HARVARD Kennedy School
Building State Capability

CASE STUDY C-014A

# Economic Discovery in a Small Firm | Part 1

MATT ANDREWS

*2009*

The seaside City of Durban, South Africa, is well known for sun, surf and fun. It also boasted a robust clothing industry in the 1970s and 1980s, which produced products for the domestic retail sector and specialized in a variety of ‘surf labels’ (clothes worn on and around the beach) and more traditional lines. This industry waned in the 1990s, however, partly because of the emergence of other garment producing nations, like Mauritius and China.

Much of the local industry closed down in Durban as a result, especially large national clothes producers. Some ‘surf labels’ were, however, still in business entering the new millennium. These were typically run by local entrepreneurs who loved the city and traded on the symbolic value of being from Durban. Justin Mansfield was one of these. An accountant by profession and entrepreneur by choice, Mansfield was a partner in ‘Powerhouse Clothing’. It sold product to national retailers and had been one of Durban’s more successful labels. Mansfield’s operation provided clothes designs, packaged final items and did all the marketing and sales work. Other aspects of the supply chain were outsourced to local firms located across the city of 2 million.

Beyond the desire to succeed financially, Mansfield felt a real responsibility for these other operators who had seen a steady decline in business since the 1990s. With this in mind, Mansfield faced a shock in 2003 when the nation’s largest clothes retailer—and his biggest customer—threatened to terminate its contract with Powerhouse Clothing. They explained that overseas suppliers could provide them access to the latest fashions quicker and cheaper than Powerhouse Clothing or any other domestic producer.

Mansfield shared this bad news with friends, without any idea of what he should do. One of these friends produced parts for the Toyota plant in Durban, and put Mansfield in contact with a local consultant called Justin Barnes. Barnes had been hired by the National Department of Trade and Industry to advise firms producing parts for Durban’s auto assemblers. He had created benchmarking clubs for these firms, where they could gather together to learn from each other and coordinate their strategies—all to become competitive and reliable producers for Toyota. Mansfield invited Barnes to his offices in Durban, and came to the point: “My business will go down quickly unless I can do something fast…become more competitive in terms of what I produce, how quickly I produce it, and at what cost. What would you advise?”

Barnes drew up a table of options for Mansfield to consider, replete with the usual list of life lines a struggling business might look for from governments: subsidies, tax breaks, policies that force national retailers to ‘buy local’. He then put a pen through each option, explaining why none was politically or economically feasible. “You are in a tough place,” Barnes said. Mansfield replied, “So are you Mr. Barnes. You are the expert. Tell us what to do.”

Putting yourself in Mr. Barnes’ shoes, and reflecting on your country’s development experience, what would you advise? Also, what message would you take back to the Minister of Trade and Industry about how to Lead Economic Growth in the face of waning industrial presence.