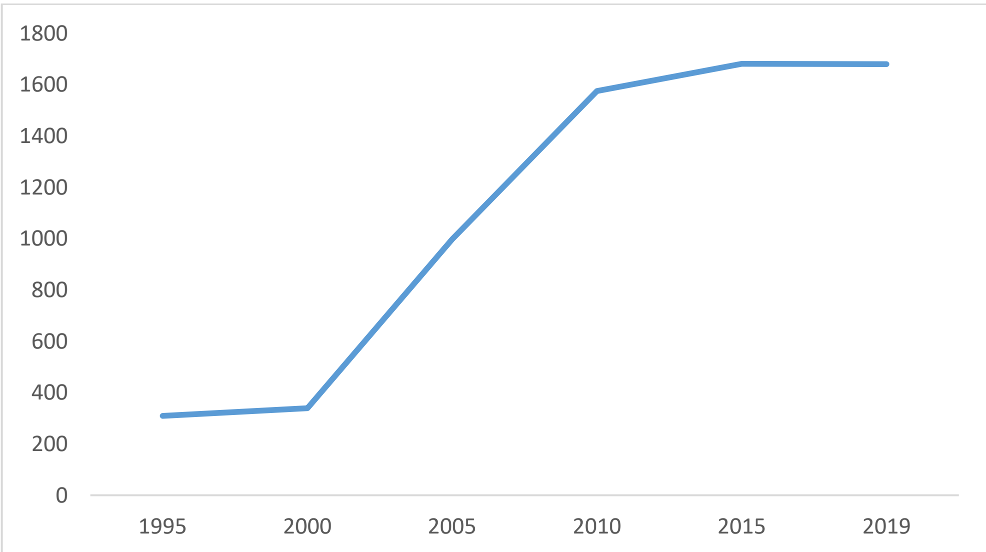
Historically textile firms tended to be vertically integrated, from spinning, weaving, dyeing, to finishing. Textile firms reacted to global competition by adjusting their operations in two main ways. Firstly, several firms closed spinning or weaving operations to concentrate on one part of the chain, (Roberts & Thoburn 2001). Other firms simply closed or reduced their capacity. The highest number of factory closures occurred in KZN (SACTWU, 2011). The SA Labour Research Institute's analysis of job losses and factory closures for the period July 2007 to June 2010 indicated that 45% of CTFL jobs lost were in KwaZulu-Natal, 29% in the Western Cape, 9% in the Free State and 8% in the Eastern

[8] Based on Prof Lindsay Whitefield insights from interviews with several apparel firms in Cape Town that had tried exporting to the US.

Cape (SACTWU, 2011). The factory closures also resulted in a reduction in the variety of products manufactured and the de-verticalization of the value chain. Larger apparel manufacturers reacted to global competition by outsourcing the manufacturing function and thereby the labour-intensive component, partially or wholly, to become design houses focused on securing orders from domestic retailers and organising the production of products, logistics and delivery to retailers (van der Westhuizen 2006). Design houses outsourced manufacturing to a network of small Cut, Make and Trim (CMT) assembly factories. Van der Westhuizen, (2006) argues that these CMTs engaged in a price war with each other, were under-capitalized, and unable to become competitive in the long run. Some big apparel manufacturers continued with production but augmented their output with imports from Asia (van der Westhuizen 2006). Firms that made investments in new machinery reduced the variety of products they manufactured, focussing on niche products where they competed on quality, design and delivery, rather than price**.** However, these attempts to raise competitiveness were undermined by the radical restructuring of the domestic retail value chain**,** in terms of which South African retailers improved their import capacity and started sourcing significantly from overseas producers and regionally (Morris & Barnes, 2014).

Retailers improved their import capabilities resulting in import divergence as apparel retailers discovered other supply sources. This shift further contributed to the restructuring and decline of the domestic textile and apparel manufacturing sector and the establishment of informal apparel manufacturing firms, resulting in an uncompetitive and inefficient domestic textile and apparel manufacturing sector. This shift in sourcing corresponds with the import trend illustrated in Figure 2 where the value of textiles and clothing imports from East Asia and the Pacific drastically increased from the early 2000s onwards and remained stable between 2015 to 2019.

Figure 2 South Africa Textiles and Clothing Imports from East Asia & Pacific, 1995-2019 (US$ ‘000)



Source: authors calculations based on the World Integrated Trade Solution (WITS) database, 2020

The appreciating exchange rate aligning with the impact of global Chinese apparel exports, afforded retailers greater buying power in international markets. South African retailers had restructured their value chains focusing on sourcing large-scale clothing imports from China resulting in a dependence on Chinese imports. According to Morris & Barnes, (2021), from the early 2000s to the mid-2010s, South African retailers did little to support local manufacturers and did not invest in upgrading supplier capabilities. Most local manufacturers ceased or downsized operations (Morris & Einhorn, 2008).

4. Nearshoring: the emergence of regional value chains in Southern Africa 2010-2020

Retailers improved their import capabilities resulting in import divergence as apparel retailers discovered other supply sources offshore and closer to home. Interviews with retailers' and industry actors have highlighted that in addition to external influences such as preferential trade policy (SADC and SACU) there have been several strategic sourcing priorities that have driven retailers' increased focus on nearshoring. Figure 7 provides a consolidated overview of the factors that have driven retailers nearshoring sourcing strategies between 2006-2020.

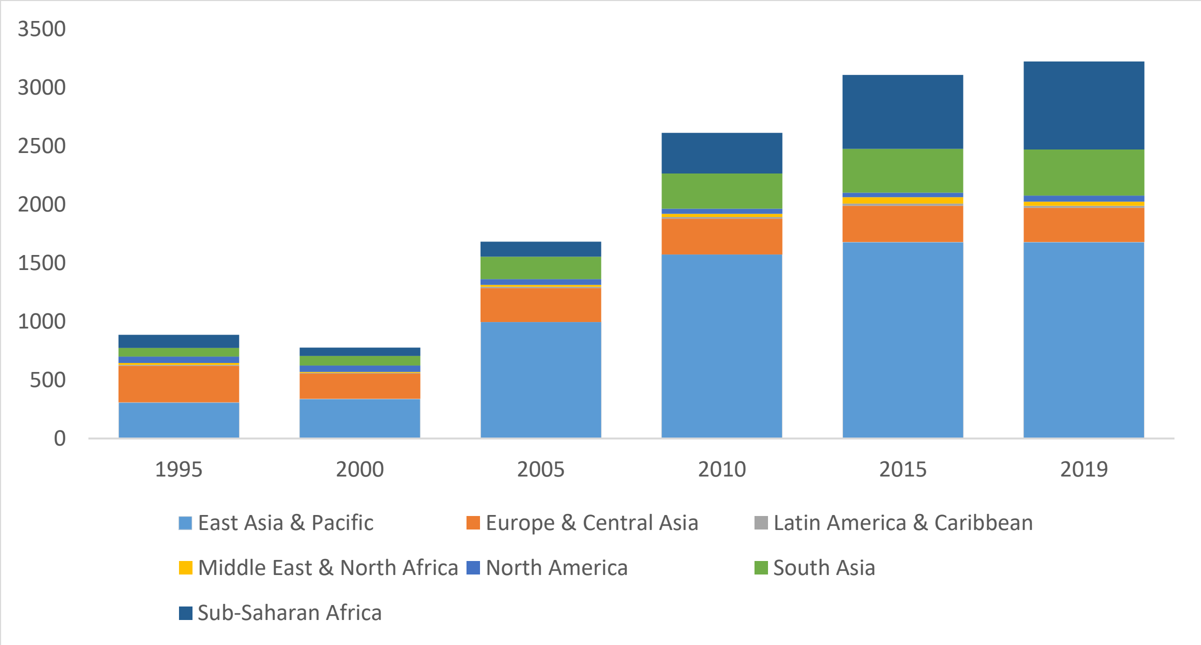
Figure 7 **Nearshoring drivers**

Nearshoring drivers	
Retailers strategic Sourcing Priorities	• Cost-efficiency (labour, production, transport/logistics and less currency risk/volatility) • Diversified sourcing mix (products and suppliers) • Quick response, demand driven and lean model. • Mitigating against supply chain disruptions, risk, and uncertainty • Development of more capable suppliers • Supply chain diversification, consolidation • Greater control over supply chain, visibility, and relationship with suppliers • Identifying and sourcing from African centers of excellence (Mauritius, Madagascar, Morocco and Egypt) • Expanding retail footprint across Africa: retail sales growth strategies are Africa focused (source within country)

Source: interviews with industry actors

The factors outlined in Figure 7 were complemented with trade policy and the emergence of regional production networks. Imports increased from East Asia and the Pacific between 2000 -2010 and then started plateauing between 2015 to 2019. As indicated in Figure 4 textiles and clothing imports increased rapidly from other regions, especially southern Africa after 2010, the main new suppliers being Lesotho, Eswatini, Mauritius and Madagascar.

Figure 4 South Africa Textiles and Clothing Imports by region in US$ Millions



Source: Authors calculations based on the World Integrated Trade Solution (WITS) database, 2020

The duty-free preferential access protocols of the South African Customs Union (SACU) and South African Development Community (SADC) have been the main contributing factors to the shift in production to neighbouring countries. As member states textile and apparel products enjoy duty-free preferential access to enter the South African market. This has given rise to the growth of regional value chains from Lesotho, Eswatini, Mauritius and Madagascar feeding into the South African end market starting slowly in 2006 and accelerating after 2010. Tariff-free access via SACU has been crucial for Lesotho and Eswatini, whilst Mauritius and Madagascar have used SADC protocols to enter the South African market on favourable tariff terms (Morris et al.,2021). Imports from Lesotho and Eswatini have been a direct result of South African clothing manufacturers relocating entire plants to the neighbouring countries. In the case of Eswatini by 2017 apparel exports to South Africa had completely supplanted its exports to the US.

Retailers sourced directly from suppliers in neighbouring countries or alternatively sourced through design houses or other manufacturers who had set up operation in these countries. Morris and Staritz (2016) demonstrate how the development of textile and apparel capabilities in the region was driven by three waves of investment, Firstly, in the early 1980s, several Taiwanese-owned firms based in SA relocated to Lesotho to capitalise on the cost advantages associated with Lesotho's low-cost labour and duty-free access to Europe under the Lomé Convention. Later in the 1980s, there was a further influx of investment from Taiwanese firms looking to capitalise on Lesotho's underutilised MFA quotas and take advantage of the country's various FDI incentives. Transnational producers investing in Lesotho could draw on their global networks to link into GVCs supplying retail chains in the U.S. A third wave of investment from South African garment manufacturers followed. These firms relocated to Lesotho to benefit from lower costs in terms of both labour and overheads, greater labour market flexibility and duty-free access to SACU.

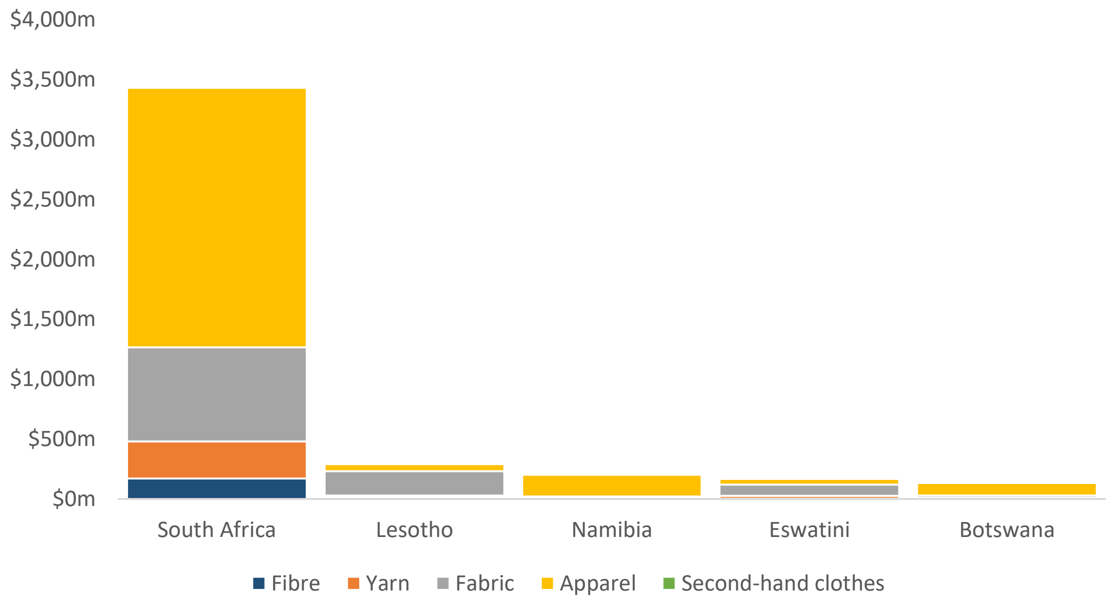
A contributing factor to the shift in production to neighbouring countries has been South Africa's high wage cost structure. The shift in retailers sourcing further reinforced the notion that retailers sourcing strategies were focused on cost reduction by sourcing from countries where wage costs were considerably lower, and unions are less entrenched. Morris & Barnes, (2014) note that unions could no longer operate under the import substitution era, competing with more productive systems in competitor countries. They could no longer maintain a strategy of high wages and restricted shift work**.** Nattrass & Seekings, (2013) argue that clothing manufacturers' competitiveness and labour-intensive growth have been undermined by the minimum wage and levies imposed by the National Bargaining Council for the Clothing Manufacturing Industry (NBC). This has resulted in a highly regulated labour market that has impacted the industry's cost competitiveness accelerating the relocation of production to neighbouring countries. In 2016, South Africa imported over 54% of its apparel from China, followed by Mauritius (7.5%), Madagascar (6.2%) and Lesotho (6.2%). In 2019, 35.9-billion-rand worth of clothing was imported, of which about 58% was from China, while locally manufactured clothing was an estimated 25 billion rand (Trade and Industrial Policy Strategies [TIPS] 2021).

4.1 Southern African textile and apparel regional value chains

Southern Africa maintains a regional apparel industry, with SADC being the African region that sources the highest share of its apparel products regionally (33 per cent, compared to 11 per cent in the EAC, 7 per cent in COMESA and 5 per cent in ECOWAS). However, the Southern Africa region has not substantially grown the upstream parts of the value chain, with intra-regional trade in fibres and fabrics remaining stagnant over the last 20 years. (MacLeod, 2022)

Southern Africa is by far the largest destination for current intra-African trade in textiles and apparel products. In the region South Africa is the most significant destination for intra-African imports. South Africa accounts for 30 percent of all intra-African textile and apparel imports. Lesotho and Eswatini import large shares of inputs and intermediate textile goods, suggestive of the presence of regional value chains. In the region, South African multinational enterprises have been identified as critical drivers of RVCs and the South African market has been identified as a supplier of inputs and the destination market of exports (Pasquali, & Godfrey, 2020). Figure 5 and Figure 6 illustrate the SACU's textile and apparel import and export market between 2017-2019

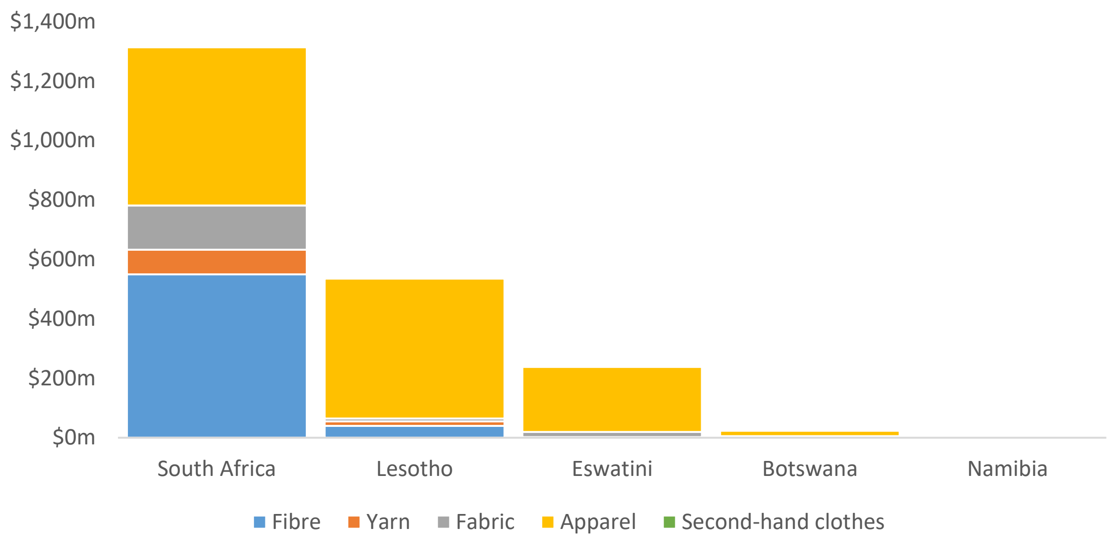
Figure 5 SACU's textile and apparel import market, average 2017-2019



Source: MacLeod, 2022, based on CEPII-BACI reconciled trade flows. Notes: Apparel products here include made-up textiles.

The SACU region account for most intra-African exports of textiles and apparel, accounting for 43 percent of the continent's internal trade in these products between 2017-2019. South Africa accounts for 25 percent of the continent's total exports within the continent – by far larger than any other country. Beyond South Africa, Eswatini and Lesotho account for large volumes of intra-African exports of apparel products. Lesotho and Eswatini are important apparel exporters, while South African exports are diversified across textile fibres and apparel, and to a lesser extent fabrics and yarns (Figure 6).

Figure 6. SACU textile and apparel exports, by country and value-chain segment, average 2017-2019



Source: MacLeod, 2022, based on CEPII-BACI reconciled trade flows. *Notes*: Apparel products here include made-up textiles.

5. Reshoring: localisation and building local manufacturing capabilities 2010-2019

A strategic re-alignment between retailers and local manufacturers took place in the mid-2010s illustrating a shift in retailers sourcing strategies from importing from East Asia to an increased emphasis on reshoring production. An analysis of interviews, supported by the literature indicates that retailers' sourcing strategies have been driven by industrial policy revision and industry wide co-operation, a focus on supplier development, the use of innovation and technology and a focus on sustainable and ethical sourcing. An overview of the factors driving retailers re-shoring decisions is provided in Figure 8.

Figure 8: Drivers for SA retailers reshoring

Re-shoring drivers	
Retailers	• Development on quick response, demand driven and lean model

strategic Sourcing Priorities	(Inditex/Zara) • Development of sector specific industrial policies • Increased focus on local sourcing commitments • Supply chain diversification: mitigating against supply chain disruptions, risk, and uncertainty. • Supply chain consolidation and working with strategic suppliers. • Greater control over supply chain, visibility, traceability, • Supplier development including monetary and non- monetary support. • Focus on downstream segment of the VC and building upstream capabilities. • Digitalisation, omnichannel platforms and technological innovation • Industry design capabilities • Building internal capacity to support development of local suppliers (including medium enterprises)

Sources: Interviews

An assessment of Pepkor, TFG, WHL, Mr Price, and Truworths International individual sourcing strategies, supplier development and management approaches outlined in appendix A indicates that retailers design their sourcing strategies based on their strategic sourcing priorities, operational and tactical considerations, and global trends.

While retailer sourcing strategies are unique and differ according to their strategic priorities there are commonalities.

To begin retailers' strategic priorities are centred on building diversified and high brand equity business, optimising sourcing mix and supply chain efficiency, developing close relationship with suppliers and commitment to localisation. Secondly, retailers sourcing considerations can be evaluated by understanding retailers operational and tactical considerations. Looked at from the supply side, these factors are related to the management oversight and control over their supply chain. Sourcing decisions may be driven by the need for increased control over production and the speed of production in order to mitigate supply chain disruptions and enhance efficiency in supply chain inventory. Lastly, retailers sourcing considerations can be evaluated by understanding global trends that influence retailers' sourcing considerations. There are two predominant global trends that are influencing retailers sourcing considerations. The recent supply chain disruptions which retailers have responded to by diversifying their sourcing away from China and consolidating their supply base. Additionally, the sustainability and innovation shift. The factors driving retailers sourcing strategies are unpacked below.

5.1 Industrial policy and retailer's embeddedness

The legacy of an import substitution policy focus rather than supply-side measures accounts for the state's limited capacity to develop fully sectoral industrial policies. From the early 1990s to early 2000s, the then DTI was structured to implement policy rather than develop industrial policy. To address these deficiencies DTI restructured into sectoral directorates, including one which specialises in the clothing, textiles, and footwear sectors (Hirschsohn et al, 2000). Conflicting interests around tariff reform amongst textile and apparel manufacturers, organised labour and retailers also contributed to industry being ineffective in engaging in industrial policy formation and implementation. The South African dtic has, over the years, taken steps in partnership with leading clothing retailers, textile and clothing manufacturers and labour to support a process of policy upgrading to provide more nuanced support for the sector across the entire value chain.

In 2005, the DTI argued that the government could no longer afford to sustain uncompetitive industries through import substitution or protectionist measures (van der Westhuizen,2006, p.5). The government, therefore, committed itself to supporting the textile and apparel manufacturing sector through a range of initiatives. The Industrial Policy Action Plan (IPAP) 2007/8 – 2021/22, which falls under the National Industrial Policy Framework (NIPF), illustrates the type of industrial policy interventions the government implemented (see Box 1).

<u>Box</u> 1: Industrial policy revision and co-operation
Key measures undertaken by the DTI during the 2007/8 financial year included a redesigned support scheme for the sector aimed at recapturing the domestic market share, reviewing input costs into the clothing sector, and supporting productivity upgrading and skills development**.** Under the 2010/11 – 2012/13 IPAP, the dtic ran the Clothing and Textiles Competitiveness Programme (CTCP) an on-budget support programme, which replaced the Duty Credit Certificate Scheme (DCCS) (Wood & Bischoff, 2018). The CTCP allowed manufacturers to earn a value-added-based production incentive through credits that can be redeemed only through investments in specific competitiveness and upgrading activities. To date, government has spent approximately R7.6 billion on the CTCP and has created 5 699 jobs between 2011 and 2018 (National Treasury, 2020, p.2). The CTCP encompassed the Competitiveness Improvement Programme (CIP) and Production Incentive Programme (PIP). The CIP aimed to increase the competitiveness of clothing, textiles, footwear, leather, and leather goods manufacturing industries by fostering a cluster of globally competitive companies (Zalk, 2014). The PIP centred on upgrading knowledge and technical processes, intending to create islands of best practice. A total of 2 392 applications were approved were for PIP, accounting for 97.2 per cent of total CTCP applications (National Treasury, 2020, p.2). In 2021 the CTCP was replaced by the Clothing, Textiles, Footwear and Leather Growth Programme (CTFLGP), which has a broader scope and forms part of the Retail-Clothing, Textile, footwear & Leather (R-CTFL) masterplan signed in 2019 and covers the period 2020 to 2030 (the dtic, 2021).

Cluster co-operation and changing business models.

The CTCP was responsible for the establishment of collaborative retail cluster programmes. Textile and apparel manufacturers joined clusters, the Cape Town or KZN Clothing and Textile Clusters depending on their location. Both clusters are not-for-profit initiatives jointly established in 2005. The clusters aim to boost the competitiveness of the local industry to ensure that it can compete in the global market through various programmes, including benchmarking, world-class manufacturing, value chain alignment, skills development, competitiveness improvement and quick response (KZNCTC, 2022 & CCTC, 2022).

Retailers have joined these clusters providing financial and practical support to demonstrate cooperation with their local suppliers. In 2006, a SACTWU representative expressed that while the clusters have value for the participants, the overall impact on the industry is minimal due to the small number of companies actively involved. In his view, the retailers' participation has been a "whitewashing" exercise. Whereby support for a few companies has been portrayed as larger-scale support for local industry while continuing to source from Asia (Ascoly, 2006,p.23). This has not been the general sentiment of industry actors interviewed. However, based on the earlier finding in this chapter, it corresponds with the arm's length relationship retailers had with local suppliers and their development. An interviewee did indicate that textile and apparel firms did not initially participate in Clusters as this required an investment and a commitment from firms that those operating in survival mode were not willing to make. Therefore, in its early days, it is possible that the clusters consisted of firms and retailers committed to improving their firm-level competitiveness and, indirectly, developing the textile and apparel manufacturing sector. Industry analyst, Justin Barnes, in 2014, noted that all the major South African retailers were experimenting with the introduction of Quick Response supply chain models and working with KZN CTC members to establish the means to operate according to international best practice standards **(**eThekwini Economic Development and Investment Promotion Unit, 2014, p. 25). Retailers sought to minimize their inventories and increase their returns through repeatedly turning over stock within the year, which they could be achieve by building local supply chains that included supplier firms with short production cycles and customized products based on point of sales information. This model was based on the success of Inditex/Zara and its regional sourcing patterns from Morocco and Turkey. Morris & Barnes, (2014) observe that retailers' cluster membership has assisted in raising the general competitiveness levels of local clothing manufacturing firms. Additionally, the clusters have assisted in developing supply chain alignment and building systemic

Retailers' commitments towards local sourcing and reshoring have been shaped by their own strategic priorities and reinforced by the government's new sector policy, the R-CTFL Master Plan. In recent years the dtic collaboration with retailers has been more targeted and has resulted in the development and implementation of the SA Retail-Clothing, Textile, Footwear and Leather Value Chain (R-CTFL) Master Plan[9]. According to the 2018/19-2020/21 IPAP, the targeted outcomes of the master plan is the reduction of the textiles, clothing, leather and footwear trade deficit through import substitution, new employment creation and export-readiness through a streamlined quick-response manufacturing base. As well as providing manufacturers with the resources to integrate into domestic retail value chains and build up competitiveness.

5.2 Vertical integration and de-integration

Threatened by international competition, SA retailers recognized that their competitive advantage over international retailers was speed to market and understanding local market trends (WRSETA 2015). Furthermore, SA retailers realised the benefits of achieving greater geographical proximity and operational flexibility by having local supply chains which can implement a quick response manufacturing model. Similarly, to international retailers' such as Inditex, the shift towards quick response and demand data-driven sourcing by SA retailers' is undertaken to mitigate the inventory risks associated with supplying clothing to fast-changing, volatile, and uncertain consumer markets by replenishing shelf items in very short cycles and minimising inventories. Furthermore, the implementation of quick response and fast fashion models, allows retailers to respond more quickly to dynamic market trends and to diminish their exposure to currency fluctuations, supply chain disruptions and entry of international retailers in the domestic market. These models require retailers to have shorter lead times, diversified range of textile and apparel manufacturing suppliers operating domestically and regionally. To achieve this retailer adopted new business strategies focused on a commitment towards localization and investments in building the local supply base. SA retailers are developing quick response manufacturing models 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.

Some retailers such as TFG and Truworths have invested in vertical integration by building in house design and product development capabilities, in-house manufacturing capabilities and direct sourcing. These retailers have focused on backward vertical integration whereby retailers obtain ownership of manufacturing assets and develop in-house manufacturing capabilities. In 2021 Truworths acquired local design centre Barrie Cline and Bonwit, enhancing its ability to design and create unique ladieswear ranges, in addition to its previous focus on men's and kidswear, and generate economies of scale in areas including fabric purchasing, production planning and logistics. (Truworths International, 2021). TFG's quick response model is supported by its investment in the development of in-house manufacturing capabilities (see Box 2)

Box 2: TGF building in-house manufacturing capabilities through acquisitions.

TFG purchased Prestige Clothing Maitland and Prestige Clothing Caledon in 2014 and spent R75 million on expanding the factory in Caledon in 2017. The investment included investing in

[9] The master plan was developed through consultations with industry actors including textile, apparel, footwear and leather manufacturers, organised labour, and government. These industry actors all made commitments aligned with achieving the objectives of the master plan.

constructing a new building and refurbishing the existing factory, including re-tooling the entire new facility (Global Africa Network, 2021). In a media interview, Graham Choice, who founded Prestige in 1989 and is now Managing Director (MD) of the TFG Merchandise Supply Chain, explained that "it took trial and error, and effort, over four years, from 2014-2018, to get the retail and manufacturing businesses to integrate and align, and for everyone to sing the same song." "When they did, the results were electric" (Planting, 2022).

Since 2018, TFG has increased its manufacturing assets, capabilities and local production while partnering with and acquiring local manufacturers, introducing the concept of lean manufacturing to them, bringing them into the TFG supply chain and developing local capacity. In 2020, TFG's management gave TFG's Merchandise Supply Chain MD the go-ahead and the budget to significantly expand TFG's manufacturing capability, resulting in the acquisition of several assets, including the ex-Seardel companies of Monviso, Bibette and Bonwit, which were acquired in 2021 to create Prestige Epping. In the same year, the retailer acquired suit and tailoring manufacturer House of Monatic, previously owned by Brimstone Investments, which was on the verge of complete closure. The House of Monatic 200 employees have been assimilated into Prestige Epping. Prestige Epping produces TFG's formalwear for men and women. The retailer has indicated its commitment to upgrading the House of Monatic plant and manufacturing processes in line with its quick response manufacturing practice (Adams, 2021). Prestige Durban was launched in May 2021 after TFG acquired TCI Mobeni from the SA Clothing and Textile Workers' Union. Together with TFG's newly acquired assets from Playtex, this factory is the Group's intimate wear and active sportswear manufacturing hub.

TFG opened its fifth Prestige Clothing factory in Johannesburg, which has been specially designed for a hearing-impaired workforce. TFG partnered with the Fibre Processing and Manufacturing SETA and the Thandeka Vocational Education Trust to train school leavers from St Vincent's. The first intake of 23 learners completed a manufacturing learnership in October 2021. An additional 24 learners will complete their learnership in 2022 (Smith, 2022). The investment into building manufacturing capabilities will also include the development of a Prestige learnership programme to develop competencies in manufacturing and production (Planting, 2022).

TFG's strategy has focused on acquiring manufacturing assets and retail outlets, which will drive the demand for locally produced apparel. In 2020, TFG acquired Jet, entered into new lease agreements with 425 Jet stores, and committed to sourcing from Jet's 318 existing local suppliers. By acquiring Jet, the retailer secured employment for more than 5 600 employees throughout its African operations.

In 2022, TFG announced that R2.1-billion will go towards the development of another ten manufacturing units, with another ten planned for each of the next two years (TFG, 2022; Planting, 2022). The investment in increased manufacturing capacity 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. This dramatic increase in localisation may be more the exception than the rule. The R2.1bn Capex commitment for FY23 will further strengthen the Group’s differentiated business model and mitigate disruptions to global supply chains (TFG, 2022). The plants will be built in areas of high unemployment; others will be deeply rural, and at least two will be explicitly located near safe houses for domestic abuse and violence victims.

Other retailers are consolidating their supply chains to work with a few global and local suppliers. However, an analysis of retailers sourcing locations indicates that strategic suppliers are predominantly based in China and Asia (see also section 5.3). Retailers such as Mr Price and WHL have focused on activities in the high-value-added segments of the value chain i.e., intangible pre and postproduction activities[10] rather than building in-house manufacturing capabilities. In an interview, Mr Price CEO Mark Blair, noted that the group will not vertically integrate its business, nor will it buy into local suppliers (Mashego, 2021). The retailer has opted not to vertically integrate its operations and develop in-house manufacturing capabilities due to the risk of tying up capital, managing factories in good times and in periods of disruption, as well as potential labour issues and electricity outages. Additionally, Mr Blair notes the limited technological capacity to produce certain items currently not produced in SA. The retailers expect local suppliers to invest in production capabilities and in doing so the retailer will continue to source locally. Mr Price has invested R229 million on local manufacturers in the period 2015-2020 and has on-boarded 43 new suppliers during 2020 (Mashego, 2021).

Retailers are operating in an increasing complex and competitive environment and their presence across multiple geographical regions exposes them to an array of risks. Interviews with apparel retailers have highlighted two observations concerning their shifting sourcing strategy towards quick response model. Firstly, lead firms have become engaged in supplier selection, and supply chain strategies primarily focused on developing efficient, risk-hedging, and responsive supply chains. Secondly, retailers are expecting suppliers to expand non-manufacturing capabilities such as input sourcing, product development, inventory management and stockholding, logistics, and financing. Fulfilling these new minimum requirements does not necessarily lead to better contracts or higher prices for supplier firms.

5.3 Supply chain diversification, consolidation, and local sourcing

Retailers are diversifying their sourcing away from China while also and consolidating their supply base to work with strategic suppliers. The consolidation of the supply chain towards fewer, larger and more capable suppliers is a trend that has been observed in the apparel GVC even before the 2007/2008 crisis and has been intensified by the COVID-19 pandemic (Castañeda-Navarrete et al, 2021). The Fashion, Home and Beauty (FHB) division of Woolworths Holdings SA 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 Holdings SA Fashion, Home and Beauty division has either sourced from strategic suppliers (long-term strategic), preferred suppliers (operational suppliers) or approved suppliers (transactional suppliers). WSA FHB sources from seven strategic South African suppliers based in KZN, CPT, and PE, which exclusively supply to WSA FHB. Many WSA FHB exclusive suppliers started as small-scale CMT suppliers and have grown over time to become WSA FHB largest and most reliable suppliers. Woolworths' longest relationship with its exclusive supplier goes as far back as 70 years. The retailer has had a low supplier turnover and aims to build long-term partnerships with suppliers. WHL has set a 2025 target to increase apparel sourced from South Africa to 40% and total regional sourcing to 65%. The retailer will divert sourcing from Asia and Madagascar to South Africa and the SADC to achieve this. Furthermore, to achieve these targets, the retailer has undertaken several interventions outlined in Box 3.

Box 3: Woolworths interventions to support local sourcing.

WHL's imports replacement programme and building local capabilities.

[10] Pre-production intangible activities includes R&D design and logistics: purchase. Post-production intangible activities include logistics: distribution, marketing and services.

To achieve the goal of greater apparel localisation, Woolworths has focused on creating an import replacement programme linked to the SA Retail- CTFL Master plan objectives. According to Lawrence Pillay, Global Head of Sourcing, Quality and Innovation at WHL, the retailer has identified apparel products that should be produced locally, and the capabilities and inputs required for these products to be manufactured in SA. The retailer works with suppliers to build capabilities, capacity and facilitate linkages between suppliers to transition orders from global to local suppliers.

Through their import replacement program, Woolworths is now sourcing baby apparel and children's cotton underwear from Juan's Clothing Manufacturers based in Port Shepstone instead of sourcing from a vertically integrated Indian-based manufacturer. The localisation of baby apparel and children's underwear and the change in product development processes in the value chain demonstrates product upgrading or improving old products through quality and price performance as well as through speed to market.

Additionally, increased localisation and demand have resulted in the expansion of Juan's Clothing factory. This expansion included building a state-of-the-art green factory, a low-carbon facility equipped with eco-friendly design and manufacturing processes that efficiently reduce greenhouse gas emissions, environmental pollution, and energy consumption. This aligns with Woolworths GBJ strategy and green factories programme, which is the vehicle used by the retailer to support suppliers in identifying areas of opportunity for continuous improvement when it comes to managing environmental and social metrics on supplier's premises. The factory extension resulted in the creation of 200 additional jobs. The extension demonstrates the support the retailer has provided to Juan's Clothing Manufacturers in achieving process upgrading or improvements in the efficiency of internal processes. Additionally, through the retailers' import replacement programme, Woolworths has assisted black woman-owned supplier, Davis Clothing, in manufacturing baby apparel. Furthermore, the retailer has shifted the sourcing of formal bottoms and woven shirts from Bangladesh to SA.

Supplier-to-supplier mentorship programme

To develop local capabilities and capacity, Mr Lawrence Pillay, Global Head of Sourcing, Quality and Innovation at WHL, indicated that the retailer has implemented a supplier-to-supplier mentorship programme whereby Woolworths suppliers from China and Mauritius operating in world-class factories, mentor Woolworths smaller South African suppliers. The mentorship programme aims to create knowledge transfer between suppliers that will assist South African suppliers to become more competitive and reach export levels. The mentor supplier is provided with an incentive linked to how well their SA mentee performs with regards to becoming competitive and raising export levels.

Network of Woolworths preferred and approved global and local of suppliers

Woolworths suppliers can only source intermediary inputs and services such as fabrics, zips or dying, printing, and finishing services from a network of Woolworths preferred and approved global and local suppliers. For instance, to ensure that Juan’s Clothing Manufacturers produce baby apparel and children's cotton underwear at the quality standard the retailer expects, Woolworths facilitated an agreement between the previous vertically integrated Indian based manufacturer to supply Juan’s Clothing Manufacturers with fabric. Additionally, the retailer supported Juan’s Clothing Manufacturers by providing the manufacturer with capital to purchase the fabric.

Supplier diversification and local sourcing by South African retailers is linked to retailers implementing a quick response model aimed at developing more flexible supply chains while mitigating against the risk of relying on a few Chinese suppliers. Truworths, for instance, has reduced its dependency on China and diversified its sourcing locations to include Bangladesh, Pakistan, India, Mauritius, and Madagascar (Truworths International, 2021). Table 3 illustrates retailers 2021/22 local sourcing and supply chain features.

Table 3: SA retailers 2021/22 local sourcing profiles and supply chain features

Retail group	Sourcing locations and supply chain features
Truworths	• 45% of apparel is manufactured locally. • Vertically integrated supply chain, in-house design capabilities and direct souring from local suppliers
Mr Price	• Local procurement represents 36% of total apparel units. • Retailer has over 500 suppliers across the group's divisions. • Developing direct sourcing capabilities
TFG	• 35% of TFG Africa clothing is sourced locally, an improvement given that five-years ago as little as 20% of its apparel items were locally sourced. • Vertically integrated supply chain, in-house manufacturing capabilities and direct souring from local suppliers • TFG's factories in Maitland and Caledon in the Western Cape
WHL	• WSA Fashion, Home Beauty (FHB) sources from 228 suppliers with 446 factories. • Approximately 30% of WSA FBH and home private label products are locally sourced. • 21% WSA FBH and home private label products are sourced from SADC. • 49% WSA FBH and home private label products are sourced from Asia and other regions.
Pepkor	• 23% locally sourced products by Clothing, Footwear, and Homeware (CFH) brands in 2021 • Has four South African based PepClo factory divisions manufacturing basic school clothing, knitted underwear and flip flops

Source: Author, compiled from retailers FY21/22 reports

Despite localisation commitments, retailers are aware of local supplier's inability to produce at scale or meet quality standards, diminished local fabric capability and variety, especially in woven fabrics, winter outdoor jackets and denim. The retailers acknowledge the importance of importing fabrics and apparel products that cannot be competitively sourced locally. Interviews with retailers further indicate that the local supply base and local sourcing is challenged by the inconsistent flow of the production cycle caused by high summer volumes and low winter demand. This inconsistency results in insufficient capacity to generate optimal volumes in the peak summer season and carrying excess capacity in the winter period.

5.4 Supplier development and long-term partnerships

To develop quick response models that support nearshoring and reshoring, retailers have undertaken various supplier development interventions with strategic local and regional suppliers while some retailers have extensively developed in-house manufacturing capacity as discussed in Box 2. Supplier development strategies differ across retailers but are focused on building competitive and flexible supply chains using code of conduct and supplier score cards. All retailers incorporate supplier or ethical trading code of conduct or good business practice into supplier agreements. These codes commit manufacturers to comply with ethical business standards and labour legislation. Additionally, supplier scorecards are used to measure the performance of key suppliers. The scorecard guides the decisions of buying teams in their choice of supplier and order quantities. The scorecard also identifies areas for improvement in under-performing suppliers with weaknesses addressed through collaboration between retailers and the suppliers.

The Master Plan notes the importance of verticalization and ecosystem development whereby verticalized supply chains will be made up of a combination of scale manufacturers and SMMEs that deliver on transformation and competitiveness upgrading objectives**.** Retailers' supplier development interventions are also related to value chain transformation linked to Broad-Based Black Economic Empowerment and SMME participation in value chains. For instance, Mr Price provided R23.9m input loans in partnership with ABSA to qualifying suppliers and R21.3 million was invested in support of small black-owned suppliers in FY2022. WHL created 393 new jobs through the Woolworths supplier development programme. An overview of Woolworths Enterprise and Supplier Development (ESD) programme to support suppliers build capabilities and improve competitiveness is provided in Box 4 in appendix B.

Woolworths, TFG, Pepkor Holdings Limited, Mr Price Group Limited and Truworths International in their integrated 2018-2021 financial reporting have emphasized that their supplier relationships are managed beyond short-term contractual obligations and rather retailers are beginning to focus on long-term partnerships and collaboration. A comparative analysis between Woolworths, TFG's and typical retailers' sourcing and supplier relationships strategies indicates the shift in Woolworths, TFG's relationship with suppliers. Since sourcing and supplier relationship strategies are specific to retailers' strategic priorities, this comparative analysis is helpful in identifying commonalities amongst retailers and how strategies are changing. Table 7 summarises the key factors determining global and SA retailers sourcing and business models.

Table 7: Comparison of global and South Africa retailers sourcing and supplier relationship strategies

Key factors determining retailers sourcing and supplier relationship		**Typical transactional sourcing and supplier relationship (SA & global retailers)**	**Partnership sourcing and supplier relationship model with local supply base (WHL)**	**Vertically Integrated model with local supply base (TFG)**
Retailer core competencies	Outsourcing or own production house	• Ranges from intangible value-adding activities to tangible production processes. • Globally larger retailers outsource production activities to its suppliers.	• Intangible value-adding activities: R&D, design, logistics and distribution, marketing, and retailing. • Outsources its production activities to its suppliers.	• Ranges from intangible value-adding activities to in-house manufacturing • Outsources and owns production activities
Retailers' Sourcing	Core sourcing and suppliers' selection strategy drivers	• Price, • Quality, • flexibility and lead times • suppliers' ability to provide advanced full house services	• Supplier alignment with GBJ principles • Ethical sourcing • Supply chain transparency • Consolidating supply	• Flexibility and quick response, • Increased localisation • In house design and Manufacturing • Social and environmental sustainability

Key factors determining retailers sourcing and supplier relationship		Typical transactional sourcing and supplier relationship (SA & global retailers)	Partnership sourcing and supplier relationship model with local supply base (WHL)	Vertically Integrated model with local supply base (TFG)
			base • Local and Near Sourcing	• Diminishing logistics costs and lost sales.
	Sourcing practices	• Ranges from arm's length sourcing via intermediaries to direct sourcing	• Direct sourcing	• Direct souring and integrating local suppliers in vertically integrated value chain
	Retailers supply chain configuration	• Ranges from de-vertically to vertically integrated supply chain	• De-vertically integrated supply chain	• Vertically integrated supply chain
	Sourcing time horizon	• Ranges from short to long term business transactions with suppliers	• Longer term orders and business relationship	• Longer term orders and business relationship
Retailers' supply base	Supply base locations/chain	• Globally fragmented mainly in low-cost supply markets • Larger retailers seeking supply bases closer to markets and with vertically integrated supply chain	• Global fragmented but diversifying supply base and near shoring • Consolidated ecosystem of preferred and approved local and global suppliers	• Global fragmented but diversifying supply chain through near shoring and localisation • Developing a vertically integrated supply chain
Retailer – supplier relationship	Interaction with suppliers	• Little communication beyond the contractual terms • Limited strategic plans with suppliers	• Increased communication and presence at supplier factories • Joint planning and order forecasting to improve planning for suppliers	• frequent communication and presence at supplier factories • Long term joint planning and order forecasting to improve planning for suppliers
	Relationship-specific investments and upgrading	• Limited • longer-term investment commitments to supplier upgrading • If upgrade take place its focused-on product and process upgrading	• Enterprise and Supplier Development programme • imports replacement programme • Supplier-to-supplier mentorship programme • Social, product and process upgrading	• Supplier development strategy focused on building quick response and world class manufacturing capabilities • Supply chain management and quality assurance • Product and process upgrading
Retailers' governance		• Market – modular	• Captive – relational	• Captive -vertically integrated

Source: Author adaptation from Woolworths and TFG case study and Chapter 3 discussion[11]

While in recent years some SA and global retailers have shifted to partnership or vertically integrated models, there is substantial evidence[12] that global retailers have typically applied transactional sourcing and supplier relationship strategies. The selection of suppliers is based on suppliers' fast fashion capabilities, price, quality, flexibility, and lead times has been central to the transactional sourcing and supplier relationship model. This model is characterized by a hyper competitive global supply chain structure where retailers exercise dominance over suppliers by driving down prices and imposing burdensome payment schedules which has contributed to supply chain power asymmetries, lowering wages, imposing health and safety concerns, and violating rights of freedom of association (Anner, 2018; Adams et al., 2018; Just Style, 2020). Additionally, this model is characterized by retailers' demanding suppliers with advanced and full house capabilities. However, despite these demands retailers have limited longer-term investment commitments to supplier upgrading. In interviews with retailers, it's been emphasised that reshoring/local sourcing can only be achieved if retailers' build more developed strategic partnerships with suppliers.

5.5 Digitalisation, omnichannel platforms and technological innovation

[11] Full case study and Chapter 3 discussion can be found in Mkhabela's master's thesis dissertation

[12] Recent empirical studies (Anner, 2020a; Anner, 2020b; Martinez-Pardo, 2020; Berg et al. 2020 and Msingi, 2020); Sarma,2021) focusing on the impact of COVID -19 on the apparel manufacturing sector in developing countries illustrate the transactional relationship that retailers continue to have with suppliers. n made worse by the pandemic.

Reshoring by South African retailers is supported and encouraged by retailers deploying digitalisation management tools and the development if omnichannel platforms[13]. Similarly, to global retailers, SA retailers are increasingly investing in the creation of a seamless shopping experience for customers through omnichannel retailing and are increasingly operating via e-commerce and the mobile channels[14]. For instance, myTFGworld, is TFG 's online marketplace, which consolidates seventeen TFG Africa brands on one online platform (TFG, 2021). Additionally, investments into innovation and technology are taking place to forecast turnover levels, plan stock purchases and streamline the management and monitoring of suppliers. Therefore, digitalising processes provides retailers with greater oversight over production and supply chain management. For instance, Mr Price's Retail Intelligence team has implemented robotic process automation, aiding decision-making through machine learning and artificial intelligence, modernising information to shorten decision cycle times (Mr Price Group Limited, 2022). Furthermore, retailers are using digital technologies as risk management and monitoring tools focused on enhancing traceability among suppliers and across multi-tiered sourcing networks. There has been an increasing shift towards sourcing raw inputs such as cotton and viscose sustainably. However, it is still being determined if SA retailers have invested in technological innovation focused on developing and processing sustainable fibre. SA retailers' investments have indicated a growing shift in how retailers plan to have greater control over trend planning, forecasting and visibility of their supply chains and customer experience.

5.6 Sustainability, ethical sourcing, and traceability

Retailers sourcing strategies are embracing sustainability considerations as a critical factor in assessing sourcing locations due to suppliers' hidden environmental and sustainability costs in their production network**.** The current model of "fast fashion" or "just-in-time delivery" has led to industrial mass production, enabling multinational companies to produce in one country and sell in another. This allows for the production and sale of very cheap clothes that respond to quick changing trends, short life cycles and delivery times. Consequently, the sector has become one of the most polluting industries in the world, responsible for about 4%-10% of global greenhouse gas emissions each year (1.2 billion tonnes CO_2) (Jenkin & Hattingh, 2022). Internationally, an emphasis on sustainability within the clothing sector saw a shift around 2010, with the establishment of the Sustainable Apparel Coalition in 2009 and the release of the Higg Index in 2011. Additional initiatives have raised concern about the sector's impact on the environment, carbon emissions, and labour conditions. Both retailers and manufacturers are beginning to understand the social and environmental impact of their products and adopting low-carbon and sustainable practices. Major South African retailers have begun to emphasize transitioning towards sourcing sustainably from local manufacturers; switching to organic and Better Initiative Cotton (BCI); increasing recycled content; and adopting measures to reduce hazardous chemical use in textiles.

To varying degrees, SA retailers have integrated more comprehensive sustainability, ethical sourcing, and traceability in their supplier compliance and supply chain management strategies. For instance,

[13] Retailers are increasingly making use of omnichannel platforms in which retailers engage customers through multiple digital and physical touchpoints.

[14] A review of all retailer's strategies indicate that retailers will rapidly increase investments into omnichannel platforms. This strategic response has been further driven by the store trade downtime that impacted retailers due to lockdowns and trading restrictions. For instance, Mr Price has allocated 16.5% of CAPEX to technology and continued investment in IT infrastructure, supply chain & e-commerce to support growth ambitions for their 2023 FY.

Pepkor acknowledges that much more needs to be done to integrate sustainability and gain greater visibility and transparency of their supplier base and formalise the supplier review process. WSA aims to create a fully transparent, traceable, and ethical supply chain by 2025 through supplier codes of conduct and business principles that ensure suppliers share retailers ethical sourcing commitments, monitoring suppliers' performance through various social and ethical audit programmes, partnering with leading institutions to further strengthen responsible sourcing approach. WSA in 2022 scored above the overall average in the Fashion Transparency Index[15] and was also the highest-scoring South African retailer. Furthermore, in 2021 WSA became the first SA retailer to publish its supplier list for its Fashion, Beauty, and home division. Additionally, WSA FBH has implemented the green factories programme with Woolworths suppliers to support suppliers in identifying areas of opportunity for continuous improvement in green manufacturing. More broadly retailers have indicated plans to monitor, guide and instil responsible trade practices at different stages of their value chains and implement more formalized processes of evaluating suppliers based on ethical and environmentally responsible behaviour.

6. Conclusions and policy considerations

Historically the SA clothing and textiles manufacturing industry has not received significant support from SA retailers. From the 1990s to 2010, retailers typically chose to offshore production by sourcing predominantly from East Asia. Retailers sourcing decisions, complemented by the government's trade and industrial policy, contributed to an uncompetitive and inefficient domestic textile and apparel manufacturing sector. Current global trends regarding the development of supply chains, policy initiatives in South Africa and the retailers' strategic responses are transforming the configuration of SA apparel retailers supply chains.

The assessment of SA retailers' sourcing strategies, in combination with the historical development of the South African and Southern African textile and apparel sectors, indicates that SA retailers, over the past ten years, have begun to develop a new business model focused on investing in their local supply chains and increasingly focusing on reshoring (increasing sourcing from local manufacturers) and nearshoring (increasing sourcing from Southern Africa). The key factors supporting nearshoring and reshoring include consolidating the supply chain towards fewer, larger, and more capable suppliers, emerging new drivers of competitiveness, and the development of sector-specific industrial policy and regional trade policies. These factors have transformed the structure of the SA and Southern Africa textile and apparel value chains and have been accelerating because of the COVID-19 pandemic. The pandemic has resulted in SA retailers sourcing strategies emphasising developing efficient and responsive agile supply chains that will allow retailers to be responsive and flexible to market and customers' changing needs.

The shift in retailers' sourcing strategies may not completely reverse the decline of the SA clothing and textiles industry and will likely only shift some retail purchasing back onshore. Retailers' reshoring and nearshoring sourcing strategies suggest the emergence of a new business model that holds considerable potential in rebuilding at least a part of the domestic clothing and textiles value chain and the development of a more integrated regional value chain. Redesigning apparel retailers'

[15] FTI ranks 250 brands according to how much information they disclose about suppliers, supply chain policies, and practices, as well as their social and environmental impacts.

value chains from fragmented to more consolidated production networks positioned closer to retailers and end markets has benefits, such as implementing quick response models. However, retailers must weigh the impact of reshoring and nearshoring on their supply chain. This includes the need for improved communication and collaboration between suppliers. Furthermore, increased production costs are possible due to local labour and materials costs. Lastly, such sourcing strategies require the development of national industrial and trade policies and retailer supplier development programmes that address the long-standing factors contributing to globally uncompetitive textile and apparel manufacturing sectors in Southern Africa.

Increasing sourcing from local manufacturers and the Southern African region has gained prominence from a business strategy perspective however based on this research, several areas warrant further exploration. The R-CTFL Master Plan is crucial to retailers' local sourcing commitments and will impact retailers' nearshoring strategies. The plan is still in its early stages of implementation; therefore, only time will tell if it reaches its targets. Given this, it would be helpful to revisit data on trade and production in the next two years to see if nearshoring and reshoring trends show further growth. Also important is ongoing assessment of how retailers have implemented their sourcing strategies and the impact on the development of the South African and Southern African textile and apparel industries.

Policy considerations

The shift in SA retailers' sourcing has resulted in changes in supply chain configurations, with retailers building in-house manufacturing capabilities by acquiring manufacturing assets. Alternatively, they have exerted greater control over suppliers without ownership through setting standards and supplier eco-systems. Retailers' sourcing strategies require industrial policies that link tangible (e.g., infrastructure) and intangible (e.g., innovation, developing design capabilities, developing long-term supplier partnerships) aspects. Unlike previous waves of thinking about industrial policy, in the GVC framework, state policies are only one determinant of industrialisation. Nearshoring and reshoring place retailers' business and sourcing strategies as the key driver of the industrial policy measures required to localise production and increase regional sourcing.

Industrial policy in the era of retailers shifting sourcing strategies towards nearshoring and reshoring requires the following policy considerations:

- Retailers are central to the success of the R-CTFL master plan and achieving industrial policy objectives focused on localisation (in turn re-shoring) and increasing local employment. From a policy perspective, the different sourcing and business models undertaken will require policy action which incentivises investments and local sourcing through either the ownership of manufacturing assets or the development of direct relationships between suppliers and retailers. The inclusion and upscaling of small to medium size enterprises should form part of the supplier development measures and government support in this area should focus on developing sector specific incentives that reduce current constraints faced by local manufacturers.

- Reshoring has been promoted directly by the R-CTFL Master plan, a sector-specific policy encouraging retailers to increase local sourcing. This inward-focused industrial policy must be paired with domestic and regional policies that support reshoring and focus on developing competitive regional production networks to reduce efficiency losses from reshoring and using less competitive suppliers. While still providing retailers with diversification in sourcing locations, suppliers, and product variety. In this regard, areas of policy action include the development of supplier and industry development programmes that increase complementary linkages across the value chain and region. Furthermore, policies need to consider the structural aspects that make locations attractive: the business environment, regulation, logistics, labour cost and productivity, amongst others.

- SA retailers' localisation commitments, domestically and inward-focused industrial policies, and the protectionist stance of the R-CTFL Master Plan undermine the development of textile and apparel manufacturing in the region and the potential benefits from the AfCFTA; if such a policy is focused on increasing local sourcing by diverting sourcing from the region to sourcing domestically. In this regard, areas of policy action include increasing national and regional cooperation. Coordination is required amongst regional governments and industry actors to drive regional value chain development in Southern Africa. Furthermore, there is a need for coordination amongst trade, and industrial policymakers focused on identifying ways in which regional production networks can be developed and the roles clusters and industrial parks can play in developing regional sourcing. Additionally, connecting retailers and suppliers from different regions is challenging; however, mapping regional capabilities can help identify gaps/opportunities for retailer and supplier connections.

- South Africa, Mauritius and Madagascar have developed various industrial capabilities in textiles and apparel, while Lesotho and Eswatini have limited textile production capabilities and rely heavily on imported fabrics from Asian countries. The limited availability of fabrics in the region and the underdeveloped textile industry has been identified as significant constraint to the development of the sector and retailers sourcing locally and in the region. Historically, innovation in the textile sector drove industrialisation in East Asia due to fast technological changes in textile production. With the growing importance of more varied products, retailers' sales and performance will become more dependent on the speed of innovation and the development of a dynamic textile base in the region. This is not only about identifying and meeting local needs but also the ability to adapt R&D, design, etc., to fluctuating conditions. In this regard, policy action areas include supporting and encouraging investment in innovation and R&D across the segments of the value chain and more importantly in developing textile production[16].

- As drivers of retailers' competitiveness shift from low cost to a combination of cost-effectiveness, flexible production systems, fast delivery and compliance with social and environmental standards, local and regional manufacturers must leverage new technologies and develop the skills required to use them effectively. In this regard, areas of policy action include facilitating technology transfer, supporting workforce training and ensuring the domestic availability of specialized business services. Contextual enablers such as infrastructure and modern regulatory frameworks are preconditions for technology upgrading.

[16] Whitfield & Triki, (2023) find that raw material for clothing will become manufactured fibres with a high technology content that requires licensing technology and rely on advancements in chemical technologies and bio-fabrication. These technologies will have spillover effects on other manufacturing sectors, resulting in something similar to the technological advances that led to the polymer revolution (creating a world of plastics). The authors argue that African countries should not miss this next technological shift linked to alternative fibre and textile technologies.

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Appendix A: Retailers sourcing strategies and strategic priority areas

Retail group	Strategic responses in relation to trends impacting apparel sourcing & supply chain management
Pepkor Holdings Limited	**Commitment to localisation and sourcing strategies** • Signatory to the R-CTFL Master Plan to support local sourcing opportunities and R1.9bn investment in the R-CTFL Master Plan commitments. • Responsible sourcing focus and the group's supply chain enables the retailer to deliver on the group's corporate and sustainability strategies, from procurement through logistics to retailer's distribution channels and platforms. • Pepkor Sourcing Solutions has completed work on centralising more of the sourcing functions and has re-established its office in Shanghai. A small central team works closely with brands' buying and logistics teams to manage the product journey from procurement, with international buying agents and directly with suppliers, to arrival at distribution centres in South Africa.

Retail group	Strategic responses in relation to trends impacting apparel sourcing & supply chain management
	Retailer -supplier relationship and development • A central supplier portal for policy/ contract listing for the group to review and manage supplier compliance is being developed with Pepkor Product Solutions for all CFH suppliers • Most supplier development programmes in South Africa align with the B-BBEE enterprise development requirements and aim to enhance employment, manufacturing, and logistics opportunities • Group-wide supplier compliance strategy and socially responsible supply chain management is gained renewed focus to ensure suppliers contracts adhere to the group's supplier code of conduct. Comprehensive environmentally responsible aspects have recently been included in code. • Increase visibility and transparency of supplier base regarding ethical and environmentally responsible behaviour and formalise supplier review process. • Pepkor's FTSE/JSE Responsible Investment Index classification places the group in the low-exposure category for climate change. The group plans to take greater action in measuring and managing environmental impact throughout their supply chain.
The Foschini Group (TFG)	**Commitment to localisation and** • Strategically forecast turnover levels and plan stock purchases. Stock for TFG Africa is procured from local suppliers and through imports, as well as through quick response models and replenishment – this is based on actual trading patterns and sales trends. • Signatory to the R-CTFL Master Plan to support local sourcing opportunities and investing in building 10 manufacturing business units in 2022/23 aligned to the R-CTFL Master Plan commitments. • Employment opportunities within owned facilities and strategic non-owned CMTs planned to grow from 5,200 in FY22 to 11,200 by FY26 • Focused on the execution and integration of, strategic acquisitions, future-fit business models & world-class shared services **Supplier development, compliance, and development of vertical integrated value chain** • Continued expansion of quick response manufacturing and vertical integration through the acquisition of manufacturing assets • Focused on optimising supply chain capability, including suppliers, buying processes and quick response. 73% OF All TFG design and manufacturing's local production is now on quick response in 2020 • All suppliers are required to comply with UNGC as part of the on-boarding process. Code of good ethical conduct adopted • De-risking a disrupted global supply chain and re-investing in resilient manufacturing infrastructure and skills **Investment in digitalization** • Acceleration of investment in digital channels and transform into an omnichannel retailer • Development of myTFGworld, TFG 's online marketplace, which consolidates seventeen TFG Africa brands from value to upper end on one online platform. Additionally, investments into innovation and technology are taking place to forecast turnover levels, plan stock purchases, make reviewing, tracing, managing suppliers and compliance more manageable and accurate **Sustainability** • Support the United Nations Sustainable Development Goals 8 and 12 • Developing an innovative, sustainability-driven business model and build partnerships that enhance TFG's reputation
Woolworths Holdings Limited (WHL)	**Sustainability and traceability** • Bringing completely traceable and sustainable ranges by 2025. • Retailer is focused on transparency, traceability, and responsible sourcing. Focused on have a fully transparent, traceable, and ethical supply chain by 2025. In the 2022 Fashion Transparency Index (FTI), Woolworths scored above the overall average and was also the highest-scoring South African retailer. • First South African retailer to publish the list of suppliers that manufacture WSA private labels for WSA FBH division. • Sustainability interventions include Retailer work with suppliers and partners to create net positive water impact in water-stressed basins in our value chain by 2050. Additionally, retailer is focused on achieving net zero carbon Scope 1 and 2 emissions by 2040, with 50% reduction by 2030; and work with top suppliers, representing 25% of total procurement spend (in rand), to set their own reduction targets • Implementation of the green factories programme with Woolworths suppliers to support suppliers in identifying areas of opportunity for continuous improvement in relation to managing environmental and social metrics on their premise • Implementation of a detox strategy to remove harmful chemicals from clothing manufacturing **Localisation and ethical sourcing**

Retail group	Strategic responses in relation to trends impacting apparel sourcing & supply chain management
	• Signatory to the R-CTFL Master Plan to support localisation and developing an action plan for increased localisation of commercially viable production • Ethical sourcing is pursued through supplier codes of conduct and business principles which was recently updated. Codes ensure that suppliers share retailers ethical sourcing commitments, monitoring suppliers' performance through various social and ethical audit programmes, partnering with leading institutions to further strengthen responsible sourcing approach and training of staff and suppliers in areas such as human rights, ethics, and responsible commodity sourcing. • Developed a roadmap by 2022 for enabling a living wage for all workers in our supply chain. • In FY 2022 all the cotton fibre used to make Woolworths private label cotton and home ranges is 100% responsibly sourced, either from Better Cotton or certified organic cotton. Additionally, 97% of viscose sustainably sourced **Supplier development** • 393 new jobs were created through the Woolworths supplier development programme, and retailer contributed R5.9 billion in revenues of black- and black women-owned suppliers
Mr Price Group Limited	**Localisation and sourcing strategies** • Signatory to the R-CTFL Master Plan to support localisation and developing an action plan for increased localisation of commercially viable production • Trading divisions monitor and guide suppliers to align their business practices and processes to the responsible sourcing framework and implementation guide and the group's code of conduct • **Retailer-supplier relationship, compliance, and development** • Focused on maintain strong buying g power through high volumes • Strategic supplier partnerships, building feedback loops, collaboration through due diligence processes, supplier workshops and focus groups, surveys, meetings and electronic communication, performance reviews, supplier portal, factory visits, whistle-blower hotline, factory audits (quality, compliance, and capability) & industry body engagement • A strict supplier onboarding due diligence process ensures that trading relationships are only developed with suppliers who share the group's values and commitment to responsible labour practices. • Value Chain Development focused on developing a sustainable and competitive value chain by mapping first and second tier suppliers resulting factory visibility of 95%. Strategic supplier development for 27 qualifying RSA suppliers. • Provided R23.9m input loans in partnership with ABSA to qualifying suppliers and R21.3 million invested in support of small black-owned suppliers in FY2022 • To enhance value chain visibility, the supplier portal was upgraded in 2020 to map tier one and two production sites. **Investment in digitalization, innovation, and technology** • Investments into innovation and technology include Mr Price Advance - Retail Intelligence team Implementing robotic process automation, aiding decision making through machine learning & artificial intelligence, modernising information to shorten decision cycle times and investing in Omni-channels. 16.5% of CAPEX allocated to technology and continued investment in IT infrastructure, supply chain & e-commerce to support growth ambitions FOR FY 2023. • Mr Price's Retail Intelligence team has implemented robotic process automation, aiding decision-making through machine learning and artificial intelligence, modernising information to shorten decision cycle times • Divisional sourcing and merchandising teams make use supplier grading too to assess the performance of individual suppliers and the broader value chain against a variety of metrics. The tool assists teams in identifying supplier development candidates and is used to design and deliver support initiatives aligned to the group's supplier development framework. In FY2021, online communication platforms were leveraged to deliver broad-based supplier training and conduct monthly supplier performance management sessions. • **Retailer- partnerships** • Retailer is a member of the following organisations the Ethical Training Initiative (ETI), National Clothing Retail Federation (NCRF), WWF South Africa, the South Africa Cotton Cluster (SACC), the KwaZulu-Natal Clothing and Textiles Cluster (KZN CTC) and Proudly SA focused on addressing challenges and creating opportunities in the sector. **Sustainability** • The group is committed to the United Nations Global Compact (UNGC) Principles and uses the Sustainable Development Goals (SDGs), GRI, TCFD and the JSE Sustainability Disclosure Guide to inform our disclosure.

Retail group	Strategic responses in relation to trends impacting apparel sourcing & supply chain management
	• 10 sustainability indicators included as senior management KPIs for long-term incentives 2022 • Increased investment in natural capital including renewable and non-renewable energy sources, carbon footprint reduction initiatives, recycling programme, clothing bank donations and sustainable cotton initiatives • Group sustainability policies that support and enable the group's sustainability and governance activities include Code of conduct, responsible sourcing framework and implementation guide (for merchandise suppliers), board and committee mandates, promotion of gender and ethnicity diversity on the board, compliance, transfer pricing and subsidiary governance • FY 22 26.3m products manufactured using sustainable cotton
Truworths International	**Commitment to localisation and sourcing strategies** • Signatory to the R-CTFL Master Plan to support localisation and developing an action plan for increased localisation of commercially viable production • Reviewing international supplier base and identify alternative sources of supply and countries of origin where necessary. Improve knowledge of local production capacity and maximise output and minimise downtime. • Commitment to transformation of the local supply base, growing and developing established and smaller businesses that are owned by historically disadvantaged individuals. This is done through collaboration and, where appropriate, through investment in plant and machinery or various forms of financial support. • Increased focus on sourcing sustainable materials during the period organic cotton ranges were expanded and recycled polyester garments were introduced 2021 **Supplier development, compliance, and development of vertical integrated value chain** • Focused on speed to market, vertical integration & local supply chain development. In 2021 retailer Acquired local design centre Barrie Cline and Bonwit in line with the objectives of the R-CTFL Master Plan. Truworths' in-house design capability previously focused on men's and kidswear. The in-house design capability will enhance Truworths' ability to design and create unique ladieswear ranges and generate economies of scale in areas including fabric purchasing, production planning and logistics. • Developing closer working relationships with local design houses and CMT factories and provide support where possible to ensure their sustainability. • Developing more efficient supply chain through the Truworths Supplier Code of Conduct and Good Business Practice which is incorporated into all supplier agreements and commits manufacturers to comply with ethical business standards, labour legislation. Supplier scorecard measures the performance of key suppliers and retailer grows volumes with better-performing suppliers. Retailer is increasing invest in strategic fabric to improve supply reliability and quick response and ability to trade in-demand product. • In the current reporting period, the trust • In FY22 supported a key local manufacturer through a grant of R600 000 to enable supplier to purchase an electricity generator to maintain production through frequent national and local power outages in their area. • In FY23 retailer will be focusing on providing equipment for the cut-make-trim (CMT) businesses used by Barrie Cline to increase capacity to improving quick response time. • The Group established a Supplier Development Fund in 2018 with an investment of R35 million. External consultants were appointed to assist with setting up a sustainable supplier development programme to ensure maximum business benefit from the funds available. The focus of the fund is on offering assistance and loans to black-empowered businesses in the Group's supply chain. There are currently four suppliers who are benefiting from loans from the fund. The objective of the fund is to assist manufacturers to build their capacity, thereby developing the local supply base and ultimately to improve their efficiencies and profitability. • The Group has had to change its emphasis due to the impact of COVID-19 to assisting the four suppliers in staying afloat in these difficult times. **Investment in digitalization, innovation, and technology** • Enhance omni-channel capabilities and improve online platforms to support the existing business model through added functionality for a better digital experience **Sustainability** • ESG practices aligned with the United Nations' Sustainable Development Goals (SDGs), the 17 global objectives developed by the UN member states to be achieved by 2030. • Partnering with organisations that recycle or re-use damaged goods or convert fabrics into garments for resale • Suppliers and business partners are required to make a commitment to good environmental practices and to comply with all environmental laws of the countries in which they are registered or operate, and all applicable international laws. • Truworths has put in place a restricted substance list that defines the permitted levels of chemical content and chemical exposure to final products being produced.

Source: author. Compiled from retailers' websites and 2021/22annual financial reports – include ref for annual financials

Appendix B: WSA FHB enterprise development and supplier support: Davis Clothing

Box 4: Enterprise development and supplier support: Davis Clothing

Lawrence Pillay has indicated that creating inclusive supply chains to drive increased procurement from black-owned and black women-owned, small- and medium-sized enterprises remains crucial for the retailer. The retailer's enterprise development and supplier support interventions focus on developing and sustaining quality, long-term relationships with suppliers.

Davis Clothing, established in 2007, initially operated under the carport of the founder's house on the Cape Flats before moving to a unit in Ravensmead Business Park. In 2012, Myrtle Davis, the founder of Davis Clothing, was succeeded by daughter Carmy Davis, who participated in the Woolworths Enterprise and Supplier Development (ESD) programme. A key objective of the program was to assist Davis Clothing in overcoming the financial and non-financial barriers that prevented the small-sized black-owned business from becoming a Woolworths supplier. Inclusion in the ESD programme provided Davis Clothing with the following:

- Mentorship and product development via a dedicated project manager who ensures that the correct guidance is given for growth and success
- Access to business loan option with low interest
- Preferred payment terms; 7 days from the date of invoice and an advance on the first four orders
- Long-term supplier commitment from Woolworths; 3–5yr business planning and projection
- Participation in Woolworths' localisation programme, including assistance with sourcing raw material sourcing

Through the ESD programme and its network, the retailer could assist Davis Clothing in securing new premises at Suzi Products, which had once outsourced some of its work to Myrtle's Davis Clothing has also assisted Davis Clothing with the following:

· Business mentoring
· Factory space and access to all its on-site facilities, such as the canteen and lockers
· Machinery, including the metal detector essential for supplying Woolworths' babywear
· Mechanical back-up
· Patternmaking and cutting services
· Ordering of raw materials
· Administrative support
· Building a credit reference

With a small production line within Suzi Products' factory, the business manufactures a premium babywear range of 100% cotton bibs and beanies ranging from prematurely to 12 – 18. Davis Clothing baby products have been sold in Woolworth stores since November 2019. Davis Clothing is working on developing new product ranges and transitioning into its own premises in 2022.

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