



Strategic Review of the Fashion Cluster

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Cluster Report

Part I: Text Document



MONITOR GROUP

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Executive Summary

Downtown Johannesburg is being turned around. The previous trends of migration from the city to the suburbs, inner city neglect and general disillusionment and apathy is being overshadowed by creative productivity and re-investment into downtown Johannesburg. This aim of this report is to contribute to this general upswing of the inner city.

The focus of this report is the fashion district, its main economic constituencies and their general cluster conditions. Under the supervision of Monitor, extensive quantitative and qualitative research has been conducted in the period of February through April 2004. In order to conduct this research about 70 students (from CIDA City Campus) were employed to conduct interviews and observe general market conditions. Furthermore, this process was accompanied by solicited advice from a variety of stakeholders in the fashion district for both the design of the survey, as well as the interpretation of results.

Our observations suggest that it is useful to categorize the economic actors of the fashion district into two types: (i) Businesses having a strong component of **Design and Production** which is **Mixed** with their retail activities (DPMs) and (ii) businesses that have no relevant design or production component, i.e. **Sales Only Businesses** (SOBs). These DPMs and the SOBs have very distinct business models and their supply chains do not overlap. However, to a large extent, they serve the same customer base. While DPMs appear to be in an introductory or early growth phase of industry development, the SOBs display many symptoms of extreme maturity or even decline.

In order to foster growth, we suggest intervening with two distinct programs. The SOBs require encouragement to develop into more specialized retail outlets which cater for a more sophisticated shopping experience, while the DPMs require encouragement to aggregate their individual efforts into larger economic communities, allowing scale effects.

The strategy regarding the SOBs may be achieved by inserting and funding a marketing function that gives priority to those businesses which specialize more than others. In its most tangible form, this marketing function should develop and publish, with a high frequency, a map of specialized SOBs and market them in the appropriate domains. With regards to the strategy concerning the DPMs, this may be achieved by funding and providing a “DPM House”: offering space to, the operations and retail activities of, maybe 100 entrepreneurs or staff. By providing superior working conditions and appropriate marketing, the House will be able to attract more sophisticated consumers, create operational synergies and possibly result in cost reduction through joint purchasing programs.

As a result of this two-pronged strategy, the fashion district – we believe – has a chance to rapidly develop into a unique space, combining retail, design and production of fashion items, attracting consumers from many different backgrounds.



Introduction

This report represents a summary of the core findings and related discussions of our investigation into the economics of the fashion district. It is not exhaustive with respect to all potentially available data nor does it treat all arguments with equal amounts of consideration. Rather we present the point of view that emerged as consensus-rich among the various stakeholders. It must be noted that we share this view and, ultimately, carry the intellectual responsibility for the opinions expressed.

In writing this report we seek to strike a balance between presenting data points, discussing insights and suggesting action. Thus, this report is not a mere presentation of issues observed, but rather an emphatic argument supporting particular action. In some sense, therefore, we have gone beyond our mandate. As a result, we run the risk of frustrating some readers by making suggestions without discussing them in depth. If the report stimulates further discussion and serves as a solid reference point for city development – we suggest – it will have done its job. For exactly this reason, the last chapter included lists additional analyses and research projects the JDA may wish to consider embarking on. For those who immediately turn to that section, it is important to keep in mind the very first chapter of this report on methodology. This chapter not only illustrates what kind of research we have done, but also evaluates the data available on a high-level.

The bulk of the report is structured into three parts, whose ultimate aim is to provide an argument for a particular course of action.

- Firstly, we start with a list of basic observations on the fashion district and develop the hypothesis that there are in fact two distinct types of businesses within the fashion district. In addition to the in text commentary, this data is set out in a number of charts attached in a separate document (Part II of this report). Where applicable, the relevant chart will be referenced.
- Secondly, we subject our two-types of business hypothesis to rigorous testing. In doing so, we describe the DPMs and the SOBs across various dimensions and discuss their commonalities and differences. At some junctures readers may find it much easier to refer to the relevant charts alone; at other points the text provides a much clearer view on the issues addressed.
- Thirdly, we draw conclusions and make some suggestions on actions to be considered for when developing the fashion district going forward.

Particular emphasis in this study and report has been given to those businesses whose orientation lies more on the design and production side. This was an explicit choice during the process and is reflected by the depth with which we discuss either type of business.



Methodological Overview

The major effort of this study has focused on quantitative data gathering and analysis of the economic activities within the Fashion District. For quality control and contextual purposes, qualitative research has been conducted.

Concerning the quantitative part of this research, approximately 70 CIDA City students were engaged on a voluntary, part-time and paid basis.

Qualitative Research

Beyond the review of existing documentation and relevant materials, the qualitative research mainly consists of individual interviews and conversations conducted directly by the project team. Individuals who were interviewed include:

- Business professionals in the Fashion District,
- Consultants engaged in developing businesses in the Fashion District,

And,

- Business professionals in higher-end retail outlets (e.g., Rosebank).

In addition to these interviews, we asked the CIDA City students, employed for the quantitative research, to provide us with written comments on their observations. In particular, we asked these students to focus on the problems that the fashion businesses face in the Fashion District as well as detail any perceived opportunities for the improvement of these businesses.

Quantitative Research

Approximately 70 CIDA City students were deployed for two rounds of research. For both rounds of research, the Fashion District was sub-divided into 27 blocks of buildings. The area geographically close to the Fashion district was divided into eight Extensions. In both rounds of research the students were divided into groups of not less than two and allocated either one block or one extension. In addition to these areas, a group of students was allocated to the Fordsburg area and the Oriental Plaza in particular.

Below, we describe the two rounds of research, each of which lasted for about four days and included weekend days.¹

The first round of research was designed to establish an overview on the type and number of economic entities present in the Fashion District and its immediate surroundings. The focus of this round of research was, in particular, to gain a better understanding of the fashion businesses in this geographic area over and above other industries in the same area. For this purpose, the students deployed in the fashion district were asked to gather information per street, of their allocated block, and detail economic activities visibly from

¹ Please find the respective interview and data gathering forms attached in Part III of this report.



outside (i.e., activities on street-front of buildings), as well as economic activities inside the buildings. Thus, for an average block, which is surrounded by four streets, a total of eight surveys were completed. The data was then aggregated in order to provide information for each block. In this exercise, the students were asked to detail the number of fashion businesses (clothing) encountered, and classify them by three dimensions: Number one, focus on gender (male, female, children); two, focus on activity (retail, design, production); and three, focus on occasion (casual, work or school, traditional or special). In addition, the number of other fashion related businesses and their type was recorded. Non-fashion related businesses were recorded according to their predominant type – for example, vegetable and sweet sellers, cell phone shops and so on. Some information on the state of the block (available public parking, utilization, etc.) was also gathered. The students deployed outside the Fashion District were given the very same form to fill in as those inside the Fashion District, yet with a less detailed task to count businesses by street. Rather, these students were asked to estimate the economic activities for their particular extension. Using this first round of research as preparation for the actual interviews, the students were asked to identify suitable interview partners in their respective area and obtain their names, phone numbers and business type. Where possible, we asked students to capture the dominant location of supply and demand for each potential interviewee.

The second round of research consisted of conducting individual interviews with fashion businesses. These interviews were designed to last about 40 minutes and capture core aspects of the business economics as well as relations to supply and demand and other general factor conditions.

Evaluation of Research

The timing and scope of the project did not allow for more detailed focus groups with businesses in the Fashion District, either before or after the quantitative work. The relevant scoping information was thus gathered through secondary sources. It is advisable and recommended to convene further focus groups going forward and test the relevant data. In addition there is a need to explore more complex issues and test for causal relationships between them in such sessions.

Despite the incentive structures in place, less than a third of the students supplied us with written comments. The comments received are generally of low quality and only a few students offered surprising insights or suggestions. However, viewed collectively, the submissions offer a largely consistent picture, which can, therefore, be used as a fair representation of issues facing the district. Going forward, we suggest selecting authors of some of the better submissions for focus groups and in-depth discussions.

After consideration of the results, the first round of quantitative research – namely, mapping the number and types of economic activities in the Fashion District – appeared to have a bias in favor of retail activities and against design and production activities. This is not surprising as typically retail activities, being located at street-front, are easier to identify. As a result, we deployed additional resources to trace all production related activities. To do so, we asked two separate teams of students to identify all “centers of production”, i.e. buildings which have any above average concentration of production activities. As a starting point, the students were equipped with a list of the well known



“production houses”, e.g. Cambridge House and London House. This exercise resulted in the identification of a significant amount of small businesses who are involved in design and production, both within the Fashion District as well as within its extensions. While we have little way of knowing whether there are additional production facilities “behind closed doors”, i.e. located in private living quarters, the publicly known and accessible ones have been accounted for in this study.



Basic Observations

In the first round of our quantitative research (designed to identify the types and extent of economic activities) we observed about 800 businesses excluding approximately 300 street vendors. In general, the district appears to have only few non-business residents (13% of building space observed) and about one fifth of buildings appear to be non-occupied. Parking appears to be largely available.

➤➤ CHART 6

While we believe that we can rely on our estimation of the number of businesses, we remain uncertain about the data on occupancy of buildings, and the assessment on availability of parking. This is largely due to our research method which concentrated on identifying and describing economic rather than non-economic activities.

Of the 800 businesses, more than two thirds focus on clothing, while another 14% deal with fashion items other than clothing. In total 83% of the businesses observed are somehow associated with fashion. By far, the single most common service provided by street vendors are food items, followed by the provision of phone services. It must be noted, that in interpreting and using this data, that these percentages are constructed in reference to the *number of businesses*, not in reference to the number of people employed or the amount of turnover associated.

➤➤ CHART 8

Within the 17% of non-fashion activity we observe a dominance of photo and electronics, furniture and household ware as well as supermarkets and food oriented businesses.

➤➤ CHART 9

Within the 14% of non-clothing, yet fashion oriented businesses, we see a preponderance of bedding and bags. Other dominant products include shoes, hats, fabrics, curtains and general accessories.

➤➤ CHART 10

Considering only the fashion oriented businesses (clothing as well as non-clothing), we can characterize the focus of the economic activities according to three further dimensions:

1. **Type.** More than 80% of all fashion oriented businesses are involved in clothing. Of these there is about a third which focuses predominantly on male or female clothing respectively. Another third cannot be classified either way. A very small percentage (3%) has developed a focus on children's wear.
2. **Activity.** More than two-thirds (71%) of all fashion oriented businesses, focus on retail and have no, or only negligible, design or production components. A very small percentage (3%) is involved predominantly in design of fashion items; 15% focus on production and 11% display components of all value steps. This implies that about 29% of all businesses have some production related component.



3. Occasion. About one third focuses on casual fashion and about one quarter on special items (e.g., wedding). 10% have a focus on work clothing. The remainder (30%) has to be viewed as “mixed”.

➤➤ **CHART 11**

Nearly 80% of all fashion related businesses within the Fashion District is concentrated in the Western half of the district. Within this area, the highest concentration of fashion related economic activities can be located in the Southern quarter.

➤➤ **CHART 12**



Two Distinct Businesses

DPMs and SOBs

In order to describe and understand the economic activities in the fashion district, we need to differentiate between retail oriented businesses and those which have some relevant production component. With regards to the latter, a business is said to have relevant production component if the business is involved in the design and/ or manufacturing of the product that it sells. Alternatively, a retail oriented business is defined by the fact that it does not perform any relevant design and/ or manufacturing process. Considering the 69% clothing oriented businesses, we observed that about one third exhibited a defining component within production. Of the 14% non-clothing related fashion businesses, however, only a very small component appears to be active in either the design or manufacturing process. Thus, in total, we estimate that about 25% of all businesses, in the Fashion District, focus on fashion items and have a relevant component in design, production or mixed type of activities. 58%, of all businesses, focus on the sale of fashion items without exhibiting any relevant activity in either design or production. Considering the fashion oriented businesses only, we thus observe that about 29% of businesses focused on generating value either through design, production or mixed type of activities, while 71%, of fashion oriented businesses, focus on retail only. For the purpose of our research project and its documentation we have termed the former “DPM” (Design, Production, Mixed) and the latter “SOB” (Sales Only Businesses).

➤➤ CHART 14

As is to be expected, the two types of businesses show strong differences in their business model and thus division of labor: We find the DPMs to be fully integrated across all value steps, whereas the SOBs focus on marketing and sales related activities.

Starting with the pick-up of products from their respective suppliers: while two-thirds of the DPMs do so themselves; only half of the SOBs are involved in this logistical exercise. This difference is also mirrored at the end of the value chain where the DPMs have a significantly higher propensity to deliver their products to their customers than the SOBs. Furthermore, for about 30% of the DPMs, the customer appears to take on some marketing if not sales function; again, this is only true for about 16% of SOBs. About two thirds of both types of businesses state that they are carrying out sales and marketing functions; whereas only the DPMs are involved in design and manufacturing activities. Notably, a relative high percentage of SOBs – about one fifth – state that they don’t know who is involved in the design or manufacturing of the items they are selling.

➤➤ CHARTS 15, 16



Product Portfolio

The single most important difference between the DPMs and SOBs, regarding their respective product portfolio is the focus of DPMs on special kinds of clothing and the tendency of the SOBs to focus on casual items: 43% of DPMs focus on special clothing and only 21% on casual; whereas, 23% of SOBs focus on special clothing and 37% on casual clothing. In terms of gender focus of clothing offered, both types of businesses have approximately one third of the businesses focusing on male clothing, another third focusing on female clothing, while the remaining third of the businesses can be classed as being mixed businesses. The DPMs appear to have a significantly lower proportion of children products compared to the SOBs.

➤➤ CHARTS 17, 18

Notably, the majority, 58% of the DPMs' female clothing products are special products and a significant portion, 17%, of men's clothing are work-related with casual clothing being the least important. Inversely, nearly two-thirds, 62% of the DPMs work related products, are for men and about half of the special products (48%) are being produced for women. For the SOBs, these relationships are very different: More than half of the men's clothing are casual items and not even one fifth of the women's clothing falls into the special category.

➤➤ CHARTS 19, 20

Employment

In our estimation, there are presently about 200 DPMs and 460 SOBs operating in the Fashion District. The vast majority (80-90%) of both types of business employ full-time staff. On average, each DPM employs about four people, while each SOB employs approximately five people. Somewhat surprisingly, part time employment does not appear to be very prevalent. Less than 20% of DPMs and SOBs indicate that they have such arrangements, and for those who do have a number of part-time employees, this number tends to be lower than the number of full-time employees. Notably, the DPMs interviewed indicate that they have reduced the number of part-time employees over the last four years while increasing full-time employees. While this pattern is also true for the SOBs, we currently appear to be witnessing a surge in part-time employment in the retail sector.

➤➤ CHARTS 21, 22

Based on the above findings, we estimate a total employment (including business owners) of about 1,100 people within the DPMs and about 2,800 people within the SOBs. In summary, the fashion businesses within the fashion district provide a workplace, and income, to about 3,900 people of which more than 600 would qualify as owners and less than 400 are part-time employees.

➤➤ CHART 23



Ownership and Form of Business

The ownership structure of both DPMs and SOBs has revealed some surprises: while there was a strong hypothesis to find women owners dominating the DPM setting and Asians running SOBs, we have not found strong evidence for either. Rather, it appears, that more DPMs and SOBs are owned by men than by women (55% and 81% respectively) and only one third of both DPMs and SOBs are owned by people with Asian background. The strongest difference we have seen is in respect to nationality: more than 40% of SOB owners are non-South Africans vs. only about 20% of DPM owners.

➤➤ **CHARTS 24 - 26**

Sole proprietorship is the dominant form of business overall, with more than half of all businesses falling into this category—with SOBs having a higher propensity for this form of ownership than DPMs. The second most prevalent form of registration for DPMs is the CC and for SOBs the Pty.

➤➤ **CHART 27**

Products Bought and Sold / Consumers

Differences between DPMs and SOBs are further characterized in reference to the products they purchase: About half or more of all DPMs stated that haberdashery and fabrics represent one, out of the four most important products they purchase; whereas only 5% or less of the SOBs claimed to purchase these items. Inversely, about 20% or more of SOBs named products such as casual shorts, T-shirts or pants as a core product; whereas only 5% or less of DPMs did so.

➤➤ **CHART 28**

With regards to suppliers, at least 20% of the core products of SOBs are purchased from suppliers outside of South Africa, while only about 10% of DPMs purchase their goods internationally.

➤➤ **CHARTS 29, 30**

Typical products sold by DPMs, but less so by SOBs, include traditional and bridal wear, female evening wear and male suits. Products that the SOBs focus on, which the DPMs do not, include formal shoes, casual shorts, underwear and jeans.

➤➤ **CHART 31**

In correlation with their differences in product portfolio, the DPMs receive a slightly more up-market range of customer, with two thirds being classed as LSM 5 or higher, while three quarters of SOBs customers are LSM 5 or lower.

➤➤ **CHART 32**



Financials

Despite the fact that most operators, within this environment, did not or would not share their information or statistics concerning their financials, we have been able to reconstruct a typical profit and loss account for a DPM:

In essence, we observe, one person, operating full-time in a DPM-type environment, is generates sales of about R 120,000 per annum. Of this amount, slightly more than 60% is used to purchase raw materials, i.e. R 72,000 per annum can be allocated to “costs of goods sold”. This leaves an operating profit of about R 48,000, the major portion of which (R 30,000) is used for paying wages. The remaining R18,000—which we termed “owners premium”, as this is the additional value add available to the owner of the business—is used for re-investments (typically R 6,000 per annum) into machinery and for dividends to the owner.

➤➤ CHART 34 - 36

It is important to note that the average DPM business is unlikely to make a substantial difference between funds belonging to the business, and funds available to the owner of the business for private use. This conflation of business and private funds substantially decreases the transparency of the flow of funds and stifles long-term planning and investment. While DPM operators are thus unlikely to recognize our reconstructed yearly profit and loss account, they have confirmed the following data points:

- The average number of garments produced ranges between three and six per week per staff member, depending on season;
- The average price for a garment ranges between R 400 and R 700 per garment, depending on season;
- The average wage for a DPM staff member ranges between R 1,000 and R 4,000 per month, depending on season

In total, this implies:

- An average turnover between about R 5,000 and R 17,000 per month per staff member and a yearly turnover of about R 120,000;
- About R 30,000 take-home per annum for a DPM staff member. According to industry experts, this amount is likely to err on the higher end of the spectrum.

➤➤ CHART 37

From our data we were able to calculate for a subset of DPMs the relationship between turnover and costs of goods sold. As we only have data for a maximum of four selected core products of the DPMs we cannot reliably infer from this calculation the absolute amount of turnover or the absolute amount of purchasing value. However, the relationship between the two amounts – 61% – remains a valid indicator of the cost of goods sold over turnover.

➤➤ CHART 38



While the range of profitability of a DPM operation ranges widely, surprisingly, most of our data points are either in the range of the 50% or very close around the 20% mark. Investigating into the reasons for this we have noticed an interesting set of correlations: Those DPMs with higher profitability typically focus on more casual type of clothing, selling their products in bulk to customers which in turn tend to be businesses. As a result of adopting a bulk selling plan they also tend to have more staff and more sewing machines and as a result of these two factors are more profitable than their colleagues. Typically, they have a higher propensity to include the design of garments in their workflow, their employees have been with them for longer and their operation has been existence for longer. Notably, we did not find any operational variables (e.g., breakdown of machines, etc.) indicating a cause for higher profitability. Thus, we conclude, that there are likely to be two types of DPMs active in the Fashion District: A more “Factory DPM” relying on bulk orders and larger sets of operations and a “Classic DPM” focusing on more individual service and production and possibly higher value add. The scale effect of the Factory DPM however, results in higher profitability and thus possibly in a tendency of Classic DPM operators to aspire to such conditions.

➤➤ **CHARTS 39, 40**

In our reconstructed profit and loss account, we can use the 20% profitability of the Classic DPM operation as a test: After paying wages, in a small scale operation, there remains about 20% of turnover for the owner.

In our in-depth interviews we have received consistent and strong indication that a business owner typically commands twice the yearly salary as one of his or her staff, i.e. approximately R 60,000 per annum. With an average of about 5 staff per business this implies an added value of about R 12,000 captured from each staff member per annum.

➤➤ **CHART 41**



Conclusions and Suggestions

Core Player Framework

Considering and integrating our observations, we suggest adopting the following broad framework when thinking about the Fashion District:

- There are two essentially different types of economic players active in the Fashion District: About 1,000 people find employment in approximately 200 DPMs (Design, Production, Mixed-Oriented Businesses); and about another 2,800 people earn a livelihood through approximately 450 Sales-Only-Businesses (SOBs).
- Driven by their business model, the DPMs and the SOBs have a distinct value chain. The type of products purchased and sold are very different. In particular there is little overlap in respect to suppliers.
- Whereas there are some indications that DPMs purchase products from SOBs, the latter generally do not serve as an outlet or a channel for the former.
- Customers, who come to the fashion district, are interested in both offerings. Most will be attracted to browse the value-for-money proposition of lower priced imports offered by the SOBs, while enjoying the access to tailored products at affordable prices offered by the DPMs. Of course, there will be some higher end customers who are only interested in the DPMs and there will be some lower end customers interested only in the SOBs.

While there is next to no interaction between the DPMs and SOBs, the challenge in developing the whole district lies in managing the growth of both components. In this context it is important to understand the different challenges both types of economic entities currently face.

➤➤ **CHART 43**

Life Cycle Stage of DPMs and SOBs

Arguably, any industry and product have a “life cycle”: Their particular performance and competitiveness issues can be mapped along a curve from introduction through growth and maturity ending with decline. We suggest applying this economic model to map the particular issues facing the two types of businesses prevalent in the Fashion District in order to outline their expected “natural” development. Based on this understanding, we believe, we can make sound and consistent recommendations for interventions.

Regarding the DPMs, our observations indicate that the businesses are in the late phase of introduction or the early phase of growth. Reasons for us to believe this include:

- *Demand Conditions.* As is typical for a freshly introduced product, many potential buyers are simply unaware of the product. Buyers must be convinced to test the product or service. In the case of the DPMs in the Fashion District, there is no advertising and very little general awareness among consumers as to where to find



what kind of product. However, with the increase in afro-urban fashion in general, we notice complaints of up-market outlets (e.g., Rosebank) that DPMs in the Fashion District are in the business of copying their designs. After investigation, it appears that this is less a clever copy-cat strategy on behalf of particular players, but rather the consequence of huge price differentials and the willingness of some consumers to test the downtown offering and accept uneven quality. This widening of the buyer group may be the first indications of a healthy growth for the district.

- *Product Quality.* A new product often struggles to meet all conditions of enduring success; it requires experience and extensive feedback loops between consumers and manufacturers to achieve high quality. The DPMs do not have either the machinery or the experience to deliver highest quality output on a consistent basis. Furthermore, once dissatisfied a customer is unlikely to ever return. Thus, opportunity to learn and encourage positive feedback is rather slim.
- *Scale & Utilization.* With regards to most new businesses, in the beginning, manufacturing will focus on integrated extremely short production runs. Growth, however, becomes possible with investments into technology in order to reap scale benefits. To a large extent, the DPMs produce single garments on individual request. However, as noticed in our discussion on “Factory DPMs”, there are some tendencies in the market to increase scale effects by securing bulk orders and serving as a “customized mass production centre”.
- *Competition & Margins.* Due to the scarce offering and non-transparent market, transaction costs remain very high during the introductory phase. In order to cover such investment and risks, manufacturers demand high margins and achieve them from consumers eager to explore a new product range. With the initial expansion in the growth phase, demand often exceeds supply and higher profits can be achieved.

In order to achieve growth and higher profits, demand needs to be widened and scale effects introduced. One obvious way of achieving this would be through the aggregation of, currently highly fragmented, efforts and offerings, each of which span across the total value chain. A slight move towards specialization on a particular value-adding step would allow the clearer formulation of a value proposition to both consumers and potential complementors leading towards differentiation and more formal division of labor.

Regarding the SOBs, our observations indicate that the businesses are in the late phase of maturity or, probably, already in the middle of the early phase of decline. Reasons for us to believe this include:

- *Demand Conditions.* In the case of the SOBs, we are seeing symptoms of mass market and general saturation. Customers are sophisticated in their product evaluation and look for the best deals.
- *Product Quality.* Products in turn are highly standardized, there is very little innovation and differentiation. The ability to achieve superior product quality is given, yet may find trade-offs in price pressure.



- *Scale & Utilization.* Overcapacity on manufacturing and mass production allow very long production runs and huge economies of scale. On a retail level this leads businesses to construct mechanisms of marketing in order to seek as many interfaces with consumers as possible.
- *Competition & Margins.* Extreme price competition, falling profits and low margins make for a highly competitive environment.

Typically, such late industry cycle conditions lead to consolidation and force some competitors to exit. Large scale efforts will remain and product range will be reduced. The customer experience will be compromised.

➤➤ **CHART 44**

Integrated Growth Engine for Fashion District

In view of pursuing general development and particularly growth of the fashion oriented economic activities, located within the Fashion District, we suggest considering the different industry life stages the DPM and the SOB type of businesses currently find themselves in. While the DPMs have a chance to enter into a growth phase, the SOBs appear to be in the dead-end of decline and require fundamental repositioning.

Basic market dynamics are likely to drive the DPMs towards aggregation of resources and possible consolidation of operations, in order to pursue higher scale effects. Specifically with regards to demand related activities. In all likelihood, this will coincide with a division of labor across the value chain and thus an increased focus of individual businesses on particular value steps.

The SOBs, on the other hand, appear to be stuck in their current model of value creation, which delegates a considerable portion of transaction costs to the consumer. There is very little effort on the part of the SOBs to assist the consumer in generating a comparative overview on product range, allow for easy price comparison and generate a trusting business environment in general. Instead, there is an opposite tendency, within the SOBs, to decrease product range, decrease general market transparency and thus generate symptoms of monopolies. This means that the increasingly sophisticated consumer will continue to turn to other offerings, e.g. geographic areas of business, to seek a more differentiated value proposition. As there may be a continued supply of less sophisticated demand, the prospect for the fashion district to naturally develop into a more sophisticated environment is slim.

As the consumers overlap, it is likely that the growth of the DPMs and the associated increase in sophisticated supply, as well as demand, will be thwarted by the symptoms of industry maturity and decline associated with the SOBs. As a consequence, one may expect the growing DPMs to leave the district and seek interfacing with their changing consumer profile elsewhere. Simply put, the current stage of SOBs is likely to hinder the ability and inclination of DPMs to grow. Therefore, we argue, in order to support general upliftment and development of the area, the SOBs need to be assisted in entering a new industry life cycle. One which fundamentally alters their value proposition from generalist to specialist; thereby increasing product range as well as product quality and decreasing



transaction costs by increasing general market transparency. This may be achieved by inserting a marketing function for the whole district favoring specialized shops. The DPMs, however, require assistance in entering their own growth phase more rapidly and more easily; intervention programs should be directed in assisting aggregation of operations and thus seeking scale effects in particular in the marketing dimension.

➤➤ **CHART 45**

While the intention cannot be to recreate yet another typical “Northern Suburb” shopping area and replicate the business model of a, e.g., Sandton, Rosebank or even Melville type shopping experience, without intervention the barriers for growth of the DPMs may remain insurmountable and it is likely to take place elsewhere.

SOB Strategy

In essence, in the current SOB world, a rather limited product range is being offered at many different outlets. We suggest assisting the repositioning of the SOBs by driving specialization of the retail outlets and thereby inverting this relationship—aiming for an increased product range per outlet.

➤➤ **CHART 46**

Currently, the business offering may be summarized as “everyone carries everything”. Within this model, the SOBs’ main chance of increasing market share remains in duplicating their own and others efforts by, e.g., opening up additional stores and carrying identical inventory. The consumer experience in such a world may be characterized as “browse more than buy” associated with a high degree of exhaustion and frustration for spending considerable effort to “undue” the duplication of the suppliers’ offerings. The effort required to establish transparency and compare products as well as prices is continuously being compromised.

Consider the Fashion District to resemble a department store. In a lot of ways, this comparison is not absurd: consumers come to the district, often walk across a considerable portion of it, browsing randomly on the way to finding a particular product. However, unlike the experience of browsing through a department store, the consumer will find identical products in multiple locations, often at different prices. There is little focus of the various offerings and it requires considerable experience and continued practice on behalf of the consumer to detect and understand the structure of the “department store”.

We suggest the “Fashion District department store” will benefit from more structure and organization. Of course, as the economic entities remain autonomous, market principles ought to be employed to encourage such organization. In order to identify the core market principles that need to be employed, we suggest taking the position of the consumer and seeking ways of decreasing the transaction costs. An experience of “come to town to find and buy” would correlate with a demand for seeking service and variety, and finding it in an efficient, reliable manner. In order to deliver this experience, SOBs could focus on a more limited set of products and increase the range within that set, i.e. specialize. This, in turn, would increase their brand and consumer awareness, them to learn more about consumer requirements and respond accordingly.



To drive such a re-organization, we suggest inserting an overarching marketing function for the SOBs' offerings within the fashion district. The activities of such a marketing function would include the aggregation of consumer relevant information and the publishing of such. Core to this marketing function may be the frequent publication of a "consumer guide to retail in the Fashion District", which includes only businesses that have appropriately adapted their value proposition from generalist to specialist. As the definition of "appropriately" is likely to shift over the course of time and district development, it is vital—in particular in the beginning of such an exercise—to keep the publication current. Viewing such an intervention, not as a once-off exercise but rather, as a continued program would allow the adoption of an evolutionary stance, whereby SOBs can test this avenue of marketing, start relying on it and after some time realize a competitive advantage over those who decide not to join the re-organization.

DPM Strategy

The DPMs, in essence, offer the identical service range at many non-differentiated and non-coordinated outlets. We suggest assisting the repositioning of the DPMs by aggregating the individual businesses and thereby fostering market access, operational efficiency and specialization.

➤➤ CHART 47

Currently, the consumer experience may be summarized as "unreliable and difficult to find". This experience is driven by a highly individualistic business model which seeks very little horizontal cooperation and integration. The consequences of this operational philosophy, of "everyone does everything", includes; low levels of learning, absence of operational scale effects and is associated with low levels of asset utilization. This translates into uncoordinated supply chains. While this may, of course, be beneficial to the suppliers for these DPMs, it effectively hamstrings these DPMs' with regards to their ability to negotiate terms typically associated only with bulk purchases. In sum, the DPMs resemble a set of highly individual businesses with considerable synergistic potential.

Consider the DPMs to each resemble a piece of a puzzle. Remaining by themselves, they easily get lost; they may not be recognized (by the consumer) for what they are; they are unlikely to be successful as they are missing crucial links to other product offerings. The consumer experience remains frustrated and random, looking at a variety of puzzle pieces in an uncoordinated fashion, embarking on risk and considerable transaction costs in an attempt to see the bigger picture.

We suggest assembling the puzzle pieces by creating a "DPM house". Of course, as the economic entities remain autonomous, market principles ought to be employed to encourage such aggregation. In order to identify the core market principles to be employed, we suggest taking the position of the consumer and seeking ways of decreasing the transaction costs. An experience of "come to town to find and buy" would require a consistent and reliable service offering and proper brand positioning. In order to deliver this experience, DPMs could enter into joint marketing programs, share resources and thereby increase operational efficiencies. Beyond an increase in market access, there are likely to be synergies within the supply chain—i.e., aggregation of their own demand may



allow DPMs to negotiate better supply terms, identify a wider range of goods and thereby increase variety, quality and cost position.

To drive such an aggregation we suggest investing into a joint operational and retail space for selected existing DPMs. This may take the form of a building in the fashion district which provides retail space on street level and offers appropriate space for the efficient and effective execution of design and production of garments. As we have noticed a number of people in the DPM business to resemble symptoms of “reluctant entrepreneurs”, there may be an opportunity to mix the economic arrangement in such a house: some people could be employed by the management of the house and others remain self-employed, simply renting a more appropriate space than they currently do. In order to persistently provide superior working conditions for the participating DPMs it would be highly important to align the incentive systems of the house management with the DPM businesses. This may imply forming some sort of economic community and having the house management participate in the revenue or profit streams of the DPMs. Such a model is likely to outperform existing aggregation of DPM operations into special buildings as the current land-lords’ incentive system is often mutually exclusive with optimizing operational conditions for renting DPMs.

➤➤ **CHART 48**

Such an effort, we believe, will provide three important conditions for growth and development of the DPMs:

1. Maybe most tangibly, yet most complicated to translate into reality, there are synergies in purchasing in excess of about Rand 1,000,000 per annum.

Based on our financial understanding of DPMs outlined above, each individual operation purchases goods at the value of about Rand 70,000 per annum. Assuming about 100 individuals to be coordinated within such a “DPM house” we have a total purchase volume of Rand 7,000,0000 per annum. From our research we also understand that considerable discounts are available for bulk purchases. If we assume only a 15% reduction of prices across the total joint purchase volume, the members of the house will jointly save about Rand 1,000,000.

➤➤ **CHART 49**

Of course, the complexities involved in efficiently coordinating the purchases are immense, and it may require a full-time staff to achieve this. Also, the concept itself may have pitfalls because of the very nature of fashion, which requires high flexibility and diversity in purchasing and may only with difficulty lend itself to such aggregation. However, in addition to the potential monetary benefits, such an aggregation of demand should be attractive to suppliers and entice them into considering increased service levels compared to the ones available to individual operators. This may include delivery agreements or even consignment stocks in the building, access to higher quality material, visibility of a wider product range, etc.

2. Somewhat less tangible and also less complex to achieve, are the operational synergies which may lead to an improved cost position, but more importantly allows more reliable and higher quality outputs.



Based on our understanding of the DPMs' current production environment there are many opportunities to improve utilization, quality and reliability. For instance, most DPMs state that they often experience breakdown of machinery and often could use an extra machine for a limited period of time. Furthermore, the seasonality of the general business is extreme and it is unclear how to best utilize staff during the down-cycle. Finally, the location of production is neither designed as a good work- nor client-environment and thus posits several barriers for growth. It appears obvious that given the chance to design an operational environment from scratch, it should be possible to not only greatly enhance general working conditions but also provide the structure for the sharing of machinery and staff, attract suppliers of new equipment, repair centers or equipment rental agencies and in doing so provide the conditions for improved quality and efficiency at similar costs. In addition, in allowing 100 people to closely interact market forces are likely to foster specialization among them, which in turn allows for faster learning and a clearer definition of value proposition and thus increased competitive offerings.

➤➤ **CHART 50**

3. Probably the least tangible and yet least complex benefit to realize, lies in a joint marketing function of the "DPM house". This joint marketing function would generate market access for consumers, which the current business model is unable to do as it posits prohibitively high transaction costs.

Based on our—admittedly somewhat sporadic—understanding of these potential consumers, most of them are simply not aware of the currently existing products. Reasons for this ignorance include a fear the complexities and apparent dangers of commuting to downtown. Furthermore, those consumers who do venture into the Fashion District, are typically unable to locate the products they want as there is no signage and no intuitive way to actually locate the 1,000 people involved in DPM. In addition to these problems, nearly all transactions are cash-based and credit card facilities are very rare. With a "DPM house" one could easily tackle many of these dominant obstacles—yet, of course, not without raising additional operational questions:

- Make consumers aware of the offerings by means of above the line advertising or establishing "satellites" in crucial vicinities (e.g., Rosebank, Melville, The V&A Waterfront in Cape Town etc.). These satellites could be full-fledged stores, selling and marketing the DPM House products, or they could be not much more than a simple window-front exhibiting products and displaying a clear map and other information to facilitate easy access to the house itself.
- Creating a retail space within the DPM House would allow easy facilitation of the necessary contacts between consumer and tailor or garment producer. A general problem in the beginning may be that most DPMs do not currently produce stock in advance for display; thus filling the space with exhibits may require some investment. Issues such as whether the House would create its own label or simply serve as a joint outlet for many labels is a strategic decision, which the constituency creating the House, would need to discuss in detail. Can such a retail space be designed to cater for all LSMs?



- Of course, provision of the necessary conditions for attracting the more sophisticated consumer into the fashion district is far more easily achieved in one location than in many: The House could offer safe parking, clean environment, and basic amenities as well as serve as an easy and safe place for transactions.

➤➤ **CHART 51**

In summary, a DPM House would provide three important conditions of successful growth for the DPM community: access to market, operational improvement and supply synergies. Of course, many questions regarding the particular design of the House, the selection of members to the house, the funding, the financial incentive systems, and so on remain open within the context of our current deliberations. However, considering the market forces at play, there should be a significant opportunity to create value, which, we trust, can be used to fund the removal of operational obstacles.



Additional Research Questions

During the course of this study, we have been able to gather very unique, reasonable solid data on the economic activities in the fashion district. While the data collection was extremely focused and hypothesis driven, i.e. designed to answer certain questions, and while we have taken care to not miss any interesting issues which may present itself in the data, there surely are many questions we didn't ask and didn't answer. It is very likely that in the course of discussing a path forward for the fashion district, additional concerns or questions arise which could be addressed by using the data available. In addition to that, there are a number of issues for which there is little or no data available currently.

Below we have listed two of the core issues which we assume will prove interesting if not vital for the implementation of the recommendations discussed above. Where applicable we have sketched the type of data available or indicated the research program required.

Purchasing Synergies of DPMs

One of our suggestions is that by aggregation of the demand of DPMs the participating parties could save about 15% of their costs on goods sold. Of course, this suggestion rests on the assumption that such an aggregation is possible in the first place.

In planning the DPM House, and for generating selection criteria regarding which kind of DPM one may wish to include in the DPM House, it would be useful to understand what the barriers for aggregating DPM demand actually are. We expect to see issues around timing of purchases and variance of product, as well as issues regarding the supplier. In order to resolve these expected barriers and manage their impact on the performance of the DPM House, a framework is required which would detail along which dimensions the aggregation may or may not happen.

The result of such a study should also be useful for the staff involved in managing such a process for the DPM House, and allow for estimation of "true savings potential" under different scenarios.

Consumer Segmentation

In our study we have had only limited direct exposure to the consumer's behavior and its drivers. Our assumptions on consumers are largely informed by information gathered from the DPMs and SOBs and some stakeholders. A far more rigorous approach may be needed at some point to understand the exact positioning, branding and marketing of the fashion district and its players.

For this it may be necessary to conduct primary data collection through focus groups, in-depth interviews or even quantitative research. It would be desirable to understand the various consumers' disposition to the fashion district, their respective barriers to travel down-town, their price sensitivity and many other issues relevant for developing and effective marketing.