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ESTABLISHMENT OF A KNITWEAR FACTORY IN LOBATSE

DP/BOT/86/002

REPUBLIC OF BOTSWANA

Terminal report\*

Prepared for the Government of the Republic of Botswana  
by the United Nations Industrial Development Organization  
acting as executing agency for the United Nations Development Programme

Based on the work of Peter Coyle,  
knitting factory management expert

Backstopping officer: J.P. Moll, Agro-based Industries Branch

United Nations Industrial Development Organization  
Vienna

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This document has not been edited.

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#### OBJECTIVES.

The Objectives were:

- Establishment of Knitwear Manufacturing Plant at Lobacse
- Bring into operation the knitting plant
- Production and marketing of high quality knitwear at profitable levels
- Training of nationals in operation and management of enterprise
- Build in-house self sufficiency

The first phase of the project has been completed successfully. International market successes point to a bright future. Confirmed export orders on hand at present for the Southern African market are up by a factor of 3.25 on the same period of 1989. Repeat and new business is being secured in Europe.

Skilled staff produce quality knitwear to international standards.

The development objective of utilising indigenous raw materials was not totally realised because of the unsuitability of Karakul wool as a knitwear yarn. However locally produced yarns are still a mainstay of the the knitwear factory. This is supplemented by wool yarns imported from the U.K., cotton yarns, and some acrylics.

Future local yarn supplies will depend on:

- 1) the Spinning Mill coming under new ownership/management
- 2) the production of suitable quality yarns.

#### OUTPUTS SOUGHT AND PRODUCED

The major restraining factor in implementing outputs continues to be the legal status of Tiro ya Diatla and its final resolution. The major creditors of T.Y.D. ( most notably Barclay's Bank) will not allow the Knitwear Unit (Tiro Afrique) to be separated or formed into an independent limited company until the Spinning Mill is sold and the debts outstanding to that unit are settled. The reason given by Ms Rose Lecha, the Counterpart Factory Manager, for her recent resignation was the "insecurity" in Tiro ya Diatla. Tiro Afrique Knitwear is not able to operate financially as a normal business and have overdraft facilities or further investment. For example the company is not able to avail of

a normal 60 day credit facility when opening a letter of credit for raw materials. This seriously affects cash flow since the money required would be deposited approximately 30 days ahead of shipment i.e. 90 days before that of using credit facilities.

However even allowing for budgetary restraints strides were made in implementing outputs:

- Successful selling of woollen knitwear in Southern Africa for the coming winter season. These have penetrated up-market outlets e.g. Hilton Weiner a leading couturier has placed an order for 205 garments.
- Introduction of cotton merchandise at economic prices now penetrating chain store and wholesale markets.
- Successful repeat business in France with further expansion into couturier outlets.
- Negotiations in Italy with potential future partner (manufacturer interested in supplementing their range). This offers a good long term opportunity.
- U.S. Market Research Report completed (c.f. ANNEX I).
- 5 year market plan being now proposed and hopefully completed before April 1990.
- In house self sufficiency being improved in the area of Financial Control, administration procedures, management control.
- Although the Factory Manager Counterpart has recently resigned the responsibility of production management has been given to Mrs Gladys Makhoana who has worked closely with the Factory Manager Expert since his arrival in Botswana. Ms Gorata Baleseng has displayed efficiency in administration and accounts. She is being supported by a U.S. Peace Corps volunteer (Ms Robin Bram) in the area of financial control and computerised accountancy.
- In house expertise has been established in the area of product development. Here the Knitting Mechanic (Arthur Duiker) makes a major contribution.
- Quality control set to international standards.
- In house skills and work experience at acceptable level.

#### Findings and Recommendations:

Some recommendations will await the outcome of 5 year market plan. The expert is willing to submit his views after this study is complete. However some matters have to be addressed in the short term:

- Project Funding: Botswana Government FAP should be made available to the project.
- Cash Flow: The project has pressing needs for access to working capital (given the seasonability of the operation). It is hoped that B.D.C. can assist until the legal structure is sorted out.
- Day to day production and financial management is satisfactory. However the question of general management of the project has to be addressed by the board (Executive Reconstruction Committee).

- Phase two of project has to be implemented in order to achieve good profitability.

#### Lessons Learned

- A prototype range based on local yarns and a follow-up market research should have been undertaken before approving the go ahead to the project at first.
- It is difficult for any small project independently to have an initial international market established before a solid local base for its products.
- It is advisable to consider counterpart training on a broad basis and not just on one person. The project was fortunate, upon the resignation of the Counterpart Manager, to have another person immediately ready to take over her main duties.

## 1 DEVELOPMENT PROBLEMS AND IMMEDIATE OBJECTIVES

### 1.1 Development Problems

The Botswana Government in its National Development Plans placed emphasis on the establishment of industrial projects which:

- A. Utilise indigenous raw materials.
- B. Provide employment, particularly for women.

These were the fundamental development problems which the original proposals and project sought to tackle. As an outcome of the project implementation there were also other development problems tackled:

- C. Contribution towards diversification of the economy.
- D. Opportunity for Botswana to acquire new skills and experience.

The project to date has already made a major contribution in B,C,D.

The present knitwear industry existing in Botswana is concentrated primarily on uniforms for schools, nursing, army, central supplies. This is largely a protected industry and is not geared towards the international market. Tiro Ya Diatla's Knitwear project (Tiro Afrique) has been designing and adapting its products to international needs. The make-up is of international standard. Apart from consolidating in Southern African markets, Tiro Afrique is now

1. Securing repeat business in France
2. Securing business from a major Paris couturier with stands in major French stores.
3. Negotiating business with an Italian manufacturer.

These alone speak for themselves in demonstrating the impact of contribution towards the development objectives.

In relation to A above, this point was not properly researched before project start up. Karakul wool is a carpet wool, suitable for carpet yarns and not for knitwear/hosiery yarns. There is a demand for Karakul carpet yarns /both in pure wool and blends with acrylics. Future plans for operation of the spinning mill have this objective. The Spinning Mill has until recently been producing yarns, made from imported wool, for the knitwear operation. The dyeing facility is also being used. The source of yarns will continue provided:

1. The spinning mill comes under new ownership/management

2. It can retain quality yarns for Tiro Afrique and develop others.

Tiro Afrique itself has to use yarns which have market acceptability and contribute towards improved product/profitability. In accordance with this, Tiro Afrique is already using other imported yarns.

- i Tweed wool
- ii Cotton yarn
- iii Acrylic yarn

Obviously the availability of a local yarn is of important commercial concern and provided suitable yarns are available, this will still be important. The knitting equipment is geared towards the thickness (count) of yarns produced from the spinning mill, and its future is important to Tiro Afrique.

#### 1.2 Immediate Objectives

As per original Project Document, the immediate objectives were

1. Establishment of knitwear manufacturing plant at Lobatse.
2. Bring into operation the Knitwear Plant.
3. Production and marketing of high quality knitwear at profitable rates.

Objectives 1 and 2 have already been carried out as stated in previous Project Performance Evaluation Report of 1988 and also Progress reports (c.f. ANNEX II and III). Objective 3 is a continuing operational objective of the production unit.

In the Project Document revision of February 1988, the following immediate objectives were added:

1. Increase sales by marketing of high quality knitwear at profitable prices.
2. Increase productivity.
3. Increase profitability.
4. Build in-house self-sufficiency
5. Training of nationals to operate and manage the enterprise.

These objectives do not have any time limits since it must be the company's policy to improve and reassess the requirements on a continuing basis. However, great strides have occurred since February 1988 in each of these objectives, on-going implementation plans are on hand, and directions for the future are being set out or prepared.



## 2. OUTPUTS AND PROBLEMS ENCOUNTERED.

In accordance with the Project Revision, the outputs listed were:

- 1.1 Marketing plan complete and approved by Reconstruction Committee.
- 1.2 Implementation of Marketing Plan.
- 2.1 Manufacturing to sales requirements.
- 2.2 Additional equipment ordered and installed.
- 2.3 Manufacturing at good productivity level.
- 2.4 Retain good quality control.
- 3.1 Manufacture at profitable levels.
- 3.2 Financial control procedures installed.
- 4.1 Dye house site approved, building designs etc.
- 4.2 Completed dye house.
- 4.3 Equipment installed.
- 4.4 Dyeing equipment brought into operation.
- 5.1 1 National trained as book-keeper.
- 5.2 1 National trained in Work Study/Method Study/Production Engineering Methods.
- 5.4 1 National trained in Accountancy appreciation.

The major restraining factor in implementing outputs continues to be the legal status of Tiro Ya Diatla and its final resolution. This still principally is associated with the historical debts built up by the Spinning Mill. Although the major creditors have allowed the Knitwear unit to continue to operate as an economic unit they will not allow it to become separated from Tiro Ya Diatla until the Spinning Mill is sold and they can see what they realise. Here Barclays Bank is the most adamant in their stance. Apart from freezing draw-down from the Barclay's International Loan Fund to Tiro Afrique, they have also to date insisted on retaining the unit within Tiro Ya Diatla to the point where they have attached movable assets of Tiro Afrique in their court action. " Insecurity " was the reason given for Ms Rose Lecha's resignation as Factory Manager Counterpart.

Tiro Afrique can not operate financially as a normal business eg. having access to overdraft facilities or normal credit facilities when establishing Letters of Credit. While Botswana Development Corporation (B.D.C.) is willing to set up a separate or partnership company, it is difficult for them to extend loans to Tiro Afrique in the present situation. Even given these limitations which includes non-ability to travel for marketing purposes, Tiro Afrique has endeavoured to prove its commercial viability. As Profit and Loss projections indicate (c.f. ANNEX IV ) the breakeven point for the company with present staffing and equipment is approximately 770 units per month. Manufacturing to order (usually small orders) , without a bonus scheme and often limited material supplies, the unit was comfortably producing 450 per month. With large orders

alone this figure can be expected to double, even before a bonus scheme is introduced. Larger orders are now forthcoming as will be described in Section 2.1. Since a resolution did not take place in the past year to the legal status of the company some of the outputs could not even be attempted. No additional equipment could be considered, nor a transfer of the dyeing facility.

However, the other outputs were addressed and where not fully implemented plans arranged for their future implementation and development.

## 2.1 Marketing

This was seen as a priority for the project and strides were made to improve on this area despite budgetary restraints.

### 2.1.1 Southern Africa

i) Wool: Tiro Afrique has substantially increased its market penetration and both sales and confirmed orders for the coming winter are approximately three to four times from the same time last year.

Considering alone the Cape Town and Johannesburg regions:

Total number of outlets for 1989 season	21
Total number of outlets for 1990 season	38

Total no. of garments produced for these markets 1989	333
Written confirmed orders for 1990 season	1084
(not taking into account business being negotiated or repeats)	

Increase factor in 1990 = 3.25

Total value of sales to these markets 1989 season	R21938
Total confirmed business and sales for 1990 season	R92236

Increase factor in sales value = 4.2

A major feature of this is up-market clients eg. Hilton Weiner has placed an order of over two hundred units. Although with some notable exceptions, a point to note in the broad Southern African market is the interest in the Aran styles, whether they be sweaters cardigans or lumber jackets. The mainstream market is not interested in 100% wool products. Overall, although there is still some room for growth, woollen knitwear and particularly heavy knitwear has got a limited market.

ii) Cotton: Tiro Afrique introduced cotton in the recent past. Although there has been good initial reaction to heavier cotton knits mainly from expatriate customers, the major breakthrough is with lightweights. Tiro has developed some lightweight products, which are not only

widely acceptable at local level but also can be offered at relatively lower prices. A typical product is a two piece ladies suit in a crochet look being sold from the factory at approximately P60. A major factor here, is that the price is very much at a level acceptable by wholesalers and chain stores. Initial orders have been received and delivered to such outlets. For example Fairways Chain Stores / Supermarkets have taken deliveries to five of their stores and is presently negotiating the purchase of other styles. Normally an outlet like this would not consider the wool range.

The implications are that Tiro could operate profitably with volume orders in cotton. A major factor in this, is the relatively low cost of the raw material. Cotton yarn in natural colour costs approximately P6.50 C.I.F. Lobatse per Kg. and dyeing about P 5.00 per Kg. Wool yarns cost approximately P 32.00 per Kg. C.I.F. Lobatse.

iii) Acrylic: Since the coarse gauge is associated with sports sweaters... cricket, bowling, tennis... Tiro Afrique has been offering acrylic products in this area. This is still in the early stages of marketing.

The mainstream acrylic and synthetic knitwear market is produced on automatic machinery and very often with CNC machines. To move into this area would be a major technical diversification and could only be considered in the event of the company having to rely totally, in the long term, on the Southern African market.

#### 2.1.2 United States

A market research was carried out by American Business Linkage Executives (A.B.L.E.). (c.f. ANNEX I) Tiro Afrique is following up with the recommendations of this report at present and has made contact with U.S. outlets.

### 2.1.3 Europe

#### 1) France

Tiro is extending its business in France retaining the same agent as previously. Mod Design, who had previously had a delivery from Tiro is now coming back with further business. Island, a major couturier with stands in major stores is now carrying eight Tiro styles in their Autumn 1990 range.

#### ii) Italy

An Italian manufacturer is interested in Tiro producing lines to their design. In the longer term, they may be interested in entering a business partnership relationship with Tiro Afrique. This has significant long term implications since such a partnership could solve not only order level requirements but also future designer needs.

#### iii) U.K./Germany

Our U.K. agent is not only negotiating and has close associations with the Italian manufacturer but also represents Tiro with specific German outlets where he also hopes to secure orders.

### 2.1.4 5 Year Market Plan

A proposal is presently with U.N.I.D.O. to field a marketing consultant for eight weeks to firm up on a 5 year market plan. This would be after visiting European customers, taking into account the U.S. market research study and Tiro Afrique's own experience in Southern Africa.

### 2.2 Financial control procedures/Book-keeping/Accountancy.

Tiro Afrique has reviewed its requirements in these areas. It has purchased an ICL computer together with printer and has received software with the support of B.D.C. Computing Department.

A U.S. Peace Corps volunteer joined the project in May 1989 and she was given the task of training local staff in the use of computerised accountancy. This is on-going at present and being implemented successfully.

### 2.3 Manufacturing and quality control.

Quality control is being retained at a high level and on output strict adherence made to delivery schedules at all times.

### 2.4 Method Study/Work Study/Industrial Engineering

Plans are on hand to implement a bonus scheme during 1990. Although formal courses are not readily available in

the region in industrial engineering, a local training programme is being run under U.N.D.P. sponsorship at the Department of Supplies. Tiro Afrique is linking into this programme and hopes to improve its productivity. Reassessment of needs in this area will be a continuing future requirement as order levels increase and greater efficiency is demanded.

### 3 Objectives achieved and likely to be achieved in near future

#### 3.1 Self Sufficiency

Tiro Afrique was set up as a subsidiary of its parent company Tiro Ya Diatla and was very much tied to that set up initially. Despite the crumbling of the parent company immediately after the set up of Tiro Afrique, the knitwear factory has weathered the storm, has now its own efficient administration and looks forward to a bright future once the legal issues are resolved. A course can now be plotted for Tiro Afrique which can even exclude the need for local Spinning Mill supplies.

#### 3.2 Product design and development

Tiro Afrique, even with machinery which purely from a technical point of view have limited scope, has developed an extensive range of products, wide selection of stitch effects and varied make-up. Overall there is something to offer to a cross-section of the market. This base of product development will stand well for the company long term. Tiro Afrique offers panels of intarsia combined with stitch effect from different types of machines. This is done with the help of quality make-up. This type of product would not be considered by most international competitors because good skills are required to maintain quality. The Knitting Mechanic has learned a lot in the area of product development and the preparation of knitting specifications.

#### 3.3 Skills and Quality Standards

Skills and quality standards practised in Tiro Afrique are to high international standards. Although productivity still has much room for improvement, this will automatically rise with large orders and also the implementation of productivity bonus schemes.

#### 3.4 Work Experience

Without any tradition of industry, it is important to have this gradually built up in a country like Botswana. The discipline of working to targets and international market

demands and achieving profitability is not easily instilled. Labour laws and management practice has to be taught. It is also difficult getting acceptance by production workers of national supervisors and management. However to date, the Tiro Afrique staff have adapted well to the new environment and co-operate to meet targets set.

### 3.5 Manufacturing to Profitable Levels

It was originally envisaged that Tiro Afrique would be extended to twice the size in terms of equipment. This is desirable in order to reach good profitability. Present market trends seem to indicate that there will be scope for this expansion and plans for its implementation can be done on formation of the new company.

## 4 FINDINGS AND LESSONS LEARNED.

### 4.1 Feasibility Study/Market Research

The use of Karakul knitting yarns was a major feature of the initial feasibility study. Although this study indicated that a market study should be carried out before implementation, this was not done. Hence the project was allowed to advance too far before the Karakul was abandoned.

Arrangements should have been made for a prototype range to be developed in a European design house/product development centre, followed by a market research.

### 4.2 International Marketing

Securing an international reputation is not simple for a small company and can take time to achieve. Well known international brand names are achieved by larger companies investing a lot of money in advertising. The original marketing plan for Tiro Afrique was 8 months Europe/U.S. 4 months Southern Africa. It is not easy for a young company starting cold to quickly reach such an objective. It is different if it is already part of a larger marketing group.

For small companies alone it is desirable to have products for local market first and gradually develop an international one.

### 4.3 Counterpart Staff

It is advisable to consider counterpart training on a broad basis and not just on one person. The project was fortunate, upon the resignation of the Counterpart Manager, to have another person immediately ready to take over her main duties.

## 5. RECOMMENDATIONS.

Since some of the future direction is going to be dictated by the outcome of the 5 year market plan due to be completed at the end of March, it would be premature to write in some specific recommendations in advance of that report. This mainly applies to future equipment requirements.

However, areas of project continuity have to have specific recommendations. Tentative capital equipment requirements have already been prepared (Appendix 2).

### 5.1 Project Funding

#### 5.1.1. Financial Assistance Policy (FAP)

Because of UNDP involvement, the project was not originally considered for FAP. It was stated that this assistance would be available after UNDP involvement. Because the project is so young (approximately two and a half years), it is desirable that such funding become available to the project at this stage.

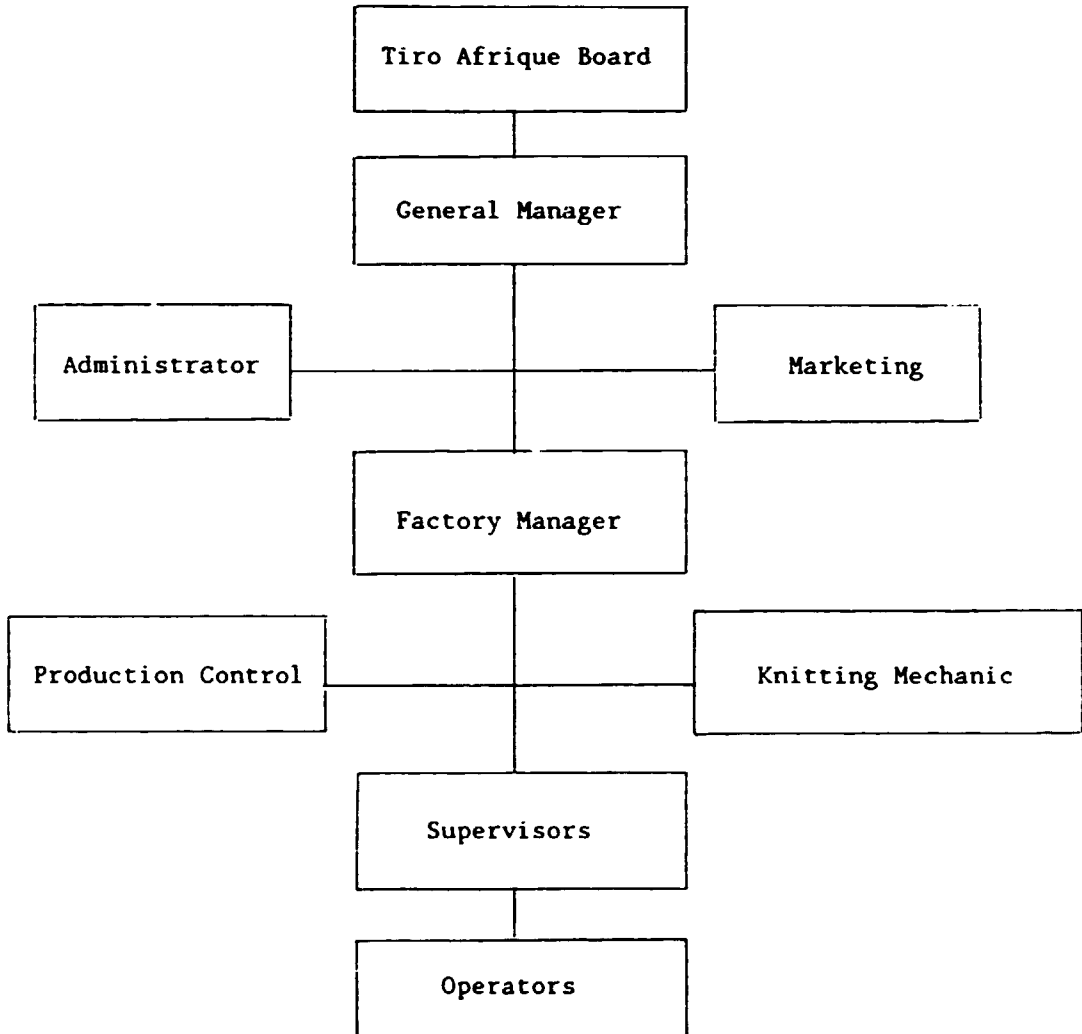
#### 5.1.2. Immediate Cash Flow Requirements

Profit and Loss projections (Annex IV) and Cash Flow projections have already been produced for the project. Until the unit is allowed to become a separate limited company, there is going to be a need for access to cash flow requirements in the short term. The project is presently manufacturing mainly to orders for winter Southern Africa, with deliveries in February to April. Hence payments could be expected April to June.

After the departure of the expert there is no vehicle available to the project. It is hoped that B.D.C. will meet these needs in the short term.

5.2. Management of Enterprise.

A management structure was proposed in the Project Document Revision of February 1989. This showed:



At the time of preparation of that document it was hoped that at this stage, Tiro Afrique would be in process of becoming a limited company. However, the structure proposed is still a valid one. The appointment of management is the responsibility of the board.



After the resignation of Ms. Rose Lecha the appointed Counterpart Factory Manager Mrs Gladys Makhoana has been appointed as "Production Manager". She will be responsible for factory floor management including production control, quality control, and personnel management. She has good technical skills and is highly respected by staff. She will not be given responsibility in the area of administration and accounts.

Ms. Robin Bram, the US Peace Corps volunteer, has got a good grasp of the financial control, as well as having an input to marketing and she will continue to contribute to these areas.

Ms. Gorata Baleseng who handles general administration and account has shown tremendous potential for development at managerial level. Apart from being very intelligent her work is always thorough and she has the ability to manage people.

The main problem in the short term is the general management. In the original project document and in the revision this was not seen as being a full time position. Ideally if a larger local company took over Tiro Afrique, the General Manager would be from that company. However, the position must be filled by someone who is acknowledged by clients, the business community, and staff to provide stability and leadership.

### 5.3 Implementation of Bonus Schemes

UNDP is presently sponsoring a project within the Department of Supplies, where training is provided in areas of method study, work study, industrial engineering. It is recommended that Tiro Afrique be able to participate fully in these courses and receive formal training from specialists in 's field.

### 5.4 Follow-up recommendations after 5 Year Market Plan

The author is prepared to provide his comments and recommendations for the project after completion of the Five Year Market Plan.

Annex I

**Sweaters: Market Overview and Distribution Feasibility**

**A Pre-Planning Study for Tiro Ya Diatla**

**Researched and Written by Anita Peters  
of the  
American Business Linkage Enterprise  
for the  
International Executive Service Corps**

**September 1989**

### Executive Summary

This report has been prepared at the request of Tiro Afrique Knitwear of Botswana by the American Business Linkage Enterprise, a service of the International Executive Service Corps.

The main objectives of the study are to identify potential customers and/or sales representatives of your men's and women's heavy gauge woollen sweaterwear and to describe fashion trends within this market. Your company is using 2.5 and 3.0 gauge knitting machines on which intarsia, stitch effect and combinations of intarsia/stitch are within its range. You expressed interest in aggressively entering the American market and a willingness to make any required design changes, within your machine limitations, to meet consumer demand.

In preparation of this report we relied on the extensive merchandising and marketing/sales experiences of our Volunteer Executives who evaluated your samples and examined your objectives and capabilities. We also showed your samples to the two leading buying services for the larger department store retailers and to three design houses.

The consensus among the Volunteer Executives and executives with whom we spoke was that your sweater line needed to be redesigned and restyled to meet current and projected future consumer interest. Depending upon with whom we spoke, your knit construction and the quality of your wool seemed to be acceptable.

Our research and conversations with buyers in this trade revealed that the market for sweaters overall had declined in 1987 and 1988 due to raw material increases and consumer disinterest. Consumer disinterest is attributed to the glut of products which were available during the mid 1980's. The common refrain we heard and read in the trades was the most people had recently added a sweater to their wardrobes and were unwilling to pay for the sudden increases in price for the same sweater they had purchased one or two years earlier.

Consequently, retailers and manufacturers are looking for more marketable fashion oriented sweaters that will attract consumer interest and can be more easily sold to consumers at today's higher prices. Your prices for your current product line were not competitive with comparable and better sweaters sourced in Asia and South America. The construction, designs, wool and styles were not competitive with products sourced from other country markets.

The market for one hundred percent wool sweaterwear is seasonal and more popular within the NorthEast, Midwest, Northwest where cooler weather dominates the calendar. Within these regions, 100% woollen sweaterwear has also declined in popularity due to the rising costs of wool. Manufacturers and designers are pushing yarn blends of natural and synthetic fibres to keep costs down. Cotton is popular because its cost has remained fairly steady.

Several buyers inquired whether you could produce sweaters using other yarns.

Your prices, while on the high side for the samples sent, would not be the compelling factor in purchase decisions, we were told. Design, style, and colour were more important and would determine your price points. African designs did not generate any particular response: our impression was that buyers would have to see the designs first.

"Made in Botswana" also did not register a negative or positive impression regarding your capability to produce quality crafted merchandise. The problem with Botswana is your location: none of the buyers, importer/wholesalers, and retailers had personnel available in the region to supervise production and ensure that their quality standards were being met. Importers and wholesalers have invested in the Far East and South America, two regions well known for their apparel manufacturing. Your product will need to be interesting enough both in price and other considerations (output capabilities, design, style, labour and raw material savings) to warrant the investment needed to develop you as an alternative source/supplier.

Your first option is to improve your product's design and style to meet the current market demand for more fashion oriented merchandise. Your pricing will not be that critical if your merchandise is different enough from other products that it can command the higher retail prices required to warrant your higher wholesale costs. You can employ a freelance American designer to assist you on a project or permanent basis or, become an alternative source for a design house. The latter is an attractive option since it will require less investment however as a contractor your profit margins will be smaller.

Forecasting fashion trends are extremely difficult even for those working in the apparel industry. Raw material costs, foreign trade restrictions, domestic economic conditions, and manufacturing developments each can affect tomorrow's fashion looks. Consumer tastes are more difficult to measure because they are fundamentally subjective opinions influenced and shaped by both economic and personal considerations.

American tastes are very different from European tastes. As you can appreciate, there is no substitute for a first hand market evaluation. Therefore, we have also suggested that you try to attend the important trade shows held in the U.S. in order to meet with buyers, designers, and manufacturers. We began this process for you by contacting some of the larger and more influential sweater suppliers.

One of the designers whom we contacted suggested approaching the Black American business community with your ethnic designs. Under the section entitled "Trade Journals", is included the name of the Fashion Editor for one of the leading magazines with the affluent Black American community, Ebony Magazine. We recommend you directly contact her with your ideas since we could not pursue this niche during the time allotted for this report.

We have provided you with as much information and suggestions as possible within the sixty hour time limit to help you realize your business objectives and to assist you in making some informed decisions. We hope that some of the contacts we made on your behalf will be interested in pursuing with you a business relationship either now or in the future.

Annex III

Tiro Ya Diatla Knitwear Unit

Project no.: DP/BOT/86/002/il-02

PROGRESS REPORT

1 August 1989

Prepared by: Peter Coyle

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## 1. SUMMARY

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The project has come through a period of extreme uncertainty about its future during its first two years of operation. Because of market lead time (about 9 months ) it will be another 4 - 5 months before the Knitwear factory can regain benefits from this year's recovery. The market drive in RSA for the next season is proceeding very well and should largely fill the order book for December 1989 to April 1990 production period. It is hoped that after the new Europe /U.S. range which will be ready for despatch end of September, we can achieve our follow on targets for May 1990 onwards.

The project does not receive Botswana Government F.A.P. grants and with UN budget revisions the project has been standing largely on its own since February 1989 (depending on Botswana Development Corporation working capital loans). In the light of the practical recovery period a young project such as this which came through a traumatic phase in its infancy (not of its own making) deserves some temporary support until it finds its feet. It is thus recommended that a major review of the project be made taking this into account.

At present the project is itself financing a market research study in the US and its findings can be taken into account in such a review.

## 2. INTRODUCTION

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At corporate level it is the objective of the Executive Reconstruction Committee to sell off the Spinning Mill and subsequently to have a limited company formed for the knitwear unit. In the interim the major creditors of TYD have declared a moratorium on the Knitwear Unit and allow it to continue as a separate economic unit. To date negotiations with some individual interested parties have not reached fruition and the spinning mill is being sold at an international level.

## 3. MATERIAL SUPPLIES

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At this point in time the Knitwear Project has recently bought scoured raw wool (1300kgs), and is processing it through the Spinning Mill. It will be paying for this by financing some of the current running costs of the Spinning



Mill. There is also a shipment of 400kgs of shetland and tweed wools due to arrive shortly. The Knitwear Unit is also presently investigating the possibility of using other yarns notably cotton and cotton blends.

#### 4. MARKETING

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The main marketing lead time in general is about 9 months ahead of main deliveries. Southern Africa buying thus in July - September peaking at end of August. European/US main buying period is October to December.

##### 4.1 SOUTHERN AFRICA

The present marketing strategy is proceeding well :

4.1.1 Cape Town : After a successful first season early indications for next year seem promising. Most groups have central buying and a lot of these are based in Cape Town rather than Johannesburg. Cape Union Mart which has two stores in Cape Town one in Johannesburg servicing sport, skiing, camping and mountaineering buy regularly from us throughout the year totalling : e.g. July.. 84 units; August.. 102; September.. 122 ; October.. 80. Garlicks Menswear an up-market store are considering approximately 600 units (yet to be confirmed). Hilton Winer who has 11 up-market shops is negotiating 200 units per delivery.

We are also negotiating with Truworths Menswear buyers. Our agent has been set a target of R100 000. ( about 1200units) for the season. However with a month to go to the peak of the buying season it looks like that target is going to be exceeded. He is also negotiating exports to Italy.

##### 4.1.2 JOHANNESBURG

Here we did not have the same success as in Cape Town principally because the agents we had are primarily servicing the ladies market- as stated before, in general, wool is not valued in RSA in the ladies fashion market.

We have come to the conclusion that our product is more valued in the male market. The South African upmarket "black" male market is an expanding sector to be tapped. Accordingly we have appointed a new highly reputable menswear agent in Johannesburg. It is comprised of a dynamic family team and they have accepted a target of 2500 units for next season. They have advised us (and is in keeping with other peoples opinions) that we will have to advise them when to stop selling!

#### 4.1.3 Country Areas

Agent 3 newly appointed covers country areas, mainly independent retail outlets. This agent has associations with our Cape Town agent and has well established customers.

In general one factor we have to consider for RSA for practical commercial reasons is to have our own bank account there. Our own experience and the recommendations of our agents support this.

#### 4.2 BOTSWANA

This market has been supportive to date and we expect to consolidate our present position next season.

#### 4.3 ZIMBABWE

Tiro Afrique has got an OGIL for Zimbabwe with 1000 units per month quota. There is a 6 day intensive market drive being planned for September in five centers by our agent there. This we regard as being largely exploratory, because we acknowledge that there are foreign exchange problems in Zimbabwe.

#### 4.4 U.S. / EUROPE

As stated previously the main reason we did not have a major breakthrough in these markets were linked to problems associated with Tiro Ya Diatla at corporate level.

- 1) We did not have our range on time owing to the late arrival of a designer,
- 2) Lack of marketing facilities available to the project with the demise of the main administration and also financial support for marketing efforts.

This is being addressed in the short and long term.

A Tiro Afrique has commissioned A.B.L.E. (American Business Linkage Executives) to carry out a market research in the immediate future.

B A new product range for Autumn/Winter 1990/91 is being developed in the next six weeks. Ranges should be ready for despatch to suitable agents by October 1st.

C Between now and October 1st it is hoped to have agreement from agents to act on our behalf : U.S.A. , France, and U.K. are likely with possibilities in Germany and the NORDIC countries. The project will also be seeking back up support from T.I.P.A. within the Ministry of Commerce.

A 3 to 5 year marketing plan will be drawn up.

## 5. DESIGN

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Ms Murphy is arriving on the project on 2nd August 1989. A work plan is to be drawn up which will include items such as:

- 1) Special requirements of Southern Africa markets.
- 2) Colour selections
- 3) Design towards international fashion
- 4) African/Botswana ethnic look as it might tie into international scene (Tiro Afrique has sponsored a local art student competition in presentation of ideas)
- 5) Cotton and alternative yarns.

## 6. FINANCE

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Tiro Afrique has not been able to avail of F.A.P. because it was receiving U.N.D.P. support (which has a government input). The original U.N.D.P. budget reflected inputs which were designed to substitute for F.A.P. However this was not fully thought through since budget support depended on U.N. personnel being on the project. To maintain U.N. personnel in the project meant no other finance being available as reflected in the recent U.N.D.P. budget.

So effectively since February 1989 approximately 18 months after operation and after almost going through a liquidation process through its parent body, Tiro Afrique Knitwear was standing on its own as a business operation relying on working capital loans from B.D.C.

The fact of the matter is that although the project is now allowed to find its feet, because of market lead time (approx. 9 months) the project has not recovered from 1988/89 events. The recovery will only reflect for deliveries to Southern African market 1990 (December - March 1990). The project will need some cushioning effect to its cash flow requirements until this period. The formation of a new company may allow it to apply for F.A.P. assistance. This is a matter for serious consideration.

### 7.1 PRODUCTION

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		UNITS
Production	FEB	200
	MAR	160
	APR	200
	MAY	250
	JUNE	420
	JULY	360

The production level reflect orders / marketing and not productivity with the level of orders projected to rise to 1000 per month we expect production to rise accordingly, A because of the size of orders, B by introduction of a bonus scheme. The production targets are quite realistic for the present size of operation.

## 7.2 QUALITY

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This is being maintained at a high level and we have been commended in this area by knowledgeable buyers.

## 8. PERSONNEL

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The number of personnel has remained static at 36 for 4-5 months. It is unlikely that this will change radically even with production increases.

Ms Robin Bram a U.S. Peace Corps volunteer has recently joined the project. She is presently assisting in two areas;

- 1) We have recently purchased an I.B.M. compatible computer and she is computerising all our accounts and will train staff on its use,
- 2) She will be helping to draw up a 5 year marketing plan

## 9. CONCLUSIONS

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The author has approximately six months to run on his contract with U.N.I.D.O. Although actual future development of the operation cannot be expected until TYD Spinning Mill is sold off it is now opportune to plan for a major review of the project. A market research is being carried out in the U.S.A. It had been indicated that the Swiss Government would be prepared to finance a consultancy to carry out a review. Either way this review is highly desirable.

TIRO YA DIATLA (TIRO AFRIQUE KNITWEAR)  
 PROFIT & LOSS PROJECTIONS NOVEMBER 1989 - DECEMBER 1990

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 IN PULA

PERIOD	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	1990
<b>EN'L OVERHEADS</b>													
SALARIES (4 EMPLOYEES IN 1989/3 IN 1990)	3153	3153	3153	3431	3431	3431	3431	3431	3431	3431	3431	3431	40340
STAFF HOUSING & MAINTENANCE	425	425	425	425	425	425	425	425	425	425	425	425	5100
PAYE	90	90	90	134	134	134	134	134	134	134	134	134	1479
PROTECTIVE CLOTHING	85	85	85	85	85	85	85	85	85	85	85	85	1020
MTH GRANULAR (CHLORINE)	2	2	2	2	2	2	2	2	2	2	2	2	21
SODIUM CHLORIDE (WATER SOFTENER)	44	44	44	44	44	44	44	44	44	44	44	44	528
AUDIT SERVICES	445	445	445	445	445	445	445	445	445	445	445	445	5340
SECURITY TEMP	33	33	33	33	33	33	33	33	33	33	33	33	396
SECURITY (2 EMPLOYEES)	680	680	680	747	747	747	747	747	747	747	747	747	8763
TELEPHONE	475	475	475	475	475	475	475	475	475	475	475	475	5700
STATIONARY/PRINTIN	250	250	250	250	250	250	250	250	250	250	250	250	3000
FAX & PHOTOCOPIER	240	240	240	240	240	240	240	240	240	240	240	240	2880
STAFF CLEANING AND REFRESHMENTS	165	165	165	165	165	165	165	165	165	165	165	165	1980
ADVERTISING	200	200	200	200	200	200	200	200	200	200	200	200	2400
DESIGNER	0	0	0	0	0	0	0	0	0	0	0	0	0
SAMPLES	800	800	800	800	800	800	800	800	800	800	800	800	9600
DELIVERY COSTS SAMPLES	300	300	300	300	300	300	300	300	300	300	300	300	3600
BANK CHGS	120	120	120	120	120	120	120	120	120	120	120	120	1440
LEGAL EXPENSES	20	20	20	20	20	20	20	20	20	20	20	20	240
PROP TAX	125	125	125	125	125	125	125	125	125	125	125	125	1500
POSTAGE	20	20	20	20	20	20	20	20	20	20	20	20	240
SUBSCRIPTIONS	25	25	25	25	25	25	26	26	26	26	26	26	306
TRAVEL DOMESTIC	200	200	200	200	200	200	200	200	200	200	200	200	2400
TRAVEL FOREIGN	800	800	800	800	800	800	800	800	800	800	800	800	9600
TRAVEL/ENT	100	100	100	100	100	100	100	100	100	100	100	100	1200
MISCELLANS	10	10	10	10	10	10	10	10	10	10	10	10	120
INSURANCE	365	365	365	365	365	365	365	365	365	365	365	365	4380
VEHICLE INSURANCE	125	125	125	125	125	125	125	125	125	125	125	125	1500
DEPRECIATION VEHICLE	317	317	317	317	317	317	317	317	317	317	317	317	3804
SERVICE & REPAIR VEHICLE	53	53	53	53	53	53	53	53	53	53	53	53	636
PETROL & OIL	50	50	50	50	50	50	50	50	50	50	50	50	600
DRIVER	295	295	295	295	295	295	295	295	295	295	295	295	3540
<b>OT GEN O/H</b>	<b>10011</b>	<b>10011</b>	<b>10011</b>	<b>10402</b>	<b>10402</b>	<b>10402</b>	<b>10403</b>	<b>10403</b>	<b>10403</b>	<b>10403</b>	<b>10403</b>	<b>10403</b>	<b>123653</b>
<b>OT BEF INT + TAX</b>	<b>-9241</b>	<b>-7514</b>	<b>-3053</b>	<b>9028</b>	<b>6358</b>	<b>6358</b>	<b>6357</b>	<b>6357</b>	<b>6357</b>	<b>-2178</b>	<b>-2178</b>	<b>-7868</b>	<b>8786</b>

TIRO YA DIATLA (TIRO AFRIQUE KNITWEAR)  
PROFIT & LOSS PROJECTIONS NOVEMBER 1989 - DECEMBER 1990

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IN PULA

PERIOD	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	1990
TOT UNITS	330	380	550	1000	1000	1000	1000	1000	1000	700	700	500	9160
TOT SALES	20694	23844	34030	61420	61000	61000	61000	61000	61000	42700	42700	30500	560888
<b>COST OF PRODUCT</b>													
YARN - WOOL (CORRIEDALE)	6784	1811	11306	20556	20556	20556	20556	20556	20556	14389	14389	10278	188295
YARN - COTTON	0	0	0	0	0	0	0	0	0	0	0	0	0
YARN - ACRYLIC	0	0	0	0	0	0	0	0	0	0	0	0	0
WAGES (30 EMPLOYEES)	5800	5800	5800	6400	6400	6400	6400	6400	6400	6400	6400	6400	75000
OVERTIME	100	100	100	110	110	110	110	110	110	110	110	110	1290
STAFF MEDICAL	10	10	10	10	10	10	10	10	10	10	10	10	120
DELIVERY COST - PURCHASES	123	142	206	374	374	374	374	374	374	262	262	187	3424
DELIVERY COSTS - FINISHED GOODS	125	150	1300	3435	4800	4800	4800	4800	4800	3360	3360	2400	38130
COMMISSION - AGENTS	1575	1890	2785	5215	6100	6100	6100	6100	6100	4270	4270	3050	53555
BUTTONS	0	0	0	0	0	0	0	0	0	0	0	0	0
FILOSHEEN	0	0	0	0	0	0	0	0	0	0	0	0	0
THREADS	17	19	28	50	50	50	50	50	50	35	35	25	458
SHING TAGS	33	38	55	100	100	100	100	100	100	70	70	50	916
LABELS	40	46	66	120	120	120	120	120	120	84	84	60	1099
PERCHLORETHYLENE (DRY CLEAN SOLV)	66	76	110	200	200	200	200	200	200	140	140	100	1832
PACKING MATERIALS	83	95	138	250	250	250	250	250	250	175	175	125	2290
ELECTRICITY	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	18000
WATER	70	70	70	70	70	70	70	70	70	70	70	70	840
SPARES	500	500	500	500	500	500	500	500	500	500	500	500	6000
REPAIRS	50	50	50	50	50	50	50	50	50	50	50	50	600
MAINTENANCE - BUILDING	100	100	100	100	100	100	100	100	100	100	100	100	1200
DEPRECIATION	2950	2950	2950	2950	2950	2950	2950	2950	2950	2950	2950	2950	35400
<b>PROD COST</b>	<b>19925</b>	<b>21347</b>	<b>27073</b>	<b>41990</b>	<b>44240</b>	<b>44240</b>	<b>44240</b>	<b>44240</b>	<b>44240</b>	<b>34475</b>	<b>34475</b>	<b>27965</b>	<b>428449</b>
<b>GS PFT</b>	<b>770</b>	<b>2497</b>	<b>6958</b>	<b>19430</b>	<b>16760</b>	<b>16760</b>	<b>16760</b>	<b>16760</b>	<b>16760</b>	<b>8225</b>	<b>8225</b>	<b>2535</b>	<b>132439</b>

PROFIT AND LOSS ASSUMPTIONS

1. SALES PROJECTED AT CURRENT REASONABLE EXPECTATIONS FOR COTTON, WOOL, AND ACRYLIC GARMENTS.
2. RAW MATERIAL PROJECTED AT CURRENT LANDED COST.
3. ALL EXPENSES PROJECTED ON PRESENT ACTUAL COSTS WITH EXPERIENCE FACTORS FOR INCREASE/INFLATION.
4. LABOUR COSTS EXCLUDE EXPATRIATE SUPERVISION (1 PERSON AT PRESENT) AND ALLOW FOR NORMAL INCREMENTS.