J. ROBINS & SONS PTY LTD

SUBMISSION TO THE PRODUCTIVITY COMMISION: POST 2005 TEXTILE, CLOTHING AND FOOTWEAR ASSISTANCE ARRANGEMENTS ENQUIRY

1. COMPANY OVERVIEW

*** Introduction**
J. Robins has been designing, manufacturing and distributing footwear in Australia for over 100 years. Over the last 10 years, the Company has concentrated its manufacturing expertise on medium priced women's fashion and casual footwear.

The product has been marketed under the Sandler , Easy Step and Widestep brands. The Robins' group is proud to be recognised as the leading women's footwear manufacturer in Australia.

Following the Government's changes to tariff and quota arrangements in the 1980's and the resulting increase in imports of low cost footwear, the Company instituted a major review of its operations. This resulted in a new strategic initiative to improve the Company's product quality ,responsiveness and competitiveness through investing in technologically advanced plant and equipment, "Quick Response" manufacturing systems and an extensive program of workforce training and development.
The implementation of these strategies is seen as a continuous, evolutionary process that drives the Company through a culture of seeking constant improvement in all aspects of its performance.

*** Marketing and Distribution**
J. Robins is a 100% owned subsidiary of W.M. Ritchie (Aust.) Services Pty.Ltd. The Ritchie group, with its expertise in marketing and distribution, distributes the entire Robin's range of footwear.

The Ritchie group is one of the largest individual suppliers of any product group to the major department stores; is one of the main contributors to specialty chains such as Colorado; and plays a key role in supporting specialized independent retailers.

*** Manufacturing Site**

- The Company has concentrated its manufacturing expertise at Belmore ,in Sydney's south- western suburbs ,employing approximately 400 people and operating on a 2 shift basis, 5 days a week.
- The majority of employees come from non-English speaking backgrounds.
- Depending on the particular season (either Summer or Winter) total production varies from 4,000 to 5,000 pairs per day.
- All production ,support and management functions are team based.

*** Product Lines**
The Company produces three major, women's footwear brands, with each brand supplying in excess of 60 different styles to the market annually.
The brands are:-

- "SANDLER", medium priced footwear ($60-$100 retail) – having both a fashion and casual content

- "EASYSTEPS", medium priced footwear ($70-$110 retail) – having both a fashion and casual content with the emphasis on wider fitting comfort shoes

- "WIDESTEPS", medium priced footwear ($90-$120 retail) – fashion and casual shoes with extra wide fitting and incorporating comfort features aimed at the mature aged consumer.

*** Manufacturing Processes**
The Robins group is relatively vertically integrated in the footwear manufacturing process due to the strategy of quick response and self-sufficiency.
Manufacturing processes include:-
- Initial concept and design development using C.A.D. systems for prototypes.
- Pattern, mould and tooling departments for pre-production tooling using C.A.D., C.A.M. and C.N.C. plant and equipment.
- Component manufacture of outsoles, insoles and heels using polyurethane, thermo plastic rubber, P.V.C., leather and resin rubber, through various moulding systems and cutting and processing plant.
- Leather and synthetic cutting of various shoe components by computer controlled machinery along with traditional hydraulic press cutting.
- Stitching or machining of shoe uppers using a variety of different machines, C.A.M.'s and processes.
- Making or Lasting of the completed shoe upper to a "Last" or "Forme" using a number of different processes and machines.
- Finishing of the lasted shoe with the attachment of an outsole, insertion of various comfort features, and final leather finishes and polishes.
- Final packaging and despatching of the footwear to our distribution centre.

2. OBSERVATIONS AND EFFECTS OF THE CURRENT PROTECTION ENVIRONMENT

It is well documented within the Footwear industry of the high level commitment that the Robins group has to the strategy of working towards the continued maintenance and future development of its Australian manufacturing base. The investment that the organization has made in the preceding 10 years in technology, innovation and particularly employee skills and knowledge, has been substantial.
This investment is based on the strategic goal of capitalizing on our competitive advantage of being able to supply our market with exactly the right product, at

exactly the right time. This has obviously been of critical importance considering the nature of the fashion market and the unpredictability of consumer demand. We have never sort or expected that our competitive advantage would be on the basis of price, but more so on the value our product and brands we offer our customers.

This strategy has been relatively successful to date, but signs are now emerging that will require dispassionate analysis when we look beyond 2005. The major issues that need to be considered from our perspective are as follows:

A. Market Access

The industry accepted the holding of tariff rates, the SIP scheme and the further adjustment to tariffs from 2005 on the basis of significant adjustment by our trading partners in access to their markets. In general this has not occurred, and since the pace of reform in Australia has exceeded our export destinations', the loss of our market share locally has been significantly greater than any of our export gains.

Japan has a tariff of between 17% and 24% plus quotas, China has an effective rate of 45% and Malaysia varies from 15% to 30%. According to the APEC, website, Australia is the only country that has published any intention to reduce tariffs.

These market access issues have been highlighted by industry on numerous occasions as good reasoning behind maintaining Australian tariff levels but little has been shown of actual examples.

From our experience, a number of situations have arisen:

We currently export polyurethane shoe soles to Fiji where our customers use them in the production of finished shoes. This market has been successful since the technical and fashion characteristics of our product are extremely competitive and access to this market is relatively open.

We have attempted to supply a similar product into China and have found our ex-Australian prices to be attractive. Unfortunately, when the logistics of actually delivering the products into the customer in China are investigated, and both the formal and informal barriers are calculated, the product is no longer competitive.

During the mid-1990's we had begun to build a customer base in Malaysia and Singapore for fully finished shoes, establishing a growing business with a major retailer. With the downturn in a number of Asian economies in the late 1990's this business was severely reduced. As a result we turned our attention to the Japanese market and after numerous trials and discussions, and despite a recognition that our product had a definite market acceptance, we found that the quota system made our product unmarketable due to the final landed price.

From our experience, market access barriers, whether real or imagined, have a measurable and generally negative effect on local manufacturers perceived ability to export. Considering Australia's very open trade situation when compared to both developed and developing nations, it seems a little unbalanced if you are an Australian TCF manufacturer.

B. Employment Issues
Despite the pause in tariff reduction, our local employment (and the industry) has continued to decline in numbers. From 1999 to 2003 we have reduced employment by over 200 people.

More than 85% of our employees come from non-English speaking backgrounds and around 75% of these employees are women.

Around half of our people are migrants that have been employed by us for in excess of 10 years, have established families and been able to improve their children's opportunities for the future through hard work and education.
The remaining half are relatively recently arrived migrants that have poor to only average English skills and with few trade or service skills. We train these people in footwear manufacturing skills and provide professional English language and literacy programs, along with other internally delivered TAFE based training courses.
Without the TCF industry, many of these people would simply not be able to find permanent, relatively secure, meaningful employment and would revert to social security support.

Over the last 2 years we have seen a trend in the experience of some of our new employees. Approximately 40% of new employees have had prior employment in the "black economy", working in unregistered outworker factories and cash employment in restaurants and bakeries. Wages in these situations are paid in cash, are normally below award, and receive no sick, holiday or long service leave, superannuation and workers compensation. People obviously pay no personal income tax and are likely to access social security payments.
Our permanent, stable employment that offers training and English language skills, is very attractive to these people.

It is extremely difficult to forecast the effect of the legislated tariff drop of 5% in 2005 on total employee numbers. Factors such as our exchange rate can have such a major effect either way. However, considering the margin pressure (and ensuing profitability) that most TCF companies are under, our estimate based on current trends, is that we will need to reduce employment by between 25 & 35 %.

The future viability of our local manufacturing employment beyond 2005 will, unfortunately, be dependent on the degree of change in the tariff rate and the nature of any future assistance arrangement.

C. Economic Size, Skills and Technology
As the Footwear industry shrinks in size, then there is an argument that an industry that supplies less than 10% of total local consumption will be too small to be economically viable. Currently it is only just above this level.

No different to the Motor Vehicle industry, Footwear also needs a reasonable component and supplier base. It is critical that along with the traditional manufacturers, that consideration is given to other suppliers to the industry such as tanneries, component makers and moulders, metal tooling companies and footwear material importing companies.

The economic flow through from the Robins group's 400 employees into our supplier base is calculated at 110 people employed directly in the supply of materials and services. A further 50 people whose capacity usage on our supply would be in excess of 50%, would also be directly effected.

The erosion of general manufacturing skills (not just footwear specific skills) is a concerning trend. The Footwear industry considering its relative size has been a robust contributor to Australia's skill base through the training and development of its people. Areas such as mechanical and design engineering, software development, logistics skills, management training and strategy, retailing and market research, and team building, have been enhanced through the Footwear industry.

The Robins group has been at the leading edge of issues such as team based organization design, modular manufacturing and Just-In-Time processing strategies.

We have pioneered computer controlled cutting and nesting of leather. Currently we have a joint venture with the University of N.S.W. in the design and development of a vision controlled system that identifies leather scars which then links data to both the tannery and our automatic cutting plant. We are in discussions with a German leather machinery manufacturer to investigate the viability of taking the system to a commercial stage.

The current SIP scheme has been of tremendous benefit in facilitating our investment in technological improvements. It has had a direct effect on:

- Upgrading our polyurethane moulding plant with the result that we are now producing and finishing soles equal to the best available from Italy at an extremely competitive price. It has fast tracked our exports to Fiji.
- New investment in our CAD design and tooling software and hardware that has become more critical due to reducing leadtime available on new product development.
- Major improvement in plant layout and product flow for new manufacturing modules producing a new product range.
- Introduction of new computer controlled stitching system from Japan that now expands our ability to apply this technology to a far broader range of styles and constructions.

This investment has been critical in assisting Robins in improving our competitive advantage of extremely quick response times to market demand for new developments and production.

Our concern is that we are still right on the edge of stabilizing our operation for the future and that we need further help - not further pressure.

D. Supply and Pricing
As a country, we need to ask the question as to whether we want a situation where we have no capacity to produce footwear. Currently, China supplies in excess of 50% of all footwear purchased in Australia. Considering the current global uncertainty, a small interruption in Chinese supply would result in a major disruption to the Australian market. There is an argument to say that this should be therefore considered in the context of Footwear being an essential industry.

The CPI for Footwear since 1993 (excluding GST) has in fact been negative (see Appendix 1 – Changes in Consumer Price Index and Labour On-Costs.)
We can confidently say that the Australian consumer is now being supplied with extremely competitively priced footwear.

As fashion manufacturers, we obviously follow northern hemisphere trends in not only styling but also pricing and distribution practices. Comparing prices between what US and Australian consumers need to spend on a very comparable women's fashion shoe is quite surprising. Currently an Australian manufactured style retailing in an Australian department store has a R.R.P. of A$89. The same style, with the same material specification, but manufactured in China, is retailing in a mainstream US store for US$75 or A$125. Considering that the US has a domestic production of less than 3% of total consumption then 2 conclusions may be reached. Either,

1. Retail markups in the US are substantially greater than in Australia, or
2. Footwear prices in Australia are being forced artificially downward by imports or a subtle form of dumping is taking place.

Both conclusions are not to the advantage of Australian consumers and must be considered in the context of the longer term. The above pricing examples are not just anecdotal. The removal of our domestic manufacturing base, will reduce competition in the market place, not improve it.

E. Productivity and Labour Costs
Footwear manufacturing is still, despite all our investments in new technology, a very labour intensive industry when compared to general manufacturing.
As discussed, the TCF industries have provided a tremendous source of employment for relatively unskilled people, and particularly for new arrivals to Australia, a vehicle to establish themselves and build a base for a better standard of living in the future.

For the Robins group, our investment in people has had an excellent payback in terms of our strategic approach to the market. Our labour productivity per person has increased by 28% since 1991 but our best judgement is that we have almost reached a point of maximum improvement from our people.

Over the same period, however, our labour on-costs have risen (37%) at a rate that has not been offset by improvements in labour productivity or increased product prices (see Appendix 1.) Superannuation and workers compensation increases have been difficult to offset.
Consideration should be given to the fact that the TCF industries, due to their high labour input as a proportion of total product cost, have been unfairly penalized with the impost of increasing employment costs.

F. Footwear Tariff Differential with Clothing

While the Footwear tariff is currently at 15%, Clothing has been at least 10% higher for a number of years. The legislated changes as of 2005 of 10% and 17.5% for footwear and clothing respectively, although reducing the disparity, still lack logic from a Footwear perspective.

The historical reason for this is unclear (perhaps through some incorrect relationship with handbags and accessories), however, this seems competitively unfair, considering that the labour cost in footwear is at least that of clothing and substantially more than textiles.

G. Currency Fluctuations

One of the benefits of tariffs has been its assistance in off-setting currency fluctuations when retailers are making decisions on where to buy. Although not high in comparison to other countries, the 15% tariff has been critical in maintaining our competitiveness, particularly with the current trend in the strengthening of our dollar.

If the Australian dollar again moves downward at some point in the future, then our opportunity to source or manufacture locally will be severely restricted if assistance is not maintained.

3. OPTIONS FOR GOVERNMENT POLICY

We believe that the Australian Footwear industry has a viable future if a realistic view is taken on the benefits it can provide the economy and the trading practices of overseas markets are considered.

The Robins group requests that the following options are considered in the Commission's review:

*** Tariffs**

- The current duty rate on footwear is maintained beyond 2005 until substantial changes in our trading partners' trade barriers take place.

- That Footwear duty rates are more closely aligned with Clothing rather than Textiles.

- That duty rates on imported footwear components are removed.

- That effective anti-dumping provisions are established that can be enacted quickly and efficiently.

*** Positive Assistance**

The Strategic Investment Programme has been an excellent scheme in providing assistance to the total industry. Its continuation is absolutely critical to the future of local manufacturing. However, some adjustments need to be made;

- Greater certainty and a more appropriate definition of " innovation" is required for Type 2 claims.
- Increased weighting placed on the value adding component of the scheme to recognize the contribution made by organizations with high employment costs.
- Either a rebate scheme or inclusion into eligible expenditure for Type 2 purposes of payroll tax and workers compensation premiums in acknowledgement of the labour intensiveness of the industry.
- A special projects fund, above and beyond the SIP scheme and related sales cap, that can be allocated by the Minister for projects that add overall benefit to the industry in relation to skills, capacity, technology or overseas market access.

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Year	CPI Footwear	CPI All Groups	Changes in labor on costs(%)
1989	96.4	92.6	33.3
1990	100.0	100.0	33.5
1991	103.4	105.3	33.8
1992	106.0	107.3	37.8
1993	104.5	108.4	37.8
1994	103.1	110.4	39.5
1995	100.1	113.9	40.8
1996	99.0	118.7	42.4
1997	99.4	120.3	42.6
1998	98.3	120.3	44.1
1999	96.3	121.8	43.6
2000	94.9	124.7	45.0
2001	101.1	132.2	45.2
2002	102.4	136.0	46.2

Sources:
TFIA Business Services P/L
J.Robins & Sons P/L