

YAKKA PTY LTD

SUBMISSION

PRODUCTIVITY COMMISSION INQUIRY

AUSTRALIA'S TCFL INDUSTRIES POST 2005 ASSISTANCE

March 2003

YAKKA—AN AUSTRALIAN LEGEND

Productivity Commission Review—TCFL Assistance Arrangements YAKKA Submission

1 INTRODUCTION

- 1.1 YAKKA is a wholly Australian owned, globally oriented, clothing manufacturing group. It is one of the largest clothing manufacturers in Australia – producing, sourcing and marketing a wide range of industrial and corporate apparel and footwear.***
- 1.2 YAKKA has been in operation for over 70 years, and Government assistance provided to Australia’s TCFL sector has had a significant influence in the development of the Group’s business over that period.***
- 1.3 But, the company has always, and will continue to, adapt to the prevailing market and policy environment confronting it at any given point in time. The only difference will be the extent of manufacturing maintained in this country.***
- 1.4 The YAKKA experience, and its future plans, epitomizes the changing face of clothing manufacture and distribution in Australia. This current industry review by the Productivity Commission will determine how this evolves from 2005, and beyond.***

2 COMPANY BACKGROUND

- 2.1 The YAKKA organisation was founded in the 1930's and has continued to grow over the ensuing period, such that the YAKKA name is now an Australian icon.
- 2.2 During the last decade the YAKKA Group has moved successfully into corporate clothing and industrial footwear, and focused growth on the market segment of "clothing and footwear for work".
- 2.3 The Group structure (shown in attached Chart) reflects the product diversity outlined above and the YAKKA philosophy of building quality into products and then marketing them with flair and imagination direct to the market place.
- 2.4 The Group is headed by YAKKA (Aust.) Pty Ltd. which is owned by the Laidlaw family. The main manufacturing company in the Group is YAKKA Pty Ltd. which services a number of sister companies which are engaged in marketing and distribution. With the introduction of corporate clothing the Group has engaged in outsourcing of some garment manufacture i.e. tailored jackets, knitwear and womenswear, rather than widening its own manufacturing base.
- 2.5 Other major companies within the Group, targeted at different segments of the market are:

Neat n' Trim Uniforms Pty Ltd (NNT)

A specialist corporate apparel company, acquired in 1998. This business is a market leader in the area of ready to wear corporate apparel, as well as catering for the total requirements of large organisations, such as the CBA and ANZ.

Dowd Corporation Pty Ltd

Acquired in mid 1995, it is a market leader specializing in total clothing solutions for major corporates. NAB, Westpac and Australia Post are examples and recently Dowd won the Qantas contract for a total revamp of its clothing requirements. This will be the largest corporate clothing contract in Australia.

Icon Clothing Pty Ltd

A business established by Yakka in 1993 to consolidate the jeanswear and fashion trouser business. This company is the Australian licensee for Lee, Riders and Wranglers brands from VF Corp in the USA. In addition, Icon sells "Weekenders" trousers and range of younger clothing under the "Golf Punk" label through surfwear stores.

CTE Pty Ltd (formerly Can't Tear Em)

Manufactures and markets a wide range of specialised industrial and defence apparel. CTE is a major supplier of protective wear to major fire services and public utilities throughout Australia.

3 LOCATION

3.1 The YAKKA Group manufacturing, distribution and administration facilities are located in a number of plants in Victoria and Queensland. Locations, type of operation and number of direct employees are shown in TABLE 1 below.

3.2 Wodonga is an important country location for YAKKA. The company has maintained a presence in this region for more than 20 years and the prospects for alternative use of the assets and re-employment of the people involved if YAKKA were to pull out are limited.

TABLE 1:

YAKKA Group Structure

1 YAKKA Pty Ltd.	Manufacturing:	Employees:
-Industrial Division	<ul style="list-style-type: none"> • Broadmeadows -(Vic) • Brunswick -(Vic) • Wodonga -(Vic) • Dinmore-(Qld) 	186 76 109 45 <hr/> 416
-YAKKA (NSW)	• Kingsgrove & Newcastle	37
-YAKKA (QLD)	• Brisbane, Cairns, Nerang, Rocklea	57
-YAKKA (VIC)	Thomastown, Moorabbin, Carlton	39
-YAKKA (SA)		18
-YAKKA (WA)		25
-YAKKA (New Zealand) Ltd.		100
2 CTE Pty. Ltd.	<ul style="list-style-type: none"> • Sunshine-(Vic) • NSW • Westend-(Qld) 	113 2 131
3 NNT Pty Ltd	• Noble Park/Keysborough (Vic) & 17 locations	311
4 Icon Clothing Pty. Ltd.	• Fairfield-(Vic)	40
5 Dowd Corporation Pty. Ltd.	• Hawthorn-(Vic) & Sydney	78
6 YAKKA Apparel Solutions Ltd	• NZ	15
	TOTAL EMPLOYEES:	<u>1382</u>

As at Feb. 2003

Additional employment is created by the many Sub-Contractors utilised by the YAKKA Group, amounting to over 1 000 people in various factories.

4. OPERATIONS

- 4.1 New investment in manufacturing equipment, information technology, the introduction of new practices in factory and office are implemented solely on the basis of satisfying the overriding company objective of achieving *worlds best value and competitiveness*.
- 4.2 It is recognised that to achieve this requires long-term management commitment and the allocation of significant resources to dramatically increase international awareness within the company.
- 4.3 The YAKKA philosophy of building quality into its product and then marketing a total service package so that end-users know that they can depend on product quality and reliability has meant that price is not the prime determinant in gaining sales. However, there is no escaping the fact that price points are an overwhelming determinant of sales in Australia, and we must continually look towards means of delivering high quality product at the lowest possible price.
- 4.4 YAKKA's policy in pursuit of quality has been to work very closely with the supply chain, with both its customers and its fabric suppliers. The YAKKA group of companies have maintained significant operations in Australia (and surrounding regions) to meet the quick response requirements of our customers, and this in turn, has ensured significant demand for Australian fabric producers such as Bruck Textiles, Bradmill and Macquarie Textiles.
- 4.5 However, since the last Industry Review in 1997, YAKKA has recognised that it must move quickly in ensuring its own international orientation. As duties continued to decrease since the last review until the year 2000, the pressure continued to mount on YAKKA to lower its own costs. As raw materials (i.e. fabric costs) are a significantly greater proportion of the total cost of industrial clothing compared with other forms of clothing. YAKKA was forced to put pressure on fabric suppliers to lower prices and at the same time to research overseas for lower prices and potential suppliers. YAKKA has restructured its operations and sourcing practices accordingly.
- 4.6 If, following the year 2005 tariff duties drop further (beyond the scheduled cut to 17½ %), these pressures will only increase. One way or another the YAKKA name will live on but whether it can afford to support the local fabric industry to the extent that it does now is problematical. This could have severe consequences for local fabric mills, as the changes already implemented have led to a decline in the Group's overall fabric usage. YAKKA owned companies are major customers for Bradmill, Bruck and Macquarie, and if they cease buying from them, and import fully made up garments, these fabric mills will be hard pressed to retain critical mass.

4.7 It should be noted that Bruck Textiles and Macquarie Textiles, both operate out of regional centres - Wangaratta, Victoria and Albury, NSW - where alternative employment is not readily available. It in turn, Bruck is a major customer of Rocklea Spinning Mills, which operates in Moe, Victoria and Brisbane, and of Bradmill in Yarraville Victoria. Any decrease in YAKKA's local production will have an automatic and significant flow on effect to all these companies (and of course, other local suppliers).

4.8 The YAKKA Group has invested heavily in capital equipment, information technology, distribution systems and in its human resources, to ensure efficiency in its own operations.

- In manufacturing, it has updated *Gerber cutting machines* with associated computer driven technology, for its centralised cutting operations at Broadmeadows.
- New IT systems implemented to enable better supply chain management and reliable, consistent and speedy delivery to customers
- Warehousing is an area where YAKKA has made significant changes and runs a most technologically advanced and sophisticated warehousing system regarded as a leading example in the clothing industry in Australia
- The system adopted is paperless and operates with all items being bar-coded and controlled through a sophisticated computer system, The warehouse and distribution system is now linked to major customers through EDI ordering and invoicing.
- The Group is in the final stages of establishing a major new manufacturing and distribution centre for its corporate apparel subsidiary, NNT Pty Ltd at Keysborough. This facility of 175,000 square feet, embraces all the latest technology available.
- In 2000, the YAKKA Group launched a new business in New Zealand, YAKKA Apparel Solutions Limited, which was based upon the Intellectual Property developed within the YAKKA Group, in relation to Information Technology and Supply Chain Management. This business sources and supplies all the clothing requirements of the New Zealand Defence Forces.

4.9 YAKKA is now a global sourcing company, but it will maintain a certain extent of manufacturing capability locally, despite the higher costs associated with it, as it is a necessary component of ensuring quick response capability to service customers needs.

5. THE AUSTRALIAN DOMESTIC MARKET

- 5.1 The YAKKA Group has concentrated on ensuring that in manufacturing, distribution and marketing the Group operates at high levels of efficiency. YAKKA has invested heavily in its brand, knowing its product, its raw material and its customers.
- 5.2 The Group has strong commercial links with the major Australian fabrics manufacturers, which go back many years. This ensures that the fabric on which YAKKA Group garments are based is of consistent good quality. The latest technology in cutting and sewing is then employed along with control measures such as JIT and team based production so that quality garments are produced in the most efficient manner.
- 5.3 In warehousing and distribution the YAKKA Group companies run state of the art equipment. This is achieved through a computer driven, paperless warehouse, which can and does deliver within 48 hours of the customer's order being received.
- 5.4 The YAKKA companies have also built up a close working relationship with their major customers and distributors such as Wesfarmers and particularly in the corporate area, with Telstra, Australia Post, Wesfarmers, Qantas, NAB, Westpac, CBA, NSW Health and the PepsiCo fast food outlets. The level of sophistication is such that individual employees of these major corporations can place orders for industrial and corporate wear, which is delivered to their place of work and appropriate management information retained for contract management. This has been sufficiently enhanced by the web based ordering systems developed by YAKKA, enabling a ready electronic interface between the YAKKA companies and their customers.

6. YAKKA'S PRODUCTS

- 6.1 The YAKKA Group has four areas of core business:

6.1.1 Industrial Workwear

This is the main business of the Group, accounting for approximately 60% of total sales. The products within this category are trousers, shorts, dustcoats, bib and brace overalls, coveralls, industrial jackets, shirts and denim jeans and shorts. These items are manufactured at the Brunswick and Wodonga factories together with offshore sourcing.

The wider markets of small business, rural workers and handymen are reached through retail chains such as *K-mart*, *Big W*, *Mensland*, *Frontline* and local disposal stores. YAKKA has a very strong share of the market. The other strong competitor is the Australian manufacturer KING GEE which is a fully owned subsidiary of Pacific Brands. However, there are also an increasing number of small importers who, while having limited market share, do impact

the market through selective pricing and the impact of house brands on the structure of the market.

6.1.2 Corporate Clothing

This area of the business has grown rapidly in the last decade and YAKKA has a significant presence. Because of the range of garments involved, and in particular items such as tailored clothing and womenswear which are slightly off-line from the traditional range, the YAKKA Group has become involved in outsourcing (both domestically and offshore, notably Fiji, China and Indonesia). This has provided YAKKA with valuable experience that has enabled the Group to be much more flexible in its approach.

The Group expanded its involvement in this market segment through the acquisition in the mid 1990's of the specialised corporate apparel company Dowd Corporation Pty. Ltd. and the corporate division of Peter Weiss in Sydney, Neat'N Trim Pty Ltd in 'August 1998 and LWR corporate in NZ.

6.1.3 Jeanswear

Icon Clothing was established in 1993, from the base jeanswear business then existing within YAKKA Pty Ltd, to specifically service this market. Since that time it has developed a major market presence with the Lee, Riders, Wrangler and Mustang brands. Around 30% of this market is still serviced from Australian based sourcing, to meet quick response requirements and limit stock/inventory risk.

Fashion trends strongly influence the level and nature of clothing demand in Australia and this is nowhere more apparent than in the jeans market. This market is cyclical in nature and overall demand levels vary with the vagaries of fashion.

6.1.4 Footwear

YAKKA introduced a range of industrial footwear in the late 1990's to supplement and complement its clothing range. The Group's aim was to take advantage of the strong YAKKA brand and established distribution and warehousing systems, and offer a full industrial wardrobe of clothing and shoes.

The footwear range is imported from China, where a resource was established that can produce footwear of a superior quality, fully compliant to Australian standards, to fit into the YAKKA range and at an economic price. The factory finally chosen was already a major supplier to the USA high volume discount chains. These products are now widely available through K-mart and other national retailers.

7 AUSTRALIA IN THE GLOBAL MARKET PLACE

- 7.1 The YAKKA philosophy is to supply quality products to the Australian market. The Group has been a comprehensive manufacturer in Australia and would prefer to remain so. The extent to which this remains the case will depend on the Governments approach to assisting the industry in the future.
- 7.2 The YAKKA Group has been oriented to the Australian market for its major product lines namely industrial and corporate wear. Export activity has been limited to markets adjacent to Australia for industrial product and UK and Europe for some more fashion oriented ranges under the Hard Yakka brand - this activity is continuing. Fabric has traditionally been sourced locally, but in recent years YAKKA is taking a more international approach. Success in the market for the end product is dependent on the provision of a total service package.
- 7.3 Given the labour intensiveness of clothing manufacture it is difficult to envisage Australia as a significant base to export. In YAKKA's case any future export activity is more likely to exploit YAKKA's brand name by having products made in Asia for supply to international markets. For Example, the YAKKA Group is now seeking to capitalise on corporate opportunities with multinational companies establishing a major presence in Asia -e.g. oil and food companies – offering a total clothing solution.

8 YAKKA'S STRENGTH

- 8.1 YAKKA's main strength is its very strong brand image and established market position. An efficient manufacturing operation, exceptional warehousing and distribution facilities and a skilled and stable workforce supports this. Focus being on YAKKA's core business of ' clothing and footwear for work'.
- 8.2 The brand together with the nature of the Group's major product area, viz. the industrial wear service package, had traditionally provided the company with some degree of natural protection against imports.
- 8.3 However, as tariffs continued to reduce to the year 2000, the incentive to import became greater and the business is now at a fine balance. The whole focus is on servicing the customer and providing a strong reliable source of supply. But if tariffs reduce too greatly, or too quickly in future, imports will account for almost all the market in this area.
- 8.4 YAKKA has deliberately strived to ensure it has a diversified market base; YAKKA deals directly with major customers in industrial and corporate clothing together with specialised distributors and major retail groups.
- 8.5 The Group has shown itself to be quite adaptable to changing market-forces. While overall the Group has catered for the domestic market and sourced its major raw materials locally, its product diversification, its increased dependence on outsourced products and the decision to wholly import jeans, footwear and

categories of industrial clothing such as shirts, has provided the company with the experience and contacts to move in any required direction.

9 MAJOR THREATS

- 9.1 As mentioned above, if tariff levels decrease below 17½ % after 2005, the pressures on the YAKKA Group maintaining local manufacture will increase. Industrial wear has resisted import pressure better than other clothing products but that situation could change rapidly. China has had a presence for some time and Chinese garments can be landed, duty paid, for considerably less than YAKKA's ex-factory prices. If duties are further reduced after 2005, imports will rapidly take hold of the market.

10 LIKELY YAKKA RESPONSE

- 10.1 Clearly YAKKA must now think hard on how it faces the future if there is a continuation of duty reductions beyond the year 2005 and if there is no ongoing industry support package in place. Both the magnitude and timing of any assistance must be taken into account.
- 10.2 YAKKA'S brand name and market presence is strong enough to suggest that it will live on. Indeed, it has worked hard to build its profile and market presence, to ensure this is the case. The YAKKA Group would prefer to remain as an Australian manufacturer employing Australian workers in Australian factories.
- 10.3 However the Group will position itself so that if the policy environment shifts dramatically in Australia, other sources of clothing for marketing in Australia will be further extended.
- 10.4 YAKKA has continued to internationalise over the past 5 years, since the last industry review. This includes switching, to a certain extent, from local to imported fabrics and international sourcing of garments and footwear.
- 10.5 While YAKKA companies still continue to be a major purchaser of fabrics from both Bruck, Bradmill and Macquarie, fabrics of similar quality are available from a number of sources at landed duty paid prices below those charged by local suppliers, and it would be commercially remiss of YAKKA not to exploit the opportunities this provides.
- 10.6 Another alternative would be to increase the range of fully imported made up garments utilizing established YAKKA brands, where garments are imported on a fully manufactured basis.

11. REGIONAL SIGNIFICANCE

- 11.1 Regional employment is significant in the clothing industry. In YAKKA's case this has worked to the advantage of the employees, the regions and YAKKA. YAKKA has benefited from a stable and reliable workforce. Furthermore it is not possible to downsize in a completely regular and ordered way; critical mass is required and once downsizing reaches that point the only option is complete withdrawal. (examples are Shepparton and Wangaratta decisions).
- 11.2 YAKKA is indirectly important to three regional areas (Wangaratta, Albury and Moe), as a significant supporter of Australian fabrics (Bruck and Macquarie) and in turn yarns (Rocklea Spinning) and directly very important in the regional economy of Wodonga.

12. FUTURE ASSISTANCE ARRANGEMENTS – YAKKA'S POSITION

- 12.1 As stated previously, YAKKA will change the nature of its business operations in light of the policy environment that prevails at any point in time. YAKKA will continue to be a strong and recognised brand in the Australian market.
- 12.2 But the extent of manufacturing activity, employment and local value added generated by the YAKKA Group's business may well decline, depending on the Government's final decision arising from this review.
- 12.3 To ensure the optimum level of business activity in Australia, in the most efficient manner possible, YAKKA advocates the implementation of the following policy measures.

Tariffs

- 12.4 YAKKA acknowledges and accepts that apparel tariffs are to be reduced from 25% to 17½ % on 1 January 2005.
- 12.5 However, the YAKKA Group is equally conscious that the rest of the world is maintaining barriers (both tariff and non-tariff) against imports of TCF goods at much higher levels than already scheduled for Australia in 2005. Moreover, there is no indication at present to suggest that other markets will be moving to reduce their market access barriers to Australia's levels, let alone below them.
- 12.6 Accordingly, YAKKA believes it would be prudent for Australia's tariffs to be maintained at the January 2005 levels, until at least 2010. Any further reductions beyond 2010 must be subject to demonstrable evidence that Australia's major trading partners are similarly liberalizing their trade barriers.

Positive Assistance

- 12.7 In a period of tariff reform, compounded by a volatile world-trading environment (as will definitely be the case for clothing trade as countries jockey for position in the wake of the termination of the MFA bilateral quotas in 2005), there is a real role for positive assistance to help the Australian industry restructure.
- 12.8 The principles and objectives behind the initial introduction of the TCF Strategic Investment Program are sound, and this scheme should be continued for a further 10 years. This will provide the necessary predictability and stability to underwrite continued investor confidence in the industry, during what threatens to be a turbulent time on the world scene.
- 12.9 Certainly the underlying principles of SIP must be retained. The program is clearly to support local manufacturing industry and this needs to be the key criterion. But the ongoing scheme must be designed to ensure that it does drive change and facilitate desirable industry restructuring.
- 12.10 The industry is changing and will continue to change. Similarly, there should be a preparedness to modify the support arrangements to reflect the changing nature of the Australian TCF industry.
- 12.11 Clothing production is extremely labour intensive. While technology is important in clothing manufacture and has made significant contributions to efficiencies in pattern making and large scale cutting, there is no escaping that finally garments are sewn together one garment at a time.
- 12.12 The industry's focus now is to service the customer to the fullest extent possible. To do this effectively, the industry needs to continually update its information technologies to ensure regular and timely communication with its customers and our suppliers, and needs to ensure it retains speedy and reliable distribution channels. In short, the Australian clothing industry needs to effectively manage its supply chain to ensure the necessary value add to its domestic manufacturing processes, to underscore continued demand for these activities. SIP must more effectively encourage such investment in future.
- 12.13 The innovation aspect of the Scheme also needs to be modified to reflect the true nature of research and development in the clothing industry. There is no question that Product development remains an important aspect of both industrial and corporate markets. (and the YAKKA Group has effectively utilised the SIP where development relates to sophisticated protective clothing and Defence markets). But R&D as defined in the Government Programs does not truly account for the fashion and commercial risk involved in most garment development. The focus is on technical risk, which is not really the issue for the bulk of consumer clothing development.
- 12.14 Similarly, SIP does not give sufficient encouragement to expand existing or develop new markets. The market access/market development component of

the scheme has not been effective due to the administrative interpretations applied. This aspect of the scheme would provide reasonable stimulus if it more fully reflect the accepted provisions within the generally available Export Market Developments Grant (EMDG) scheme.

- 12.15 EMDG has been a very good scheme in the past. But most TCF companies are well established and have exhausted their access to the scheme. This is unfortunate as there are now new market opportunities (beyond those explored in the past) but there is no access to any support to explore these.
- 12.16 YAKKA believes there would be greater flexibility in, and benefit from, the scheme if it included scope for a duty offset type arrangement, as is applied in the ACIS scheme for the Passenger Motor Vehicles (PMV) industry. Consideration should be given to introducing such an element into the future SIP scheme.
- 12.17 The program of assistance needs to be provided for the full 10-year period and it should be no less, on an annual basis, than what was announced under the current suite of programs.

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