African apparel: marketing globally means acting regionally

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With less than a year to go before the World Trade Organisation's quota phase-out in 2005, how are firms in the Sub-Saharan African region preparing for change in global trade? Natalie R Weathers, assistant professor in the fashion industry management department at Philadelphia University recently completed research into the competitiveness of African apparel firms under AGOA and believes regional partnerships are the answer.

It's been four years since President Bill Clinton passed the African Growth and Opportunity Act (AGOA). Since that time, 37 African countries have met the bill's standards for participation in this "trade not aid" initiative.

What remains interesting is the way the diverse participating nations are fully taking advantage of AGOA given the fact that we are one year away from the World Trade Organisation's quota phase-out in 2005.

How will the Sub-Saharan African region, with such great potential, position itself to compete effectively in a world burgeoning with change on the global trade terrain? More specifically, how will African apparel firms survive? After all, if the prospect of quota elimination in 2005 has got manufacturers in India squirming, what must this change on the horizon make African manufacturers feel like?

The answer lies in regional partnerships between African nations.

Last May I completed research1 funded by the Lindback Foundation to develop a marketing strategy that would enhance the competitiveness of African apparel firms under AGOA.

The rationale for developing a marketing strategy was that if African apparel firms do not understand the American retailers' expectations, then the AGOA bill could end up giving those firms enough rope to either fly - or hang themselves. I visited factories and mills in South Africa and Malawi and interviewed management about the ways they were working through AGOA to market themselves to US retailers.

South Africa and Malawi were the focus of the research because they are at such different stages of development in their apparel and textile industries. While South Africa (as well as Mauritius) tends to be the "golden child" of Africa, Malawi comes in struggling much further behind. In fact, the first week I was in Malawi, the one and only textile mill in the country declared bankruptcy.

In South Africa there is a significant textile base, one which the rest of the sub-Saharan region has become increasingly dependent on (to the chagrin of South African apparel manufacturers); and South African apparel firms have been doing business with European retailers for over 30 years. South Africa also has a well-established domestic market. Thus, there has been less of a learning curve when it comes to meeting the expectations of American retailers.

Malawi, on the other hand, is a landlocked country with a per capita GDP of $654.00 USD.2 There are seven major apparel firms. There are serious logistical and infrastructure issues that Malawi apparel firms have to work through in order to complete an order from pre-production phases to final shipping of product. There was one major server in the country and only dial-up connection was available.

The goal in this research was to understand the firms' current marketing efforts, map out their US customers' expectations and then suggest methods of entry into the US market.

The Lions, the Tigers and the Lambs

The types of apparel firms I encountered were divided into 3 basic categories: the Lions, the Tigers and the Lamb firms. The companies in each of these categories can lend different competitive advantages to the other and ultimately deliver a top quality product. But the cross-fertilisation requires regional development, so that firms can partner across national boundaries.

The Lions

The Lion firms were located primarily in South Africa, owned by South Africans, and were accustomed

to the demands of the US customer either because of business in Europe or because of ownership by Asian manufacturers who have some history with the US.

They already have a lion's share of their domestic market, were serious about social compliance and had invested in technology that would make sample development and quick turn around times possible. In general, 20-50 per cent of their turnover is for export. Of that exported product, more than 50 per cent was USA-bound.

Their customers are the specialty chain stores (Limited, Gap, Old Navy), some department stores (Nordstrom's), discount retailers (Target and Wal-Mart), off-price retailers (Eddie Bauer Outlet stores), and some catalogue businesses (J Crew). Their customers also include branded merchants such as Russell Athletics.

In general they experienced a three to five year learning curve to fully understand US customer expectations and become responsive and proactive - instead of reactive. For example, one firm in Durban described getting a first order request for 20,000 dozen units - and thought it was hearing incorrectly - that the customer meant 20,000 units, not 20,000 dozen units!

The Lion firms' approach to marketing is an aggressive and proactive one. The majority of them travels to a US customer and ultimately get the customer to visit Africa. All of the Lions understood that the AGOA legislation was one of their most effective marketing tools and that US customers were drawn to the African region because of zero duties and zero quotas on the qualifying products. They also discovered that they were not only marketing their product, but Africa itself.

Thus, educating the US customer about Africa is essential. So many South African managers described the surprise and shock some US business associates expressed to discover that they did not land in a jungle in Capetown - or that Durban and Johannesburg were full of six lane highways.

Lion firms have a pretty accurate assessment of US firms' expectations. The challenge is acquiring the financial resources, technical skill and flexible supply chain to deliver to those expectations.

The Tigers

The Tiger firms were Asian-owned with operations in Africa. They benefited from an already established relationship with US customers. Thus, they tended to have a clear understanding of the US market and the US customer's expectations. Their biggest struggle was operating within countries which often have challenging infrastructures (such as Malawi), and whose workers do not operate with the same levels of productivity3 as they'd become accustomed to in Taiwan or China.

The Tiger firms I focused on were the two Taiwanese owned firms in Malawi. Their customers included JC Penney, Wal-Mart and K-Mart. They took advantage of being located in an LDC4 where they could import third country fabric, usually from mills with which their parent company had a long-term business relationship.

Two major causes of frustration for the Tiger firms in Malawi were 1: the uncertainty around whether or not third country fabric benefits would be extended beyond 2004 and 2: logistical challenges around being located in a landlocked country.

End of line inspection in SA factory

The second cause of frustration for the Tiger firms - being situated in a landlocked country - gives even more credence to the importance of regional integration. Logistically, ensuring that product gets from the Durban, South Africa port, and trucked through Zimbabwe had proven to be difficult. Management shared all sorts of horror stories that had an interesting and significant cultural message about doing business internationally.

For example, one manager recounted a one-week delay to deliver product from Durban, South Africa to Lilongwe, Malawi because the Zimbabwean truck driver decided to make a quick stop at home. Upon arrival the truck driver discovered that a family member had died, and rather than be rude and continue on with the delivery of his truck's freight, he stayed the additional three days for the family funeral.

While this type of decision-making process may seem inconceivable to an American, it clearly exemplifies differences in cultural values, and illuminates the subtle ways in which one must adapt to a new cultural environment when doing business. Unfortunately, such delays can be murderous in the fast paced and ever changing apparel product development cycle.

The Tiger firms are marketing themselves in 3 basic ways. The primary way is via their Asian parent firm, which tends to initiate and maintain the relationship-building with US customers. As was stated earlier, often US businesses factor Africa in to their sourcing strategy because of referrals from their Asian suppliers who have opened operations in Africa. Their second means of marketing has been through working with trade associations and trade shows in the United States. The third way is via an agent representing them in the United States. These latter methods require a significant amount of cash reserve and headcount to invest in such efforts.

The Lambs

The Lamb firms are those firms in LDC's such as Malawi, which are owned by indigenous business people from the country (as opposed to ownership by foreigners from Asia). Typically, the majority of their product has been sold to the domestic market, with a smaller portion designated for export to the European market. Thus, they are relatively inexperienced with the US retailers' expectations for quality control levels, pricing, product development turnaround times and order sizes.

Production in SA - with a rail system to eliminate/reduce bundling and handling.

The Lamb firms had the greatest challenge in fully taking advantage of AGOA because of the relatively short amount of time that they have had to complete the learning curve to become proactive and responsive to the US customer.

Malawi was delayed (by two years) in becoming AGOA compliant because it did not initially meet the visa requirements and the QC requirements of potential customers. Lots of paperwork is involved in this approval process. In addition it needed to prove how it would control trans-shipments and the Malawian government needed to demonstrate it had policies in place to reduce crime levels.

This process required an administrative capacity with which the government and some firms were unable to comply. Thus, in Malawi administrative capacity is limited and factories' capacities to handle large order sizes are also limited.

Lamb firms expressed feelings of frustration on several fronts. First, there was the need to "get the order." Even when some of these factories went to the United States on visits sponsored by organisations such as the Corporate Council of Africa, they did not come away with orders in hand.

In part, they did not understand the vastness of the US apparel market's size and the complexity of its segmentation. They had limited contacts and no idea of where to begin. Secondly, they did not expect US retailers to be what they perceived as "standoffish." This second factor speaks to a lack of understanding about US retailers' perspective. The US retailers are in a coveted position of having insider access to one of the most desired markets in the world - so they have become accustomed to suppliers beating down their doors to come to them.

Thus, the Lamb firms often were overwhelmed by the amount of aggressive networking they need to do to "get the order." It is with some bitterness that they realise that Americans underscore the word opportunity in AGOA, and expect the African suppliers (versus the US retailers) to be about the business of growing the playing field.

The importance of regional integration

Regional integration is important for African apparel firms' marketing efforts for four basic reasons. First, the Lamb firms can benefit from the Lion and Tiger firms' experience and access to export markets. Second, Lion and Tiger firms can build economies of scale and capacities by partnering with Lamb firms.

Third, vertically integrated firms across national boundaries will ensure that there is efficient supply from raw fibre, to yarn, to finished garment. In Africa's textile and apparel base it is rare that within one country with a significant supply of cotton fibre there is also (for example) a textile base (capital intensive!) to spin that cotton into yarn. Malawi is a good example of this. Thus, the raw fibre, textile

bases and apparel bases are rarely concentrated in one country.

And fourth, regional integration spurred by responsible business interest can contribute to partnerships between governments working through conflict.

One theoretical approach to understanding regional integration upholds that the key to regional integration is the existence of a "super power." One might look to the United States where NAFTA is concerned, and could project that South Africa would take on this role as the "super power" where Sub-Sahara Africa is concerned. The danger of this theory is that imbalances between nations are increased with the implication of such a hierarchy.

A competitive AGOA region in the long term will go beyond the duty free and quota free benefits that AGOA offers, and also offer high productivity, quick response management styles and sharp pricing. A competitive AGOA region will also be dependent on a tax structure that promotes development; governments have an important role in moving towards this. For example, 60 per cent of Malawi revenues come from tariffs. Certain goods are taxed up to 100 per cent or higher - this type of tax structure limits fluidity in regional integration.5

Assembly in Malawi factory

There are ways that African apparel firms can build competencies by reaching across national boundaries and building regionalism into their marketing strategy. Partnering means firms must be in a position to be flexible and responsive to each other. This requires open communication facilitated by investments in technology. Governments and private sector have to work together to achieve this.

Cross marketing with other branded southern African companies that have brand recognition in the world market is helpful to achieve economies of scale. Private sector must also work with government to build investment plans that will attract long-term foreign direct investment to build textile mills throughout the southern African region.

African apparel firms cannot be successful only on their own because of capacity constraints or limited access to raw materials. In order for African apparel firms to create a permanent presence in the USA market, a shift in mindset is required to think in terms of "What is good for the Africa region?" versus, "What is good for my company only?"

What to avoid in regional integration
The example of Malawi and South Africa's trading history illustrates what to avoid in regional integration. From the 1960s to the 1970s Malawi was more or less a market-oriented economy, and its private sector was a major player. The 1980s saw civil wars in the neighbouring countries of Mozambique and Zimbabwe and Malawi got caught in the middle. Those countries' conflicts affected Malawi's economic performance.

By the 1990s, those surrounding countries stabilised and Malawi's private sector became more active. Within a week of apartheid ending in South Africa in 1994, Malawi switched to a multi-party system. In 1991 there was a bilateral trade agreement between South Africa and Malawi. Approximately US$1.1 million worth of apparel was exported to South Africa from Malawi in 1991; that increased to about $84 million US by 1999.

Pre-production lab testing in SA factory

Rather than continued trade between the two countries, conflict between the two governments ensued around South Africa's charges of trans-shipment in Malawian apparel firms. The rules of origin conflict resulted in heavy fines imposed on Malawian firms by South Africa and between January and May of 2000, 4 major companies in Malawi shut down, resulting in 4000 people being unemployed.

The impact of unemployment in a country like Malawi is severe as "one person looks after 10 people so that the loss of 4000 jobs ends up affecting 40,000 people in effect."6

The moral of this story of trading strife between South Africa and Malawi is to demonstrate that a: Malawi came away as looking to be not investor friendly and b: any move towards regional integration was delayed and stagnated.

Thus, there are political realities that have to be dealt with. Developing regional growth in order to market apparel firms is a pungent reminder that politics and business work hand in hand. Regional development must be incorporated into a marketing strategy for African apparel firms. And when it happens, it may be the first time we see lions, tigers and lambs getting along.

By Natalie R Weathers.

Notes:
1 http://faculty.philau.edu/weathersn/
2 http://www.nationmaster.com/graph-T/eco_gdp_cap/AFR
3 Productivity can be measured by several variables: production efficiencies, output, consistently high levels of quality control and on time deliveries. The inputs that can improve productivity include operator training, quality of machinery used, technology applied to logistical management and work environment.
4 LDC: Lesser Developed Country; terminology used in the AGOA bill.
5 US Embassy in Malawi
6 John McGrath Interview. Malawi August 22, 2003

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Natalie R Weathers is a professor in the Fashion Industry Management Department at Philadelphia University in the USA. Her research interests have included the AGOA bill, developing marketing strategies for companies entering the US market and retailers' vendor development programs. Prior to teaching, she worked for the sourcing group Mast Industries/The Limited Inc in the USA, Sri Lanka and Portugal.