

CCTC Newsletter: November 2016

Welcome to the CCTC November bulletin edition. Scan the list of contents below for news items of interest and click on the link to be taken to the relevant section.

The highlight event in this last quarter was the KZN Best Practice Study Tour. Seventeen participants from a range of CCTC firms visited two clothing manufacturers and one dyeing and finishing plant over a two-day period. The feature article in this bulletin, “Three Rules of Making a Company Truly Great”, which originally appeared in the Harvard Business Review, outlines the business principles adopted by one of the firms visited, Celrose Clothing in Tongaat.

Please forward this bulletin on to colleagues who you think would benefit, or subscribe to receive the bulletin on a quarterly basis by emailing cctc@bmanalysts.com with your details.

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KZN Best Practice Study Tour 2016

The CCTC hosted the popular KZN Best Practice Study Tour on the 12th and 13th October 2016. Delegates visited leading manufacturers belonging to our sister cluster, the KZN Clothing and Textile Cluster (KZNCTC). These firms included Celrose Clothing, Dyefin Textiles and Market Demand. The tour was extremely informative to all in attendance and provided practical learning experiences that may be applied within their own working environment.

The itinerary of the two day tour entailed the following firm visits:

Day 1 (morning) – Celrose Clothing

Pat Grimbeek (Special Projects) provided an excellent introduction and background to Celrose Clothing (hereafter Celrose). The key take-out from the presentation was their guiding business principles that inform their strategy and have contributed to Celrose being a highly successful business. In a nutshell, much of their decision-making revolves around the following principles:

- 1. Better before cheaper**—in other words, compete on differentiators other than price.
- 2. Revenue before cost**—that is, prioritize increasing revenue over reducing costs.
- 3. There are no other rules**—so change anything you must to follow Rules 1 and 2.



Pat Grimbeek explains how Celrose Clothing has adapted to remain a competitive and successful firm



Delegates spend valuable time on the floor, absorbing input from the line managers present

Operationally, Celrose continues to invest in both machinery and people. A strong culture of teamwork and continuous improvement was evident on the floor, driven by a pro-active management team. IT systems were highlighted as a strength of the business, allowing the firm to maintain tight control and excellent visibility from planning through to delivery.

Day 1 (afternoon) – Dyefin Textiles

The second firm visit was at Dyefin Textiles (hereafter Dyefin) in Umbogintwini, south of Durban. Dyefin improved both capacity and capability by re-investing heavily in equipment in recent times. This investment has been justified with strong sales growth in the last few years. Investment in people is also clearly visible, with a high level of ownership and responsibility given to the floor. The upfront discussion focused on the rollout of a recently introduced Management Control System (MCS) used to accurately monitor variance from expected performance in various departments. The system has been highly successful and has subsequently been fully documented into a case study by the KZNCTC. The case study is available upon request, so please do contact us by emailing cctc@bmanalysts.com



Brenton Pooley (MD) explains their recently introduced Management Control System (MCS) and subsequent operational improvements.



Delegates walk through the dyeing, finishing & printing processes at Dyefin, which offered critical insights into the broader value chain.

Day 2 (morning) – Market Demand

Market Demand is a CMT manufacturing predominately ladies fashion and is based in Durban. Charmaine Pillay (MD) commenced the programme by introducing her management team and providing an overview of the business background and strategy. The common thread in the presentation was the firm’s commitment to people. Training, career development, staff well-being and teamwork came through very strongly. The factory walk-through confirmed that the firm “walks the talk”. Operationally, the firm is very strong with impressive visual management, low WIP and a well organised factory including excellent 5S (housekeeping). As per the other firm visits, Market Demand provided an excellent learning experience with the study tour receiving favourable feedback from delegates.



Market Demand providing an informative overview of the business prior to the factory walk-through.

Feature Article 1: Three Rules of Making a Company Truly Great

As mentioned, a key message emanating from the Celrose presentation was linked to their strategy and the way in which they position their offering in a highly competitive market. The business principles followed by Celrose are clearly outlined in an article sourced from the Harvard Business Review. Exerts from this article are included below followed by a brief outline of the approach adopted by Celrose in applying these rules.

“Much of the strategy and management advice that business leaders turn to is unreliable or impractical. That’s because those who would guide us underestimate the power of chance. Gurus draw pointed lessons from companies whose outstanding results may be nothing more than random fluctuations. Executives speak proudly of corporate achievements that may be only lucky coincidences. Unfortunately, almost no one provides scientifically credible answers to every business leader’s basic questions about superior performance: Which companies are worth studying? What sets them apart? How can we follow their examples? Frustrated by the lack of rigorous research, we undertook a statistical study of thousands of companies, and eventually identified several hundred among them that have done well enough for a long enough period of time to qualify as truly exceptional. Then we discovered something startling: The many and diverse choices that made certain companies great were consistent with just three seemingly elementary rules:

- 1. Better before cheaper**—in other words, compete on differentiators other than price.
- 2. Revenue before cost**—that is, prioritize increasing revenue over reducing costs.
- 3. There are no other rules**—so change anything you must to follow Rules 1 and 2.

The rules don’t dictate specific behaviours; nor are they even general strategies. They’re foundational concepts on which companies have built greatness over many years. How did these organizations’ leaders come to adopt them? We have no idea—nor do we know whether the executives even followed them consciously. Nevertheless, the rules can be used to help today’s and tomorrow’s leaders increase the chances that their companies, too, will deliver decades of exceptional performance.”

1. Better Before Cheaper

Celrose recognised early on that it cannot compete solely on price. The type of product chosen for manufacture was therefore focused on higher complexity and smaller volumes than those we typically associate with the East. The value-add of increased flexibility, reduced lead times and strong communication gives Celrose a strong footing against local and international competitors.

2. Revenue Before Cost

“Companies must not only create value but also capture it in the form of profits. By an overwhelming margin, exceptional companies garner superior profits by achieving higher revenue than their rivals, through either higher prices or greater volume. Very rarely is cost leadership a driver of superior profitability.”

A common strategy followed by many firms to remain competitive is to a) downscale the firm size and b) strip out professional employees such as engineers and managers, in order to reduce overheads and better compete on price. Unfortunately, although this may bring about some temporary relief, long term survival requires firms to grow in order to be competitive. In order for growth to happen sustainably, professional overheads and skills need to be retained wherever possible. Celrose have retained and grown a strong management and support team that includes a wealth of experience within the various departments.

“Many Paths to Improvement -

Don’t be misled by the simplicity of the rules. Long-term success in any industry is a rare and difficult achievement, and finding a workable strategy that stays within the rules requires enormous creativity and flexibility.”

Celrose have thrived in understanding customer challenges and finding manufacturing solutions to meet their demands. As the article alludes to, this is by no means an easy process. Celrose invest heavily in building customer relationships, understanding their customer better than anyone and then doing their own homework to provide a compelling product to match customer demand.

3. There Are No Other Rules

“This rule underscores the uncomfortable (or liberating) truth that in the pursuit of exceptional profitability, everything but the first two rules should be on the table. When considering all the other determinants of company performance—operational excellence, talent development, leadership style, corporate culture, reward systems, you name it—we saw wide variation among companies of all performance types. There’s no doubt that these and other factors matter to corporate performance—how could they not?—but we couldn’t find consistent patterns of *how* they mattered.

More telling still, we found individual companies that had remained exceptional despite changing their approaches to a number of critical determinants of performance. The reason? The changes they made kept them aligned with the first two rules. In other words, top-performing companies are doggedly persistent in seeking a position unrelated to low prices and adopting a revenue-driven profitability formula, while everything else is up for grabs.

The absence of other rules doesn’t give you permission to shut down your thinking. You are still responsible for searching actively—and flexibly—for ways to follow the rules in the face of what may be wrenching competitive change. It takes enormous creativity to remain true to the first two rules.”

Here’s how to put the rules into operation: “The next time you find yourself having to allocate scarce resources among competing priorities, think about which initiatives will contribute most to enhancing the nonprice elements of your position and which will allow you to charge higher prices or to sell in greater volume. Then give those the nod.

If your operational-effectiveness program is mostly about cutting costs, whereas your innovation efforts are mostly about separating you from the pack, go with innovation. But if pushing the envelope on operations is about delivering levels of customer service way above your competition's, whereas innovation seems geared to doing the same for less, then your operations folks deserve the additional care and feeding.

Are executives in your company justifying an acquisition in terms of economies of scale? Or are they talking about an opportunity to expand and thereby realize the growth potential of a nonprice position that your company has already earned in the markets it currently serves? If the former, the acquisition may well be a good idea—perhaps even essential to keeping the company in the game—but you're not likely to see exceptional performance unless the latter applies as well."

A version of this article appeared in the [April 2013](#) issue of *Harvard Business Review* by *Michael E. Raynor and Mumtaz Ahmed* and can be found at <https://hbr.org/2013/04/three-rules-for-making-a-company-truly-great>

Competitiveness Improvement Programme (CIP) Application - Update

The CCTC recently received excellent news with the Industrial Development Corporation (IDC) approving the CCTC CIP Phase 2 Application, scheduled to commence in early 2017. Phase 1 (2011-2015) was aimed at enhancing operational competitiveness of 11 CCTC member firms through the introduction to World Class Manufacturing principles and provision of expert consulting support to entrench these principles within their people and processes. As a result, these member firms experienced productivity improvements with regard to cost, quality, flexibility and reliability, which helped them buck the trend of declining sales and employment that had dominated for more than a decade previously.

Based on the above successes, the Phase 2 programme occurs at a critical point in time for the South African Clothing, Textiles, Footwear and Leather (CTFL) manufacturing industry. With South African CTFL retailers showing an intent to shift away from imports towards local manufacturing, this presents an opportunity for local manufacturing to move beyond stabilisation to expansion and significant employment growth.

Phase 2 is designed to assist Western Cape manufacturers in responding to this opportunity. It has been scoped to support 11 participating CTFL manufacturers over a period of 3 years from January 2017 to December 2019, and comprises three areas of activity, namely core firm level support, specialised firm level support, and joint activities. Next steps are for the final legal agreements to be signed and outstanding firm-related mandatory documentation to be submitted to the IDC.

Events to date, 2016

| Date | Event | Venue |
|---------------------|---|--|
| January | CCTC EXCO and Strategy Session | The Riverclub |
| February | WCM Introductory Workshop for Supervisors | K-Way |
| February | QR Expert Workshop – Arzu Ensari (Turkey) | Prestige Clothing |
| March | 4-day Patternmaking and Raw Materials preparation Workshop | CPUT |
| March | WCM Introductory Workshop for Executives and Management | Freudenberg |
| April | 2-day Quick Response Training for Manufacturers | PepClo |
| April - May | 4-day Understanding Fabrics Workshop by Dave Mason | CPUT |
| May | CCTC EXCO, AGM & Annual Report | Cape Town Club |
| May | CTFL National IMBIZO – 26 th and 27 th May | Devonvale Golf & Wine Estate |
| February - November | <i>Benchmarks:</i> Bri-Clo, Beaches, Peter Blonde, Freudenberg, K-Way, Genuine Connection, Radeen, Prestige Clothing, Keedo, Waltex, Linen Drawer, Jacques Hau, Farbe, Eltex, Sheraton, Rotex, PepClo, Cotton Traders, Quiver, Falke, B2B and TCI | At firm |
| June - July | WCM Workshop Series | 1. KWay Manufacturers 2. Prestige Clothing 3. International Trimmings and Labels |
| June | Imbizo Briefing Note Distribution | |
| July | QR best practice research (Turkey) and findings | |
| August | CCTC EXCO Meeting | CPUT |
| October | KZN Best Practice Study Tour | KZN |
| November | Best Practice Tour to K-Way | K-Way |
| November | CCTC EXCO Meeting | PepClo |

Your Ideas

If you have any ideas for improvement or would like to get in touch, please contact us at:

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