AN EMPIRICAL STUDY OF THE DEVELOPMENT OF FACTORY SHOPS IN THE CLOTHING INDUSTRY IN THE CAPE PENINSULA

by

DIRK JACOBUS VISSER

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Promotor: Prof. A. Kritzinger

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I declare that An empirical study of the development of factory shops in the clothing industry in the Cape Peninsula is my own work and that all the sources I have used or quoted have been indicated and acknowledged by means of complete references.

D.J. VISSER

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CHAPTER 1. PURPOSE AND SCOPE OF STUDY

1.1 Introduction

Over the last eight years up to 1989, a new business phenomenon has manifested itself in South Africa. During this period, the so-called "factory shop" concept has developed into one of the fastest growing industries in both the manufacturing and commercial sectors.[1,2,3]

In South Africa, factory shops have initially established in the Cape Peninsula.[4,5] The nature of these shops is such that their creation may be attributed to the clothing industry itself.[6] This trend originated in about 1980 at a few clothing manufacturers in Cape Town, inter alia, Desiree, Readywear, Atlantic Knitting Mills.

Originally these factory shops were open for limited hours, usually over lunch-time and on only one Saturday per month. They were strictly limited to and for the sole benefit of the staff of those firms. Gradually, however, family and later friends and acquaintances of these staff members became aware of the so-called bargain prices at these stores.

Both supply and demand played important roles in the development of factory shops. For example, increasing pressure on management to supply larger quantities of these merchandise items at bargain prices, as well as the fact that clothing factories had excess stock which was difficult to clear through the normal distribution channels. Factory owners recognized and seized this opportunity to reduce stock at little additional cost.

1.2 Motivation for the study

From their inception, factory shops have had a significant influence on the turnover and profitability of the retail clothing industry. This trend is documented in reports by the organized trade,[7,8] where reference has been made to the influence of these factory shops and where independent clothing retailers have been calling for a plan of action for protection against the encroachment by these factory shops on their (the clothing retailers') markets.

However, up to that stage, no in-depth study or formal research was done to justify such action for protection. Therefore it was felt that "**An empirical study of the development of factory shops in the clothing industry in the Cape Peninsula**" was needed to acquire an objective view of the state of affairs.

1.3 Reasons for the study

The reasons for focusing specifically on the clothing industry in the Cape Peninsula are the following:

Firstly, the clothing industry is one of the three biggest employers in the Western Cape, the other two being the fruit and textile industries.[9]

Secondly, the clothing industry, because of its symbiotic relationship with the textile industry, is very sensitive to rate of exchange fluctuations as well as the cyclical trends of the economy.[10] Therefore, more entrepreneurs in the clothing industry apply alternative and unorthodox methods of distribution to offset cancelled orders and overruns.

Thirdly, 55% to 60% of the clothing manufacturing enterprises in South Africa are situated in the Western Cape.[11]

Fourthly, further substance is given to the above statements by statistical evidence that the clothing manufacturing industry had experienced a difficult eight year period. Industry output remained constant at 1980 levels whilst employment decreased by between 30 000 and 34 000 jobs to 100 000 jobs (25,4%).[12] The decrease in employment had been a direct result of mainly insolvencies and clothing prices rising at a faster rate than the consumer price index, consequently forcing the consumer away[13] to seek alternative purchasing venues.

1.4 Purpose of the study

1.4.1 **Main purpose**: The main purpose of this study is to establish whether the development of factory shops in the clothing industry is a natural development process, characteristic to the theories on retailing, as found in the literature.

1.4.2 **Secondary purposes**: The secondary purposes of the study are, inter alia: (1) to assess the extent to which factory shops have developed in the clothing industry of the Cape Peninsula; (2) to acquire and present specific information which otherwise has not become available from existing sources, such as the reasons for factory shop development, its scope, size, growth, marketing strategies and future development.

1.5 Formulating the hypotheses

The main hypothesis of this study is to indicate that the factory shop is a new addition to, and forms an integral part of, the distribution structure of the clothing industry in particular, and retailing in general.[14,15,16]

The second hypothesis is to establish if the factory shop phenomenon is a natural developmental process in the evolution of typical retail institutions, as postulated in retail evolution theories.

1.6 Demarcation of the field of study

The demarcation of the field of study, as set out in the title, requires further description and clarification of terminology used:

Cape Peninsula: The area of study consists of the census district 01 as defined in the 1980 Census. Accordingly, region 01 consists of the magisterial districts of the following areas: Cape Town, Simon's Town, Bellville, Goodwood, Wynberg. Region 01 was selected because 92% of all clothing factories in the Western Cape are concentrated in this region[17] (see 1.8 Research methodology).

Factory shop/outlet: A factory shop is a manufacturer-owned store that sells the manufacturer's close-outs, cancelled orders, discontinued merchandise, and irregulars.[18,19] Sales are strictly on a cash basis and no returns are allowed.[20] These outlets are usually located on the factory premises in industrial areas. Factory shops should not be confused with off-price retailers. An off-price retailer is independent from the manufacturer and discounts merchandise of a moderate to better quality, including national brands and designer-label apparel.[21] Their sources of supply are typically manufacturers' overruns and cancelled orders. Services, merchandise depth and width of assortment are limited.[22]

Clothing industry: Unlike industries such as mining or the automotive industries, the clothing industry is not a clearly defined entity. It is a rather complex structure of many different industries. For this dissertation the term clothing industry will entail manufacturing enterprises from the secondary sector, as well as wholesale firms and retailers from the tertiary sector.

1.7 Scope of the study

The study encompasses factory shops in the clothing industry in the Cape Peninsula as outlined in 1.6. No official statistics are available on factory shops and off-price retailers, as the former is still regarded as part of the manufacturing establishment to which it is attached, whilst the latter (for licensing purposes) is regarded as an ordinary retailer. However, if one considers that there had been no real growth in terms of volume in the clothing industry since 1978 and that this industry had only been maintaining the levels of 1978,[23] it is in stark contrast to 69 clothing manufacturers (out of a total of 290 manufacturers) who had been running their own factory shops in the Cape Peninsula in 1988.[24] Some meaningful comparisons and deductions can therefore be made.

1.8 Research methodology

1.8.1 **Primary research:** This study entailed a series of discussions with leaders in the clothing industry on developments relating to factory shops; a review of literature on factory shops; a questionnaire to owners of these factory shops; and the views and opinions of informed persons. The statistical basis used for primary research was the 1987 Annual Report of the Industrial Council for the Clothing Industry (Cape) (see Table 1.1). This report listed all the clothing manufacturers in the Western Cape. In total, 421 manufacturing establishments were registered with this Council in 1987.

Table 1.1: A statistical analysis of clothing factories that participated in the survey

CLOTHING MANUFACTURERS	Number	%
Clothing manufacturers in the Western Cape*	421	100,0
Less Clothing factories outside the Cape Peninsula	34	8,1
	387	
Less "Cut, make and trim" type factories	97	23,0
Subtotal	290	68,9
Clothing factories with factory shops (Universum)	69	100,0
Factory shop response to mailed questionnaire and telephonic follow-up	43	62,3

* Source: Annual Report of the Industrial Council of the Clothing Industry (Cape) 1987.

Firstly, all manufacturers not domiciled in the Cape Peninsula (as defined in 1.6) were excluded. There were 34 such clothing manufacturers.

Secondly, the rest (387) were contacted telephonically to determine the type of operation. Ninety-seven clothing manufacturers indicated that they were "cut, make and trim" operations.[25] Of the remaining 290 manufacturers, sixty-nine indicated that they possessed their own factory shop(s). The latter figure represents 23,8% of clothing manufacturers as having their own factory shops.

Thirdly, due to the geographical dispersion of these factory shops, it was decided that a mail questionnaire to the 69 factory shops would be the most suitable method of extracting primary data.

Fourthly, the top management (owners/managers) of each clothing factory with a factory shop was contacted telephonically to request their assistance in the completion of the questionnaire. Questionnaires were subsequently mailed to all clothing factories with factory shops. After two weeks a further telephonic follow-up was made to request the return of the outstanding questionnaires. Of the 69 questionnaires forwarded 43 were returned, giving a response rate of 62,3%.

1.8.2 **Secondary research:** This study which was based on an analysis of published information and statistics includes a literature study of articles in South African trade journals addressing the rising phenomenon of "factory shops"; discussions between organized trade and industry; and articles and trade journals from the United States of America, where this development in the distribution channels had already been noted. To date in the South African context, little acknowledgment has been given in publications to this new entrant to the distribution structure.

1.9 The structure of the study

The outline of the study is structured on the following chapters:

Chapter 1 incorporates the introduction and deliberation of the investigation, the motivation and reasons for and the purpose for the study, the hypotheses formulation, the demarcation of the field of study, the scope of the study, the research methodology and the structural explanation thereof.

In chapter 2 the following subjects are discussed: the historical development of the clothing industry in both the United States of America and South Africa; the development parallel between South Africa and the United States of

America, the latter being the leader in the field of factory shops; a historical and a descriptive analysis of manufacturing, wholesaling and retailing development patterns in the clothing industry; and, the emergence of factory shops in the Cape Peninsula.

In chapter 3 the views on the structure of distribution channels (the dynamics of channel structures), which forms the basis for explaining new developments at the hand of existing theories, are investigated. In this section special attention is given to distribution channels and distribution relationships; evolution in these channels; theories on channel entry and innovation; reasons for and strategies in channel conflict; the influence of environmental variables; market positioning; the institutional life cycle and where the factory shop finds itself in this cycle.

The empirical survey is dealt with in chapter 4. It addresses the structure of the questionnaire, the methods of determining the universum, how respondents were selected, as well as an analysis of the data, concluding with a discussion of the results and observations.

Chapter 5 summarizes the research. The hypotheses are tested and it furthermore contains conclusions drawn from both the primary and secondary investigations. It ends with certain recommendations.

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24. Researched by the author in June 1988. Of the 421 clothing manufacturers registered with the Industrial Council for the Clothing Industry (Western Cape), 34 were geographically excluded from the sample and 97 were "cut, make and trim" clothing manufacturers.

25. This term refers to a situation in the clothing industry where manufacturers are supplied with fabric and process the fabric according to specifications using their own labour and trimmings, and never taking title to the goods. A charge based on this service is levied to the supplier of the fabric.

CHAPTER 2. DEVELOPMENT OF FACTORY SHOPS

2.1 Introduction.

In this chapter the proliferation and entry of factory shops into the distribution structure of the clothing industry are investigated. Reference is made to factory shops in the United States of America as the literature survey indicated that factory shops originated in that country. This is followed by a detailed analysis of the South African clothing industry by industry branch (i.e. manufacturing, wholesaling and retailing) and the role and importance of the clothing industry in the Cape Peninsula (in relation to the rest of South Africa) through comparisons of the number of establishments/firms, employment and turnover. In conclusion a description of the entry, development and de facto position of clothing factory shops in the Cape Peninsula is given.

2.2 The development of the clothing industry.

The clothing industry is perhaps the oldest industry on earth, having started as the result of the original sin. It is recorded in the Bible that "unto Adam also and to his wife did the Lord God make coats of skins, and clothed them". Thus early in the history of mankind was the utility garment discarded for the luxury of furriery.[1]

2.2.1 Developments in the U.S.A.

Until the middle of the nineteenth century, the majority of the American colonists wore clothes according to what they could afford, and most had to make their own. Every household, of moderate circumstances, was its own clothing. Fashionable clothing, for those who could afford it, was custom-made by tailors from fabric imported from England and France.

The first noted "mass" production of clothing started in the ports of New England in 1818 where cheap ready-to-wear shirts and trousers were made and sold to sailors during their brief stays in port.[2] Events that catapulted the American clothing industry into the realms of major industry were:[3] firstly, the perfection of the sewing machine by Elias Howe, which revolutionized the clothing industry from small craft shops into mass production in factories; secondly, the Civil War created an unprecedented demand for army uniforms and set the pioneering stage for standardization of sizes; thirdly, vast numbers of immigrants from Central and Eastern Europe came to the U.S.A. from 1890 to 1910, many of whom were traditional tailors; and fourthly, there were the effects and the demands of the two World Wars.

The earliest reference to factory shops[4] can be traced back to 1909 when Filene's Automatic Markdown Basement had put this, now well-known, idea into practice. This innovation was soon copied by others, but their efforts did not seem to succeed.[5] Filene's did indeed carry a non-profitable factory shop for ten years after its inception. Only in 1978 did they "export" the idea to Massachusetts from where the concept evolved into the, by now, well-known and very effective factory outlet and off-price retailer.[6] It is furthermore generally agreed that Loehmann was the founder of the off-price concept in 1921.[7]

Factory outlets developed in a very similar pattern to that of other retail institutions. Just as freestanding retail operations first gave way to 'downtown' districts and eventually to shopping centres over the years, the factory outlet and off-price retailer began as a single operation.[8] Outlet retailing began from unobtrusive beginnings, predominantly in the eastern part of the United States. At some point in time a manufacturer placed some of his discontinued and/or irregular goods on sale to the public and became an instant retailer.[9]

From a literature survey it seems as if the early seventies can safely be regarded as the time of birth of the factory shop concept. Substantiation for this statement can be found in two references, viz. Wall Street Journal,[10] as well as the following extract: "You may also be aware of another type of store operation - the manufacturer-owned store. The manufacturers have opened these kind of stores believing that such operations are more profitable to them in presenting their merchandise, especially in areas where the traffic volume of sales warrants great expectations".[11]

Reading, a town in the state of Pennsylvania, drew shoppers by the busload to about 100 of these factory outlets scattered throughout the manufacturing districts. Other areas identified are Burlington in New Jersey, York in Pennsylvania and Rochester in Michigan. By 1976 these towns had become known as "outlet" towns. In 1980 there were at least eight thousand outlets across the United States, compared to fewer than one thousand in 1975.[12]

Factory outlets and off-price retailers are not to be found in the traditional U.S.A. regional shopping centres, due to of the obvious friction that this has caused between the very strong U.S.A. department store groups and the manufacturers. Intended As stated earlier, factory shops had previously been established in drab manufacturing districts. Yet, on account of consumer demand, they have opted for alternative suburban locations where low costs, ready access and adequate parking have touted shoppers of a certain kind in their thousands.

Factory outlets in the U.S.A. are so successful that traditional shopping centre developers are now also developing factory outlet malls. This not only presents the retail industry with growth opportunities in times of diminishing options, but at the same time factory outlet and off-price centres provide the ideal opportunity to change some of the 'rules' governing such centres The latter entails the inclusion of non-retailers (especially manufacturers) in addition to traditional retailers; a change in the aesthetics and amenities to match the scaled-down merchandise offerings and price levels; dramatic changes in the standard lease contracts, as well as significant changes in the management and marketing techniques to make these centres work.[13] Examples of these are the Burlington Manufacturers Outlet Centre on the Interstate Highway between Atlanta, Georgia and Washington, D.C. with over 100 outlets, and the Greensborough Outlet Mall, North Carolina. The latter is one of three malls with leasable area in excess of ten thousand square meters each.

These outlet malls have ample illuminated signs alongside the bypassing highways to attract customers.[14] Furthermore, it is interesting to note that a developer of outlet/off-price malls, Ken Karl, established these malls near existing regional shopping centres, as the developers of the latter centres had already done the demographic investigation for him.[15]

It is estimated that there are approximately 100 of these centres in the U.S.A., with many more being planned. The largest centre of its kind is the 32 000 square meter Factory Outlet Mall in Orlando, Florida.[16] Three types of shopping centres have developed in the U.S.A. since the inception of factory shops. These are: new constructions, conversions and "strip" centres.[17]

On average it has taken the U.S.A. retail shopping environment 10 years, starting from the early seventies, to develop shopping malls for factory outlets and off-price stores. This is in contrast to the fifty year life-cycle required for retail shopping centres to develop.[18] (The life-cycle concept is further discussed in Chapter 3).

2.2.1.1 Reasons for U.S.A. factory outlet development.

Recent experiences in the U.S.A. indicated that the number of new retail clothing shops can not be attributed to retailers, but rather to manufacturers who wanted to deliver their products directly to the consumer. Manufacturers cited six reasons for opening their own factory outlets:[19]

Firstly, many of the manufacturers' regular retail customers have slowed their growth, reduced the size of their orders, or have cancelled their orders, leaving manufacturers with surplus first-quality in-season goods, as well as with irregulars and seconds that must be disposed of without disturbing their usual markets.

Secondly, clothing manufacturers believe that they are equally as good as retailers in displaying and merchandising their goods to the consumer.

Thirdly, fierce competition in the industry is reflected by the drive (by retailers) to open more retail stores. Retailers want to increase sales per square meter and increasingly rely on big names and private labels. This practice hurts the smaller manufacturer.

Fourthly, department stores have cut back on sales personnel to increase profit margins. In order to get the attention of chain stores and to build an image with the consumer, manufacturers have now become self-promoting by opening their own outlets.

Fifthly, the manufacturers' desire to have more control over the ultimate point of sale. Manufacturers are of the opinion that department stores are well-known for cramming goods together, resulting in the lost personality of each line.

Lastly, manufacturers started challenging the retailers' position of power. (See Chapter 3, Section 3.6).

As early as the 1920's manufacturers experimented with forward integration[20] when clothing manufacturers like Hart, Schaffner & Marx owned their own retail outlets. Apparel consultants warned against being in both manufacturing and retailing simultaneously, as these "are two different worlds".[21] The latter statement was underscored by Levi Strauss & Co., probably the best known jeans manufacturer in the world, who explored the retailing environment. After five years they liquidated their chain of seventy factory outlets in 1980 to again concentrate solely on manufacturing.

One of the biggest dangers for the manufacturer venturing into retailing, is the risk of alienating his traditional distribution channel, namely department stores and chain stores.

Possibly the best justification for factory shops in the American literature survey can be found in the following quote by Iris Ellis:[22]

> "Economic forces during the past five years changed the typical consumer into a class of what now might be called the 'nouveau poor', many of whom don't realize how poor they are until they go shopping for a new car or a new home, and discover they must radically downscale their dreams. Outlet stores ..... are proliferating because consumers are resisting that downward adjustment .....".

2.2.1.2 A profile of the American factory outlet shopper.

Two main customer classifications of interest to owners of factory outlets have been identified as the "cosmopolitan" shopper and the "meticulous" shopper. Both types are looking for bargains, but they use different ways to satisfy different needs.[23]

The **cosmopolitan shopper** is a trendy young female, with sophisticated tastes. In the selection of clothes, accessories and home furnishings she is both designer-label and name-brand conscious. She is a product of the post-war baby-boom who classifies her 'wants' as her 'needs'. Although she does not like to deny herself, her budget is the limiting factor to constrain her buying habits. In order to acquire the desired name and designer brands, she shops at sales and factory outlets.[24]

The **meticulous shopper** is also usually a woman, and often the money-manager of the family. She is employed which allows for limited shopping time. In order to get mileage out of the family budget she is less interested in fashion, but extremely price and quality conscious. She knows bargains when seeing them, and whenever possible, shops at sales although her time is constrained. Therefore the clustering of factory outlets and off-price retailers in one location is a great boon to this customer.[25]

The typical American factory shopper is affluent, mature and in the 25 to 55 year age bracket. Shoppers often travel as far afield as 100 kilometers in comparison to normal 15 minute regional shopping centre drives. Visits are infrequent, averaging on one every six weeks and turnover averages at R50 per customer per trip. Shoppers are predominantly female with an 80/20 female to male ratio. The time and effort spent at acquiring a bargain is regarded as worthwhile. On average factory outlet prices are 38% cheaper than department store prices.[26]

2.2.2 The clothing industry in South Africa.

2.2.2.1 Historical perspective.

The clothing trade dates back to the founding South Africa in 1652.[27] It is documented that the first bespoke clothing manufacturers arrived in South Africa as slaves from India (and not Malaysia as is generally accepted)[28] from 1670 onwards. Traditionally, these people were eminently skilled craftsmen, and tailors were well represented.[29]

Credit for the first clothing factory established in South Africa is bestowed upon two Scottish brothers, W.M. and A.C. Middlemass. They sold a factory manufacturing men's suits in Scotland to set up a similar operation in Cape Town in 1907. To escape labour trouble, this factory relocated to Worcester, but it subsequently returned to Salt River, where it has operated as A. Frazer & Co. Ltd ever since.[30]

The authenticity of the above claim has never been disputed, although a factory producing waterproof clothing from rubberized fabric was established in Cape Town in 1899. This firm is still in production, albeit with some changes in ownership.[31]

Factories in Johannesburg and Durban followed in 1914 and 1915 respectively. Before the end of the 1920's there were 20 clothing manufacturers in the Western Cape, producing a variety of clothing. Muller[32] noted that the Cape clothing industry had over a relatively short period of time (between 1900 and 1920) become known for its high quality and standards.

The Wage Board recorded that clothing factories, tailoring and dressmaking establishments in South Africa showed marked and fairly consistent increases in sales from 1915/1916 to 1932/33. There is no comparable data for wholesale and retail establishments.[33] Of interest was that at that stage Japanese imports had already posed a threat to locally manufactured clothing.[34]

During the thirties the Witwatersrand area became the largest clothing manufacturing centre in South Africa, followed by the Western Cape, Durban and Port Elizabeth in terms of the number of factories and employment.[35] From 1933 to 1937 many immigrants and political refugees from Europe settled in South Africa, bringing along their knowledge of clothing manufacturing. These years had been the real foundation of a prosperous clothing industry in the Western Cape.[36] Despite a pre-war increase in the number of clothing factories it simultaneously experienced a threat to its natural development because of intense foreign competition through imports from the U.S.A., U.K., Poland and Hong Kong. It took a World War to make South Africa really manufacturing conscious. Prior to the Second World War it was easier to import than experiment with new materials and styles, whereas during those war years it was rather a matter of experimenting or doing without.[37]

The impact of the Second World War led to a 40% increase in the number of clothing factories and a corresponding 60% increase in employment, with a doubling in turnover value. The fact that the local market had been sealed off from foreign competition, provided an ideal opportunity for internal expansion.

As a result of the negligible supply (due to embargo's on imports during the Second World War), the market became entirely dependent on local manufacturers. For the first time in the history of the South African clothing industry, it had actually become self-supporting, without any resulting shortages.[38]

The first totally Afrikaans clothing factory (Die Volks-hemde en Klerefabriek Bpk (Veka)) was established in Johannesburg in 1941.

After the Second World War the Government took steps to protect local industry against dumping, in order to prevent distortion of the local market. Subsequent import restrictions had a dual effect on the local clothing industry, viz. limiting competing imports whilst also preventing access to a wide range of materials not manufactured in South Africa.[39]

Government protection against intensive foreign competition allowed the clothing manufacturing industry to develop into the third largest secondary industry in South Africa during the 50's, the other two being food and metal products.[40]

In contrast to developments in Europe and the U.S.A., where the textile industry preceded the apparel industry, the former developed after the clothing manufacturing industry in S.A.[41] With hindsight this could be one of the major reasons for supporting a local textile industry to supply an established manufacturing industry during the war, when most of the textile imports were cut off. Tracing the history of the textile industry in S.A. showed that no such industry existed in the 1930's which could have made a meaningful contribution to clothing manufacturing.

2.2.2.2 **Characteristics of the South African clothing manufacturing industry.**

2.2.2.2.1 General characteristics.

Basically there are three different classifications of manufacturers in the industry. Firstly, those manufacturers forming part of vertical distribution channels,[42] for example, Truworths and Pep Stores. Secondly, there are the independent manufacturers, usually the larger and more established firms with international contracts, like Rex Trueform, Seardel and Burlington. Thirdly the contractor, better known as "cut, make and trim" firms[43], such as Sacker Clothing, Pride Fashions and Mercury Clothing Manufacturers.

The Industrial Councils for the Clothing Industry in South Africa[44] make no distinction between the different kinds of manufacturers. As long as the process of manufacturing is continued, any such business is regarded as a clothing manufacturer.

2.2.2.2.2 **Specific characteristics.**

The clothing industry has come a long way since its humble beginnings in the early 1900's. In 1988 the industry consisted of approximately 1 300 manufacturers (including 100 in the TBVC and rural areas). Direct employment was 140 000 consisting of 42% Coloureds, 33% Blacks, 24% Asiatics and 1% Whites.[45] The National Clothing Federation of South Africa stated that although it was one of the least capital intensive secondary industries in South Africa, the clothing industry was both the most labour intensive and the most productive, as well as one of the highest income generating, yet.[46]

In 1987 the South African Gross Domestic Product amounted to R151 084 million of which manufacturing contributed 23,2%, taking second place.[47] (See Table 2.1).

Table 2.1 1987 Gross Domestic Product by economic activity

ECONOMIC ACTIVITY	CONTRIBUTION TO GDP (Rm)	%
Agriculture, forestry & fishing	8 533	5,7
Mining & quarrying	20 453	13,5
Manufacturing	35 103	23,2
Construction	4 645	3,1
Electricity, gas & water	6 695	4,4
Transportation, storage & communication	12 822	8,5
Trade	17 837	11,8
Other	44 996	29,8
	R151 084	100,0

Source: South Africa 1988-1989: The Official Yearbook of the Republic of South Africa, 4th Edition, Government Printer, Pretoria, p. 402.

Clothing, textiles and footwear contributed 7,3% of manufacturing sales (Table 2.2). Clothing manufacturing alone had total sales of R1 947 million in 1986. This put it in fifth position after Metal Products and Machinery (26,6%), Food, Beverages and Tobacco (20,8%), Chemicals (20,4%), and Motor vehicles, parts and transport equipment (8,0%).[48]

Table 2.2 1986 Value of sales of selected manufacturing sectors

SUBSECTOR	SALES (Rm)	%
Metal products & machinery	23 203	26,6
Food, beverages & tobacco	18 195	20,8
Chemicals	17 756	20,4
Motor vehicles, parts & transport equipment	6 976	8,0
Clothing, textiles & footwear	6 321	7,3
All other subsectors	14 661	16,9
	R87 112	100,0

Source: South Africa 1988-1989: The Official Yearbook of the Republic of South Africa, 4th Edition, Government Printer, Pretoria, p. 414.

The clothing manufacturing industry is highly labour-intensive. Despite its decline from the second largest industry in the R.S.A. in the 1967 Census to third position in terms of labour in the 1979 Census, it still ranks as the fourth largest industry in terms of the number of manufacturing establishments. However, it is by far the largest manufacturing industry in the Cape Peninsula, both in terms of employment (35,2%) and the number of establishments (13,6%).[49]

2.2.2.3 Geographical centres and *de facto* position

Geographical centres refer to the physical location of the clothing industry in South Africa. As with most other secondary industries, the clothing manufacturing industry is concentrated in the four metropolitan areas, namely greater Cape Town, Port Elizabeth-Uitenhage, Durban-Pinetown, and the Witwatersrand area.

2.3 A comparative analysis between the clothing manufacturing industry in Region 01 and the R.S.A.

Table 2.3 reflects that the secondary industry of the Cape Peninsula has lost some market share (relative to the total manufacturing industry in the R.S.A.) both in terms of the number of firms and sales. The number of all manufacturing firms in region 01 decreased from 14,3% in 1970 to 12,3% in 1979, whilst sales decreased from 10,9% to 8,7% for the same period.

However, clothing manufacturers in region 01, relative to the total number of clothing manufacturers in S.A., increased from 19,7% in 1970 to 21,8% in 1979. For the same period, clothing manufacturers in Region 01 increased their share from 34,8% to 39,9% of the total clothing manufacturing sales in S.A.

Table 2.3 Manufacturing industry: RSA and Region 01

	ALL MANUFACTURING										CLOTHING MANUFACTURING					
CENSUS YEAR	1970		1972		1976		1979		1970		1972		1976		1979	
	ACTUAL	%	ACTUAL	%	ACTUAL	%	ACTUAL	%	ACTUAL	%	ACTUAL	%	ACTUAL	%	ACTUAL	%
<u>NUMBER OF FIRMS</u>:																
RSA	11 967	100,0	12 671	100,0	15 461	100,0	17 126	100,0	1 158	100,0	1 192	100,0	1 220	100,0	1 304	100,0
Region 01	1 710	14,3	1 658	13,1	2 007	13,0	2 100	12,3	229	19,7	269	22,5	288	23,6	285	21,8
<u>EMPLOYMENT</u>:																
RSA	1 091 054	100,0	1 127 275	100,0	1 359 939	100,0	1 339 000	100,0	84 374	100,0	92 261	100,0	112 744	100,0	112 051	100,0
Region 01	131 683	12,1	133 430	11,8	112 109	8,2	175 090	13,1	28 325	33,6	31 666	34,3	38 084	33,8	39 426	35,2
<u>TOTAL SALES:</u> (R'000)																
RSA	7 404 219	100,0	9 155 319	100,0	20 353 988	100,0	29 926 639	100,0	284 374	100,0	337 531	100,0	657 207	100,0	796 700	100,0
Region 01	804 000	10,9	911 000	10,0	2 495 627	12,3	2 607 505	8,7	98 863	34,8	122 910	36,4	234 061	35,6	318 335	39,9

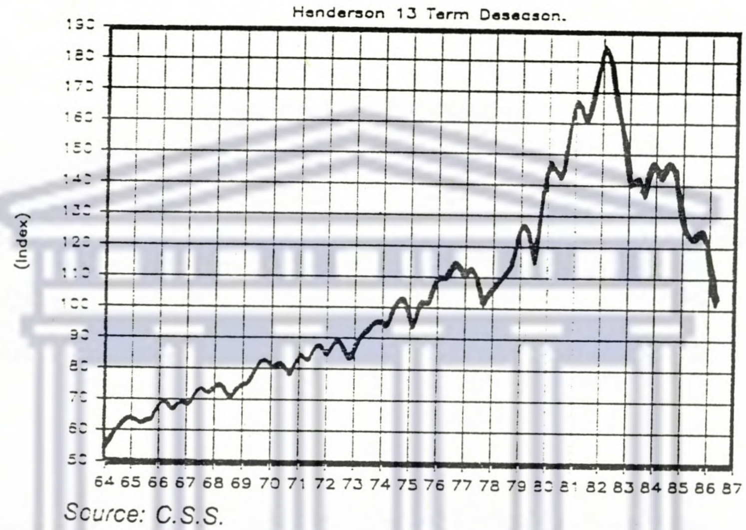
<u>SOURCE:</u> Census of Manufacturing, Department of Statistics, Pretoria
1970: Reports no. 10-21-26 (April 1985), 10-21-27 (December 1975).
1972: Reports no. 10-21-28 (July 1977), 10-21-29 (February 1978).
1976: Reports no. 10-21-32 (December 1978), 10-21-33 (December 1978).
1979: Reports no. 10-21-39 (May 1984), 10-21-40 (May 1984).

The number of clothing manufacturing firms in the R.S.A. increased by 12,6% from 1 158 in 1970 to 1 304 in 1979 whilst those in Region 01 increased by 24,5% from 229 to 285 for the same period. Although the number of clothing factories in S.A. had risen substantially over the four census periods under consideration, the Cape Peninsula's representation to the total number of clothing factories declined from from 23,6% in 1976 to 21,8% 1979. It was expected that these numbers (mainly small manufacturers and bespoke tailors) would further decrease - the former as a result of high costs and the latter, similarly by rising costs of the bespoke tailor, coupled with the increasing popularity of readymade clothes.[50]

However, with the implementation of the Regional Industrial Development incentives, introduced in 1982, clothing manufacturers from mainly the Transvaal relocated to these industrial and deconcentration points (for example Garankua, Babelegi and Siyabuswa in the Transvaal), receiving considerable incentives without forfeiting their proximity to the (Transvaal) market. (It was not possible to do comparisons on capital investments as only Fixed Assets are used in the Central Statistical reports.)

The clothing manufacturing industry's output dropped considerably from 1982 to 1986 and in 1988 was running at 1978 levels (See Graph 2.1). On sales volume alone this is a considerable drop and if one considers that most factories have minimum runs to achieve economies of scale, it could be but one reason for the development of factory shops.

Graph 2.1: Volume of clothing produced (1975 prices)



SOURCE: National Clothing Federation Yearbook 1986

2.3.1 The role and importance of the clothing manufacturing industry in the Cape Peninsula.

It is not by chance that Cape Town can be regarded as the clothing manufacturing capital of South Africa. It remained the main port for South Africa for more than two centuries up to about 1940 and only lost its title of the biggest city to Johannesburg in the first half of this century. With its supply of skilled labour and infrastructure (especially transportation), Cape Town naturally took the lead in the establishment of a clothing manufacturing industry, especially since almost all textile requirements were imported. In addition to having a large number of bespoke tailors, Cape Town was the port of entry for many immigrants from Europe, many of whom were excellent tailors.

In 1988 the majority of the large clothing factories were still located in the Western Cape, but increasingly this industry has begun to develop more and more strongly in the Transvaal, Natal and the independent and self-governing national states; the latter for reasons of proximity of the market (Transvaal), the availability of skilled Indian labour (Natal), and inexpensive labour (independent and self-governing national states)[51].

The growth in the Cape clothing manufacturing industry over five decades is reflected in the figures relating to the number of manufacturers and employment in Table 2.4. Up to 1976 there had been tremendous growth both in terms of the number of new clothing factories and employment. During the late seventies, however, the clothing manufacturing industry experienced difficult times.

Whilst the number of new manufacturing establishments and employment creation showed promising signs of this sector becoming an even stronger branch in the secondary industry in the first half of the eighties, the general economic downturn had severe negative effects whereby the number of clothing manufacturers decreased by 9,5% with a 14,3% reduction in employment in 1985.

Table 2.4: Number of firms, employees and growth of the clothing manufacturing industry in the Cape Peninsula (1935 - 1987)

Year	Number of firms	% change	Employ-ees	% change
1935	30		3 500	
1944	53	76,6	6 012	71,8
1945	59		9 450	
1954	159	169,3	16 238	71,8
1955	161		17 004	
1964	189	17,4	27 295	60,6
1965	190		29 594	
1974	316	66,3	43 452	46,8
1975	315	(0,3)	43 568	0,3
1976	325	3,2	46 781	7,4
1977	308	(5,2)	42 326	(9,5)
1978	300	(2,6)	44 600	5,4
1979	307	(2,3)	48 243	8,2
1980	332	8,1	53 421	10,7
1981	377	12,7	58 199	8,9
1982	407	7,4	59 324	1,9
1983	404	(0,7)	57 866	(2,5)
1984	412	2,0	59 825	3,4
1985	373	(9,5)	51 286	(14,3)
1986	390	4,6	52 105	1,6
1987	421	7,9	53 639	2,9

Source: Adapted from the Annual Report of the Industrial Council for the Clothing Industry (Cape), 1987.

2.3.2 Reasons for clothing manufacturers opening factory shops.

In Section 2.2.1.1 a number of reasons were cited by clothing manufacturers in the U.S.A. for opening their own factory shops. A literature survey of clothing factory shop development in the Cape Peninsula identified an additional three reasons:[52]

Firstly, manufacturers have better control where discounted merchandise is sold. By locating factory shops in areas with the characteristics of being zoned specifically for industrial firms; areas with traditionally low consumer traffic, and areas with low sales penetration of the manufacturers' merchandise, these manufacturers ensured that sales to their main clients (usually speciality stores and department stores) are not adversely affected.

Secondly, these factory shops can be profitable, despite the fact that the prices of merchandise are 30% to 50% lower than normal retail prices. The latter is a direct result of the typically lower running costs of factory outlets, for example, fewer services provided for clients, lower rental, limited displays, and non-durable equipment.

Thirdly, as both these channel members have now been eliminated, the manufacturer does not have to remunerate either the wholesaler or retailer and profit-taking by the manufacturer, therefore, increases.

2.4 Distribution patterns within the the clothing industry.

As factory shops have become participants in the distribution structure of the clothing industry, an analysis of the distribution channels is deemed necessary. The typical distribution channels of clothing are schematically explained in Table 2.5.

Table 2.5 A schematic outline of clothing distribution patterns

CHANNEL	CHANNEL MEMBERS						
1	Manufacturer	->	Wholesaler	->	Retailer	->	Consumer
2	Manufacturer	->	Wholesaler	->			Consumer
3	Manufacturer	->			Retailer	->	Consumer
4	Manufacturer	->					Consumer

Channel 1 represents the traditional distribution pattern of clothing. Independent manufacturers (such as Seardel, Park Avenue Lingerie and Atlantic Knitting Mills) supply independent wholesalers (such as Sacks Futeran and I.M. Segal), who in turn supply small and independent retailers, mainly from the rural areas. This channel is often subject to severe challenges from, and changes by, its members to either pass on or take over the functions performed by other channel members.

Channel 2 developed as a result of the increasing (sales) contact wholesalers have had by selling directly to the consumer. Makro, for example, sells clothing directly to the consumer. Also, unlicenced traders (hawkers) who buy clothing from wholesalers in large quantities and then sell from door-to-door, are common in some Cape Town suburbs.

In financial terms, this method could amount to a considerable figure as wholesalers can sell up to a maximum of 50% of their turnover directly to consumers and still be classified as a wholesaler.[53] (Available statistics do not distinguish between sales to retailers and sales to consumers. It was therefore not possible to identify the extent to which this channel has developed).

Channel 3 has increased in prominence with the advent of large retail firms which bypass the wholesaler and buy directly from the manufacturer, for example Woolworths, Truworths and Foschini. This channel is also typical of retailers who employ vertical backward integration, thereby "monopolizing" the distribution channel. Initially, when Pep Stores started as a small retailer in Upington, it followed the more traditional chain of clothing distribution. However, as its number of stores and sales expanded, Pep Stores established its own supply-line through the acquisition of its own manufacturing facilities.

Channel 4 has increased in importance (not only in clothing distribution) since manufacturers started applying their marketing efforts directly at the consumer. The increase in distribution through this channel has not only been observed in clothing, but also in the distribution of toys, paint, frozen foods and poultry.[54] Kotler calls this type of channel a zero-level channel[55] (direct marketing channel), since all channel intermediaries are excluded. The three major ways of direct selling are door-to-door (e.g. educational books and cosmetic products), mail order (e.g. books) and manufacturer-owned stores.[56]

2.5 Developments within the wholesale branch of the clothing industry.

At the turn of the century most clothing goods were imported as the clothing manufacturing industry was still in its infancy stage. Owing to the capital resources required for importing, only a relatively small number of firms imported directly, notably the wholesalers, who in turn supplied the retailers in both the urban and rural areas. Considerable changes in the distribution patterns have resulted with the emergence of discount stores, departmental chain stores and specialized chain stores. Rushburne stated that these changes have affected clothing distribution in much the same way as other types of wholesaling.[57]

The scope and numbers of traditional and conventional wholesalers have been reduced as large retailers (for example OK Bazaars, Downtown, Pick and Pay, Woolworths, etc.) buy in bulk directly from manufacturers. The traditional and conventional wholesalers should therefore decline in numbers and in turnover volume, especially in metropolitan areas.[58]

There is an important distinction to be drawn between the traditional wholesaler and the discount wholesaler. Whereas traditional wholesalers sell directly to retailers, discount wholesalers can be regarded as wholesalers who have departed from that tradition in that they themselves conduct sales directly to the public.[59] It falls not within the terms of reference of this thesis to verify whether this is a significant trend as yet, but in order to survive the developments around the future of clothing wholesaling (as sketched above) many of these discount wholesalers could in fact have now become off-price retailers. The likelihood of this trend is mentioned by Du Plessis.[60]

The need for the services of conventional wholesalers will still be required in remote and rural areas. These areas are mostly served by small, independent clothing retailers who, because of the size of their markets and stock requirements, make their purchases from conventional wholesalers. Examples of these clothing wholesalers still in operation are Excelsior Wholesalers (Pty) Ltd in Harrington Street, Cape Town, Sacks Futeran & Co. (Pty) Ltd in Buitenkant Street, Cape Town, and I.M. Segal & Co (Pty) Ltd, in Neptune Street, Paardeneiland.

2.5.1 Comparisons within the wholesale trade.

Number of wholesalers: Table 2.6 reflects that although the number of all kinds of wholesalers in both the R.S.A. and Region 01 had increased over the three census periods under consideration, clothing wholesalers in Region 01 had declined over these periods in relation to all wholesalers in South Africa. For example 2,7% in 1967 (182 of 6 665), to 2,4% in 1971 (167 of 7 021), to 1,8% in 1979 (177 of 10 106). The number of clothing wholesalers, relative to all wholesalers in Region 01 also decreased from 17,5% in 1967 (182 of 1 040) to 12,7% in 1977 (177 of 1 394).

Although the number of wholesalers in Region 01, relative to all wholesalers in South Africa, increased from 15,6% in 1967 to 20,0% in 1977, this region's clothing wholesalers, relative to all R.S.A. clothing wholesalers, decreased from 25,3% in 1967 to 21,8% in 1977. This decrease was also predicted by Rushburne due to the growing trend for retail establishments (notably specialized chain clothing stores, department stores and clothing discount houses), especially in the main cities and towns, to buy direct from manufacturers.[61]

Sales: Although the turnover of all wholesaling activities increased in the three census periods under review, the contribution of clothing wholesalers in Region 01, relative to clothing wholesalers in S.A., declined from 20,9% in 1967 to 18,3% in 1977. This same pattern of decline became evident when comparisons between Region 01 clothing wholesalers and all wholesalers in the region were made. For example, in 1967 clothing wholesalers in Region 01 contributed 8,5% (R41m of R484m) of the total wholesaling turnover of this region. This figure declined to 5,1% in 1971 (R37m of R729m) to 4,2% in 1977 (R121m of R2 901m). The same reasons for the decline of the number of wholesalers are valid for the decline of sales.

The percentage of wholesale clothing sales relative to total wholesale sales in the R.S.A. for the three census periods decreased from 6,0% in 1967 (R196m of R3 283m) to 5,9% in 1971 (R318m of R5 539m) to 4,0% in 1977 (R663m of R16 506m). This substantial difference may be ascribed mainly to clothing retailers buying directly from manufacturers. Clothing wholesaling, especially in the main centres, has therefore lost much of its importance.

Apart from 1977, when the average sales per wholesaler in Region 01 exceeded the national average (R2,081m as against R1,633m), this region had been operating at below national averages. Similar below-the-national-averages were evident for the sales of Region 01 clothing wholesalers, relative to S.A. clothing wholesalers for all three census periods.

Employment: A slight reduction in the contribution of Region 01 (both all wholesalers and clothing wholesalers) to R.S.A. employment figures was observed for the three

Table 2.6 Wholesale trade: RSA[1,2] and Region 01

	ALL WHOLESALE						CLOTHING WHOLESALE					
CENSUS YEAR	1967		1971		1977		1967		1971		1977	
	ACTUAL	%	ACTUAL	%	ACTUAL	%	ACTUAL	%	ACTUAL	%	ACTUAL	%
NUMBER OF FIRMS:												
RSA	6 665	100,0	7 021	100,0	10 106	100,0	721	100,0	713	100,0	812	100,0
Region 01	1 040	15,6	1 056	15,0	1 394	20,0	182	25,3	167	23,2	177	21,8
EMPLOYEES:												
RSA	158 789	100,0	189 656	100,0	232 478	100,0	8 465	100,0	9 084	100,0	9 463	100,0
Region 01	22 719	14,3	25 370	13,4	30 378	13,1	1 616	19,1	1 744	19,2	1 616	17,1
Average employment per wholesaler												
RSA	23,8		27,0		23,0		11,7		12,7		11,7	
Region 01	21,9		24,0		21,8		8,8		10,5		9,1	
SALES: (R'000 000)												
RSA	3 283	100,0	5 539	100,0	16 506	100,0	196	100,0	318	100,0	663	100,0
Region 01	484	14,6	729	13,2	2 901	17,6	41	20,9	37	11,6	121	18,3
Average sales per wholesaler (R'000)												
RSA	492		789		1 633		272		446		817	
Region 01	465		690		2 081		225		222		684	

SOURCE: Census of Wholesale Trade, Dept. of Statistics, Pretoria.

1967: Reports no. 04-41-05, (September 1973); 04-41-15, (November 1973).
1971: Reports no. 04-41-22, (June 1977); 04-41-25, (June 1977).
1977: Reports no. 04-41-35, (April 1981); 04-41-37, (March 1982).

1. Excluding Transkei and Bophuthatstwana.
2. Including Footwear.

census periods. Average employment in all wholesaling activities in Region 01 varied between 88,9% and 94,5% of the average national employment levels. Similarly, clothing wholesalers in Region 01 had below national average employment levels, varying between 75,2% in 1967 to 82,7% in 1971, to 77,8% in 1977. The national average of employees per firm in the clothing wholesaling sector varied between 11,7 and 12,7 employees, which is low in comparison to the national average for all wholesale firms, varying between 23 to 27 employees. (It was not possible to draw any meaningful conclusion regarding the ratio of total assets to sales as the former variable was only used in the 1977 Census for the first time.)

From the preceding analysis it is evident that, in terms of the number of establishments, turnover and employment, the role of the clothing wholesale branch is declining in Region 01. This diminishing role is the result of infringement upon its distribution activities by the large retailer (through backward vertical integration or buying directly from the manufacturer) and the manufacturer selling directly to the consumer. This conclusion is also supported by Rushburne.[62]

2.6 Developments in the retail branch of the clothing industry.

For the purposes of this thesis, the retail branch of the clothing industry is taken to consist of small and large independent clothing firms[63] of the traditional kind,[64] and general outfitters.[65]

It is predicted that competition in the retail clothing industry is to intensify in the future because of the increasing number and turnover of chain clothing stores as well as the trend for general department stores to expand their clothing departments or to diversify into this field.[66]

2.6.1 Historical development of clothing retail trade.

One of the earliest clothing stores was established in 1869 by two brothers, George and John Payne. This firm developed into a department store[67] and was subsequently taken over by the Greaterman's Group.[68]

One of the oldest family-run department stores, Garlicks, was started by a young immigrant, John Garlick who began trading as a draper and haberdasher in Cape Town in 1875.

Although it became known as a department store, Stuttafords originally started in Cape Town in 1857 along very similar lines as Payne Bros.[69] Other retailers followed and of note are OK Bazaars[70] in 1927 and Woolworths in 1931.[71]

South Africa's distributive history is so short that it is not unusual to find firms still in existence today that have been part of the pioneering era. One such firm, Bergers, is still in business and today, after 63 years, it is a chain of national clothing stores.[72]

After World War 1 retail purchases directly from manufacturers became more prominent, easier and common. Parallel to overseas developments, a large number of cash stores were established. These large retail stores bought directly from factories both in South Africa and overseas.

In the middle sixties, South Africa witnessed the advent of the discount store, which claimed lower prices on the basis of offering a variety of merchandise at less than list prices on account of fewer services. This period also saw an increasing awareness of practices which did not adhere to the traditional methods of distribution.

In March 1963 clothing wholesalers, who engaged in direct selling to the public, formed the basis of an investigation by a commission of inquiry into trade licensing.[73] In 1964 a private motion was introduced in the House of Assembly concerning the threat to the small trader through the expansion of chain store businesses.[74] However, no official inquiry resulted from this request.

There were also major outcries and expressions of shock by establishments with vested interests when it became known in 1968 that two discounters, namely Tony Factor and Dion Friedland, intended to start a price war in clothing.[75]

In 1971, Rushburne forecast certain trends in clothing retailing.[76] Among these were (1) the expansion of the clothing sections of general department stores; (2) the diversification by furniture groups into the clothing field; (3) considerable expansion among specialized clothing chain stores, through the acquisition of existing small independents or establishing new branches, and establishing specialized stores for Blacks; and (4) the growth of discount selling.

Chain stores, through economies of scale, have become an important force in clothing distribution. Those serving the middle and lower income groups, enjoy considerable benefits from bulk buying and combined with their high turnover and low margins, these firms now represent the integration of the wholesale and retail functions. This may also be a reason for the decline of clothing wholesalers. Some firms have introduced brand images for their wares, such as Curzon (OK Bazaars), Servus (Woolworths) and Student Prince (Pep Stores).

Discount selling is done by certain wholesalers and retailers by purchasing imported goods at competitive prices and/or buying manufacturers' redundant stocks. The magnitude of the latter activity has increased significantly in the last five years with the shake-out in the clothing manufacturing industry where manufacturers had to revert to unconventional methods of stock clearance due to decreasing turnovers and cancelled orders.[77]

Discount selling has contributed to a basic structural change in the retail trade in the past few years. Clear distinctions between the functions of manufacturers, wholesalers and retailers have been eliminated.[78] As a result manufacturers, in some cases, started to perform the distribution function of both wholesalers and retailers, wholesalers began selling directly to the public, and retailers obtained their supplies directly from manufacturers.[79]

2.6.2 Comparisons within clothing the retail trade.

Number of retailers: Table 2.7 shows that the number of retail firms in Region 01, relative to the whole of South Africa, has declined from 10,4% in 1967 to 9,9% in 1977. A similar decline in the number of clothing retail firms[80] (men's, boys', ladies', girls' and general outfitters) in Region 01, relative to all clothing retailers in S.A., is noticed, i.e. from 12,8% in 1967 to 12,3% in 1977. No significant changes or trends could be detected.

Sales: Total retail sales of Region 01, relative to all retailers in South Africa, have shown a marginal increase from 11,9% (1967) to 12,0% (1971) to 12,2% (1977). Yet, clothing retailers in Region 01, relative to clothing retailers in S.A., have increased their sales from 14,2% in 1967 to 16,0% in 1977. Nationally, clothing retailers increased their sales, relative to all retail sales, from 11,3% in 1967 (R263,624m of R2 344,955m) to 14,7% in 1977 (R1 263,367m of R8 581,515m). For the same period, clothing retailers in Region 01, relative to all retail sales in this region, increased their share from 13,4% in 1967 (R37,362m of R279,698m) to 19,3% in 1977 (R201,619m of R1 045,474m). It is concluded that consumers in the Cape Peninsula spent increasingly more on clothing than on other goods.

Employees: Employment in all retail activities in Region 01, in comparison to all S.A. retail employment, varied between 11%-12%. However, the employment in clothing retail firms in Region 01, relative to S.A. clothing retail firms, has declined from 17,0% in 1967 to 6,4% in 1977. Employment by clothing retailers in S.A. grew by 34,9% (from 35 059 to 47 297 jobs) between 1967 and 1971, and by 181,4% (47 297 to 133 108 jobs) between 1971 and 1977. The growth in the employment figures for the clothing retailers of Region 01 for the same periods were 36,0% and 5,9%, respectively.

The comparison of average sales per employee between all retailers in Region 01 and all retail in S.A. shows that this region has been operating relatively close to national averages. To some extent, this is also true when this comparison is made between Region 01 clothing retailers and all S.A. clothing retailers for the 1967 and 1971 census periods. However, this trend was deviated from in 1977 when average sales per employee in clothing jumped to R23 526. One reason for this large increase is that, whilst clothing retail sales in Region 01 increased by 276,5% from R53,557m in 1971 to R201,619m in 1977, employment in this region only increased by 5,9% (from 8 090 to 8 570) for the same period.

As factory shops only became established in the early eighties, it would be interesting to determine whether this tremendous increase of turnover per employee in 1977 was not in any way threatened by factory shops who entered the market gap and have since been causal for the "chilled" relationship between clothing manufacturer and clothing retailer. The non-availability of current data prevents any meaningful conclusions in this regard.

Table 2.7 Retail trade: RSA and Region 01

	ALL RETAIL						CLOTHING RETAIL*					
CENSUS YEAR	1967		1971		1977		1967		1971		1977	
	ACTUAL	%	ACTUAL	%	ACTUAL	%	ACTUAL	%	ACTUAL	%	ACTUAL	%
NUMBER OF FIRMS:												
RSA	43 060	100,0	52 149	100,0	55 600	100,0	5 666	100,0	6 552	100,0	8 657	100,0
Region	4 494	10,4	4 931	9,5	5 518	9,9	722	12,8	765	11,7	1 066	12,3
SALES: (R'000)												
RSA	2 344 955	100,0	3 769 873	100,0	8 581 515	100,0	263 624	100,0	392 519	100,0	1 263 367	100,0
Region 01	279 698	11,9	452 502	12,0	1 045 474	12,2	37 362	14,2	53 557	13,7	201 619	16,0
EMPLOYMENT:												
RSA	235 361	100,0	308 592	100,0	328 861	100,0	35 059	100,0	47 297	100,0	133 108	100,0
Region 01	26 477	11,3	37 732	12,2	36 399	11,1	5 947	17,0	8 090	17,1	8 570	6,4
Average sales per employee												
RSA	9 963		12 216		26 095		7 519		8 299		9 491	
Region 01	10 564		11 993		28 723		6 282		6 620		23 526	

SOURCE: Census of Retail Trade, Dept. of Statistics, Pretoria

1967: Reports no. 04-41-16 (November 1973), 04-41-18 (November 1973), 04-41-21, (November 1973).

1971: Reports no. 04-41-23 (June 1977), 04-41-30, (June 1977), 04-41-33 (June 1977).

1977: Reports no. 04-41-36 (May 1981), 04-41-38 (February 1982).

* The firms included under these headings are men's and boys outfitters, ladies' and girls outfitters, and general outfitters.

In conclusion, it is expected that the structure of the clothing industry will develop along a pattern of a decline in the number of manufacturers and wholesalers while retailers will increase, for the following reasons: (1) the need to achieve economies of scale in the face of increased competition and lower productivity which could force a number of small manufacturers out of business; (2) the gradually decreasing role of the bespoke tailor; (3) the emergence of discount stores, together with the development of clothing chains and department stores (which all buy in bulk directly from manufacturers) should increasingly eliminate the traditional type of wholesaler, especially in the main centres; and, (4) the number of retail outlets in general should increase with the population increase. In this regard the chain clothing store will increase in proportion to the total clothing retailers, due to its financial strength which will put it in a favourable position to meet competition.[81]

2.7 Factory shops in the Cape Peninsula: A survey of popular literature and news reports of the de facto position.

This section of the study focuses on the main hypothesis (see 1.4.1) which is to indicate, by means of secondary research, if factory shops have become an integral part of the distribution structure of the clothing industry in the Cape Peninsula.

2.7.1 **Introduction and background.**

The factory shop debate reached prominence in South Africa during 1983 with widespread local media coverage; advertisements by factory shops; and, accusations and discussions between organized trade and industry, clothing retailers and the clothing manufacturing industry.

It was reported that thousands of shoppers flocked weekly to factory shops, which sprung up like mushrooms all over the Cape Peninsula in the past few years.[82]

The first awareness noted in the media came from the editorial of a local clothing magazine:[83]

> "Factory shops are proliferating. Advertisements in the daily newspapers call the public's attention to the possibility of a bargain straight off the production line.
>
> Whereas in the U.S.A. the 'regular price store' has to compete against discount operations, in South Africa, cut-price competition is coming from suppliers rather than retailers. This practice is dangerous".

Although factory shops had been in existence for at least 3 years at the time of the above statement, this article opened the floodgate of controversy surrounding the existence of and justification for factory shops.

Clothing manufacturers with factory shops faced vigorous opposition from retailers and their organized chambers of commerce. In particular, small independent clothing retailers in both rural and urban areas were perturbed by this development, as their survival was at stake.

Another viewpoint assessed factory shops as a fad, and that its life cycle will be equally as short as the merchandise of this industry. Factory shops were regarded as a short-lived entrant, with quick growth, yet an equally quick decline. However, factory shops have shown tremendous growth in a relatively short period of time, and as such it has become part of the clothing industry, particularly in the Cape Peninsula.

2.7.2 Perspectives of the clothing retail trade.

The retailers' main concern refers to the role and function of manufacturers as suppliers to wholesalers and retailers but at the same time bypassing the "generally accepted" channel of distribution by supplying directly to the consumer. In itself the latter action does not meet with negative approval, especially as far as the manufacturers' disposal of rejects and excess stock are concerned.

Retailers do, however, question the manufacturers' right to sell current merchandise directly to the consumer at the same time as the retailer who committed himself to order the same merchandise six months in advance.[84] In addition, as a service to its members, the Garment Workers' Union of the Western Cape (an employee organization) published a list of manufacturers operating factory shops, giving hours of business and locations.[85]

2.7.3 Perspectives of clothing manufacturers.

The first reply by clothing manufacturers to complaints from clothing retailers was noted in June 1983.[86] It was stated that more than 50% of apparel retailing in South Africa is under the control of six companies, whereas large corporations in the U.S.A. - such as Sears Roebuck, J.C. Penney, etc. - supply less than 5% of the market. The above statement is further supported by the following quote:[87]

> "Woolworths, Truworths, Pep Stores, OK Bazaars, Edgars, Foschini. Mention any of these names to the clothing manufacturers and they'll probably wince - without showing it. They're highly dependent on the Big Six for outlets. But to the Big Six, clothing manufacturers - and even some spinners and weavers - are mere serfs in their kingdom. The chain store's word is law.
>
> At the moment, when the Big Six speak, everyone along the pipeline listens.
>
> Their stranglehold over clothing manufacturers is so complete that the disdaining refer to the clothiers as 'glorified cut, make and trim operators' who panic to the tune of the chains".

In addition, retailers had to realize that the clothing industry received no protection when retailers entered manufacturing on a large scale through backward vertical integration by, for example Foschini, Wooltru, Pep Stores.

The influence of the chain groups on whom the manufacturer could supply, was unhealthy.[88] The big retail chains, through backward vertical integration, were involved in manufacturing on a big scale, operating their own factories on a "cut, make and trim" basis. This particular development caused some large manufacturers to ask why they should not be allowed to go into retailing (i.e. forward integration).

The ASSOCOM Congress presentation reiterated the fact that the factory shop retailing development is only one manifestation of far-reaching change which retailers will adapt to and join in one guise or another. "I believe it is more important to understand and manage change (factory shops) than to wish it away".[89]

The manufacturers' representatives stated that retailers would have to adapt to the existence of factory shops or otherwise, if they felt they were being unfairly treated, they could steer clear of those manufacturers involved in factory shops.

Manufacturers took strong exception to those retail outlets (off-price retailers) posing as factory shops. The latter, to a large extent, caused much of the prevailing friction between retailers and manufacturers.

From time to time, manufacturers experience problems in disposing of excess stock. Manufacturers buy material in advance, and often part of the total allocation remains unsold. The options open to manufacturers are to cut and sell these garments to their retailers, or to sell these goods through other outlets, some of which they may control themselves.

Should the retailer not exercise the first option the manufacturer would revert to the second option. Most manufacturers offer excess stock (which often includes cancelled orders) to retailers. In many instances this had been refused, because it was too late in the season, or it did not fit into the retailers' ranges.

2.7.4 Perspectives of the organized trade.

The first reference by the organized clothing trade to the factory shop phenomenon was made at the 1983 Afrikaanse Handelsinstituut Congress.[90] The document referred to the fact that S.A. officially supports the freemarket mechanism policy. As such, independent retailers face strong and healthy competition from chain stores. Suddenly, however, retailers encountered intense competition from wholesalers and manufacturers, which sold directly to the consumer, and found great difficulties in rivaling this onslaught.[91]

Manufacturers have turned to this "thriving" form of business in "alarming" proportions. Selling prices vary around cost price, depending on the stage of the product life cycle. At such attractive prices the consumer willingly endures travelling long distances and standing in queues. The price level whereby the consumer used to evaluate goods, is now distorted and this leads to confusion. This latter statement is supported by others:

> "Though there is a certain market segment that looks for attractive surroundings, informed service and a varied selection, even in this segment it is chic cocktail party chatter to claim that the little number causing comment came direct from a factory 'for a song'. In other segments, where money is tight, the appeal of a current fashion item at a bargain price offsets any lack of changing rooms and decor,"[92] and,

> "They are the city's growing legion of astute, energetic bargain-hunters, women who hotfoot it to factory shops in search of seconds, overruns, tailends, extras, redundant stock. Their war-cry is an infectious: 'What's cheap is good.' And when that war-cry is voiced in affluent rounded vowels and down-to-earth flat expressions, you know the fight against the cost of living is fought on a united front that cuts across the social mix. The buying power of these women has increased considerably to the extent that a whole informal rival economy is emerging. Some would call it a subversive economy".[93]

Organized trade saw no purpose in clothing retailers boycotting these manufacturers as such action could lead to unemployment in the clothing manufacturing industry; retailers still require certain product lines from manufacturers to survive; and while the manufacturers are to a large degree protected by import duties, retailers are restricted by those very curbs. The only acceptable solution was a proposal to consult with other organizations to launch a joint effort to negotiate an end to these "malpractices".[94]

The Cape Town Chamber of Commerce responded to complaints from their members by urging the Government to speed up the withdrawal of import controls and to reduce protective customs duties on clothing imports to more reasonable levels so as to enable clothing retailers to compete with factory shops.[95] Furthermore, as factory shops compete directly with retailers, the propensity would be for clothing manufacturers to supply their factory shops at prices below those of equivalents sold to retailers. This situation would simply undermine the clothing retailer and possibly force him out of business.[96]

2.7.5 Establishing a clothing retailers' forum.

In August 1983 more than 60 independent retailers and representatives of department and chain stores decided to form an association with the immediate objective of curbing the operation of factory shops selling their merchandise directly to the public.[97] This meeting was a direct result of a leader article in The Buyer[98] addressing the development of factory shops.

This same magazine applauded the decision to form the "Cape Retailers Association" (CRA), (a move that had earlier been advocated by this magazine) in that such a body would represent the interests of retailers which would give them the power in negotiation that they as individuals lacked[99].

The main concern of the launching meeting of retailers was to call for some form of consolidation between these retailers "in view of the millions of Rands involved in setting up small businesses, and having the right to a little protection, and to form a body to put our case to the clothing manufacturers".[100]

Concern was also expressed at to the "proliferation of manufacturers" selling goods to consumers in direct competition to the retailers, whilst retailers supported these same manufacturers by means of advance orders. At issue was not so much the direct sales of rejects and seconds, but first-grade and fully-labelled merchandise, much of it delivered to retailers and factory shops at the same time.

Saturday mornings had now become "open house" in those industrial areas where clothing manufacturers are located. These areas usually closed down on Friday afternoons, allowing factory employees to do their shopping at retail premises where Saturdays traditionally were the strongest selling days in retail terms. This has all changed since the advent of factory shops, in that the latter's operating hours are the same as that of retailers.

The Cape Retailers' Association resolved that a steering committee be appointed to negotiate with the Cape Clothing Manufacturer's Association on the factory shop issue.

2.7.6 Meetings between retailers and manufacturers.

2.7.6.1 Meeting 1: "The brains trust" seminar.

The CRA meeting had a spin-off in the form of a "brains trust" seminar, organized jointly by three Cape clothing manufacturers and three independent retailers.[101] Highlights of this meeting can be summarized as follows:

The retailers recognized that the factory shop development was "part of a world-wide" trend and that it was "a fact of life".

The retailers identified two clear problems with factory shops. The first implies jobbers, or off-price retailers, operating as factory shops. Advertising them as factory shops is misleading to the consumer and creates a false impression with the public. The above argument is substantiated by the recently published guide on factory shops, where no distinction is made between these two types of businesses.[102] Secondly, factories supplying and competing directly with retailers create an unacceptable situation to retailers. Retailers believe that this condition can be put into a more realistic perspective by adhering to the recommendations of the Steenkamp Committee report.[103,104]

"The chains (chain stores) were deciding what retailers and manufacturers could sell. In the end the manufacturers could not sell their over-runs to any retailers and ended up selling this merchandise themselves. 'I think it is very unhealthy and until it is changed I don't think the manufacturers have any other option but to have factory shops. If permits are released and we can bring in what we want, we can compete with the chains on an equal basis.' (An independent retailer)".[105] As a defence mechanism, retailers might be forced to obtain their supplies from manufacturers outside the Cape Peninsula, namely the Transvaal and Natal. The causal nexus for the present situation resulted from retail chain stores having too much control.

2.7.6.2 **Meeting 2.**

The steering committee of the CRA subsequently met with representatives of the Cape Clothing Manufacturers' Association (CCMA) to discuss the damaged relationship between clothing retailers and manufacturers. Both parties acknowledged that the South African retail scene was changing and that retailers and manufacturers who did not adapt to these changes would not survive. Although small retailers were being hurt badly manufacturers also experienced severe difficulties.[106]

The outcome of this meeting was a suggested code of practice - not one enforceable by law, but a voluntary code of fair trading practice between manufacturers and retailers, to give each other a fair chance - recommended by the CCMA to all its member-firms operating factory shops. The guidelines laid down were the following:[107]

1. that there be a three months' delay before summer goods offered to the trade, were sold through the manufacturers' factory shops;

2. that winter fashions not be available in the factory shop before Christmas;

3. all labels capable of being removed be removed before goods are placed in the factory shop.

2.7.6.3 **Meeting 3.**

In pursuance of a directive by the organized retail sector, a delegation of the Afrikaanse Handelsinstituut (AHI) met with representatives of the clothing manufacturing industry in December 1983.[108,109] The following is an abstract of the discussions.

Factory shops had now reached critical proportions and the current situation had become unbearable for many retailers. Approximately 60% of the total clothing production of Cape Town is exported to other markets, resulting in a larger proportion of unsold stock remaining in Cape Town than in any other place in South Africa. This in itself compounds the problem of orders cancelled at short notice.

An oversupply is created through cancellations on order books of 10% to 15%, leaving the manufacturers with no other option but to use factory shops as outlets.

To achieve economies of scale, factories often have to do economic runs. The latter then would exceed the demand, with the difference being rerouted to factory shops. This may be one explanation for finding similar goods in retail shops and factory shops at the same time.

Under no circumstances was it the intention of manufacturers to compete directly with their client-base, but as the economy weakened they were left with no alternative way to rid themselves of excess stocks.

Chain stores with their tremendous power in the distribution channel have control over the manufacturing of clothes, and are in competition with especially the independent factories. The dilemma facing manufacturers is very aptly put by one manufacturer:[110]

> "The recession struck like a bolt from the blue. One day the order books were full, the next day they were half-empty through cancellations. One thing the recession taught us, and that was to hunt down every avenue for business. A couple of manufacturers opened factory shops and made a special effort to meet shorter lead times - two recession-inspired trends that may be here to stay".

Factory shops have a negative influence on consumer conduct. As the consumer now evaluates a new price approach, he views the retailer in a poor light, thus creating an unhealthy climate in which the retailer is still obliged to provide a sophisticated service.

The factory shop, with its partly captive market, leaves the retailer in a poor competitive position, because it operates at low cost, and in most instances it is not subject to the rules and regulations, licensing requirements, shop hours, the need for a sophisticated presentation and merchandise depth required of sophisticated retailers to compete effectively.

Factory shops are characteristic to the Cape Peninsula (see Chapter 2, section 2.7.1 par. 2). Changing patterns in clothing sales in the U.S.A had already assumed huge proportions and South Africa had to expect that a similar phenomenon will gradually establish itself on an increasing scale.[111] In future, both clothing manufacturers and retailers will be introduced to new concepts to which both parties will have to familiarise themselves with and adapt to, in order to survive.[112]

2.7.7 Crystalizing the dichotomy: the unresolved status quo

No further discussions between the various interest groups had been observed, even though the Cape Clothing Manufacturers' Association had offered to discuss the matter should the retail interest group feel the position was deteriorating further.[113]

Less than a year later the editor of "The Buyer", who had earlier lauded the decision by these retailers to form the Cape Retailers' Association (CRA), expressed serious doubts as to the mission of this organization. The editor stated that, rather than with the positive aim of raising the standard of retailing in South Africa in the manner of the National Merchants' Association in the U.S.A., the CRA was formed primarily to fight the challenge of the factory shops.[114]

This statement was confirmed by the researcher during a personal visit to the chairman of the CRA during 1986, when the latter admitted that the interest this proposed organization had received at its launching meeting never gained any momentum, and all subsequent efforts to revive the organization have been fruitless.

Some of the last noted references to factory shops came from a leader article in The Buyer in which Mr Christo Wiese, Chairman of Pep Stores, on addressing an independent retailing group was criticized for his views on the influence of factory shop development. The Buyer questioned Mr Wiese's assumption that the phenomenal success of factory shops and off-price retailers would not be repeated locally. Mr Wiese argued that their development would be curtailed through a lack of availability of branded merchandise and because of his belief that this type of outlet was aimed at the lower socio-economic groups only. The editor of The Buyer saw the threat to traditional retailing more real and in Cape Town particularly, observed the growing appeal of clothing factory shops among all consumers.[115]

At the same time as when the factory shop controversy raged in the Cape Peninsula, an international retail consultant, Maxwell Stern, delivered a lecture to Western Cape retailers:[116]

> "'It all comes back to margins. If they are too high, you threaten your position.' He regards retailing in South Africa as concentrated, but not competitive. 'There are high cost operations, in many cases over centralized', and warns that increased competition between existing retail formulae and the emergence of retail innovations will not allow the economically unjustified margin increases. 'Watch those factory shops', he cautioned".

2.7.8 Perspectives of a local authority.

Recently the Cape Town Municipality called for an internal report on factory shops in industrial areas.[117] This came about as a result of the increase in requests by factory owners to establish factory shops on their premises.

The main objections to permitting factory shops in industrial areas are, firstly, that scarce industrial land would be encroached upon by other users (e.g. retailers) and, secondly, that the resulting traffic congestion may inconvenience other manufacturers in these areas.

Cape Town Municipality has become more lenient in its approach of not adhering strictly to by-laws and ordinances guarding against trade, other than manufacturing, in these industrial areas. This approach is a direct result of the high vacancy factor in industrial areas - a phenomenon which relates directly to the downturn in the economy during the past four years. This trend of high vacancy rates is confirmed by real estate agents.

Should factory shops be allowed to operate in increasing numbers from industrial land, this development will not cause undue stress, or a severe shortage, of industrial space. In the event of increased economic activities the present supply of industrial land will not be fully utilized for a period of five years.

A more pressing problem for Cape Town Municipality (in addition to the loss of revenue from unused land and buildings) is the decline of older and established industrial areas because of the application of the Group Areas Act whereby the labour forces of these areas have diminished alarmingly. The result of this draconian measure is that these specific industrial areas have since lost their attractiveness as both income and value generating areas as many establishments have ceased their activities.

This space now lies vacant or is being used for warehousing. A very good example of this is Woodstock, especially around the lower Main Road area.

Section 15(1) of the Land Use Planning Ordinance prescribes land use and zoning. Non-industrial firms wishing to trade in industrial areas may now apply for continued temporary departures from Section 15(1), subject to a few basic requirements.

A long-term result of this recommendation could well be that parts of these industrial areas will now be "converted" into commercial areas, as factory shops will now be filling that niche in the market and will continue to draw consumers in larger numbers. A spin-off is that these activities will create precedents for other commercial firms to enter.

The Factories Act exempts establishments converting raw material into user goods from licensing requirements. However, if a factory intends to open a factory shop, application for a retailer's licence must be made to the local authority. Such retailer's licence to operate a factory shop on an industrial premises is dependent upon favourable reports from three departmental inspectors.

2.8 Summary and conclusion.

The South African clothing industry developed along very similar lines to the American clothing industry. Although the clothing industry in the U.S.A. preceded the local industry, both countries had prolonged periods of home-based clothing manufacturing, followed by rapid industrialization.

In the clothing industry in the U.S.A. factory shops were established in the early seventies. Today they are not only located in industrial areas, but a number of shopping malls cater exclusively for these factory shops. The major reasons presented for factory shop development were slow growth in retail sales, reduction and cancellations in orders by retailers, as well as clothing manufacturers' desire to exercise more control at the ultimate point of sale. Despite the possible alienation of their traditional clients, clothing manufacturers in the U.S.A. continue to develop factory shops.

The clothing manufacturing industry in South Africa was established in Cape Town during the first decade of this century, and had become self-sufficient by the end of World War II. Although this industry developed strongly in the four major metropolitan areas, the majority of these establishments are still located in the Cape Peninsula. In 1979 the clothing manufacturing industry ranked third and fourth in terms of employment and the number of manufacturing establishments in S.A., respectively.

The role of the wholesale branch of the clothing industry, in terms of the number of establishments, turnover and employment is declining, mainly as a result of vertical integration by clothing manufacturers and clothing retailers.

The clothing retail trade established itself in the second half of the nineteenth century. The advent of department stores and (later) chain and discount stores initiated new trends which contributed to basic structural changes in clothing distribution.

The South African distributive system in general, and the clothing distributive system in particular, have experienced many distinct developments within a relatively short period of time. Examples of resistance against new developments are legion, but each and every time such innovation had, after initial difficulties, established itself as part of a vibrant system; thereby becoming part of such system, only to be challenged by new threats, such as the advent and proliferation of factory shops. In the analysis of all available South African literature the channel members in the clothing distribution process (particularly manufacturers and retailers) have acknowledged that factory shops established themselves as additional members of the distribution channel.

The clothing industry in the Cape Peninsula was the pioneer of the factory shop concept in South Africa, the latter having started in 1980; yet, it only reached prominence in 1983 when the media reported changes in consumer buying habits of clothing and on the controversy raging in the clothing distribution channel as a result of this new entrant.

Consumers are trapped between their growing loss of purchasing power, caused by high inflation, and their opposing desire to acquire goods of better quality. Clothing is the third largest expenditure item on the average household budget, and as such the consumer has to find alternative means to let his/her Rand go equally far.

Clothing manufacturers have increasingly found themselves caught in several squeezes. Their customers (the chain and department stores) are buying less and ordering later, while in many cases independent retailers pay more slowly for their goods as they struggle with the burden of financing credit to consumers in order to generate turnover. In addition, manufacturers often overproduce to achieve economies of scale. Failure to meet delivery dates to their customers often results in unsold stock, and in most instances these stocks take up needed space for the next seasons' goods.

The retail clothing industry (particularly independent retailers) has not grown vigorously. At a conference for independent clothing retailers, research findings indicated that these independent clothing retailers will become a dwindling force in the next 10 years.[118] This will have a significant impact if one considers that 60% of all clothing sales goes through independent retailers.[119] Research on the failure of independent retailers in the Port Elizabeth area indicated that 53 retailers closed down in 1982. Twenty eight per cent of these firms were clothing retailers.[120] Even with the enormous concentration of power held by chain stores, the cost operations have risen and gross margins and prices were raised to maintain profitability.

Factory shops cannot merely be wished away, as indicated all throughout this chapter. All the parties involved in the distributive sector of the clothing industry will have to concede acceptance of this phenomenon. Should market forces alone dictate (as opposed to macro-environmental variables, such as legal-political forces) the permanency of this entrant into the distributive system of the clothing industry will become inevitable. Experience elsewhere has conceded to this fact.

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17. The outlet mall is a new construction, in the form of both

enclosed malls and strip centres, with an equal ratio of factory outlets and off-price retailers. The average size is 12 000 square meters and there are no anchor stores.

The second type is a conversion or rehabilitated complex from a previously used type of structure, such as vacant factories, depots, etc. These venues are totally renovated and it is located within major suburban markets.

The third type is a strip centre, situated adjacent to regional shopping centres. Units in these centres are primarily leased to upscale (upmarket) off-price retailers.

Extracted from "Outlet malls, the U.S.A.'s latest retail trend", op. cit., p. 32.

18. "Economics of a brand new mall game", op. cit., p. 30.

19. "Clothing makers go straight to the consumer", Business Week, April 29 1985, p. 54.

20. The process of taking over the marketing functions performed by the wholesalers and/or retailer. A more detailed discussion on Integration follows in Chapter 3, Section 3.8.

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CHAPTER 3. THE STRUCTURE OF DISTRIBUTION CHANNELS

3.1 Introduction.

Members of a distribution channel often view new entrants with suspicion, especially when such new entrants have not been created jointly by existing channel participants, to assist with the distribution of goods and services of that channel. This development (innovation) creates a "shake-out" of such a distribution channel. For example, new roles and functions for each channel member need to be defined, conflict may arise and power struggles for channel control may emerge.

This chapter, therefore, deals with the theory on distribution channels to provide greater insight into this dilemma. It addresses, inter alia, the following: the evolution of distribution channels; theories of distributive structure development; the most popular theories on the evolution of retail institutions; power and its sources as a means of gaining channel leadership; the reasons, sources, types and causes of conflict to determine their effects on channel cooperation; and, concludes with an analysis of the different patterns of organization in marketing channels with emphasis on vertical integration as a means of gaining channel control.

3.2 Distribution channels.

Definitions of a channel of distribution virtually equate the number of writers on the subject. The answer lies in the fact that the channel appears to have been one of the most elusive of marketing subjects. Pride and Ferrell[1] define a marketing channel as "a group of interrelated intermediaries who directs products to customers"; Russ and Kirkpatrick[2] view a distribution channel as "the sequence of firms that sell, buy, or hold products as those products move from manufacturers and producers to end buyers"; Mason and Mayer[3] regard distribution as "..channel members (that) buy and sell goods and services, assume or arrange for the transfer of title to merchandise, and accept the risk as a result of their decisions." The common factor between these definitions, and many others,[4] is the concept that the channel of distribution is the chain along which goods pass from the original producer to the final consumer.

Management faces a number of complex tasks in operating a business. One such difficult task is the designing and managing of a distribution (or marketing) channel. One hypothesis[5] for this complexity is the dynamism of the distribution structure, which effects changes to the nature of the channel, often with considerable channel restructuring and repositioning.

3.2.1 Evolution of distribution channels.

The concept of distribution channels (although being part of the manufacturing, buying and selling process for centuries) only began to crystallize during the first part of this century, when it emerged as a usable object of thought because of the increasing emphasis by American academics on effective marketing.[6] These pioneer authors assessed and addressed marketing as a number of independent activities; a notion that was only dispelled by Vaile and others between 1950 and 1952 when marketing was objectified as a continuous flow of activities.[7]

These means of getting the product from the producer/manufacturer to the market have caused some prolific writing on the subject to facilitate, inter alia, the institutional structure of distribution, the strategies for selecting and operating distribution channels, and systems for the physical distribution of goods.[8]

The structures of distribution channels can assume many forms whereby the various channel members create consumer utility as well as facilitate greater efficiency by moving goods and services from producer to consumer. During this process a number of functions are performed by channel members, such as buying, selling, storage, transporting, sorting, financing, information development, risk taking and channel flows.

3.3 The dynamics of channel structures.

As stated earlier in this chapter,[9] combinations of institutions specializing in manufacturing, wholesaling, retailing and many other activities join forces in marketing channel arrangements to effect the delivery of goods to the final consumer. The designing of such a channel of distribution is a key factor in assisting channel participants to gain a differential advantage[10] in the marketplace, i.e. each member finds a niche for itself which enables it to use particular strengths to satisfy customer needs better than its competitors.

The marketing structure of a channel defines the intra-channel arrangements and linkage of its members. Typical channels for consumer products are illustrated in Table 3.1. Channel A illustrates the direct movement between producer and consumer where there are no intermediaries. Examples of users of such channels are farmers selling fresh produce directly to consumers and factories selling directly to consumers.

Channel B, depicting producer to retailer to consumer, is generally being used by large food retailers, e.g. Pick and Pay, Checkers, and O.K. Bazaars.

Table 3.1 Typical marketing channels for consumer products

A	B	C	D
Producer	Producer	Producer	Producer
↓	↓	↓	↓
			Agents/Brokers
			↓
		Wholesalers	Wholesalers
		↓	↓
	Retailers	Retailers	Retailers
	↓	↓	↓
Consumers	Consumers	Consumers	Consumers

Channel C is one of the most traditional channels and the typical users are smaller firms with a low capital base, such as general dealers.

Channel D, which includes agents, is typically used for livestock and fresh produce dealers.

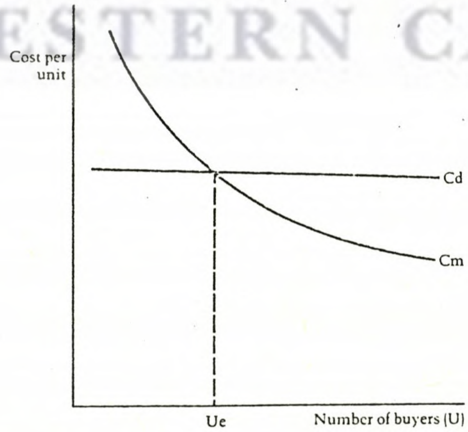
The functions and flows of marketing channels are more or less clear and delineated to its participants. However, if one participant, for example a manufacturer, decides to sell directly to the consumer, he will have to assume all the functions performed by the intermediaries and/or shift them to his customers. The important principles underscoring the structure of marketing are as follows:[11]

- institutions in the channel arrangement cannot be eliminated or substituted;
- the functions performed by these institutions cannot be eliminated;

when institutions are eliminated, the functions are assumed by others, by moving these functions either forward or backward.

Bucklin developed a model which illustrates the role of the above principles. This model relates market size to channel structure, and provides some insight into the possible relationship between these two variables.[12] Bucklin's model is illustrated in Table 3.2. The horizontal axis measures the number of buyers in the market, with each buyer purchasing approximately the same number of goods per transaction. Line Cd is the cost curve of the direct channel, which is almost constant for each buyer. The slight downward slope is attributable to better market facilities at lower cost, or the likely existence of external marketplace economies for larger volumes. However, the

Table 3.2 The effect of number of buyers (U) on the relative cost of direct channel vs. middleman channel



Source: Bucklin, L.P., Competition and Evolution in the Distributive Trades, Prentice-Hall, Inc., Englewood Cliffs, New Jersey, 1972, p. 18.

channel that uses intermediaries, Cm, indicates high costs for a small market, but which decrease sharply as volume increases. The high initial costs are caused by extra handling and transaction costs necessary for the middleman channel. Where the volume level is low, any savings in concentration and dispersion are insufficient to offset these.

As volume increases and the cost of using intermediaries is spread over a larger number of buyers, costs decrease. When the market size has reached the point Ue in the figure, the cost of the intermediary structure is equal to that of a direct structure. As the market becomes larger, UeU, the channel structure using intermediaries is lower in cost.

Relative to the retail sales volume of clothing, factory shops still contribute a small percentage and therefore factory shops would operate in the area OUe of Bucklin's Model. However, in his paradigm of the channel design decision, Rosenbloom cites a number of causes of channel (re)design, one of them being "when existing intermediaries have changed their policies so as to inhibit the attainment of a firm's distribution objectives".[13]

Since 1980 the clothing industry has also experienced the advent of the increasing role played by factory shops. The latter type of organization would operate in the UeU parameter.

3.4 Theories of distributive structure development.

Several theories or explanations why channels develop certain structural properties over time can be discerned.[14] These are: (1) adaptive processes as a result of environmental changes; (2) the theory of postponement-speculation; (3) axiomatic processes of disintegration and reintegration; (4) and cyclical evolution processes. Analysis of these theories provides an important orientation to the dynamics of distributive developments over time.

3.4.1 Adaptive processes as a result of environmental changes.

One of the most obvious explanations of structural developments is that it is the logical result of changes in the environmental factors, such as technological, physical, governmental and social/behavioural factors.[15] For example, the emergence of the supermarket and hypermarket was dependent upon the availability of technologies such as the mass media and mass communication, the cash register, packaging and refrigeration, and the automobile. The advent and continuous development of electronic data processing systems have enabled middlemen and manufacturers to accurately assess their distribution costs and redesign their respective channels.

Physical factors such as geographic setting and resource endowment, size of market area, location of production centres, and population density and cluster, influence the structure of channels. Distribution channels tend to be longer (i.e. include more intermediaries) when production is concentrated and population and markets are sparse, and urban areas are served by a wide variety of retail outlets in comparison to rural areas, which may be served solely be a general store. Governmental factors, by way of legislation, can influence channel structure in various ways; there are laws that prohibit restrictions in distribution, pricing discrimination, and unfair trade practices.

Galbraith has advanced the concept of countervailing power as a tentative explanation of how social and behavioural factors can influence channel structure and practices.[16] His theory emphasizes that:

(a) private economic power is held in check by countervailing power of those who are subject to it;

(b) economic power begets countervailing power;

(c) countervailing power is a self-generating social force in the economy; and

(d) countervailing power can take many forms, the most important of which is threatened or actual vertical integration.

Manifestation of the effect of countervailing power on distribution channel structure are provided by the following examples: forward integration by (for example) clothing manufacturers to counteract the backwards integration of clothing retailers, such as Pep Stores; the emergence of the mass retailer to countervail the power of large manufacturers; vertical integration by mass retailers, such as Edgars' and O.K. Bazaars' ownership of manufacturing facilities; the utilization of private brands by retailers to countervail the power of large manufacturers with popular national brands; the emergence of voluntary and retailer co-operative chains to countervail the power of large corporate chains; and trade association activities in an attempt to countervail the power of chain store retailers and manufacturers.

From the foregoing theories of adaptive processes it is clear that a myriad of social, economic, technological, physical and governmental factors can influence distributive structures, and that the use of one group of factors in isolation (e.g. economic factors) can be inadequate.[17]

3.4.2 The theory of postponement-speculation.

Bucklin developed the principle of postponement-speculation to explain structural changes in distribution channels.[18] According to Bucklin, efficiency in distribution channels is promoted by the postponement of changes in, firstly, the form and identity of a product to the latest possible point in the marketing process, and secondly, inventory location to the latest possible point in time. Because risk and uncertainty costs increase as the product becomes more differentiated, postponement promotes efficiency by moving differentiation nearer to the time of purchase when demand is more certain, thus reducing risk and uncertainty costs. Also, the cost of physical distribution of goods is reduced by sorting products in large lost in relatively undifferentiated states.

Postponement is a tool used by a channel member to shift the risk of owning goods to another channel member. For example: clothing manufacturers postpone by refusing to produce except upon the receipt of buying orders from clothing retailers; middlemen buy from sellers who offer faster service delivery, thus shifting inventories backward; and consumers postpone by buying from retail outlets where goods are available directly from the store shelf. The speculation concept, as the opposite of postponement, holds that "changes in form, and the movement of goods to forward inventories, should be made at the earliest possible time in the marketing process in order to reduce the costs of the marketing system".[19]

The theory of postponement-speculation thus asserts that speculative inventories create the opportunity for new institutions to hold title in the channel. The existence of speculative inventories leads to the use of indirect channels; the economic need to have such inventories opens the door to middlemen to demonstrate whether they are capable of reducing the cost of inventory risk-taking (i.e. the costs associated with participating in the flows of physical possession and ownership). The development of factory shops can very well be explained by this theory. On the other hand, non-speculative inventories create an opportunity for different types of institutions in the channel, such as off-price retailers, freight forwarders, dropship wholesalers, and agent middlemen who do not take title to merchandise but who, in the absence of speculative inventories, facilitate the use of more direct channels of distribution.

3.4.3 Axiomatic processes of disintegration and reintegration.

Stigler was one of the first economists to systematically analyze the economics of vertical distribution networks.[20] In his analysis of vertical disintegration, Stigler postulates that a manufacturing firm simultaneously performs several functions, each of which has a distinctively shaped cost curve. The firm's average cost curve is the sum of the cost curves associated with performing a given set of functions, and the firm will strive to operate at a level at which marginal costs equal marginal revenue. The economies inherent in performing specific functions may not be exhausted at this level of output, however, with the result that the firm can achieve external economies by delegating decreasing cost activities to organizations that specialize in performing such activities.

On the basis of this analysis, it is concluded that manufacturing firms in highly competitive and expanding industries will delegate a substantial number of functions to specialist organizations such as middlemen, facilitating agencies and component manufacturers. Thus, an economic rationale for explaining the process of vertical disintegration as it occurs in highly competitive, developing industries is provided. Eventually, however, as an industry continues to expand and enters the maturity stage, reintegration of the delegated flows may be warranted as many firms achieve a level of output that enables them to perform historically delegated functions at as low a cost per unit as specialized institutions. By opening their own factory shops, the clothing manufacturing industry of the Cape Peninsula have started to perform historically delegated functions.

When this condition prevails, primary organizations can advantageously absorb numerous functions; thus disintegration is axiomatically followed by reintegration in advanced economies. Clearly, many large firms in the South African economy have reached a point where the economies of (re)integration are compelling, with the result that a growing number of firms currently operate and program comprehensively integrated vertical distribution networks.[21]

Such a pattern of vertical disintegration followed by vertical reintegration can be observed in the case of small manufacturers who rely heavily on agent middlemen to represent them in the market, and on specialized storage, transportation and financing institutions to perform the respective functions in their channels. As these small manufacturers expand, they tend to develop their own storage, transportation and financing and dispense with many services of agent middlemen and other specialized institutions. Similar analyses can be applied to wholesalers and retailers. For example, Pep Stores started as a family clothing retailer and expanded horizontally. As its operations grew increasingly larger, Pep Stores integrated backwards in terms of operating its own warehousing and other wholesaling facilities, and then in terms of owning or controlling manufacturing facilities.

Thus, when a firm's output and its market are limited, it will likely find itself shifting flows onto others in its channels. As market and firm sizes expand, it becomes increasingly economical to integrate vertically, which is a pattern of behaviour fully evident among the largest manufacturing (e.g. Premier Milling and Tiger Oats) and distributive (e.g. O.K. Bazaars, Edgars, Pep Stores) organizations in the South African economy. However, this is not always the case. Very small firms often find it difficult to secure needed services from agents, middlemen and financial institutions, for example, and therefore must integrate these flows, even though it would be more economical to pass them along to some other firm. The development of factory shops can partly be attributed to the forced integration of these flows because of environmental pressures (such as a downswing in economic activities) which left them with cancelled orders.

3.4.4 Cyclical evolution processes.

Izraeli examined the historical development of distribution channels since the Industrial Revolution, and found it to be a process of cyclical evolution.[22] In each cycle the economic position of "weaker members" in the distribution channels (whether they be manufacturers, wholesalers, retailers or even customers) is threatened by the growing concentration of some other member in the channel. A characteristic feature of the cycle is that the disadvantaged member of the channel mobilizes to countervail both the vertical and horizontal competitive pressures. It then reasserts its position through either internal growth or affiliation. The dialectical forces operating are those of challenge, mobilization and response.

The cycle typically begins with the rise and concentration in manufacturing stimulated by some important socio-economic event or process such as the Industrial Revolution, the First World War and the Second World War. For example, the Second World War stimulated the growth of many South African manufacturing industries. During the immediate post-war years there was a market clamouring for goods people had been deprived of during the war years. Demand far exceeded supply, particularly for consumer goods. Manufacturing organizations required growth to take advantage of the opportunities now available to them and to achieve economies of scale. In addition to developing their own plants some manufacturers started mergers and takeovers which increased the concentration of industry in fewer hands, with a resultant strengthening of their power position vis-a-vis the firms in the distributive trades.[23]

The cyclical evolution approach to the study of developments in distributive channels clearly necessitates a reformulation of traditional static structural definitions of these channels. It requires a dynamic model which incorporates processes of change stimulated by conflict and competition. Such changes stimulated by conflict and competition was also observed with the development of clothing factory shops. The distribution channel may be viewed as an emergent field of forces in which the component members are engaged in a competitive struggle over scarce resources.

The process is punctuated by periods of relative equilibrium or rest, which are characterized by considerable conservatism in the channels making entry into a market by newcomers difficult. A stimulus emanating from outside the channel (such as large-scale immigration, technological innovations, political and ideological changes, war, and so forth) brings about a resurgence of unrest and competition as well as the advent of a new cycle.

3.4.5 Evaluation of theories of distributive structure developments.

Evaluation of the various theories of structural development in distribution channels leads one to conclude that the cyclical theory is the most comprehensive and useful in practical application by channel members. Close examination of this theory in fact shows that it incorporates the theories of: (1) **adaptive processes** (environmental factors provide the stimulus for the start of a new cycle); (2) **postponement-speculation** (examination of possible new institutions to hold title of speculative inventories in the channel, or possible postponement to shift risk to other channel members) which is part of the struggle for power to countervail the strength of existing channel members; and (3) **axiomatic processes** of disintegration and reintegration (which explain both the adaptation of channel members to market size and the dialectical cycle forces of challenge, mobilization and response). Channel members can apply the cycle theory to the advantage of their own industries (as had been the case with Cape Peninsula clothing manufacturers with their factory shops), having examined the historical development of changes and identified the major operating forces in a dynamic, as opposed to static, model of distributive structure.[24]

3.5 Theories on the evolution of retail institutions.

Retailing is intense and ever-changing and there are various theories which speculate on how marketing channels and institutions continuously have to adapt to their environment in order to avoid "economic obsolescence".[25] Most of these are tactical adaptations whereby firms and channels manoeuvre for short-term advantage. Schumpeter, Barnet and Levitt, however, argue that the existence of a firm or a channel is threatened periodically by a major change, and that this type of innovative competition is a prerequisite for economic growth.[26] Thus, the emergence and acceptance of new practices (such as the development of clothing factory shops) are complex.

Retailing theorists show a significant dissent on a universally applicable and acceptable model for explaining changes in retail distribution patterns. One reason for the absence of a universally acceptable model of retail change arises from the differences between countries regarding external environmental factors such as economical, political, legal, technological and other factors.

Changes in retailing occur at an ever-increasing rate and the retail environment of today is scarcely recognizable from that of a few decades ago. Richard Pizitz once remarked that more significant changes in the retail structure have occurred in the past 15 years than in the previous 150 years.[27]

A study of relevant literature reveals distinct patterns of development in both developed and developing countries.[28] Developments in South Africa take one through the settlement at the Cape with relatively crude and unsophisticated services. As the so-called White population moved further inland so did the merchants/traders in ox-wagons and carriages. Wherever communities settled, some form of distribution originated. The growth of these communities gave rise to the general dealer out of which the department store, variety stores, supermarkets, warehouses, mail order businesses, etc., as we know them today, eventually evolved.

The above explanation exemplifies the adaptive behaviour to environmental change and it is as a result of these adaptations that different theories of retail institutional change have been developed. The most popular theories of retail institutional evolution are the **cycle theories** (the **wheel of retailing**, the **three wheels of retailing**, the **retail accordion**, and the **full cycle hypothesis**), **dialectical processes**, **survival hypothesis**, **institutional life cycle**, **competitive system hypothesis**, **vacuum theories**, **crisis-change theories**, and the **natural selection** (adaptive behaviour) **model**.

3.5.1 The Cycle Theories.

Distribution patterns are characterized by cyclical trends whereby the latter frequently begins with bold innovation, which is followed by a period of rapid growth. A number of theories can be grouped under Cycle Theories, namely the Wheel of Retailing, the Three Wheels of Retailing, the Retail Accordion, and the Full Cycle Hypothesis.

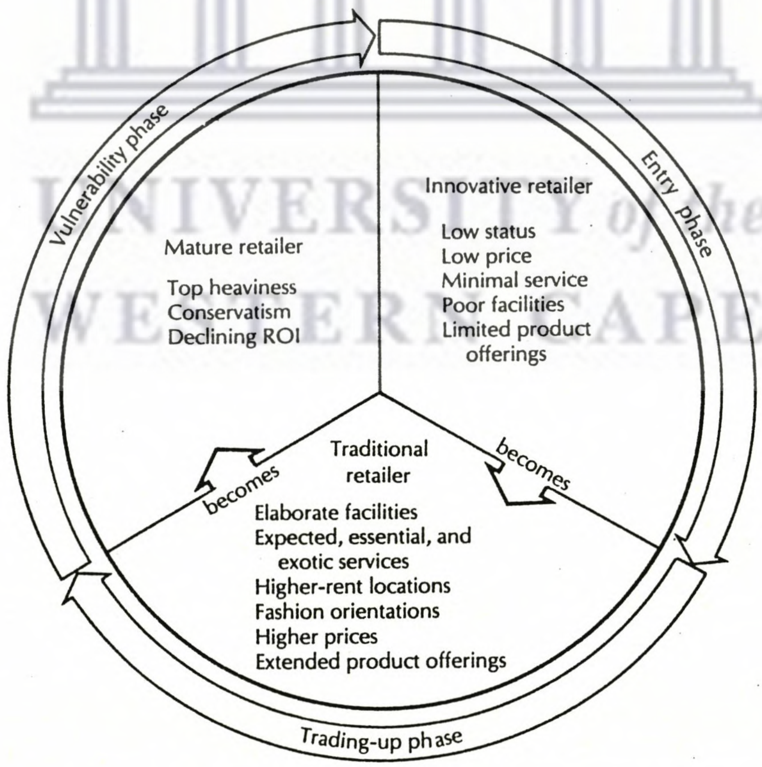
3.5.1.1 The Wheel of Retailing.

New types of retail firms usually enter the marketplace as low-status, low-cost, low mark-up and low-price operations. Typical characteristics of such entrants or innovators are their locations which are normally less conveniently situated, with limited services offered or often the complete absence of services, and inexpensive furnishings. Competitors who do not adapt their operating methods lose market share to these innovators.

However, as the innovator matures and becomes more successful, it presents more services (e.g. better locations, and quality inventories) and could possibly also open more stores. A consequence of these activities is an increase in costs and an increase in prices to offset the costs.

This period of maturity is characterized by slower growth and lower profit margins. In turn, they (the innovators or new entrants) also become high-status, high mark-up and high-price retailers and the cycle begins again,[29] as illustrated in Table 3.3.

Table 3.3 Wheel of retailing and the retailer



Source: Lewison, D., W. Delozier, Retailing, Charles E. Merrill Publishing, 1982, p. 37.

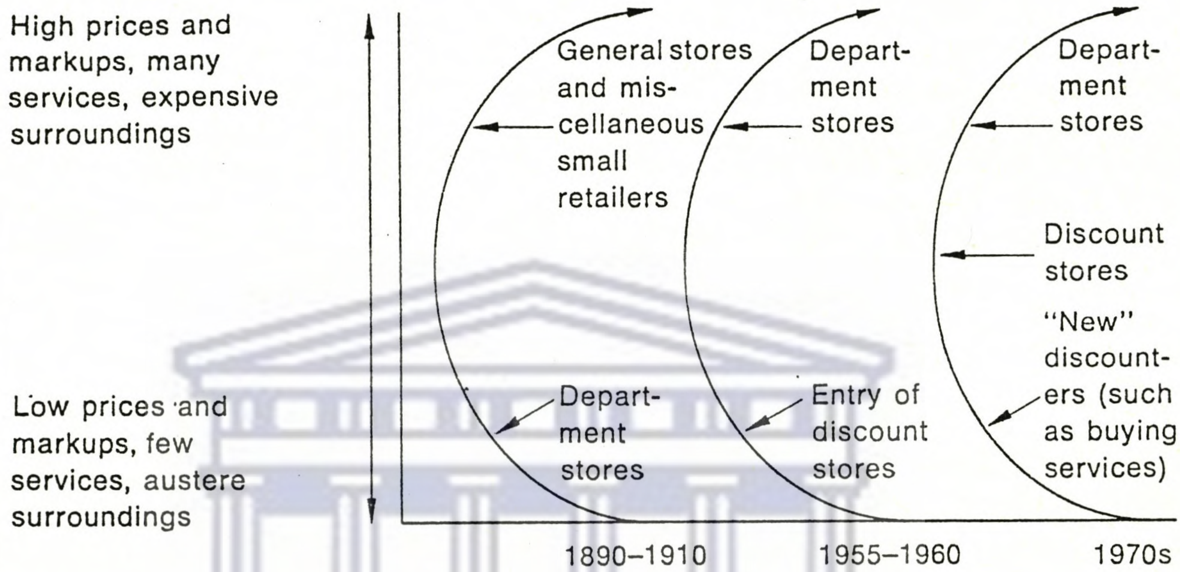
Four hypotheses support The Wheel of Retailing,[30] namely: (1) the institutional innovator enters the retailing system and competes on the basis of price; (2) these low selling prices are achieved through shoestring budgets with limited or no services; (3) the new retailer establishes itself and starts trading-up; and (4) the latter activity of trading-up provides opportunities for new institutional innovations in retailing.

The Wheel theory accounts for the entry of factory shops, discount stores, department stores, supermarkets, mail-order businesses and to a lesser extent, certain kinds of chain stores. Table 3.4 explains the cycle of various types of stores.

Hartley states that "if the wheel is considered to be turning slowly clockwise in the direction of the arrow, then the department stores around 1910, and the discounters later, came on the scene at the low end of the wheel.

As it turned slowly, they moved with it, becoming higher-price operations, and at the same time leaving room for lower-price types of firms to gain entry at the lower end of the wheel".[31]

Table 3.4 Entry and movement of department stores and discount stores on the Wheel of Retailing



Source: Hartley, R.F., Retailing: Challenge and Opportunity 3rd Edition, Houghton Mifflin Co., Boston, 1984, p. 42.

The present structure, in order of decreasing mark-ups, is shown in Table 3.5. Mayson and Mayer[32] conclude that retail management currently matches specific positions on the wheel and remain there, thus causing a slowdown of the. movement of the wheel. Retailers with various store types in their portfolio (for example Clicks and Diskom) do not allow these stores to compete openly against one another as these firms serve in a specific market position.

Table 3.5 Present structure of the Wheel of Retailing (In order of decreasing mark-ups)	
Luxury speciality groups	
Boutiques	
Speciality stores	
Junior department stores	
"High-end" department stores	
Conventional department stores	Conglomerchant[33]
"Low-end" department stores	
Conventional discounters	
Catalogue discounters	
Hypermarkets	
Factory outlets	

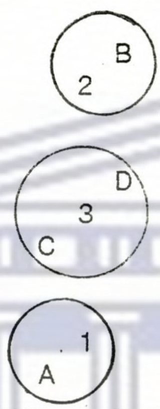
<u>Source</u>: Tinsley, D.B., J.R. Brooks, M. d'Amico, "Will the Wheel of Retailing stop turning?", <u>Akron Business and Economic Review</u>, Summer 1978, p. 26.

Some criticism leveled at this theory is that the wheel is regarded as too narrow and deterministic an explanation for change in the retail structure.[34] Furthermore, not all institutions begin as low-margin outlets with minimum services. For example, suburban shopping centres, personal computer stores and departments stores have not followed this model. Neither does this theory explain the response of the established retailing institutions to the penetration of the innovators.

3.5.1.2 The Three Wheels of Retailing.

The abovementioned shortcomings of the Wheel of Retailing theory gave rise to the more expanded theory of Izraeli, known as the Three Wheels of Retailing.[35] This theory presents three wheels of retailing (Table 3.6). The first wheel (1) consists of low-end innovators (A), the second wheel (2) represents high-end innovators (B) and the third wheel (3) represents established institutions around the middle, viz. (C) conventional lower-priced outlets and (D) conventional higher-priced outlets.

Table 3.6 Emergence of low-end innovative institution A and high-end innovative institution B



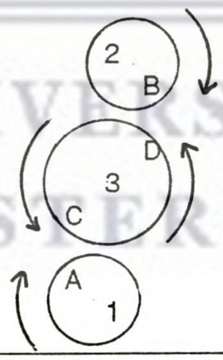
The competitive forces between innovators and established institutions closest to them result in mutual influence and modification until, finally, the innovators become part of the establishment. This is illustrated in the preceding table, where the wheels are shown at the beginning of the process.

The initial success of A and B can be explained by the introduction of new trading methods, e.g. self-service and one-stop shopping. With the passage of time the behaviour of both the innovator and established institution will affect each other.

The conventional institution will react to the market penetration of the innovator and, in order to regain part of its share of the market, they will initiate and imitate the new methods. The innovators, on the other hand, tend to become more conventional. The pressure is proportionate to the growth of that market segment which desires a compromise between service and price levels of the two types of institutions. This is illustrated in the Table 3.7.

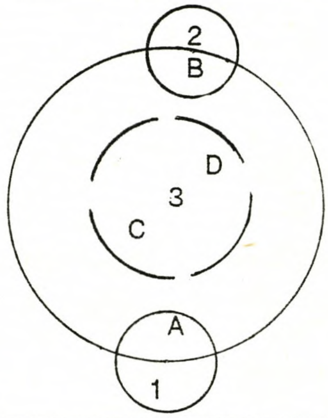
Institution D, the conventional higher-priced outlet, has upgraded its services and prices to meet competition of innovator B, while the latter has downgraded its services and prices, thereby moving to a lower position on the second wheel.

Table 3.7 Response of established institutions C and D, and reactions of innovative institutions B



Over a period of time the sharp differences between the innovators and the establishment diminish. As the innovators consolidate their position in the market, the movement of the wheels slow down and eventually stops. The cycle which began with conflict an ended with an accommodation is illustrated in Table 3.8.

Table 3.8 Expanded retail establishment through accommodative action



The newcomers A and B are now an integral part of the establishment and the establishment takes up a broader segment of the marketing continuum than before, having expanded at both the low-end and high-end in absorbing the innovators.

The competitive struggle is followed by a period of stability and conditions are once more ripe for another generation of innovators.

Factory shop development could also be partially explained at the hand of the Three Wheels of Retailing theory. Both large clothing retailers and smaller, independent retailers were hit by the opening of clothing factory shops in close proximity to them. These innovators (factory shops which sold similar merchandise at discounted prices) were situated in cheaper locations, presenting little (if any) services, such as credit, deliveries, and alterations.

At first, large clothing retailers pressurized the clothing manufacturers to cease these factory shops. Factory shops negated this pressure by upgrading their services (e.g. providing change rooms and incorporating methods of payment other than cash).

3.5.1.3 The Retail Accordion.

According to this theory retail institutions have evolved from broad-based outlets, with wide assortments, to ones with specialized narrow lines and then returning to the wide assortment pattern, or a general-specific-general assortment. This process suggests the term accordion, which reflects a contraction and expansion of merchandise lines.[36] Modern retailing began with general dealers which offered one-stop shopping to an entire market. This development was also prevalent in areas with insufficient shopping to support specialized outlets.

Population growth and industrialization saw the emergence of department stores which generally were more specialized in merchandise lines, followed by mail-order stores. Urbanization saw the tailoring of merchandise offered to specific market segments whereby bookstores, garden supply stores, music record stores, etc., emerged as single-line stores during the early 1950's. The end of that decade again saw the growth of a movement towards more generalized retailing, although specialization did not disappear. Rising costs, with the resultant pressure on profit margins, forced single-line stores to add complementary goods to spread costs over a wider range. These trends led to discounting and again to one-stop shopping.

The emergence of the accordion has not evidenced in factory outlets, as none evolved as broad-based outlets.

3.5.1.4 Full Cycle Hypothesis.

The full cycle hypothesis is regarded as an extension of the wheel of retailing theory and states that retailers will enter the market as low-margin, low-price innovators (Stage One). External and internal environmental circumstances determine the point at which margins decrease from previous high margins. In responding to this decrease in margins, firms decrease services, but locations usually remain unchanged on account of their high cost. Another form of this hypothesis is that the institution may either construct or acquire another organization that will assume its role of a low margin institution.[37] An example of this development in the South African retailing context is Clicks which established Diskom as its lower-end of the market operation.

However, there are exceptions to this hypothesis where retailers have been known to increase their status, rather than reverting to their former status. For example, Melotronics has increased its status with the extension of its Hypercentre for sound equipment.

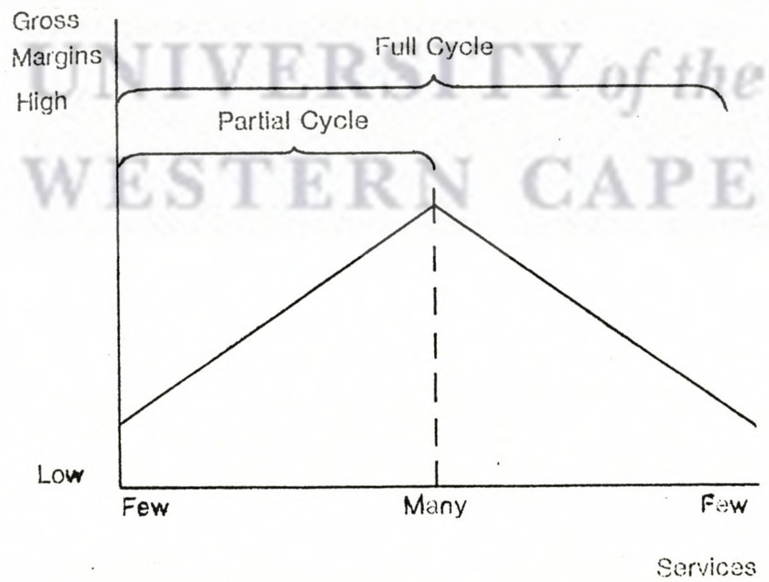
A variation on this basis of reasoning is the concept that merchandise lines will determine the type of marketing channel. The advent of retailing was synonymous with the offering of a wide variety of merchandise. These general dealers, with their wide variety of goods, were characterized by a non-departmental nature and their lack of specialization. With the passage of time, however, they were succeeded by departmental stores.

The next development (Stage Two) in the cycle was the speciality store. Initially the proprietor operated both as wholesaler and retailer and became proficient in every area of specialization. Some of the reasons advanced for the growth of the speciality store were, inter alia, the general store's lack of sufficient space to accommodate the variety of goods; increases in market sizes which rendered speciality stores feasible; and an acquisition of a broad assortment of related goods with the accompanying greater expertise.

The cycle completes itself by returning to the general-type institution. Typical characteristics of this part of the cycle are exemplified by scrambled merchandising and shopping centres.[38] For example, pharmacies experienced a loss in sales of beauty and health products to supermarkets and included photographic equipment to offset these losses (Stage Three).

Table 3.9 illustrates both partial and full cycles where the partial cycle is explained by the wheel of retailing hypothesis and accordingly the cycle is completed by the institution reverting back to its original type. For example, during the primary investigation it was established that a few clothing manufacturers closed down their factory outlets for the mere reason that clothing retailing was

Table 3.9 Full Cycle Hypothesis



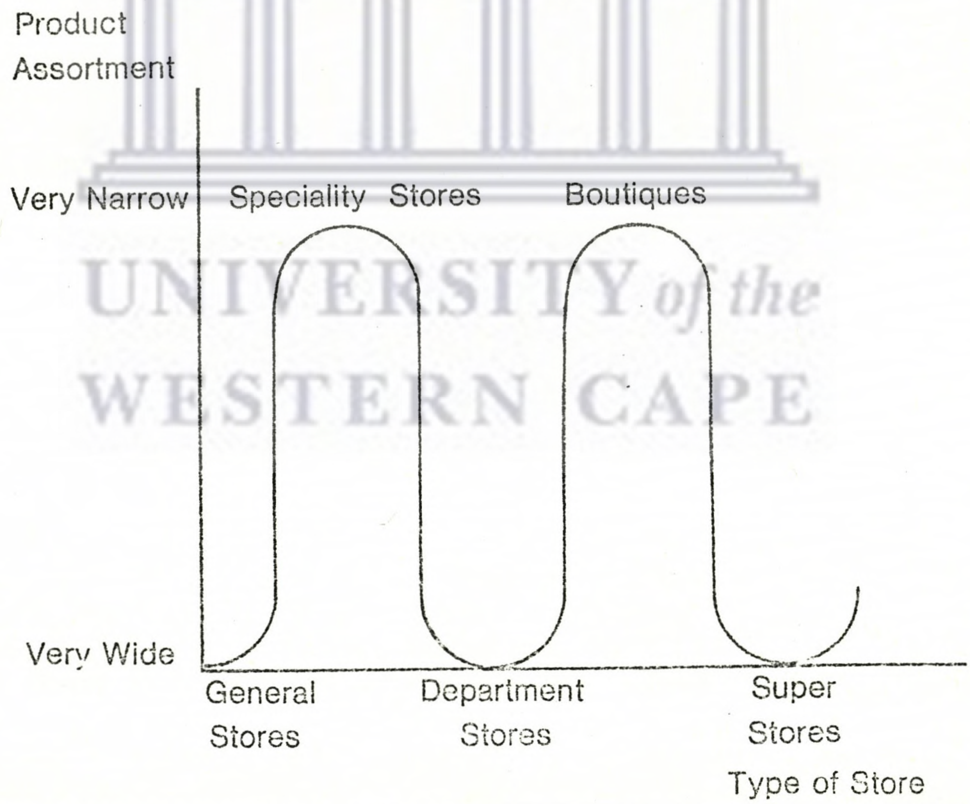
Source: Michman, R.D., S.D. Sibley, Marketing Channels and Strategies, 2nd Edition, Grid Publishing, Inc. Columbus, Ohio, p. 69.

more complex than originally anticipated. The rationale behind this decision was that they would stick to what they were doing best, namely manufacturing.

The partial cycle theory, however, does not explain why certain institutions complete only the partial cycle and not the full cycle.

Some institutions evolve along the full cycle hypothesis. Table 3.10 illustrates the evolution from a very wide

Table 3.10 Full Cycle Hypothesis and type of institutions



Source: Michman, R.D., S.D. Sibley, Marketing Channels and Strategies, 2nd Edition, Grid Publishing, Inc. Columbus, Ohio, p. 70.

variety of products in the general store to very narrow varieties in speciality stores, through to department stores, boutiques and superstores.

With the development of factory shops, and especially in reaction to "competition" from the more conventional retailer, movement along the full cycle hypothesis can not be ruled out. Apart from Stage One (during which factory shops entered as low-margin and low-price innovators) this theory does not have any relevance to factory shop development, since factory outlets are too new a phenomenon to enable the researcher to present meaningful and relevant conclusions.

3.5.2 Dialectic Process.

The Dialectic Process implies that retailers mutually adapt when faced with competition from new entrants. When a retailer is challenged by a competitor with a differential advantage, the established firm will adopt tactics and strategies in the direction of that advantage, thereby negating some of the innovator's attraction (the thesis).

The innovator, meanwhile, does not remain unchanged, but tends to upgrade or otherwise modify products and institutions. In doing so, he moves toward the "negated" institution (the antithesis).

As a result of these mutual adaptations, the two retailers gradually move together in terms of goods offered, facilities, supplementary services, and prices (the synthesis). They thus become indistinguishable or at least quite similar and constitute a new retail institution, termed the synthesis. This new institution is then vulnerable to "negation" by new competitors as the dialectic process begins anew.[39]

The dialectic process is often seen as analogous to a "melting pot" theory[40] of retail institutional change in which two substantially different forms of retailing merge into a new institution of retailing. The new form is a composite of the original two forms. This negated position has, to some extent, been reached between clothing manufacturers and clothing retailers (see Chapter 2, Section 2.7.6.2, par. 1-2). Table 3.11 illustrates the dialectic process, involving a thesis (the established institutional form), an antithesis (the innovative institutional form), and a synthesis (the new form drawn from the other two).

Criticism against this theory, with reference to factory shop development, is that only clothing retailers (as the thesis) and factory shops (as the antithesis) can at present be identified. A possible synthesis could be the off-price retailer operating as a factory shop.

Table 3.11 The Dialectic Process.

Thesis

Department store
- High margin
- Low turnover
- High price
- Full service

Antithesis

Discount store
- Low margin
- High turnover
- Low price
- Self-service
- Low-rent locations
- Spartan facilities

Synthesis

Discount department store
- Average margins
- Average turnover
- Modest prices
- Limited services
- Suburban locations
- Modest facilities

Source: Lewison, D., W. Delozier, Retailing, Charles E. Merrill Publishing, Columbus, Ohio, 1982, p. 37.

3.5.3 Vacuum theories.

The fundamental principle of vacuum theories states that innovative institutions come into being when there is a void, or vacuum, in the institutional coverage of the market. Alderson's "core-fringe" concept[41] explains that once a business creates a niche for itself, such a niche provides a shelter for the business during periods of innovative danger, as in the case of for example, Pick and Pay with its takeover of the Boardmans chain of domestic appliance and hardware shops. The niche can therefore provide support and protection to the business entity in times of failure to diversify.

As other firms innovate, these niches become vulnerable to innovative thrusts which could in time penetrate the fringe and eventually the core.[42] The rigid way in which established firms do business, creates new "vacuums" in the market which creates opportunities for new firms to enter and establish a market niche.

The vacuum theory can be fully applied to factory shops. When clothing manufacturers were caught with unsold orders and cancelled inventories in the recession of 1983, they provided a shelter for themselves by opening factory shops to generate additional income (See Chapter 2, Section 2.7.6.3, par.7).

3.5.4 Natural selection/adaptive behaviour/survival theory.

The basis for this theory is that retail institutions adapt to changes in the environment, and those retail institutions which adapt most effectively to environmental changes are the ones most likely to survive.[43]

The environment consists of a number of variables (e.g. economical, political, social, legal, physical, and technological factors), each with its own movement and dynamics which can affect the survival of the firm.

This theory can be viewed against the background of shopping centres in suburban locations and the impact these shopping centres have had on stores in the central business districts which failed to adapt to these changes.

With the exception of the economical (e.g. recessions, inflation) and social (e.g. reduced purchasing power) variables, this theory cannot be strictly applied to factory shop development.

3.5.5 The crisis-change theory.

This model isolates four distinct phases through which organizational systems pass as they adapt to crisis situations. According to this theory, adaptation begins with an initial period of "shock", followed by a period of "defensive retreat", then by "acknowledgement", and finally, by a process of "adaptation and change".[44]

The "shock" phase occurs when an organization is considered to be in a crisis when any factor critical to the viability of the total system of which it is part is threatened. The shock phase occurs when members of a channel become aware of a threat, such as when a new type of competitive retailing institution emerges. For example, the emergence of the grocery store posed a threat to the independent grocer, and initially these independents spent their efforts predicting the former's eventual demise. Similarly the factory shop posed a threat to the clothing retailer.

The "defensive retreat" phase is marked by the established system mobilizing its forces by imposing controls designed to reduce the threat. Thus, during the period of emergence of the chain store, the "defensive retreat" phase was marked by a thrust to for legislation to curtail chain store activities.[45] Although the threatened system survives during this phase, such defensive actions eventually become self-defeating, because they are not consistent with the emergence of new realities. The emergence of factory shops was marked by the formation of a group by clothing retailers to address and assess the threat of the new entrant into clothing retailing and distribution (see Chapter 2, Section 2.7.5, par. 1).

During the "acknowledgement" phase, the individuals in the threatened system engage in a process of self-examination and interpersonal confrontation. The established system comes to doubt the validity of its own traditions and begins to discover ways of using new structures to facilitate the functions it must perform, rather than attempting to fit functions into pre-established structures (see Chapter 2, Section 2.7.6.1, par. 2).

The "adaptation and change" (growth) phase reflects effective coping, and represents a renewal of the growth process. It is here that voluntary chains, like SPAR, begin to mature and prosper.[46] For the adaptation to and coping with the new entrants by retailers (viz. factory shops) see Chapter 2, Section 2.7.6.2, par. 2.

3.5.6 Evaluation of the theories of retail institutional evolution.

A number of theories have been developed to explain the evolution of retail structures. However, none of these are universally applicable, although McCammon states that the "wheel of retailing concept is the most comprehensive theory of innovation yet developed in marketing".[47] An ideal goal of the analysis of retail institutional change is a universal model for predicting such change.[48]

Such a goal appears unrealistic at this time, because no single theory can currently explain the changes in all types of retail institutions. Furthermore, the lack of a generally accepted theory of consumer behaviour makes a universal model almost impossible. In combination, these theories provide a more comprehensive understanding of the retail structural changes which have occurred and may individually provide a better basis for retailing decision-making.

Furthermore, McCammon has provided eight factors that affect the rate of acceptance of innovation or new practices.[49] These are: (1) the rate of diffusion depends on the innovation itself, i.e. innovation causing minor changes will be accepted more expediently than innovation requiring substantial capital investment and restructuring; (2) the most likely innovator is an "outsider" (to the distribution channel) in the sense that he will initially only occupy a marginal role; (3) a firm will only respond marginally to innovation, unless its core market is threatened. Should a firm be threatened, its response is usually swift and it will often emulate the innovator on a partial or total basis; (4) entrepreneurs with high aspirations are more likely to initiate or accept innovation; (5) permanency is not always accepted with innovation; (6) rapid acceptance of innovation will take place when it can be accommodated into existing decision-making habits; (7) since institutional innovators tend to be outsiders, an innovation will not be adopted widely until influential firms in the channel will accept it; and (8) more inputs (energy) are required to transmit innovation from one channel to another channel.

3.5.6.1 Application of the wheel of retailing theory to factory shops.

> "The face of retailing is continuously being changed by somebody who gets a 'bright new idea', as one sage of the industry put it long ago. The latest alteration comes in this decade from the phenomenal expansion of the off-price retailers, whose promotion of nationally known brands at low prices has earned them a niche in the industry, especially in apparel, accessories and footwear. Some of the traditional retailers have decided to fight; more frequent sales promotions are

one weapon. Others have chosen to join the enemy with off-price operations of their own".[50]

The evolution of the factory shop trend adheres very well to the wheel of retailing hypothesis in that institutional change in the clothing industry takes the shape of a more or less definite cycle, with each cycle having three definite phases of entry, trading-up, and vulnerability.

Figure 3.12 illustrates the American experience of how the small, speciality retailer was displaced by the department store, which subsequently became vulnerable to the discount retailer and then to the factory shop/off-price retailer.

<u>The entry phase</u>: Factory shops entered the market in exactly the way McNair described it, through an innovating idea and by creating public awareness on the basis of price appeal to the consumer.

<u>The trading-up phase</u>: As the operations of even factory outlets mature, they start trading-up in terms of store appearance, advertising, brand names and better locations. Shopping centres dominated by manufacturers have recently opened in the Cape Peninsula.[51]

<u>The vulnerability phase</u>: McNair states that this stage is characterized by "topheaviness, too great conservatism", a decline in the rate of return on investment and eventual

vulnerability. The phenomenal growth in factory shops has inspired imitators. Other factories followed by opening

Figure 3.12 The Wheel of retailing as applied to factory shops

Source: Kaikati, J.G., "Don't discount off-price retailers", <u>Harvard Business Review</u>, May-June 1985, p.87, as adapted from Lewison, D.M., M.W. Delozier, <u>Retailing Principles and Applications</u>, Charles E. Merrill Publishing Co., 1982, p.36.

outlets, and independents (off-price retailers) entered in increasing numbers. Langston's Clothing City, Mr. Price and M&H Factory Shops (as Cape Peninsula examples of off-price retailers) have all, since entering, moved to more up-market premises from their original locations in downtown and/or light industrial areas. As the wheel of retailing is still in its entry and trading-up phases, there is no evidence of vulnerability as yet. This phase has already been reached by firms like Levi's in the U.S.A. where the latter has liquidated a number of its factory shops originally started in 1980. (See Chapter 2, Section 2.2.1.1, par. 7).

<u>The turn of the wheel</u>: In the U.S.A. factory shops and off-price retailing have been heralded by many as the greatest retailing phenomenon of this decade. However, industry analysts have already indicated a decline in the rapid growth, and a few casualties amongst newcomers have been recorded.[52] This deceleration can be attributed in part to the counter-attacks from the conventional retailer.

In the South African context factory shops and independents will face stiffer competition from the conventional retailer, resulting in an elimination in this arena with the small, under-capitalized, independent firms likely to be the main casualties. In order to survive this shake-up, independents and factory shops will have to pay close attention to market positioning. It is anticipated that independent off-price retailers will have to judge competition very closely to survive, as they are more vulnerable than factory shops; the latter usually have the support systems of the manufacturer.

As the wheel of retailing continues to turn, it is likely that the sturdiest, most innovative, and financially healthiest factory outlets/off-pricers will survive and continue to keep the traditional retailer on their toes. On their part, the established retailers will take advantage of the intrinsic weaknesses of off-price organizations - such as weak service and non-continuity of assortment - to keep competitive as the battle for market niches goes on.[53]

3.6 Power.

Through backward vertical integration large chain stores began to control and dictate clothing manufacturing output. To offset this imbalance, manufacturers reciprocated by, inter alia, establishing their own retail outlets in the form of factory shops. These actions resulted in a power struggle between manufacturers and retailers in the clothing industry. It is therefore important to briefly discuss the main issues relating to sources and types of power that can be exerted in a distribution channel.

To achieve its goal a channel system (all the members participating in the distribution of goods) requires a coordinated effort by all its members. Some channel participants may have different objectives and therefore sometimes conflicting goals. To harmonize these conflicting goals into the macrogoal, a certain amount of power needs to be exerted by one channel member (usually the channel leader) in regard to the other channel participants. Power in the marketing channel refers to the capacity of a particular channel member to control or influence the behaviour of other channel member(s).[54] Each member possesses some degree of power over others, on account of the functions that channel members fulfill in moving goods from manufacturer to consumer. One member very seldom enjoys complete power and as the power base and relationships between (clothing) manufacturers, retailers and consumers have changed over the years it is necessary to form an understanding of the bases of power available to channel members.

Michman and Sibley[55] state that power can be divided into two interrelated groups, namely economic sources and non-economic sources. Economic sources of power refer to (1) the control over scarce resources. For example, S.A. Breweries has a virtual monopoly in beer production and distribution, and all other small producers are dependent upon the decisions of SAB for their profitability; and (2) the size of the firm, by which larger channel members can often undertake the functions of other channel members through integration and/or expansion. For example, Pep Stores has developed into a major retailer, but has also integrated vertically backwards, taking over the functions of channel members and increasing its economic power base.

Non-economic sources of power refer to basically five non-economic determinants of channel leadership. These are reward, expert, referent, legitimate and coercive powers.[56]

Reward power is used to obtain co-operation from other channel participants. For example, manufacturers can provide retailers with sales support, whilst the latter can provide the former with preferred shelf space.

Coercive power is the perceived capability of one channel member to punish other channel members for not non-co-operation by withholding rewards or the product, and taking away privileges. For example, franchisees have to follow stringent rules and prescriptions or they can be threatened with revocation of their franchises.

Legitimate power occurs when one channel member can "prescribe" to another channel member. In loosely aligned conventional channels, legitimate power is virtually non-existent. Since the formal contractually-linked channel system (e.g. Wimpy, Pronta Print, Link Pharmacies, etc.) is becoming increasingly common, the exercising of legitimate power is also likely brand names to increase. Legal actions through patents, trademarks, brand names or other contractual agreements are examples of legitimate power.

Referent power prevails when one channel member is influenced by another channel member and the goal is regarded as beneficial to both. Successful channel relationships over a considerable period of time develop empathetic feelings towards the problems of the other channel member(s). For example, it is often advertised that "Firm X is proud to be associated with Firm Y".

Expert power is based on the superior knowledge of one channel member, i.e. one member supplies the other with assistance relevant to the operations. For example, a manufacturer can supply wholesalers and retailers with advice or technical information to sell goods. Likewise retailers can feed information of the perceptions of the consumer market up the channel to wholesalers and manufacturers. Expert power probably manifests itself best in contractual vertical systems where a franchisor, such as Kentucky Fried Chicken, provides the franchisee with marketing and other related expertise in that particular line of business.

In conclusion, power in the marketing channel is used to influence the behaviour of other channel members and the channel leader has a number of power sources available. The crucial issue is to find the optimum combination of these sources to gain the maximum influence over the channel members, thereby not creating conflict but at the same time promoting channel member satisfaction. The firm with the greatest combined power sources will become the channel leader. Should the power sources of two or more channel members be more equal, the likelihood of having co-leaders will be greater, i.e. there will be no particular dominance by one channel member.

At present it would seem as if power in the clothing distribution channel is held by the large retailers for a simple reason: unlike, for example, the food-processing industry (which aligns itself very closely with the consumer in terms of product preferences and product requirements) the clothing retailer (through its fashion designers and closer customer contact and alignment) determines the customers' requirements from a distance. In a sense it would therefore seem as if the clothing manufacturer is still unfamiliar with the end-user.

3.7 Conflict.

Conflict in the marketing channel often is the result of disagreement between members of that channel; for example, when one or more of the channel members deviate from the "traditional" and acceptable modus operandi or goals of that channel. Similarly, manufacturers caused conflict in the clothing distribution channel when they deviated from the "acceptable" method of distributing their goods by opening their own factory outlets. These actions brought about tremendous pressure by retailers on manufacturers for encroaching on the retailers' traditional territory. Manufacturers were threatened by retailers with blacklisting and boycotts. (For a more detailed explanation, see Chapter 2, Sections 2.7.1 and 2.7.2). Therefore, exposition upon the levels, sources, causes and effects of conflict in distribution channels was deemed necessary.

The distribution channel, as a system, calls for coordination throughout the channel. However, most participants are independent organizations, each with its own perceptions of how to achieve its objectives. This rather dynamic nature of individual channel participants (role deviance or malfunction by channel participants) is often the root of conflict in the channel. Such role deviation developed when clothing manufacturers bypassed their intermediaries (wholesalers and retailers) to gain efficiency.

Although high levels of conflict often cause inefficient behaviour, not all conflict is necessarily bad. Low levels of conflict are thought to spur innovation and to reduce complacency.[57] Hence the definition of Stern and Gorman who view channel conflict as when "a component (channel member) perceives the behaviour of another to be impeding the attainment of its goals or the effective performance of its instrumental behaviour patterns".[58]

Channel members tend to specialize in certain functions and they mostly have unique (specialist) roles, i.e. in production, promotion, distribution and merchandising. Specialization leads to interdependence among channel members to achieve the individual objectives of each channel participant, as well as the mutual and collective objectives of the distribution channel.

Gouldner[59] indicates that the strain by individual members towards autonomy creates conflicts of interest. Independent members in a distribution channel have a mixture of motives; on the one hand, each member fiercely guards his independence,[60] whilst at the same time desiring cooperation.

As marketing channels are very much regarded as social systems,[61] they would also be subject to the same behavioural processes, characteristic of all social systems. It therefore stands to reason that distribution channels could exhibit certain levels of conflict.

Channel conflict may arise when one channel member realizes that other channel members interfere in the former achieving its goals. Since the market share and, ultimately, profitability of clothing retailers were eroded by factory shops, channel conflict arose. Stern and Gorman[62] identified seven factors fundamental to channel conflict. Etgar[63] has further partitioned these causes into two broad sets of differences between channel members, namely attitudinal differences and structural differences. Briefly these causes of conflict are:

3.7.1 **Attitudinal sources of conflict** which refer to role discrepancy, expectational and perceptional differences, and communication.

Role discrepancies are deviations by a channel member from a set of prescriptions which determines the obligations (activities expected of each member) and the rights (expected performances) of other channel members. Channel conflict may arise as a result of, for example, a manufacturer now dealing directly with consumers, or channel roles not being clearly defined for all participants.

Expectational differences refer to perceptions based on predictions which channel members have towards one another. On account of inaccurate forecasts (for example the forecasting clothing sales), channel members take action based on predicted outcomes, often creating and resulting in negative relationships amongst channel members.

Perceptual differences refer to conflict caused by perceptions interpreted differently, although the stimuli may be the same. Often this can be observed from the different opinions manufacturers and retailers, for example, may have of each other's abilities and intrachannel relations.

Communications. The distribution channel also acts as a conduit for information between its members, for example, promotional campaigns, changes in consumer preferences, pricing strategies, etc. Ineffective communication leads to frustration in the channel.

3.7.2 **Structural causes of conflict** refer to goal incompatibility, dissensus of domain and scarcity of resources.

Goal incompatibility occurs when the diversion from the channel goals by individual channel members is so great that channel co-operation becomes difficult. Individual policy decisions by channel members on the goals they set for themselves are often the cause of conflict.

Dissensus of domain occurs when channel members take on certain decision-making roles and thereby exercising control over activities other channel members have regarded as their own. For example, domain disagreement refers to independent clothing retailers purchasing stock from clothing manufacturers running their own factory outlets, i.e. purchasing from those against whom they have to compete.

Scarcity of resources causes conflict which relates to disagreement and competition between channel members over the allocation of valuable resources needed to achieve their respective goals.

3.7.3 **Effect of channel conflict:** Rosenbloom argues that conflict also has other effects on channel efficiency despite the findings of earlier researchers that conflict negatively affects channel performance, and proposes three conceptual models:[64] Firstly, the negative effect of channel conflict refers to reduced efficiency between channel members. This could be ascribable to one channel member deciding not to buy from a member, or to his bypassing a channel member, therefore not using his services anymore. For example, the manufacturer versus Pick 'n Pay conflict of 1975 arising from the establishment of the first hypermarket at Boksburg.[65]

The second effect of conflict refers to maintaining channel efficiency. For example, where the members are highly dependent on and committed to other channel members and the need for one another is so great that it overrules the presence of conflict in the channel.

The third effect is a positive effect where channel conflict induces efficiency, i.e. each channel member becomes aware of his deficiencies and shortcomings. This reappraisal results in increased channel efficiency.

3.7.4 **Resolving channel conflict:** The channel leader should take action to resolve conflict which adversely affects channel efficiency. Rosenberg makes three suggestions to resolve channel conflict.[66]

Firstly, a channel-wide committee can be appointed to periodically evaluate conflict.

Secondly, goals are to be jointly set and although this may be difficult, the dialogue process in itself will be beneficial in reducing conflict.

Thirdly, a position of distribution executive should be created to explore the causes of conflict in the channel. Arbitration through a third party is also regarded as a method of resolving conflict, although members are not required to accept such solutions. Withdrawal from a distribution channel is a relatively common means of resolving conflict.

It is understandable that each channel member will have his objectives, but these should never be in direct conflict with the overall objective of the channel to which he is a participant. Channel members must make an effort to resolve conflict as it will not go away if by ignored.

3.8 Vertical integration.

During the early stages of the establishment of the clothing manufacturing industry in South Africa retailers and manufacturers operated independently (in terms of ownership) from each other. However, as their power bases grew and they increased in size, larger retailers went in pursuit of new investment opportunities. In the clothing distribution channel this pursuit manifested itself in the taking over of the functions previously fulfilled by wholesalers (and eventually manufacturers). The outcome of these actions resulted in a shift of the power base from the clothing manufacturer to the retailer and ever since, the larger retailer has made its influence felt on the manufacturing sector of the clothing industry. Through backward vertical integration, the larger clothing retailer acquired a most influential position in the distribution channel.

This section discusses the types of systems, with emphasis on vertical marketing systems.

The structure of the distribution channel, as a system, will determine how effective that channel will be. The marketing functions must be carried out by all channel members and depending on the channel structure, these functions may be carried out by all or a few members. The four types of channel systems carrying out these functions are the conventional channel, the administered channel system, the contractual channel system and the corporate system; all but the first of which are vertical marketing systems.

In contrast to the traditional channel system (where every channel member operates on his own), the vertical marketing system is a network of interrelated components, each with specific marketing activities, all working towards a common goal. As the corporate system has more relevance to the role and function of factory shops in the distribution channel, the administered and contractual channel systems will only be dealt with briefly.

3.8.1 **Administrative system:** This is comparable to a conventional channel system, but with the difference that the co-ordination of marketing activities is achieved through the use of programmes developed by channel members.[67] In addition, the locus of authority still remains with the individual channel members. Administration and leadership of this type of system can be undertaken by any member who is in a position to take control, as there is usually no legal base for the use of power.

3.8.2 **Contractual systems:** Three basic types of contractual systems usually result from the formalizing of interorganizational relationships by means of a written contract, and legitimate power is used as a means of achieving control. These systems are the retail co-operative, wholesale-sponsored chain and franchise.

A **retail cooperative system** is a voluntary association created by retailers to join together for reasons of joint buying, group advertising, counseling and standard recordkeeping systems. Examples of such contractual systems are Spar and Seven-Eleven.

A **wholesale-sponsored chain** differs from the retail cooperative system in that the initiative in setting up such a chain comes from the wholesaler. Goods and services are provided far more economically than by securing them individually. An example is the United Stores group, founded in Cape Town in 1983, acting as a wholesaler for independent clothing retailers to counter the effect of large groups such as Wooltru, Foschini and Pep Stores.[68]

In a **franchise system** the franchisor grants the franchisee the right to do business in a prescribed manner in a specific place. Franchising is one of the fastest growing channel systems in South Africa. In 1980 sales generated through franchises accounted for R6,25 billion, of which the motor trade turned over R5 billion.[69] Examples of franchises are Coca-Cola, Kentucky Fried Chicken, Spur Burger Ranches and Midas.

In terms of power relationships in the distribution channel, retail and wholesale contractual systems have both increased the power of both retailer and wholesaler in relation to the manufacturer, as many of the traditional manufacturer marketing tasks have now passed on to the wholesaler and/or retailer. A franchise system provides the supplier with a contractual basis as a source of legal power over the franchisee.

3.8.3 **Corporate vertical marketing systems.** When a particular firm owns and operates organizations at other levels in the distribution system, a corporate (vertically) integrated marketing system exists.[70] Such a firm may be a manufacturer, wholesaler or a retailer. When the latter two firms (retailers and wholesalers) own and operate their own manufacturing concerns, a backward vertically integrated system exists. Vertical integration, therefore, takes place when a firm owns and operates organizations at other levels of the distribution channel.

This type of development can occur as a result of growth and evolution of the firm when it decides to expand and include other facilities as part of its organization, i.e. by taking over some or all of the activities carried out/performed by other channel members. An example of a retailer who has integrated backwards is Pep Stores, for it originally started as a small clothing retailer and subsequently acquired its own manufacturing units.

When a manufacturer owns and operates its own wholesaler and/or retailer outlets, forward integration takes place. Sturdivant cites five reasons for a manufacturer, or other type of firm, to develop a vertically integrated system:[71] These are competition, changes in market conditions, economies of scale, channel conflict and entrepreneurial drive.

Competition: Firms operating in an unaligned channel may find competition difficult from those competitors in administered, contractual or corporate systems and may therefore regard vertical integration as an attractive option. Rosenbloom stresses that the growing competitive pressures on manufacturers are major reasons for the increase of manufacturer-owned and operated factory outlets in recent years.[72] For example, by 1987, 69 clothing manufacturers, out of a total of 421 in the Cape Peninsula had opened their own retail factory shops to compete more effectively with retail clothing stores and other retailers who had integrated backward.[73]

Economies of scale: In some instances, vertical integration may offer scale economies in the manufacture and distribution of products. This situation is also prevalent in the clothing industry in the Cape Peninsula.

Changes in market conditions: Changing market conditions can be instrumental in the development of vertically integrated systems. For example, Stodels as a supplier to other nurseries, realized the rapidly growing demand for gardening requirements and subsequently opened its own retail outlets. Similarly, clothing manufacturers who followed the factory shop innovators also realized the changes in market conditions.

Channel conflict: Continuous conflict between channel members of a vertical marketing system could force some members to integrate forward or backward, whilst at the same time still fulfilling their contractual obligations.

Entrepreneurial drive: Rosenbloom acknowledges that little is known about this concept as a reason for vertical integration, but the presence of dynamic entrepreneurs may often cause major changes in a distribution channel.
From the manufacturer's point of view, forward-integrated

marketing systems provide the highest degree of control available over distribution units at the wholesale and retail levels, since these units are owned by the manufacturer.[74] Such systems are increasingly found in the S.A. distribution structure and Table 3.13 indicates a number of South African manufacturing firms which have applied forwardly integrated systems.

The vertical marketing system should always have a marketing strategy for the channel to compete more effectively with other vertical marketing systems, or with conventional marketing systems. The high degree of control this form of integration believes it can offer, principally forms an important (and sometimes the only) consideration for the establishment of vertically integrated systems.

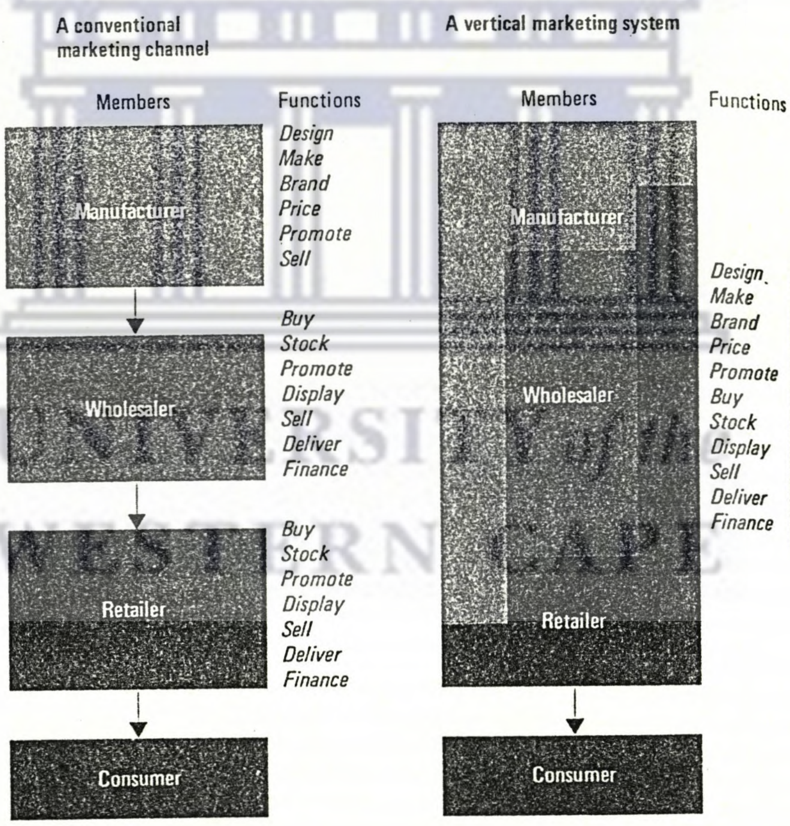
Table 3.13 Examples of manufacturers operating forwardly integrated marketing systems

	MANUFACTURER	PRODUCT
1.	Continental China	Crockery
2.	Farm Fare	Poultry
3.	Cashworths	Clothing
4.	Triang Pedigree	Toys
5.	BMD Knitting Mills	Bonded fabric material
6.	Bokomo	Cereals
7.	Today's Frozen Foods	Frozen foods
8.	Appletiser	Fruit juices
9.	Fedmis	Fertilizer
10.	Neutron	Paint

Source: Adapted from Black, P., The A to Z of factory shops, or where to buy today at yesterday's prices, Don Nelson Publishers, Cape Town, 1st Edition, 1985.

It can happen that firms/organizations now "compete" in terms of their total system. An illustrative comparison between the functions in a traditional channel system (where these functions often are duplicated by the channel participants), and the functions in a vertical marketing system (where channels participants make every effort to cooperate with one another) is presented in Table 3.14.

Table 3.14 Comparison of a conventional marketing channel and a vertical marketing system



Source: Pride, W.M., O.C. Ferrell, Marketing, Basic Concepts and Decisions, 3rd Edition, Houghton Mifflin Co., Boston, 1983 p. 222.

3.9 Summary.

A number of theories on the evolution of retail institutions and distributive structure development have been reviewed to explain the development and entry of different retail institutions. Several theories can be applied to the entry of factory shops as a new retail institution. For example, factory shops adhere very well to the wheel of retailing hypothesis, having entered as low-cost, low-profit and low-status retailers. However, factory shops have not been in existence long enough to complete all the phases of the wheel theory.

If the full cycle hypothesis and the three wheels of retailing (as an extension to the wheel theory) are applied, they also accommodate the factory shop development which entered as low-margin, low-price innovators.

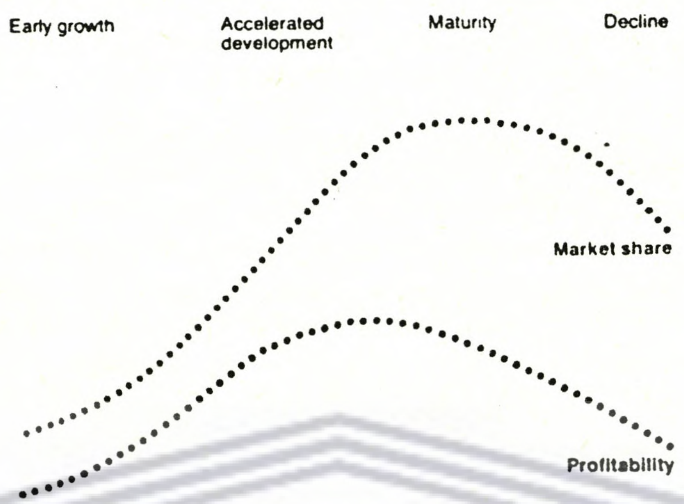
Factory shops adhere to the dialectic process in that existing retailers have adopted tactics to counter the advantages of the innovator and negated the innovators' attraction (i.e. the thesis). At this stage the innovator moves off towards the negated institution (the antithesis) through improved services (e.g. methods of payment). The synthesis is not apparent as yet.

The theory of adaptive behaviour states that retail institutions not adapting to environmental changes are not likely to survive. Factory shop development can be accommodated in this theory, especially if the severe criticism from clothing retailers (who have failed to adapt) is noted.

The crisis-change theory may also apply as independent clothing retailers went through the classic stages of shock, defensive retreat, acknowledgement, and adaptation and change to accept the existence of a new institution (factory shops).

The relatively new retail concept of factory shops, has also, on consideration, gone through a specific life cycle. The retail life cycle is considered a natural evolutionary institutional process and its stages are similar to those for the product life cycle, yet they have their own unique characteristics.[75] It is a predictable series of stages that every major form of retailing is destined to go through. Table 3.15 illustrates how the life cycle is divided into four distinct phases. The first stage of innovation and early growth represents a sharp departure from accepted practices in shopping convenience, location, or promotional methods. Costs are usually high, resulting in low profits.

Table 3.15 The institutional life cycle in retailing



Source: Davidson, W.R., A.D. Bates, S.J. Bass, "The Retail Life Cycle," Harvard Business Review, Vol. 54, No. 6, November-December 1976, p. 91.

In the second stage of accelerated development, both sales volume and profits experience rapid rates of growth. New firms follow the innovator(s) into the field and existing outlets usually try to retaliate during this phase. Generally this stage is characterized by more complex internal systems, larger staff and increased management controls. In the specific instance of factory shops the above characteristics have not been identified; however, the meaning of the above lies in the understanding of the fundamental theories which explains the movement over the cycles.

Yet, the literature survey (see Chapter 2) revealed the few innovators (clothing manufacturers) who ventured into retailing by opening their own retail outlets. From the beginning of the eighties a large number of clothing manufacturers followed the innovators by opening their factory outlets.

The third stage (maturity) presents the most significant stage of development in that business owners face difficulties in controlling their large and complex organizations, as well as increasing competition and a leveling-off of profits. Many firms are able to prolong the maturity stage and avoid the decline stage through repositioning in the market.

The fourth stage of decline is not always avoidable as can be explained by the contraction and disappearance of business activities in the central business districts with the rise of suburban shopping centres during the late Sixties and early seventies. Major losses of market share and marginal profits are significant trends of stage four.

From the information gained from both the primary and secondary surveys it would seem to indicate that factory shops are very much in the growth phase of their institutional life cycle. This deduction was also supported by leaders and informed persons in the clothing industry.[76]

Davidson, et al.,[77] provided evidence through their research that the length of the institutional life cycle is contracting; i.e. the time between the introduction of a retail concept and the point at which it reaches maturity is growing progressively shorter. This fact is also evidenced in the South African retailing context by Leibold.[78] Table 3.16 documents the life cycle patterns of a number of retail institutions.

Table 3.16 Diminishing of S.A. institutional life cycles

Type of institution	Estimated time time period to maturity	Estimated number of years to maturity
Department stores	1880 - 1960	80
Variety stores	1920 - 1965	45
Supermarkets	1935 - 1970	35
Discount department stores	1955 - 1975	20
Home improvement centres	1965 - 1975	10
Hypermarkets	1975 - 1985	10
Home-furnishing warehouses	1975 - 1985	10
Fast food service outlets	1970 - 1980	10
Catalogue showrooms	1980 - 1985	5

Source: Leibold, M., Retailing Strategy in the Changing S.A. Market Environment, Unpublished Doctoral Dissertation, University of Stellenbosch, January 1981, p. 158.

Power, as a tool to exert authority in the distribution channel, depends to a large extent on the channel leader. At present the channel leaders in the clothing industry appears to be large retailers.[79] Through forward integration (i.e. opening factory shops) clothing manufacturers have now challenged this relationship, giving rise to conflict ascribable to deviation from the "traditional" and acceptable methods of operating that channel. It remains to be seen if the effects of this channel conflict will induce efficiency.

In conclusion, factory shops exemplify a forwardly integrated system, as has manifested itself in the clothing industry in the Cape Peninsula. A number of reasons for forward integration, to regain (some) control over the distribution channel, can be presented. Some of them are cancelled orders, changing consumer habits and the economic climate. Gaining control of the channel could be attributed to poorly delineated responsibilities and functions in this vertical marketing system.

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CHAPTER 4. THE EMPIRICAL INVESTIGATION

4.1 Background to the questionnaire.

In order to acquire original data on the development of factory shops in the Cape Peninsula in a scientific manner, a structured questionnaire was used. Considering the geographical dispersion of these factory shops, it was decided that a mail questionnaire would be the most suitable method of extracting primary data.

All manufacturers not domiciled in the Cape Peninsula (as defined in Chapter 1, paragraph 1.8.1) were excluded. There were 34 such clothing manufacturers. The rest (387) were contacted telephonically to determine the type of operation. Ninety-seven clothing manufacturers indicated that they were "cut, make and trim" operations.[1] Of the remaining 290 manufacturers, sixty-nine indicated that they possessed their own factory shop(s). The latter figure identified 23,8% of clothing manufacturers as having their own factory shops.

Table 4.1 depicts the total number of clothing factories in the Cape Peninsula with factory shops.

The management of these sixty nine factories were once again contacted telephonically to request their assistance

Table 4.1 An analysis of clothing factories and factory shops in the Cape Peninsula			
TOTAL NUMBER OF CLOTHING FACTORIES	FACTORIES WITH FACTORY SHOPS (UNIVERSE)	SAMPLE RESPONSE	% RESPONSE
290	69	43	62,3

in the completion of the questionnaire and a second follow-up was made two weeks later. Of the sample response of 43, five respondents returned blank questionnaires indicating that they would not partake in the survey. Three of these firms cited company policy as their reasons not to publicize any information, and two stated that time-constraints imposed by the change of season prevented participation. The results of this survey is therefore based on thirty-eight completed returns.

4.2 General information.

The questionnaire was structured in such format as to extract general information on start-up, location, legal format, staffing, sales, etc., as well as the specific marketing strategies of these factory shops. The following is a discussion of the general information.

4.2.1 Establishment.

Of the factory shops participating in this survey 78,9%

were established in the last eight years (since 1980) as per Table 4.2. This trend is in line with research collected from secondary sources (See Chapter 2, Section 2.8.1, par. 1-3). The relative decline in factory shop start-ups, from 1982 (N = 2) to 1985 (N = 1), can partly be attributed to negotiations between the clothing retailing sector and the clothing manufacturing sector on methods of curbing the proliferation of factory shops. Another reason could be the economic decline of the manufacturing sector as a whole, and the clothing manufacturing industry specifically during the period 1982 - 1985.

Factors prompting the starting of factory shops were mainly economical and financial in nature, as can be observed from Table 4.3. Cancelled orders were cited as one of the

Table 4.2 Age distribution of factory shops

YEAR ESTABLISHED	AGE (YEARS)	FREQUENCY DISTRIBUTION (ƒ)	CUMULATIVE FREQUENCY	RELATIVE CUMULATIVE FREQUENCY
1987	1	7	7	,184
1986	2	2	9	,247
1985	3	1	10	,263
1984	4	3	13	,342
1983	5	5	18	,474
1982	6	2	20	,526
1981	7	4	24	,632
1980	8	6	30	,789
1979	9	0	30	,789
1978	10	2	32	,842
1977	11	0	32	,842
1976	12	3	35	,921
1975	13	1	36	,947
.	.	.	36	,947
.	.	.	36	,947
1967	20	2	38	1,000

major reasons (27,4%) for manufacturers entering into direct selling to the consumer (See Chapter 2, Section 2.7.3, par. 6 and Section 2.7.6.3, par. 3).

As the majority of clothing manufacturers were situated in the Cape Peninsula, with their major markets outside this area (e.g. Witwatersrand), these manufacturers were left with few options other than to sell their excess stock directly to the consumer. Sixty per cent of the clothing production in Cape Town is exported to other markets, thus resulting in a larger portion of unsold stock remaining in Cape Town than in any other place in South Africa.[2]

This trend was complemented by consumer needs for lower-priced goods of good quality. Further analysis of Table 4.3 showed that, except for consumer demand,[3] the advent of factory shops was brought about mainly as a result of a combination of methods used by the manufacturer to enter the market.

Table 4.3 Factors prompting factory shop start-up

FACTOR	%
Cancelled orders	27,4
Consumer demand for lower-priced goods	25,8
Disposal of excess fabrics, rejects, returns	19,4
Underutilized factory space	12,9
Economic conditions	11,3
Other	3,3
	100,0

4.2.2 Factors prompting start-ups.

Prior to the establishment of factory shops, clothing manufacturers mainly sold excess stocks through jobbers, wholesalers, hawkers (combined 75,8%) and staff sales (15,2%). Participants gave two reasons for selling excess merchandise to the above-mentioned groups; firstly, it was an attempt to recover (at least) the manufacturing cost of the excess merchandise (79%), followed by the competitors' influence, who quickly realized that there was a significant consumer need for a bargain (13,2%).

4.2.3 Location.

Thirty-three respondents (86,8%) indicated that their factory shops were situated on the factory premises and that these outlets operated under the same legal format.

Although only nine respondents owned other "off-site" factory shops (in addition to those situated on the factory premises), there were a total of 39 such additional factory outlets between these nine respondents. Five of these respondents had one additional outlet, whilst the largest two respondents had 10 and 12 additional factory outlets respectively.

Seven of these nine respondents cited the convenience (passing trade) and better turnover of a busy shopping area as the major reasons for locating away from the factory premises, and two responded that space limitations at their factory premises prompted locating in shopping areas.

The majority of these 39 "off-site" factory outlets (88,9%) was started by the factory owners themselves and the rest were in partnership/shareholding. Reasons for own start-ups can be attributed mainly to the ease of entry of this type of operation as the capital requirements are relatively low. For example, fixtures and fittings for these types of outlets are inexpensive and stock-in-trade is transferred from the factory (for which a ledger entry is made), and rental is marginal.

4.2.4 Trading name.

Nearly half of these "off-site" factory outlets traded under a different name to that of the factory. Reasons were mainly that a different trading name portrayed a better fashion image, thereby attracting different customers than those purchasing from the "on-site" outlet; and that the factory name was not a good retailing marketing name.

4.2.5 Legal format.

Eighty-nine per cent of these outlets operated under the same legal form as that of the factory. Due to the magnitude and size of the majority of these clothing factories (i.e. both capital and labour intensive), these establishments were mainly operating under an incorporated legal format[4] (i.e. private company/close corporation).

The conclusion drawn is that there is no real need to function under another type of legal form (e.g. sole proprietorship or partnership), as the factory outlets will benefit from the protection of limited public liability of an incorporated form of business.

According to the Basic Conditions of Employment Act, 1983, which regulates shops and offices, these factory shops operated as retail outlets and required a trading licence. Similarly, because factory shops sold to the end-user, they were liable for General Sales Tax, providing their annual sales exceeded R60 000.

Personal visits to factory shops proved that they adhered to licensing requirements[5] and those which levied General Sales Tax also indicated this through notices.

It is important to stress that this empirical research was completed before the advent of Regional Services Councils which significantly changed licensing requirements for all businesses.[6]

4.2.6 Staffing.

Fifty-six administrative/managerial and 169 sales staff were employed at the 38 "on-site" and 39 "off-site" factory outlets which represented an average staff component of 3,2 per outlet. About one-third of the staff component worked on a part-time basis in the factory outlets during busier shopping periods. Whilst the larger factory outlets (especially the off-site outlets) had more staff, the smaller outlets typically operated with one full-time staff member only.

A research of literature revealed no similar norm for the retail clothing industry and therefore no comparisons could be drawn. In the following sections the significance of such a small staff component per outlet will be put into greater perspective, especially when compared with the variables of annual turnover and size of outlet.

4.2.7 Sales (turnover).

Due to the extreme sensitivity about revealing information on annual sales, the respondents were requested to indicate their annual sales in categories, rather than stipulating their exact annual sales figures.

However, this decision has led to certain complications in determining useful data, i.e. the elements in this specific answer (data set) presented an unequal emphasis (i.e. extreme values). It was therefore decided to use the method of a weighted mean[7] for the purposes of comparison.

The majority of the individual turnovers were recorded in the lower categories, as shown in Table 4.4, yet on average these factory shops had annual turnovers of R279 000 (1987). Although it is not possible to determine a direct relationship between the age of the factory shop and the size of the turnover, the data in Table 4.5 revealed that the larger turnovers were mostly achieved by factory shops established since 1980.

Table 4.4 Weighted mean of annual sales

ANNUAL TURNOVER	f	CM	f(CM)
R 1 - R 60 000	13	R 30 000	R 390 000
60 001 - 72 000	1	66 000	66 000
72 001 - 120 000	4	102 000	408 000
120 001 - 180 000	2	150 000	300 000
180 001 - 240 000	1	210 000	210 000
240 001 - 300 000	4	270 000	1 080 000
300 001 - 360 000	3	330 000	990 000
360 001 - 480 000	3	420 000	1 260 000
480 001 - 600 000	1	540 000	540 000
600 001 - 720 000	0	660 000	0
720 001 - 840 000	0	780 000	0
840 001 - 960 000	0	900 000	0
960 001 - above	4	1 200 000	4 800 000
	N=36		Σf(CM)=R10 044 000

$$\mu = \frac{\Sigma f(CM)}{N} = \frac{R10\ 044\ 000}{36} = R279\ 000 \text{ annual sales}$$

Table 4.5 Statistics of activities in factory outlets

Year established	Additional factory shops	Merchandise*: Men's	Boys'	Ladies'	Girls'	Infants'	Other	Max. trading days p.w.	Max. trading hours p.w.	Staff*: Managerial/ Administrative	Sales	Average annual turnover 1987 (R'000)	Average selling area (m2)	(%) Increase in turnover: middle year (current year 1978)
1967	0	x	x					6	41^{+}	1	1	30	25	60 70
1975	1	x	x	x	x			5	41^{+}	2	6	n/a	350	n/a
1976	0			x	x			5	41^{+}	1	1	n/a	n/a	n/a
1976	0	x	x					6	40	1	2	420	75	10 40
1976	10	x	x	x	x			6	41^{+}	4	21	540	75	50 80
1978	0			x				5	40	2	2	30	125	n/a
1978	0			x			x	5	32	1	5	30	25	20 50
1980	0			x				6	32	0	2	30	25	n/a
1980	0			x	x		x	6	41^{+}	1	3	330	25	40 70
1980	0			n/a				6	41^{+}	0	1	150	75	31 54
1980	0	x		x				5	16	0	1	30	25	n/a
1980	0	x	x	x	x	x	x	5	41^{+}	2	5	1 200	450	30 60
1980	1	x	x	x	x			6	41^{+}	1	1	270	75	n/a
1981	0	x					x	5	32	1	2	102	25	n/a
1981	0	x	x	x	x			5	16	0	1	30	25	50 80
1981	1				x	x		6	41^{+}	1	3	1 200	450	23 51
1981	3	x	x	x	x	x	x	6	41^{+}	5	30	1 200	450	n/a
1982	0				x			6	41^{+}	0	2	270	75	20 50
1982	0	x	x		x			6	41^{+}	1	2	270	25	18 40
1983	0			x				6	40	1	2	102	75	20 65
1983	0			x				6	41^{+}	1	2	330	175	n/a
1983	0	x	x					5	40	2	0	n/a	25	n/a
1983	0	x	x	x		x		6	41^{+}	1	0	30	25	60 80
1983	1		x		x	x		6	40	2	5	30	75	40 70
1983	12			x	x	x		6	41^{+}	15	45	1 200	75	50 80
1984	0						x	5	40	0	1	30	25	15 40
1984	0			x	x			5	32	0	1	102	25	n/a
1984	0	x		x				5	32	0	2	30	25	n/a
1985	0	x	x	x				6	41^{+}	1	2	150	75	n/a
1986	0			x	x			4	32	1	1	30	175	30 80
1986	0	x		x				6	41^{+}	1	2	270	175	10 90
1987	0					x		6	8	0	2	102	75	n/a
1987	0			x	x			5	40	0	1	30	25	n/a
1987	0			x	x			5	40	1	2	330	75	n/a
1987	0	x	x	x	x	x	x	5	40	1	3	420	75	n/a
1987	2		x	x	x			6	41^{+}	3	3	210	125	n/a
1988	0	x				x		5	16	0	2	66	75	n/a
1988	0	x	x	x	x	x		4	24	2	2	420	75	n/a

LEGEND

Col. 3: M:Men's, B:Boys', L:Ladies', G:Girls', I:Infants', O:Other*. (* e.g. Caps, Scarves, Yarn.)

Col. 6: * Excluding casual workers (total unknown) during peak periods.

4.2.8 **Growth in turnover.**

To determine the growth in turnover of these factory outlets, the respondents were requested to indicate the sales for the first and middle year of trading in comparison to the most recent turnover (the latter with a basis of 100). Only 18 respondents gave meaningful information pertaining to the growth of their factory shops.

From Table 4.6 it became evident that factory shops experienced tremendous growth in turnover in a relatively short timespan despite a relative decline in new factory start-ups.[8] This trend supported the information collected from secondary research, as highlighted in chapter 2, par. 2.7.1.

Table 4.6 Average sales since the inception of factory outlets (1987 turnover = 100%)

YEAR OF TRADING	% OF CURRENT TURNOVER	RESPONSE
First	34,3	
Middle	63,3	18
Current (1987)	100,0	
No answer		20
		N = 38

The growth in turnover can therefore be attributed mainly to an under-utilized market niche in the clothing industry successfully filled by factory outlets. For example, if 1987 was taken as the base year with a 100% turnover, then the first and middle years of trading constituted 34,3% and 63,3% of the base turnover, respectively.

4.2.9 **Trading days and hours.**

Trading days and hours were very much in line with those of ordinary retail shops, because of three similarities between ordinary clothing retailers and factory shops. Firstly, staff were mostly employed on a full-time basis in the factory outlet; secondly, a retail licence required by factory outlets allowed for normal trading hours (i.e. the same legal requirements were applicable);[9] and, thirdly, there was a need to maximize sales from passing traffic.

The Basic Conditions of Employment Act, 1983, makes provision for trading time equal to five and a half (±45 hours) normal trading days, unless special application is made to the local authority for exemption from these conditions. All respondents were open for a minimum of four days per week, with 94,7% trading for five days and 52,6% trading for the maximum permissible days.

In terms of trading hours per week, 89,5% of the respondents were open for at least 25 hours per week. If compared to the normal trading hours of retail clothing outlets, factory shops still have "unused hours" during which sales can be boosted, because only 18 of the 38 respondents

(47,4%) have made use of the maximum permissible trading hours. The interrelationship between trading days and trading hours is illustrated in Table 4.7.

Table 4.7 Factory outlet trading days and hours

TRADING DAYS PER WEEK	N	f*	TRADING HOURS PER WEEK	N	f*
1	38	1,000	1 - 8	38	1,000
2	38	1,000	9 - 16	37	0,973
3	38	1,000	17 - 24	34	0,895
4	38	1,000	25 - 32	33	0,868
5	36	0,947	33 - 40	27	0,711
6	20	0,526	40+	18	0,474

* Relative decumulative frequency distribution.

Typical busy shopping days in terms of sales were Wednesdays (14,0% of total sales), Fridays (40,4%) and Saturdays (31,6%). From the questionnaire it was found that Wednesdays were the most popular days for sales to off-price retailers, jobbers and hawkers by those factory shops that supplied the trade, whilst the popularity of Fridays and Saturdays resulted from paydays (Fridays) and Saturdays being traditional shopping days. Weekend shopping therefore contributed 72% of the turnover of factory outlets.

4.2.10 **Selling area.**

The average selling area (floor space) of factory outlets was relatively small in relation to the turnover generated from it. In addition, there was no evidence that large turnovers of factory shops were directly related to large selling areas, as can be ascertained from Table 4.5.

On account of the lack of comparative information on the size of clothing retailers, relative to their turnover (i.e. no such statistics are available from Central Statistical Services or the clothing industry), it was not possible to draw any meaningful comparisons between clothing retailers and factory outlets on these two variables.

It can be concluded that an average annual turnover per factory outlet of approximately R279 000 (as calculated per Table 4.4) was generated from an average selling area of 105 m² (as calculated in Table 4.8) by 3,2 staff members per outlet.

Table 4.8 Average selling area in factory outlets

SQUARE METERS	Frequency f	Midpoint CM	f(CM)
Up to 50	14	25	350
51 - 100	14	75	1 050
101 - 150	2	125	250
151 - 200	3	175	525
201 - 300	0	250	0
301 - 400	1	350	350
401+	3	450	1 350
	N = 37	Σf(CM) =	3 875
No answer	1		
	38		

$$\mu = \frac{\Sigma f(CM)}{N} = 104{,}73\text{m}^2$$

4.3 The market.

All factory outlets (38) sold to the end-user, 35 sold to their staff, 26 sold merchandise to other resellers, whilst only one participant sold to other factories.

Typical buyers from factory outlets constituted the consumer or end-user (60,2%), employees (22,2%), resellers (16,7%) and other factories (0,5%) and unclassified (0,4%), respectively. If the factory employees were to be included as end-users, then these consumers represented 88,2% of the total patronage of factory outlets. Resellers were mainly jobbers (i.e. off-price retailers) and hawkers, as well as shops from small country areas. Reasons provided by those participants trading with resellers, hawkers and country shops, were mainly price/discounts on volume purchases as well as the availability of merchandise.

4.3.1 Customer demographics.

The objective of this section of the questionnaire was to identify a typical South African factory shopper.[10] In order to present a typical profile, it was necessary to obtain information on the customers' demographic characteristics, buying pattern, geographical dispersion, traveling time and average purchases from factory outlets.

4.3.1.1 **Sex, age and income grouping.**

Females were found to be to strongest supporters of factory shops (86,5%). In terms of the age grouping of consumers, nearly half (48,2%) of the support came from the 26 - 40 years age group. This was not unexpected as the majority of people within this age bracket were in the process of establishing themselves in terms of their careers and families. Further analysis of Table 4.9 indicated a normal distribution curve of support by the age categories below 26 years (24,1%) and above 40 years (27,7%). If the younger age group is further to be regarded as requiring fashion and "trendy" clothes, then the factory shops have succeeded in capturing part of that market.

In terms of the support by income group it would seem as if the lower and middle income groups collectively provided the basis of support, namely 47,7% and 38,5%, respectively. Although the higher income group ranked very low (13,8%), it was popularly claimed that factory shop support by this group was increasing considerably.[11]

Table 4.9 Sex, age and income grouping of customers

SEX	%	AGE (YRS.)	%	INCOME GROUP	%
MALE	13,3	up to 25	24,4	LOW	47,4
FEMALE	86,7	26 - 40	48,3	MIDDLE	38,7
	100,0	41+	27,2	HIGH	13,9
			100,0		100,0

4.3.1.2 Buying pattern.

Twenty-six respondents (68,4%) could reveal information on the buying patterns exhibited by their customers; the rest did not know, or stated that the consumer did not exhibit any particular buying pattern.

Although it was not possible to determine how these buying patterns changed over a period of time, or whether the economic cycle influenced a higher patronage of factory shops, literature suggested that a downswing in the economy had definitely had a marked effect on the higher patronage of factory shops.[12]

The consumer buying pattern centred around once-monthly visits, but the majority of customers (82%) made repeat purchases within two to eight weeks. (Table 4.10).

The entry of factory shops into the distribution channel of clothing, specifically, centred on a price strategy, in that consumers wanted goods of reasonable to good value at an acceptable price. This supposition is borne out by the fact that respondents stated that consumers purchased from factory shops for the following reasons: price 76,1%; location 13,0% and service 10,9%. The latter reason is in sharp contrast to the service function demanded by consumers from retailers. No reasons for this anomaly regarding service between retailers and factory shops could be obtained, but it could be that the price considerations for buying at factory shops completely overruled service and location issues and therefore dominated the customer's buying decision.

Table 4.10 Consumer buying pattern (N = 26)

	%
Once per week	0,0
Once every two weeks	15,4
Once per month	46,2
Once every two months	15,4
Once every three months	3,8
Longer	3,8
Do not know	15,4
	100,0

4.3.1.3 **Geographical dispersion and travelling time.**

Only 27 of the 38 respondents were aware of the geographical dispersion and travelling time of consumers. As expected, these factory outlets were mainly patronized by customers from the primary (41,5%) and fringe zones (38,5%). Berman and Evans stated that collectively these two zones account for between 77% - 87% of a store's customers.[13] Their statement is reflected and supported in Table 4.11.

The majority of these factory outlets were situated in industrial areas and the consumer's willingness to travel to such areas to obtain price savings was noted. On account of the unfavourable location and lesser accessibility of these factory outlets, it was not surprising that the majority of these consumers reached these factory shops by means of private transport (62,5%), with 33,3% using public transport and the rest (4,2%) using other means of transport.

Table 4.11 Geographical dispersion of consumers (N = 27)		
ZONE	TRAVELLING TIME	%
Primary	10 - 15 min.	41,5
Secondary	Up to 30 min.	38,9
Fringe	More than 30 min.	19,6
		100,0

4.3.1.4 Sales per customer visit.

In the questionnaire no categories were provided to elicit information on purchases per visit. It was deemed more appropriate to obtain specific amounts for expenditure. However, to draw meaningful conclusions, the answers were divided into categories as per Table 4.12 and from these a weighted average was calculated.

Twenty-four respondents (63,2%) were prepared, or in a position, to provide information pertaining to average sales per customer visit, which amounted to R49,17 per visit. No comparative figures for average expenditure at clothing retailers were available from literature.

Table 4.12 Average sales per visit			
CATEGORY	Frequency f	Midpoint CM	f(CM)
R 1 - R 10	0	5	0
11 - 20	5	15	75
21 - 30	7	25	175
31 - 40	6	35	210
41 - 50	4	45	180
51 - 60	0	55	0
61 - 70	1	65	65
450 - 500	1	475	475
	N = 24	$\Sigma = f(CM)$	R1 180
No answer	14		
	38		

$$\mu = \frac{\Sigma f(CM)}{N} = \frac{R1\ 180}{24} = R49{,}17$$

4.3.1.5 **Who, then, is the South African factory shopper?**

The conclusion drawn from the above consumer demographics would typify the consumer as being female, mostly in the 26 to 40-year age group and from the lower and middle income groups. She visited the factory shop on a monthly basis by means of own transport from a distance not exceeding 30 minutes travelling time, spending R50,00 on average per visit.

4.4 **Merchandise.**

Merchandise refers to goods and services on offer to customers[14] and in this instance merchandise specifically referred to men's, boys', ladies', girls', infants' and related goods manufactured on the factory premises and then sold in the factory outlet.

From the questionnaire it soon became clear that 'specialization' in factory shops was not a deliberate decision, but rather a function of the manufacturing plant. For example, a logical conclusion drawn from a manufacturer of men's, boys', ladies', and girls' clothing would be that these merchandise items would be available in the factory shop. This was not necessarily so as overruns, rejects, cancelled orders, etc., were not achieved in the same volumes and quantities for each of these groups. It could very well be that a factory outlet might have had surplus inventories of men's and girls' clothing and inventory shortages on boys' and ladies' clothing.

The belief that factory shops specialize received very little evidence of support, mainly because of the dependence of factory outlets on supplies from the manufacturing plants. A further analysis of the merchandise groups in Table 4.5 proved that very few manufacturers (and therefore factory outlets) specialized in one category of merchandise (e.g. men's, or boys', or girls', etc.) only.

In the categories of merchandise, ladies' wear was by far the largest contributor towards sales (44,0%), followed by men's wear (18,8%), girls' wear (15,7%), boys' wear (7,4%), infants' wear (8,5%), and other (i.e. towels, socks, yarn, etc.) 5,6%. The trend of ladies' wear outstripping the other categories was to be expected for two reasons: factory shops started at clothing factories where the dominant labour force was female.

It would therefore stand to reason that these factory workers were the first to buy excess merchandise (e.g. rejects), usually for themselves. Later on, these sales also included other merchandise categories, such as overruns and cancelled orders.

Secondly, competition in retail clothing was most prevalent in ladies fashion and those who could not afford to patronize retail outlets regularly, but still liked to acquire fashion wear, usually reverted to factory shopping. In summary, factory shops (in addition to supplying their traditional customer base) saw the opportunity of increasing sales by selling directly to the end-user.

4.4.1 Type of merchandise.

The initial perception was created that factory outlets only had so-called distress merchandise (a term popularized by the clothing industry to depict rejects or damaged goods) to sell. This was certainly not the case as can be judged from Table 4.13.

From this table it would seem as if the largest contributor by type of merchandise was damaged goods (30,8%). However, if that was the only noted damaged/distressed merchandise, the rest (or 69,2%) constituted undamaged merchandise of as good quality as one would find in clothing retail outlets.

Table 4.13 Type of merchandise sold by factory outlets (N = 34)

MERCHANDISE TYPE	%
Currently sold by retailers	15,4
Cancelled orders	7,6
Overruns	18,0
Damaged goods	30,8
Discontinued merchandise	16,3
Closeouts	3,6
Other	8,3
	100,0

Although it may appear as if factory outlets had originally been started with the objective of getting rid of damaged goods they had now gone full circle in that ordinary and quality goods outstripped the sale of damaged goods.

To further prove the point that factory shops not only sold damaged merchandise, 34 of the 38 participants (with three abstentions) stated that they had always sold the assortment of merchandise as explained in the previous paragraphs. Only one participant incorporated additional merchandise.

4.4.2 Variances in quality of merchandise.

Unlike clothing retailers, factory shops also sell distressed merchandise in addition to other merchandise on offer. This indicates a variance in the quality of their goods.

Nearly eighty-two per cent of the respondents informed customers of these variances in quality of goods on offer, should damaged goods be sold. Methods mostly used to inform the customer are: 1) stickers/labels on damaged garments, usually on the damaged area/spot (51,5%); 2) salespersons informing the customer verbally (30,3%); 3) notices in the shop (9,1%); 4) price differentiation according to quality (6,1%); and, 5) rejects sold separately (3,0%).

4.4.3 Garment labelling (Exclusivity).

Exclusivity of representation refers to the right of a retailer to sell certain goods in a protected territory (shop) without having to compete with another retailer selling the same merchandise.[15] In the clothing industry these forms of exclusivity are exemplified through garment labelling. For example, Princess and Servus for Woolworths, Student Prince for Pep Stores and Ackermans, Curzon for OK Bazaars. Conversely, garments labelled as Man About Town, La Coste, etc., are available from various retail competitors.

Possibly two of the most contentious and controversial discussions between the retailers and manufacturers centred on the issues of garment labelling and the season within which merchandise was sold (see Chapter 2 section 2.7.6.2 par 2).

The original disagreement by retailers against the development of factory shops was not only as a result of merchandise being sold in these factory outlets under the same label as that of the retailers, but also of these goods being sold in the same season. Through all the discussions on possible changes and agreements it did not seem as if much had changed. Eleven respondents (30,6%) stated that they sold their merchandise under the original label, with 25 (69,4%) removing the original label. Two respondents did not answer.

Reasons for retaining the original label were that the label promoted their trade name (70%), it was too costly to remove the label (20%), the factory shops sold quality goods (10%), and therefore did not see the need for removing the label.

Labels were removed beforehand mainly for the following five reasons: [1] to protect retailers at the retailers' insistence (55,2%); [2] to protect the manufacturer's trademark (13,8%); [3] factory policy to have all labels removed, [4] all labels are removed from reject goods; [5] garments purchased from factory outlets might possibly be returned for credit via the retailer (all 10,3% respectively).

Although it was not possible to ascertain whether the label removing practice increased or decreased, it would seem as if clothing retailers had put pressure on those manufacturers with factory shops to have original labels removed as the majority of factory outlets (69,4%) adhered to the practice of label removing.

4.4.4 Season.

Thirty two respondents sold their merchandise in the same season as the merchandise supplied to retailers. This answer was in stark contrast to the "agreement" between the clothing manufacturers and retailers on the restraint of fashion merchandise. The decision to enter the market at the same time as the retailer received and marketed fashion goods could have been taken as a result of negative cash flow (see Chapter 2 section 2.8.6.2 par. 2).

4.4.5 Additional merchandise.

Although only nine respondents (23,1%) answered in the affirmative that they acquired additional merchandise from other factories, it was deemed important to analyse the reasons for these decisions, as shown in Table 4.15. The information gained from this table could not be regarded as representative because of the small number of respondents (N=9), but it nevertheless indicated that factory outlets were increasingly becoming more concerned about stock depth by yielding to customer demand.

A further analysis of the nine factory shops which purchased additional merchandise from other factories showed that two were small (up to R60 000 turnover per year), five had annual turnovers of between R180 000 to R600 000, and two had turnovers exceeding R960 000. From this analysis it was difficult to detect, or predict, any trend that would have explained the decision to increase merchandise from alternative sources, except that the medium-sized factory shops actively sought methods to improve their position in the market.

Although not representative of the universe, the reasons from these nine respondents for acquiring additional merchandise from other factory shops (Table 4.14) suggested that the original terms of reference of factory outlets (to sell distressed merchandise) had changed from a product orientation to a market orientation, i.e. to provide a more comprehensive product range and service to customers.

Table 4.14 Reasons for acquiring additional merchandise from other factories (N = 9)

REASONS	%
Increase merchandise depth	26,1
Customer demand	26,1
Comprehensive service	17,4
Complementary goods	17,4
Competitive pressures	4,3
Factory specialization	4,3
Supplementary goods	4,3
	100,0

4.4.6 Service to the customer.

Despite the customer's perceived notion for price-hunting at the expense of service, factory outlets have actually increased their number of services. Two of the most basic service requirements (dressing rooms and packaging) were being provided.

Factory outlets rated very much below par with clothing retailers when it came to most of the basic services. Apart from parking and alterations, retailers would all provide the services as outlined in the table.

Since starting their factory shops 34 respondents incorporated those services (as per Table 4.15) into their outlets, whilst the rest (4) had always provided those services. Customer demand for a more comprehensive service was cited as the primary reason for incorporating additional services.

Table 4.15 Services provided by factory outlets	
SERVICE	%
Dressing rooms	33,7
Packaging	35,9
Alterations	1,1
Parking	21,7
Returns	7,6
	100,0

4.5 Pricing.

To the buyer, price is the value placed on what is exchanged[16] and therefore the price of a product is a major determinant of the market demand for the item. Price affects the firm's competitive position and its share of the market and therefore the starting point of any price policy is the selection of a target market, followed by creating an appropriate store image and composing the retailing mix.[17] From the latter (the retailing mix) the retailer then determines a broad price policy, i.e. whether prices should be established for individual items, or interrelated for a group of products, or based on the extensive use of special sales.

Factors influencing such a price policy could, for instance refer to the level of price entry (e.g. lower, middle, or higher prices); how merchandise will be marked (e.g. individually); whether price leadership will be exerted (i.e. the firm will put prices up first, or will follow price leaders); and, whether prices will change or remain the same during the season.

4.5.1 Price policy.

There were definite preferences by factory outlets in the selecting of a price policy (Table 4.16). Factory outlets based their price policy mainly on three strategies, viz. cost-oriented pricing, demand-oriented pricing and competitive-oriented pricing.[18]

Cost-oriented pricing refers to a condition where manufacturers (in this instance) set a floor-price where the sale of excess merchandise, not sold through the normal channels of wholesaling and retailing, would at least not result in loss for the manufacturer. This was the most preferred method used by factory outlets.

Table 4.16 Major factors determining an overall price policy (N = 36)

FACTOR	RANKING*
Cost of goods	1
Target customer and income	2
Going market price set by retailers	3
Exclusivity of merchandise	4
Competition from other factory shops	5
Special circumstances	6

* Method most used = Ranking 1
Method least used = Ranking 6

Demand-oriented pricing refers to condition where prices are based on consumer desires. It is a policy which is often used by firms whose goals are listed in terms of market share. This pricing method was the second most popular pricing policy used by factory shops.

With **competitive-oriented pricing**, prices are set in accordance with competitors' prices. In this instance, factory shops regarded clothing retailers as their main rivals. This policy was the least preferred of the three major pricing policies used by factory shops.

The role of **exclusive merchandise** and **competition from other factory shops** were of lesser importance in the strategy to determine an overall price policy.

4.5.2 Pricing strategies used by factory shops.

In order to ascertain whether factory shops applied pricing strategies as effectively as retailers, it was deemed necessary to include the most popular pricing strategies in the questionnaire.[19]

The inference made from the analysis of these pricing methods generally used by factory outlets verified the considerable uncertainty as to which method(s) provided the best results for such shops as opposed to, for example, food retailers. Thirty-four of the thirty-eight respondents attested that their pricing methods remained unchanged over the years, thereby signifying a sense of uncertainty to one single "best" method.

Table 4.17 showed a marked preference by factory shops for a **one-price policy**. The rationale for this decision could be derived from the fact that merchandise was already sold at prices lower than those of their main rivals (clothing retailers); hence the non-allowance of bargaining for further price reductions. **Variable pricing** ranked second and this was not unusual as prices altered with consumer demand for seasonal goods. The seasonality of merchandise plays a major role in the clothing industry. This strategy was followed by **leader pricing** and in this instance "usual" profit margins referred to the margins of merchandise sold by clothing retailers. Leader pricing formed the cornerstone of the success and popularity of factory outlets. The fourth most-used strategy was **odd pricing** (an effective and popular strategy in clothing retailing) as factory outlets represented "bargains" to consumers. On account of the unique position of factory outlets as a direct supplier, as well as the short seasons for merchandise, **price lining** and **customary pricing** featured relatively low on the ranking scale. **Multiple-unit pricing** and **bait pricing** proved to be unpopular methods.

Table 4.17 Pricing methods used by factory outlets

METHOD	%
One-price policy	31,3
Variable pricing	16,4
Leader pricing	13,4
Odd pricing	13,4
Price lining	9,0
Customary pricing	9,0
Multiple unit pricing	4,5
Bait pricing	1,5
Other	1,5
	100,0

Although resellers and other factories only constituted 16,7% and 0,5% of the sales of factory outlets respectively (see par. 4.3), 57,9% of these factory shops allowed for variable pricing with volume sales. It would seem as if a few factory outlets had facilities (i.e. sufficient stocks) to supply both resellers and their own factory outlets.

4.6 Payment methods.

Payment can be done by means of cash, cheque, credit card, credit account and layby. The cash method of payment (notes and coins) was still the most popular method (Table 4.18). One possible answer for the high incidence of the cash method of payment could be the large support from the lower income group (see par. 4.3: Sex, age and income grouping).

Cheque payments have increased in popularity and although no specific answer for this could be determined, it might the result of two changes, namely trading-up to the middle and higher income groups and the higher money value per purchase because of inflation.

As the factory outlet development is only in its infancy stage, it was not possible to draw any meaningful conclusions regarding the methods of payment over the time period of the investigation. Thirty-one respondents (84,2%) stated that no changes in the accepted methods of payment had taken place. Those factory outlets which have incorporated additional methods of payment since their inception stated that it had happened as a result of their providing an improved service.

Credit sales played an insignificant role as only staff were allowed to buy on credit (under certain conditions) but this decision had again increased administrative work. None of the participants allowed for sales on credit to the public.

Table 4.18 Methods of payment

METHOD	%
Cash	71,1
Cheque	16,2
Credit	1,1
Credit card	5,9
Layby	4,3
Buy-aid	0,6
Other (Staff wage deduction)	0,8
	100,0

4.7 Promotion.

Promotion can be defined as "communicating information between seller and buyer".[20] Another view further states that "when any marketing venture is viewed as a total system, it contains three principal subsystems: product, distribution, and communication. Without them, retailers would rarely make any sales in our modern world of mass production, and their enterprises would soon fail for lack of adequate business".[21]

4.7.1 Promotion by factory outlets.

The five major ingredients which may be included in an organization's promotion mix are advertising, personal selling, publicity, packaging and sales promotion. For some products, firms employ all five ingredients; for other products, only two or three are necessary.[22] Of these five ingredients, it would seem as if sales promotion and packaging (as used and applied in retailing) play an insignificant role in factory shop promotion.[23]

Given the fact that factory outlets constitute a relatively new development, it was rather surprising to ascertain how these factory outlets have defied the basic laws of promoting themselves. This, however, might have resulted from the uneasy truce between clothing manufacturers and clothing retailers, as well as the hesitancy of clothing manufacturers to enter into direct competition with their major clients, namely clothing retailers.

Personal selling is the process of informing customers and persuading them to purchase products through personal communication in an exchange situation. Whilst it was generally accepted by factory shop owners that sales staff of retail clothing outlets should play an active and, sometimes, major role in assisting with the customer's buying decision, it was found that only 60% of factory shop sales staff fulfilled this function of actively participating in the customer's buying decision.

The majority of the respondents (76%) further claimed that the role of the sales person had not changed over time and that their sales staff would continue this impassive role.

Publicity as a non-paid form of mass communication was not actively pursued by factory shops. The main reason for this decision was to avoid deliberate attempts at alienating their major customers, namely clothing retailers.

Advertising. The deduction of a passive approach by factory shops towards promotion, as highlighted in the above paragraphs, is further supported by the information contained in Table 4.19, of the number of factory outlets which advertised their products to create consumer awareness.

Given this rather lethargic approach by factory shops towards promotion (inter alia packaging, personal selling, publicity and sales promotion), as outlined above, the conclusion is drawn that factory shops only spend promotional funds on institutional advertising (i.e. informing potential customers of the existence of factory shops) and product advertising (informing customers of their merchandise).

Table 4.19	Factory outlets that advertised to promote consumer awareness		
	ANSWER	NUMBER	%
	YES	18	47,4
	NO	18	47,4
	NO ANSWER	2	5,2
		38	100,0

Expenditure on advertising. It was not possible to draw conclusive answers from the available data of the annual expenditure by factory outlets on advertising. Of the 38 factory outlets surveyed, 18 indicated that they had no advertising budget for either institutional or promotional advertising. Two respondents did not answer this question.

However, from the summation of available data it was calculated that the rest (18) collectively spent R224 500 annually on advertising. This figure represented 2,24% of the average annual collective turnover of R10 044 million (see Table 4.4).

It should furthermore be stated that the total figure for advertising was made up of two large accounts of R100 000 and R80 000 respectively, with the rest averaging between R500 to R5 000 per annum. In other words, of the total annual advertising expenditure of R224 500, two factory outlets jointly had spent R180 000 and the rest (R64 500) had been spent by sixteen outlets (or R4 031 p.a. per outlet).

4.7.2 Budgeting methods for advertising expenditure.

Despite the negligent approach by factory shops towards promotion it was nevertheless deemed important to ascertain the advertising budgeting methods[24] used. Of the 18 factory shops which advertised, 5 did not provide any information of their advertising budgeting methods.

The most popular technique used by factory shops was the **What-can-be-afforded method**, followed by the **Random method**. (Table 4.20)

These two highly subjective methods were used by 50% of factory outlets as budgeting techniques. The **Task method** was used by three of the four large factory outlets (annual sales exceeding R960 000 as per Table 4.4). The fourth largest factory outlet used the **Percentage-of-sales method.**

Table 4.20 Budgeting techniques used by factory outlets for expenditure on advertising (N = 18)

BUDGETING TECHNIQUE	NUMBER	%
What-can-be-afforded	6	33,3
Random method	3	16,7
Task (Objective method)	3	16,7
Percentage of sales	1	5,6
Competitive method	0	0,0
No answer	5	27,7
	18	100,0

On account of the small sample of response to this question, no fixed or universal policy of promoting and advertising (as one would normally find with retailers) could be identified from available information.

Yet, the reasons for this were quite clear: firstly, the major activity of manufacturers had primarily been (and still is) selling to other distributors (e.g. wholesalers and retailers) and for the first time these manufacturers were now entering a new role of redirecting their efforts at the end consumer; secondly, the major source of income traditionally came from supplying these other channel participants, and not from supplying the end user.

4.7.3 Institutional and product promotional methods. (Table 4.21)

Although **store signage** was used by all factory outlets, its effect was seriously doubted as some of these signs were rather crudely made and obscured from passing customer traffic. Store signs were mostly used to direct customers to the factory outlet once they had entered the factory premises.

Retail advertisements were increasingly used by factory shops to create consumer awareness, albeit on a very small scale. Again, it would appear as if factory shops deliberately avoided this medium of communication, so as not to alienate clothing wholesalers and clothing retailers.

Interior displays (i.e. assortment and theme displays), when used, were mostly hand-written notices on cardboard cut-offs. Only two factory outlets used professionally prepared interior displays.

In the majority of the factory outlets the **presentation of merchandise** lacked the professional approach to layout and styling of clothing retailers. Only the larger factory shops made considerable effort to adhere to the principles of merchandise presentation as practiced by clothing retailers.

Advertisements in newspaper classified sections were not stating the merchandise on offer, but merely that factory shops had bargains to sell.

Window promotion received a low ranking for the very reason that most of the factory shops were located in unused sections of factory premises which either had small window space or no shop fronts. Unlike retail shop fronts, factory shops had typical industrial windows, not suitable for advertising.

Direct advertising, which offers the advertiser the advantage of delivering a message to a particular target market, was totally underutilized by these factory outlets, whilst (regional) **radio** was still a totally unused source.

Table 4.21 Promotional methods used to inform customers

METHOD	RANKING
Signage	1
Retail advertisements	2
Instore promotion	3
Classified advertisements	4
Window promotion	5
Knock-and-drop leaflets	6

Based on the information as outlined in the above paragraphs, it would appear as if factory outlets have not yet fully grasped the effect of promoting and advertising themselves and their merchandise and that very little effort was put into any method to create consumer awareness.

4.8 Future developments.

The final part of the questionnaire related to the future developments of factory shopping and the possible action that clothing retailers might be taking against these factory shops.

Respondents were specifically asked to indicate their awareness of action taken by clothing retailers against factory shop presence (Table 4.22).

Table 4.22 Awareness of reaction by retailers against factory shops

ANSWER	NUMBER	%
YES	9	23,7
NO	25	65,8
DO NOT KNOW	3	7,9
NO ANSWER	1	2,6
	38	100,0

Of the nine respondents (23,7%) answering in the affirmative, three stated that they were aware of the action by the (now defunct) Cape Retailers' Association to curb factory shop activities. Another three respondents were initially threatened with reduced ordering by retailers, whilst the rest were aware of the request by retailers to hold merchandise until the end of the season before selling at discount prices and to remove labels from garments.

More significant, however, was the fact that 25 respondents

(65,8%) reported that they were unaware of any further action by clothing retailers against factory shops. Although their reasons were not provided in the questionnaire, the absence of further actions by clothing retailers may point to a change in strategy by them towards a positive objective of raising the standard of retailing in general, rather than fighting the threat of factory shops. This assumption of retailers attempting to understand and manage change is supported by the following observations: (1) the demise of the Cape Retailers' Association; (2) the discontinuance of discussions between manufacturers and retailers; and, (3) the apparent cessation of hostilities between clothing retailers and factory shops.

4.9 Summary.

Very useful data has been collected from the information survey. Empirical evidence from the questionnaires suggests that the formation of factory shops has shown extraordinary growth since the early eighties which is mainly attributable to an under-utilized market niche. In addition to factory shops located on factory premises, significant growth was evidenced in the establishment of factory outlets away from industrial areas.

Although the majority of factory outlets are still small in terms of turnover and employment, there are indications of tremendous growth in sales over a relatively short period of time. In terms of the statutory requirements regarding the maximum trading days and hours, factory outlets generally undertrade and have not as yet made full use of maximum allowable time.

Excluding the four largest factory outlets, the selling areas are very small compared to retailers, yet a high turnover has been achieved.

The major support of factory shops come from females of the lower and middle income group from a geographical area not exceeding 30 minute's travelling time. The original postulation that factory outlets only sold damaged merchandise has been proved to be untrue, as the major portion of merchandise is equal in quality merchandise sold by clothing retailers.

The contentious issue of clothing labelling and the selling merchandise in the same season as retailer, to a large extent, still remains unresolved. Factory outlets only provided the minimum service functions to customers, but an improvement of these services has been noticed.

With regard to pricing and promotional strategies factory outlets still have significant inroads to make. No uniform policy on pricing could be detected and promotion strategies are virtually non-existing.

In conclusion, a typical clothing factory shop in the Cape Peninsula would have the following attributes:

A factory shop is usually situated on clothing manufacturing premises in an industrial area and trades under the name and legal form of the clothing factory. It employs 3 staff members and generates an annual turnover (1988) of R279 000 from a selling area of 105 square meters. It trades for 35 hours, 5 days of the week and sells merchandise in the same season as that of retailers. Merchandise quality can vary from rejects to high quality, with the latter at greatly reduced prices.

References

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1. This term refers to a situation in the clothing industry where manufacturers are supplied with fabric and process the fabric according to specifications using their own labour and trimmings, and never taking title to the goods. A charge based on this service is levied to the supplier of the fabric.

2. Unpublished minutes from a meeting between members of the Afrikaanse Handelsinstituut and the clothing manufacturing industry in December 1983.

3. "Cut-price Shops", Cape Style, December/January 1989, pp. 176-181.

4. The legal formats used for business purposes in South Africa would depend on the type, complexity and size of the operation. There are basically four legal types of business formation, viz. sole prorietorships, partnerships, incorporated formats and co-operatives, each with its distinct advantages and disadvantages. For further information, see Du Plessis, P.G., Ed., Applied Business Economics - An Introductory Survey, HAUM, Pretoria, 1987, pp. 165-196.

5. It is required that a licence be prominently displayed in the shop

6. With the advent of Regional Services Councils licensing has been abolished. Firms now have to pay an application fee and will in future be liable for monthly levies on their sales and payrolls.

7. The WEIGHTED MEAN is an average of a set of numbers $x_1, x_2, x_3, \ldots, x_n$ whose relative importance is expressed by some numbers $w_1, w_2, w_3, \ldots w_n$, called their weights.

   This is the method used to construct, for example, the cost-of-living index, average yield per hectare, scores for cricket, etc.

   The weighted mean is computed as follows:

$$\mu = \frac{\Sigma f(CM)}{N}$$

   where f = frequency of each class
   CM = midpoint of each class
   N = number of elements in the population

Freund, J.E., F.J. Williams, Modern Business Statistics, Pitman & Sons Ltd, London, 1967, p. 71

8. See: Establishment, par. 1.

9. During October 1989 Draft Legislation, pertaining to the repeal of licensing requirements for most retailing firms, was promulgated.

10. This profile was drawn on the same basis as a profile of a typical American factory shopper as identified from a secondary literature survey (See: Chapter 2, par. 2.3.)

11. "Cut-price Shops", op cit., and The Editorial, The Buyer, September 1983, p. 1.

12. "Learning a cheap trick or two", The Argus, March 27 1985, p. 15.

13. Berman, B., J.R. Evans, Retail Management, A Strategic Approach, 3rd Edition, Macmillan Publishing Co., New York, 1986, p. 192.

14. Redingbaugh, L.D., Retailing Management, A Planning Approach, McGraw-Hill Co., Inc., 1976, p. 250.

15. Ibid., p. 281.

16. Pride, W.M., O.C. Ferrell, op. cit., p. 414.

17. Berman, B., J.R. Evans, op. cit., p. 443.

18. Ibid., pp. 439-447.

19.

Leader pricing: Key items in the product assortment are sold at less than their usual profit margins to increase customer traffic in the hope of selling regularly priced merchandise in addition to special items.

Bait pricing: A customer is lured into a shop by exceptionally low prices on goods which are out of stock or of inferior quality.

Odd-pricing: Prices are set at levels below even monetary values (e.g. R19,99) with the assumption that these prices represent bargains or that these amounts are beneath the consumers' price ceilings.

Multiple-unit pricing: Discounts are offered to the customer for buying in quantity (e.g. one item for R1,00, two for R1,99) with the objective of increasing total sales per customer and to clear out slow-moving merchandise.

Price lining: Instead of stocking merchandise at all different price levels, price lining is an appeal to one segment of the market that has similar price preferences.

One-price policy: The same price is charged for all customers who seek to purchase an item under similar conditions, and bargaining over price is usually not permitted.

Flexible pricing: Consumers are allowed to bargain over selling prices. Prices are not clearly marked and prior knowledge assists the customer in better bargaining.

Customary pricing: The retailer sets prices for products and seeks to maintain them over an extended period of time.

Variable pricing: Prices are altered to coincide with fluctuations in cost or consumer demand.

Ibid., pp. 447-451.

20. McCarthy, E.J., W.D. Perreault, Basic Marketing, A Managerial Approach, 8th Edition, Richard D. Irwin, Inc., Illinois, 1984, p. 467.

21. Larson, C.M., R.E. Weigand, J.S. Wright, Basic Retailing, 2nd Ed., Prentice-Hall, Inc., 1982, p. 319.

22. Pride, W.M., O.C. Ferrell, op. cit., p. 323.

23. Personal observation by the researcher during interviews.

24. In the **what-can-be-afforded** procedure funds are allocated for every other element of the retailing mix except promotion. Whatever funds are left over are used for promotion. Berman and Evans describe this as probably the weakest of the budgeting methods. (Berman, B., J.R. Evans, op. cit., p. 406). With the **random method** any amount spent on advertising would do. With the **percentage-of-sales method** the promotional budget is based on sales revenue (e.g. 10%). Under the **task method** the promotional objectives are clearly defined and then the promotional budget is determined to satisfy these objectives.

CHAPTER 5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter summarizes the research. It tests the hypotheses and deals with the conclusions gained from both the primary and secondary research of the investigation. Finally, certain recommendations are made which could be considered by the institutions concerned.

5.1 Summary.

The purpose of this study was to determine whether factory shops in the clothing industry evolved from a process of natural development, characteristic to the theories on retailing. A secondary purpose was an assessment of the realm of factory shops and to acquire specific information on its size, scope, growth, marketing strategies and future development.

The factory shop phenomenon was first observed in the clothing industry of the United States of America when, in addition to supplying their traditional clients, clothing manufacturers also started selling directly to the consumer. In the United States factory shopping has become such a significant influence (or trend) that shopping centres have been established (albeit in low-cost suburban locations) specifically to cater for this medium.

The major reasons for the U.S.A. factory shop development have been given as slow retail growth, reduction and cancellation of orders. These conditions left clothing manufacturers with unsold stock and manufacturers had to become self-promoting. In the current decade factory shopping in the U.S.A. is being widely heralded as a phenomenon that is altering the face of the (clothing) industry.[1]

A major threat to clothing manufacturies initiating factory shops is the fear of alienating their traditional clients, namely department stores and chain stores.[2] However, consumers who experience a decrease in buying power resist downward adjustment and support factory shops where quality goods can be obtained at lower prices.

The factory shop phenomenon has caught on very quickly in other industries, especially in the U.S.A., where entire shopping malls cater solely for factory shops of various industries. Recently, a shopping mall catering exclusively for factory shops was opened in the southern suburbs of the Cape Peninsula.[3]

To date the development of factory shopping in South Africa, and particularly the Cape Peninsula, has not reached the same prominence as in the U.S.A., although certain parallels do exist.

Factory shops in the clothing industry in the Cape Peninsula have been established at an increasing pace since the early eighties when clothing manufacturers of this geographic area were quick to seize the opportunity of developing new outlets for their merchandise, albeit initially on a relatively small scale.

The development of clothing factory shops was received with shock and dismay by organized trade and the media, for it was the first time ever that clothing manufacturers had competed directly with their traditional clients, especially as factory shops increasingly sold quality merchandise, and not only rejects, through these outlets.

Clothing manufacturers' interest in factory shops were to control the sale of <u>discounted</u> merchandise and to generate larger profits as middlemen in the channel were excluded.

The clothing manufacturing industry in the Cape Peninsula is faced with a unique dilemma since more than 60% of its market is located elsewhere in South Africa. Any typical order from a clothing retailer is placed six months in advance. In certain instances these orders are cancelled only after manufacturing has reached an advanced stage.

These unfortunate developments resulted in the clothing manufacturer retaining unsold stock. In the past, unsold inventory was taken over mainly by "jobbers" (off-price retailers), but the clothing manufacturer realized the opportunity of selling directly to the consumer. In the past, goods were sold through their reject shops, usually to their own staff.

However, not all these goods were necessarily rejects, as surplus inventory resulted from cancellations, production overruns and closeouts. More and more persons (consumers),[4] other than employees, became aware of these excess inventories which were often sold at prices primarily intended to cover production costs. Hence, the entrèe of manufacturers selling the same quality goods (as found in clothing retail outlets), yet at significantly reduced prices.

Although it would seem as if the advent of factory shops was mainly inspired by clothing manufacturers, its development could also be attributed partly to role reversals. Clothing manufacturers started selling directly to the customer because of backward vertical integration by clothing retailers; retailers therefore infringed upon the traditional roles of channel members in the clothing distribution channel.

Through backward vertical integration, clothing retailers acquired their own manufacturing plants and entered into direct competition with clothing manufacturers. As the distribution channel was already controlled by retailers, clothing manufacturers indicated their need to exert more control in the distribution channel through forward vertical integration by opening their own factory shops and selling merchandise directly to the consumer.

The entry by manufacturers into direct selling came about mainly because of their lack of influence (or power) in the channel, where six large retailers control more than 50% of the apparel retailing in S.A. Furthermore, manufacturers justified their forward integration mainly because they received no protection against retailers integrating vertically backward.

Retailers and manufacturers actively tried to accommodate one another's views and demands, but with little effect. However, it would seem as if retailers realized that there was little they could do to stem the tide of factory outlets.

In the era of modern marketing the consumer buys the best quality at the most reasonable price. Competition in the clothing retailing industry is fierce because of the short life cycle of its products. In the current economic climate of high unemployment, high inflation and price spirals, the consumer is forced to spend more judiciously. Clothing (as a basic commodity) was also subject to severe cutbacks in consumers' budgets, and hence the move towards buying quality goods at greatly reduced prices.

Clothing retailers were the first participants in the clothing distribution channel to become aware of the existence of factory outlets and the threat these factory shops posed to the existence of, mainly, the independent retailer. A series of meetings were held to discuss the impact of this new competitor. Although independent retailers stated from the onset that they did not see any problems with clothing manufacturers discarding their excess inventory (which initially consisted mainly of rejects), they were particularly concerned when inventory was being sold in factory shops, at discounted prices, at the same time as in retail outlets.

The advent of factory shops created conflict in the typical distribution channel, since the position of power was challenged. At present it would seem as if the clothing retailers (by virtue of an oligopoly) have retained power, but this was challenged by the manufacturer with an innovative move through the advent of factory shops. Whilst it is definitely true that the channel may be managed by the retailer or another institution, there is little likelihood of a channel being managed by one institution all by itself.[5]

5.2 Testing the hypotheses.

The main hypothesis of this study was to determine whether the factory shop was a new addition to, and formed an integral part of, the distribution structure of the clothing industry in particular, and retailing in general.

Firstly, data gained from both the primary and secondary investigations supported the hypothesis that factory shops had become a new addition to the clothing industry in the Cape Peninsula. Informed and authoritative persons in organized commerce and industry (particularly the clothing industry), owners and managers of both clothing retail and manufacturing firms,[6] as well as a survey of relevant and popular literature indicated that factory shops have been accepted as a participant in the distribution channel of clothing in the Cape Peninsula. Secondly, data gained from secondary sources provided further support that factory shops were also being established in other industries, such as crockery, toys, frozen foods, paint, etc.

The main hypothesis is therefore accepted.

The second hypothesis was to determine whether the factory shop phenomenon was a natural development process in the evolution of typical retail institutions.

Several theories on distributive structure development accommodate factory shops and their development of certain structural properties over time (e.g. adaptive processes as a result of environmental changes, the theory of postponement-speculation as well as the axiomatic processes).

An analysis of the theories on the evolution of retail institutions indicated that none of these theories are universally applicable. Yet, the Three Wheels of Retailing, the Full Cycle hypothesis and the Dialectic Process all partially explain the evolution of the factory shop as a retail institution. However, the Vacuum Theories, the Wheel of Retailing, the Theory of Adaptive Behaviour and the Crisis-Change Theory fully accommodate the evolution of factory shops as new retail institutions.

According to the Vacuum theories, innovative firms create a niche for itself which provides shelter for the business during periods of innovative danger. These niches create vacuums which again creates opportunities for new firms.

The development of factory shop retailing adheres very well to the Wheel of Retailing hypothesis (originated by Malcolm P. McNair in a 1958 article which became a classic in marketing literature). This theory states that institutional change takes the shape of a more or less definite cycle with three phases. It explains how the small speciality retailer was displaced by the department store, which subsequently became vulnerable to the discount retailer, then to off-price retailers.[7,8]

According to the Theory of Adaptive Behaviour, retail institutions have to adapt in order to survive. The mere fact that the literature survey indicated that the original outcry and rage from retailers against factory shops had virtually ceased is proof of the retailers' adaptive behaviour.

The Crisis-Change Theory identifies the shock, retreat, acknowledgment and adaptive stages which existing firms (retailers) go through in accepting new institutions (factory shops) and also explains the reactions of clothing retailers towards new competitors, such as factory shops.

Therefore, the second hypothesis is also accepted.

5.3 Conclusions.

The face of retailing is continually being changed by people/organizations coming along with "bright new ideas". The latest alteration in this decade stems from the phenomenal expansion of factory shops in the United States of America which has earned them a niche in the industry, especially in apparel, accessories and footwear.[9] If the development of factory shops in the Cape Peninsula is compared to that of the U.S.A., similar growth patterns have been observed, albeit not of the same magnitude.

This mutation equates with the "Strategic Window" concept[10] which postulates that there are only limited periods during which the 'fit' between the key requirements of a market and the particular competencies of a firm (competing in that market) is at an optimum[11]. Entry into a new market, or investment in a new product line, should be timed to coincide with the period(s) during which such a strategic window is open. Clothing manufacturers who opened their own retail outlets (perhaps unknowingly) applied this concept. As markets evolve, existing contenders are replaced by new contenders as a result of the closing of strategic windows for the incumbents and the opening of another window for new entrants.

When incremental changes take place in the market, firms can successfully adapt themselves to the new situation by modifying their marketing and functional programmes. These changes often are so quick and severe that the survival of the firm is threatened. With the development of factory shops independent clothing retailers, in particular, have had to fight for survival.

From the primary research data it was ascertained that nearly 24% of all clothing manufacturers in the Cape Peninsula owned a factory outlet. Considering the number of new factory outlets in the latter years this trend is increasing. Factors which prompted the growth of factory shops were mainly reduced or cancelled orders and consumer demand for lower priced goods.

Although factory outlets have traditionally been established on the premises of the manufacturer, an increasing tendency to establish these away from the factory premises and mainly to procure passing traffic has been observed. Those "off-site" factory shops have not been furbished as stylishly and expensively as their retail counterparts.

Factory shops operate with few staff (on average three persons) and the significance of this came into perspective when a comparison was made with the annual turnover and the selling area of these factory shops. On average these factory outlets have generated annual sales of R279 000[12] from an average selling area of 105 m^2. However, if the role of sales staff can be changed from the current passive role to active selling (as found in clothing retail shops) the above sales figure could still increase considerably.

The supply of a particular type of merchandise (e.g men's, boys', ladies', girls', infants', or other clothing) has not been as consistent as in retail outlets, as the said supply depended on the availability of such goods. For example, there might be overruns of men's clothing, rejects in ladies' clothing, but no supplies for the other types of merchandise. Because of specialization in clothing manufacturing (as well as a lack of continuity in assortments[13]) very few factory outlets do provide a comprehensive merchandise service.

Primary research has proved beyond doubt that factory shops have enjoyed considerable growth in sales over a short period. This growth was mainly the result of the consumer's loss of spending power and the underutilized market niche successfully filled by factory shops. Factory shops were quick in assessing the broad changes in consumer groups (i. e. those groups which were dependent upon and served by retailers). These changes may be imperceptible to the retailer on a day-to-day basis, but they do nevertheless occur.[14]

The emerging trend of factory shops can partly be attributed to the evolutionary (as opposed to revolutionary) nature of factory shops - it is a development which started from inconspicuous beginnings. Similarly, competition came from so non-traditional a source (the manufacturer), that retailers never even considered these factory shops as potential competitors.[15]

Factory shops, on average, have not been operating full retail hours and days and the bulk of their sales have been generated on Fridays and Saturdays.

Although the majority of the participants in this research project also sold merchandise to other resellers, the consumer constituted the bulk of the patronage.

A typical buyer at a factory shop has been classified as a female in the 26 to 40 year age group from the lower and middle income groups who visited a factory shop on a monthly basis from a distance not exceeding 30 minutes' travelling time and spend R50 per visit by means of cash payments.

Ladies' wear has been by far the largest contributor towards factory shop income, mainly because it has the shortest product life cycle of all clothing merchandise.

Even though the term factory shop is used synonymous (albeit subjectively) with "reject merchandise", nearly 70% of all merchandise sold constitute quality merchandise, which fact effectively dispels the rumour that factory shops only sell reject merchandise.[16]

The issues of garment labelling (or the removing thereof when sold through factory outlets) and the season within which merchandise are sold, remains unresolved between those manufacturers with factory shops and the retailers they supply.

Factory shops have rated very low in the provision of service. On average, only dressing rooms and packaging are provided. However, it seems as if the consumer is quite prepared to forfeit certain services (e.g. alterations, returns, pleasant shopping environments, etc.) for price "bargains". Increasing incorporation of additional services to provide a more comprehensive service, has been noted.

It should be conveyed that manufacturers never intended to compete for the total market, since they have too little to offer as regards products. Yet, they have identified a unique market niche (with a unique profile); thus, one more reason for their success may very well be the fact that their client-base is satisfied with the modesty and simplicity of factory outlets.

Of all the marketing instruments, pricing appears to be the most effectively applied element to reach the consumer. Yet, on analysing the pricing policies applied by factory outlets, it mostly substantiated their preference to cost-oriented pricing, the latter being a policy of (at least) recovering the cost of merchandise.

Promotion, as the marketing tool of communicating information to the consumer, has not been fully understood and applied by factory shops. Very little has been done in terms of personal selling, publicity and advertising to promote consumer awareness. Similarly, institutional and product advertising methods have played insignificant roles.

Despite the low level of investment in creating consumer awareness, factory shops have succeeded in drawing customers in greater numbers. This fact underscores and supports the hypothesis that factory shops form an addition to, particularly, the distribution structure of the clothing industry in the Cape Peninsula.

Although factory shops have existed on the periphery of retailing for the past two decades, they represented a negligible force in the industry until a few years ago.[17]

However, the impetus for their extensive growth came from continuing consumer disenchantment with traditional retailers, a strong demand for widely recognized brands, adverse economic conditions and the repeal of legislation (e.g. licensing requirements and trading hours).

As the economic vice of the eighties tightened on both manufacturers and consumers, factory shops continued to grow. The consumer (looking for value for her fast decreasing Rand) and the manufacturer (left with excess capacity and unsold inventories of quality and in-season merchandise) met each other through factory shops.

The repeal of resale price maintenance practices in the seventies facilitated the growth of factory shops. Merchandise could now be sold at prices below the required minimum retail prices. Resale price maintenance ignored the importance of price competition as a marketing strategy.

The demand for branded merchandise is a result of the consumers' strong preference for recognized brands and designer merchandise because these goods denote higher quality and (sometimes) status. Whereas, in the past, consumers used to conceal bargains they now openly boasted of having obtained these at a factory shop, thereby demonstrating that the shopper is discriminating and has avoided paying the usual retail price.[18]

Originally, there were distinct differences between the conventional retailer and the factory shop. In meeting the challenge of factory shops, some of the larger factory shops have already improved their presentation. For example, an upgrading of shop interiors and exteriors, incorporating additional payment methods (as opposed to cash only) has been observed. The process of obfuscating the distinct differences between these two groups has been extensively covered by the discussion on distribution and institutional theories.

For the merchandiser (retailer or factory shop) who is prepared to interpret correctly the major sources of change, the future can hold great opportunities for success and profit. With the maturity of consumer markets (as manifested by experienced consumers and powerful competitors), sellers will have to constantly search for conditions which are beneficial to themselves and the consumer. This may imply bending the organization (retailer or factory shop) so that its products, distribution and promotion will fit the marketplace, rather than bending the marketplace (customers, intermediaries and competitors) to fit the organization.

5.4 Recommendations.

1. Retailers will have to accept, and not contest, the existence of factory shops. Factory shops appeal to a specific market segment which concentrates more on the "economic man"[19] whilst traditional retailers concentrate on other segments.

Recommendation: Traditional retailers should more strongly emphasize the development of marketing strategies to improve their service to their market segments. The advent of factory shops should be regarded as a challenge and not a threat. This would provide traditional retailers with opportunities and challenges to prove to the market (and their potential customers) that they are better equipped than factory shops to satisfy particular needs of their customers (e.g. service, personal attention, etc.). It would therefore benefit customers to support these retailers in the long-term. These retailers should endeavour to generate customer loyalty.

2. One of the major arguments between clothing retailers and factory shops relates to off-price retailers masquerading as factory shops. Their advertising themselves as factory shops is misleading to the consumer and creates a false impression with the public. The above argument is substantiated by the recently published guide on factory shops, where no distinction is made between these two types of businesses.[20]

Recommendation: Only bona-fide factory shops (i.e. outlets owned and managed by clothing manufacturers) should use the name "factory shop". All other retailers posing as "factory shops" should identify themselves as "off-price" retailers, or any other acceptable form as found in retailing.

3. There is no doubt that factory shops have gained market share from traditional retailers. Factory shops cannot

simply be wished away. The factory shops has established itself as a competent and competitive supplier of (most notably) clothing, particularly in the Cape Peninsula.

Recommendation: A more organized structure should be formed to serve as a forum for discussing the issues and differences between manufacturers and retailers. Group co-operation between distribution channel participants (along similar lines to the, now defunct, Cape Retailers' Association) is imperative. It would not be necessary to create new negotiating structures, because existing employer organizations (for example the respective chambers of commerce and industry) could act as negotiators. "Possibly the answer to all our evils lies in the direction of a code of practice - not one enforceable by law, but a voluntary code of fair trading practice between manufacturers and retailers, to give each other a fair chance." (An independent clothing retailer).[21]

4. Garment labelling and the season within which goods were being sold at factory shops have been most contentious issues. Normally retailers hold title to labels, since they instruct the manufacturers to produce certain goods. It is therefore unfair practice to sell factory shop merchandise under the label of the retailer, especially if this takes place in the same season as retail sales of the same merchandise.

Recommendation: If merchandise is sold by both factory shop and retailer in the same season, factory outlets must remove the labels of the retailers and replace these with their own labels. Alternatively, labels may be retained on condition that such goods may not be sold by factory shops in the same season it is being sold by retailers. The latter recommendation will be difficult to implement, since it will require some form of inspection, which could complicate matters further.

5. Clothing manufacturers have, until now, mostly disposed of their own merchandise only. This may have resulted from a lack of suitable facilities, such as location, display area, parking, qualified sales staff, etc. Not all factories wish to compete directly with their traditional customers. However, those factory shops which do have the skills and facilities will have to improve their total merchandise offer to the customer, in order to successfully compete against retailers.

Recommendation: Those factory shops with the potential to become major players in retail sales will have to present a more comprehensive merchandise portfolio. If this implies sourcing from other clothing manufacturers (or even other factory shops) to complement their own ranges, these factories will have no option other than to acquire merchandise from other manufacturers in order to present a comprehensive range of merchandise.

6. A logical consequence of an increased inventory would be the addition of an improved service, including for example, dressing rooms, parking facilities, more suitable hours of trade, alterations, various methods of payment, etc.

Recommendation: Factory outlets should carefully analyse their strengths and weaknesses. Factory shops intending to increase inventory from other sources so as to provide a more comprehensive product presentation should, as a precaution, consider the implications (financial demands, staff demands and other) of such decisions.

7. In terms of creating consumer awareness factory shops have, until now, kept a low profile. Primary research has proved clothing manufacturers to have done very little as regards advertising and promotion to create consumer awareness. In some instances this has been resulted from fear of alienating other (traditional) channel participants, whilst other instances point to gross unfamiliarity with the consumer.

Recommendation: Factory shops should seek assistance from professional advertising practitioners/agencies to promote their sales effort (i.e. location, trading hours, merchandise on offer, etc.) unambiguously to potential customers.[22] If it is further taken into account that the bulk of any factory shop's income is on a cash basis, these outlets should increasingly direct their advertising efforts to the Black consumer market, which presently mostly buys on this basis. Hitherto, this market has been virtually untapped.

8. "Sales staff" of factory shops play an insignificant (and often passive) role in the selling process. Staff are mainly used for the unpacking of merchandise and working the cash register. The majority of factory outlet staff are factory employees with little - or mostly no - selling experience.

Recommendation: If factory shops are to compete effectively with retailers, appropriate training in, inter alia, salesmanship and customer relations will have to be provided. Alternatively, suitably qualified and experienced sales staff should be employed. This should further increase efficiency and sales.

9. The pricing of merchandise has been based mainly on the concept of recovering production cost (i.e. cost-oriented pricing). However, factory outlets have considerable potential as profit centres.

Recommendation: If clothing retailers are, by implication, regarded as chief rivals by factory shops, these factory outlets will have to apply pricing policies which, in effect, will generate satisfactory profits.

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1. Kaikati, J. G., "Don't discount off-price retailers", Harvard Business Review, May-June 1985, p. 85.

2. See Chapter 2, Section 2.7.3 par. 2; Section 2.7.5 par. 1; Section 2.7.6.1 par. 4 and Section 2.7.6.3 par. 6

3. "Access Park", The Argus Tonight, December 6 1989, p. 12.

4. Although no consumer survey was done to support this statement, opinions obtained from personal discussions between the author and messrs. C. McCarthy, Secretary: Cape Clothing Manufacturers' Association, J. Smith, Secretary: Industrial Council for the Clothing Industry (Cape) and F. Levy, Chairman: Cape Retailers' Association and Managing Director: Sila's of Claremont (Pty) Ltd , S. Jocum, Chairman: Cape Clothing Manufacturers' Association, I. Hotz of Hotz Outfitters, Wynberg supported this statement.

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8. There are at least three types of off-pricers (in the American literature): factory outlet stores or direct manufacturer's outlets, independents, and club or members-only operations. For a further explanation, see Kaikati, J. G., "Don't discount off-price retailers", Harvard Business Review, May-June 1985, p. 86.

9. Kaikati, J. G., op. cit., p.85.

10. Abell, R.A., "Strategic Windows", in Kerin, R.A., R.A. Peterson, Perspectives on Strategic Marketing Management, 2nd edition, Allyn and Bacon, Inc., Newton, Massachussetts, 1983, pp. 60-66.

11. loc. cit.

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would imply a total combined turnover of R19 251 000.

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ANNEXURE I

DEPARTMENT OF BUSINESS ECONOMICS

TO THE RESPONDENT:

PURPOSE OF THE RESEARCH PROJECT:

The purpose of this project is to determine the size and scope of factory shops in the clothing industry in the Cape Peninsula. Up to now clothing retailers have viewed factory shops as having infringed upon their "territory". The objective of this research project is to determine whether factory shops can be regarded as part of the natural development process of the clothing industry specifically. This questionnaire forms an integral part of a wider investigation into the influence of factory shops in the various sectors it has manifested itself.

CONFIDENTIALITY AND ANONYMITY:

Complete confidentiality and anonymity are guaranteed. Under no circumstances will any reference to a particular firm or person be made.

HOW TO COMPLETE THE QUESTIONNAIRE:

Most of the questions require that one (or more) appropriate answer(s) be ticked by means of a ✓. The researcher realizes that certain information requested are of a very confidential nature. For this purpose various categories have been included so as to not divulge exact information, but rather a broad category.

REPORT BACK:

Should the respondent wish to receive a condensed report on the major findings of this questionnaire, please provide the necessary particulars on page 2.

Thank you for your kind co-operation.

PROF. A. KRITZINGER
HEAD:BUSINESS ECONOMICS

D.J. VISSER
RESEARCHER

1988:06:20

PERSONAL PARTICULARS: **OPTIONAL**

Initials & surname:.......................... Mr/Ms....

Designation: ....

Business name:..................................

Address:.....................................

....

.....................Code:.... Tel. no.:.........

QUESTIONNAIRE

GENERAL

1 In which year did you commence with factory shop merchandising? 19..

2 Which factors prompted the establishment of your shop?

Cancelled orders by purchasers ☐

Economic conditions ☐

Underutilised factory space ☐

Consumer demand for goods at lower prices ☐

Other, please specify ....☐

....

....

3 Prior to establishing the factory shop, how did the factory rid itself of the goods now sold through this outlet (e.g. excess merchandise, overruns, rejects, etc.)

....

....

....

4 Which reasons were instrumental in the decision taken in Question 3 above?

Costs ☐

Proximity to the market ☐

Competitors' influence ☐

Other, please specify ....☐

....

5 Is this shop situated on the same premises as the factory?

Yes ☐

No ☐

6 Does your firm own any other factory shop(s)?

Yes ☐

No ☐ (Proceed to Question 11)

7 If the answer to Question 6 is **Yes**, please indicate the number of factory shops owned by this establishment.

Number ..

8 How were these shops started? ☐

Started by the factory itself ☐

Complete takeover of an existing store ☐

Part ownership/shareholding ☐

Other, please specify............................☐

....

....

9 Are these factory shops trading under the same name?

Yes ☐

No ☐ (Proceed to Question 11)

10 If your answer to Question 9 is **No**, please give reasons for this decision. ....

....

11 Where are these factory shops located (as indicated in Question 6)?

Land zoned for industrial purposes ☐

Land zoned for commercial purposes ☐

12 Could you please give reasons for the specific decision in Question 11?

....

....

13 Does the factory shop operate under the same legal form (e.g. partnership, company, close corporation) as the holding company?

Yes ☐ (Proceed to Question 15)

No ☐

14 If the legal form of the factory shop has changed since its inception, please indicate reasons for this decision. ....

....

15 Are there any legal and or institutional regulations and/or requirements that your factory shop must comply with in order to trade? ....

....

....

16 How many people are employed in the shop?

Management/Administrative ..

Sales staff ..

17 What is the average annual turnover of your shop?

R up to R 60 000 ☐

R 60 001 - R 72 000 ☐

R 72 001 - R120 000 ☐

R120 001 - R180 000 ☐

R180 001 - R240 000 ☐

R240 001 - R300 000 ☐

R300 001 - R360 000 ☐

R360 001 - R480 000 ☐

R480 001 - R600 000 ☐

R600 001 - R720 000 ☐

R720 001 - R840 000 ☐

R840 001 - R960 000 ☐

R960 001 - above ☐

18 This factory shop has now been trading for a number of years. Could you indicate, by means of a percentage of

the current turnover, what the annual turnover for the previous periods had been?

For example: 1987 = 100%; 1985 = 80%; 1983 = 50%

First year of trading ..%

Middle year of trading ..%

19 Trading days and hours

Trading days per week		Trading hours per week	
1 day	☐	1 - 8 hrs	☐
2 days	☐	9 - 16 hrs	☐
3 days	☐	17 - 24 hrs	☐
4 days	☐	25 - 32 hrs	☐
5 days	☐	33 - 40 hrs	☐
6 days	☐	41^{+} hrs	☐

20 What are the reasons for the particular trading days and hours as indicated in Question 19?

....

....

....

21 Which day(s) is(are) the busiest in terms of sales?

Monday	☐	Tuesday	☐
Wednesday	☐	Thursday	☐
Friday	☐	Saturday	☐

22 In your opinion, why are the days (as indicated in Question 21) the busiest?

....

....

23 What is the average selling area of the factory shop(s) in square meters?

Up to 50 m^2	☐
51 m^2 - 100 m^2	☐
101 m^2 - 150 m^2	☐
150 m^2 - 200 m^2	☐
200 m^2 - 300 m^2	☐
300 m^2 - 400 m^2	☐
more than 400 m^2	☐

YOUR MARKET

24 Who are typical buyers at your shop?

Employees	☐	%
Consumer/end-user	☐	%
Other retailers/discounters(resellers)	☐	%
Other factories	☐	%
Other, please specify	☐	%
....		___%
		100%

25 If other RESELLERS purchase from your factory shop, please give type(s) and reasons:

Type(s) ....

....

Reason(s) ....

....

26 If other FACTORIES purchase from your factory shop, please give type(s) and reasons:

Type(s) ....

....

Reason(s) ....

....

27 Could you draw a profile (along the guidelines provided) of a typical consumer that buys from this factory shop?

27.1 SEX: Please give a percentage for each category.

Male	☐	%
Female	☐	___%
		100%

27.2 AGE: Please give a percentage for each age category.

Up to 25 yrs	☐	%
26 - 40 yrs	☐	%
41+ yrs	☐	___%
		100%

27.3 INCOME GROUP: Please give a percentage for each group of typical consumers.

Low income receivers	☐	%
Middle income receivers	☐	%
High income receivers	☐	____%
		100%

28 Do customers portray any significant buying pattern? For example, do they regularly visit and buy from your shop?

- Yes ☐
- No ☐ (Proceed to Question 30)
- Do not know ☐ (Proceed to Question 30)

29 If the answer to question 28 is **Yes**, how often do customers make repeat purchases? ☐

- Once a week ☐
- Once every two weeks ☐
- Once every month ☐
- Once every two months ☐
- Once every three months ☐
- Longer ☐
- Do not know ☐

30 Which, would you say, are the reasons for customers purchasing from factory shops?

- Price (value for money) ☐
- Location to the market ☐
- Service ☐
- Other, please specify .... ☐

....

31 How do customers mostly reach your business?

- Private transport ☐
- Public transport ☐
- Other, specify .... ☐
- Do not know ☐

32 Do you have any knowledge of the geographical dispersion of your customers? (Where do they come from?)

Primary zone (10-15 min. travelling time) ☐ %

Secondary zone (up to 30 min. travelling time) ☐ %

Fringe zone (in excess of 30 min. travelling) ☐ %

100%

33 What is the average sales per customer per visit?

R.... per visit ☐

Do not know ☐

MERCHANDISE

34 Which categories of merchandise do you sell? (More than one category may be applicable).

Men's wear ☐ %

Boys' wear ☐ %

Infants' wear ☐ %

Ladies' wear ☐ %

Girls' wear ☐ %

Other, specify .... ☐ %

.... ☐ %

100%

35 Please indicate the type of merchandise you sell:

Merchandise presently offered by retailers ☐ %

Cancelled orders ☐ %

Overruns ☐ %

Damaged goods ☐ %

Discontinued merchandise ☐ %

Closeouts ☐ %

Other, please specify .... ☐ %

.... ___%

100%

36 Have you always sold the merchandise as indicated in Question 35?

Yes ☐ (Proceed to Question 39)

No ☐

37 Which merchandise has been added to your original range(s)?

Cancelled orders ☐

Overruns ☐

Damaged goods ☐

Discontinued merchandise ☐

Closeouts ☐

Other, please specify ....☐

38 What were the reasons for these additions to your merchandise lines? ....

....

39 Are (potential) customers informed of the variances in quality (if any) of merchandise offered?

Yes ☐

No ☐ (Proceed to Question 41)

40 Which methods are being used to inform customers of these variances? ....

....

41 Are all garments sold under their original labels?

Yes ☐

No ☐

42 What are the reasons for decision taken in Question 41? ....

....

43 Are seasonal and fashion goods sold in the same season as that of production?

Yes ☐ (Proceed to Question 45)

No ☐

44 If your answer to Question 43 is NO, please indicate when these goods are sold. ....

....

....

45 Which services are provided by the factory shop?

- Dressing rooms ☐
- Packaging ☐
- Alterations ☐
- Parking ☐
- Returned goods ☐
- Other, please specify........................... ☐

....

46 Have these services always been provided, or had they been incorporated over a period of time?

- Always provided ☐ (Proceed to Question 48)
- Incorporated over time ☐

47 Which reasons can be given for these additional service functions? ....

....

48 Does your factory shop acquire merchandise from factories other than your own?

- Yes ☐
- No ☐ (Proceed to Question 50)

49 Which reasons can be given for merchandise purchases from other factories?

- Increase in merchandise width ☐
- Providing a comprehensive service ☐
- Competitive pressures ☐
- Customer demand ☐
- Factory specialization ☐
- Complementary goods ☐
- Supplementary goods ☐
- Other, please specify .... ☐

....

....

PRICING

50 Which major factors determine your overall price policy? **Please rank from 1 to 6, with 1 being the most important and 6 the least important.**

- Going market price set by retailers ☐
- Target customer and income ☐
- Competition (from other factory shops) ☐
- Special circumstances (e.g. open on Saturdays) ☐
- Exclusivity of merchandise ☐
- Cost of goods ☐

51 Which pricing method is generally being used?

- **Leader pricing** (i.e. key items sold at less than their usual profit margins) ☐
- **Bait pricing** (e.g. advertising items which are out of stock at exceptionally low prices) ☐
- **Odd pricing** (e.g. R5,99 or R8,49 or R19,99) ☐
- **Multiple-unit pricing** (e.g. two for R10,99) ☐
- **Price lining** (merchandize of different quality sold at different price ranges e.g. R3, R6, R9) ☐
- **One-price policy** (e.g. prices clearly marked on each item, and bargaining usually not permitted) ☐
- **Flexible pricing** (e.g. prices not clearly posted and bargaining is allowed) ☐
- **Customary pricing** (e.g. prices set and maintained for an extended period of time) ☐
- **Variable pricing** (e.g. prices alter with cost fluctuations and/or consumer demand) ☐
- Other, please specify .... ☐

52 Has there been any change in the method of pricing since the inception of this shop?

Yes ☐

No ☐ (Proceed to Question 54)

53 If your answer to Question 52 is **Yes**, please indicate reasons for this change in pricing policy.

....

....

54 Does odd-pricing (e.g. R15,99) have any significance in the customer's buying decision?

Yes ☐
No ☐
Do not know

55 Do you allow for variable pricing with volume purchases?

Yes ☐
No ☐
Do not know ☐

56 Which methods(s) of payment is(are) accepted?

Cash	☐	%
Cheques	☐	%
Credit	☐	%
Credit card	☐	%
Layby	☐	%
Buy-aid	☐	%
Other, please specify	☐	%
....		___%
		100%

57 Has there been any changes over time in the methods of payment?

Yes ☐
No ☐ (Proceed to Question 59)
Do not know ☐ (Proceed to Question 59)

58 What are the reasons for this change in payment methods? ....
....

ADVERTISING AND PROMOTION

59 Do you advertise to create consumer awareness?

Yes ☐
No ☐

60 How much is spent annually on advertising and promoting the factory shop? R ....

61 Which method is used to determine the advertising expenditure?

- A set percentage of the turnover ☐
- "What-can-be-afforded" method ☐
- Use the competitors' method ☐
- Task (objective) method (i.e. define the objective and then determine size of budget to achieve this) ☐
- Other, please specify .... ☐

62 What role does the salesperson take in the selling decision?

- Active ☐
- Passive ☐
- Do not know ☐

63 Has the salesperson's role changed over time?

- Yes ☐
- No ☐ (Proceed to Question 65)
- Do not know ☐ (Proceed to Question 65)

64 If your answer to Question 63 is YES, please give reasons for this change. ....
....
....

65 Which methods of promotion do you use/are being used to inform (potential) customers?

	Method	How often per month	% of total
Signage at premises			%
Newspaper advertisements			%
Classified advertisements			%
Knock-and-drop leaflets			%
Window promotion			%
In-store promotion			%
Radio			%
Other, please specify	....	....	%
	....	....	___%
			100%

66 Has store image (i.e. store front, floor lay-out, merchandise presentation, equipment, etc.) increasingly played an important role in the customer's buying decision?

Yes ☐
No ☐ (Proceed to Question 68)
Do not know ☐ (Proceed to Question 68)

67 If your answer to Question 66 is YES, please give reasons for this change. ....
....

FUTURE DEVELOPMENTS

68 Are you/have you been aware of any action that clothing retailers have been taking/may take against clothing factory shops?

Yes ☐
No ☐ (Proceed to Question 70)
Do not know ☐ (Proceed to Question 70)

69 If your answer to Question 68 is YES, please indicate

those actions that you are aware of ....
....
....

70 From your experiences of factory shopping so far, please indicate only factors which may have influenced your business ....
....
....

71 Is there any other information on factory shops, which you feel may be useful to the researcher?
....
....

THANK YOU VERY MUCH FOR YOUR KIND ASSISTANCE.

ANNEXURE II

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F: PERSONAL DISCUSSIONS

1. Getz, M., President National Clothing Federation of South Africa and Joint Managing Director of Seardell Investment Corporation Ltd., Wynberg.

2. Dr H. Heese, Senior Researcher, Institute for Historical Research, University of the Western Cape.

3. Mr I. Hotz, Managing Director, C & I Hotz Clothiers (Pty) Ltd., Wynberg.

4. Mr S. Jocum, Chairman, Cape Clothing Manufacturers' Association and Managing Director, Peerless Shirt Manufacturers (Pty) Ltd., Observatory.

5. Mr F. Levy, Chairman, Cape Retailers' Association and Managing Director, Sila's of Claremont (Pty) Ltd., Claremont.

6. Mr J. Mason, Managing Director, Ensign Clothing Ltd., Cape Town.

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ANNEXURE III

SUMMARY

Since the beginning of the nineteen eighties factory shops in the clothing industry in the Cape Peninsula have had an increasing influence on the retail trade.

Originally factory shops were mainly used by factories to sell damaged goods at the end of the season. On account of the (particularly) short product life cycle of their merchandise, clothing factories started to use factory shops more and more to sell quality clothes (e.g. overproduction, cancelled orders, etc.) of a current season directly to the consumer. This approach brought about conflict in the distribution channel as the traditional responsibilities and values of each channel member were rearranged.

The clothing industry in South Africa in general, and in the Cape Peninsula in particular, is controlled by 6 retailers.

The forward integration by clothing factories (i.e. by means of establishing their own factory outlets), _inter alia_, challenged the _status quo_ as the leadership of the distribution channel had been questioned.

On the basis of certain theories on distribution channel development and distribution channel entry, this study concentrated on determining the scope of factory shops, as well as on establishing reasons for their development.

Although environmental variables (e.g. inflation, backwards vertical integration by retailers, economic conditions, etc.) have had a significant impact on the establishment of factory shops, clothing factories also realized the existence of excellent opportunities for profit maximization under adverse economic conditions.

Primarily, it was the small independent clothing retailers who rose against factory shops as their existence was threatened; in addition, the leading position of large retailers came under threat.

Several theories on the evolution of distribution channels make provision for the entry of factory shops. Factory shops entered the distribution channel with strong emphasis on price strategy and little (or sometimes even no) emphasis on the non-price marketing instruments. However, with the passage of time factory shops increasingly incorporated non-price marketing instruments (e.g. promotion, distribution and product). As a result of their incorporating additional services, factory shops were upgraded and may therefore face new competitors in the future.

The South African experience of the influence and permanency of factory shops is too short to present any clear guidelines. However, if the development of factory shops in the retail structure of the United States of America is any indicator, factory shops will be a permanent addition to the distribution channel. Factory shops in the U.S.A. are not confined to the clothing industry, but has expanded to include every imaginable consumer article.

Retailers who originally pressurized clothing factories to close their factory outlets (selling quality and in-season merchandise) will have to accept and adapt to this intra-channel type of competition. Failing this, the independent retailer may disappear.

Since the development of the hypermarket concept in the seventies, developments in the distribution channel in retailing stagnated. The consumer, therefore, was susceptible to the change that the entry of factory shops has brought about in the distribution channel of clothing industry in the Cape Peninsula.

ANNEXURE IV

OPSOMMING

Fabriekswinkels in die klerebedryf in die Kaapse Skiereiland het sedert die begin van die negentien tagtiger jare al hoe meer 'n invloed op die kleinhandel begin uitoefen.

Aanvanklik is fabriekswinkels hoofsaaklik deur fabrieke gebruik om van beskadigde goedere aan die einde van die seisoen ontslae te raak. Omdat klerasie (veral) 'n baie kort produklewenssiklus het, het klerefabrieke al hoe meer hierdie tipe onderneming begin gebruik om (ook) kwaliteitklerasie (soos bv. oorproduksie, gekanselleerde bestellings, ens.) van die huidige seisoen direk aan die verbruiker te verkoop. Hierdie benadering het konflik in die kleredistribusiekanaal teweeggebring deurdat die tradisionele verantwoordelikhede en waardes van elke kanaallid herorden is.

In die algemeen word die klerebedryf in Suid-Afrika, en in die Kaapse Skiereiland spesifiek, deur 6 kleinhandelaars gelei. Voorwaartse integrasie deur klerefabrieke (d.w.s. die ontwikkeling van hul eie fabriekswinkels) het die status quo versteur deurdat die leierskap van die distribusiekanaal, onder andere, bevraagteken is.

Hierdie studie lê hom daarop toe om die omvang van fabriekswinkels, asook om die redes vir hul ontstaan (aan die hand van sekere teorieë oor distribusiekanaalontwikkeling en -toetrede), te bepaal.

Alhoewel omgewingsveranderlikes (bv. inflasie, terugwaartse integrasie deur kleinhandelaars, ekonomiese toestande ens.) 'n pertinente rol in die totstandkoming van fabriekswinkels gespeel het, het die klerefabrieke ook besef dat daar gulde geleenthede vir winsmaksimering onder ongunstige ekonomiese toestande bestaan.

In die eerste plek was dit veral onafhanklike kleinhandelaars wat in opstand teen fabriekswinkels gekom het, aangesien hul voortbestaan hierdeur bedreig is; in die tweede plek is groot kleinhandelaars se leiersposisie in die kanaal bedreig.

Verskeie teorieë oor die evolusie van distribusiekanale maak voorsiening vir die toetrede van fabriekswinkels. Fabriekswinkels tree tot die distribusiekanaal toe as ondernemings wat baie klem op prysstrategie lê, met min (of dikwels geen) klem op die nie-prys bemarkingsinstrumente Met die verloop van tyd inkorporeer die fabriekswinkel egter al meer van die nie-prys bemarkingsinstrumente (bv. promosie, distribusie en produk). As gevolg hiervan word fabriekswinkels opgradeer (d.w.s. inkorporeer hulle meer