

Wal-Mart's possible impact on clothing sector

The rigorous debates, arguments and public input about Wal-Mart's entry into South Africa are well documented. The ReDress Consultancy undertook a snap survey with owners of clothing companies and an industry body to find out if there were any commonalities in regard to the clothing industry's view on its entry into South Africa.

By [Renato Palmi](#) 9 Jun 2011

[Edcon stated](#) new "entrants to the market could result in lower prices and margins, or a decrease in [its] market share." The lowering of prices may be beneficial to the consumer but this decrease in retail price points could be passed onto manufacturers who are already struggling to meet buyers demand for low costs.

Some of the respondents indicated that it was time that South African retailers faced competition from the likes of Wal-Mart. "Using the most advanced systems of global outsourcing and stock management, retailers have created sensational profits from making cheaply and selling expensively." Another respondent concurred, "Our existing chain-stores are making huge profits for their investors and shareholders", subsequently, Wal-Mart, will impact on this sector of the clothing value-chain.

Use vigour to curb illegal imports

One respondent said that each retailer would have "different views on the market share implications result from the Wal-Mart entry", but reiterated what every respondent said when he succinctly articulated, "If the authorities would apply the same vigour to limiting illegal imports, as they did to investigating the Wal-Mart proposal, we might have a stronger value-chain with broad based benefits for South African workers and consumers."

Another respondent said, "Leaders [are] hiding behind WTO rules and remain paralyzed in dealing with the illegal imports." He went on to say instead of trying to "hammer it out at the Competition Board, [government should be studying ways of curtailing illegal imports."

Clothing industry impact

There was mixed responses to the impact Wal-Mart would have on the clothing sector with a few respondents having encouraging expectations, while others, said inevitably it may bring the industry, union and bargaining council closer in finding amicable solutions that would make the sector more competitive.

A respondent said, the industry is already "destroyed at price levels [so there may have little] impact on the lower end of the market", but due to South Africa's wage structures in the clothing sector and the influence the union, "bordering countries [may] benefit", as Wal-Mart exercises its slick procurement systems in Southern Africa.

One respondent optimistically said if Wal-Mart does source from local clothing manufacturers it would provide new opportunities for clothing manufacturers and hopefully entice South African retailers to source more locally. The same respondent said job growth would escalate if the industry was able to become more competitive but in order to do this both industry and the union would need to revisit wages, the non-compli:

issue and productivity.

However, one respondent cautioned being blinded by the size of orders emanating from Wal-Mart. Suppliers are "tempted by the order size, but [will] soon realize upon delivery of goods, the discrepancies [will] wipe out any anticipated profit." It is more important said the same respondent for South Africa's clothing sector to compete on design, quality and productivity.

A further respondent echoed the sentiments for South Africa's low productivity output by saying, "labour legislation [coupled] with a bureaucratic system has created a lacklustre work ethic [resulting] in a culture of low productivity [which makes South Africa less competitive] than similar emerging markets." The same respondent reiterated the view that if South Africa's clothing sector was able to rejuvenate its productivity and competitiveness, "local retailers would resort to purchasing locally and the quicker turn around and understanding of local conditions would give them an edge against the colossal giants like Wal-Mart."

However, one respondent indicated that competition between local retailers and Wal-Mart could escalate into a price war which will negatively impact on the clothing sector. "I am not sure how further down prices can go ... they [Wal-Mart] are very price sensitive and it would be an immense challenge for clothing manufacturers to meet their price-points."

Unions response

Most respondents said that the union and bargaining council would "have their hands full" dealing with Wal-Mart, while most felt that the union was focusing for too much on political issues rather than the welfare of its members and subsequently the clothing sector. "They [the union]", said one respondent should be looking for "realistic labour regulation that is user friendly, and is void of antiquated ideals, as is being played out presently in Newcastle." Another respondent stated that South Africa cannot isolate itself from the "global village", however; the current discourse in labour regulations and the actions of the Bargaining Council is not making South Africa's clothing sector a viable contributor to job creation.

Evaluating the responses, it is clear that the entry of Wal-Mart will have an operational impact on the retail sector, however, the consequences of such an impact on the clothing sector is debatable with most respondents affirming that South Africa's clothing sector has the potential to entice more local procurement if it realigns itself to global productivity and delivery standards but this can only be achieved through strengthening skills, productivity output and restructuring wages as has been promulgated by non-compliant clothing companies.

ABOUT RENATO PALMI

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