

TCFL INDUSTRY REVIEW

**Submission to the Productivity Commission of
Australia**

Specialty Coatings (Aust.) Pty Ltd



March 2003

INTRODUCTION

Specialty Coatings (Aust.) Pty Ltd, trading as the Specialty Group, has been in business for more than 24 years, supplying high quality, high technology fabric coatings to the window furnishing, apparel, military, industrial and health care industries of Australia. The business is based on applying proprietary value added coatings and laminations to textiles with the aim of imparting various properties to those textiles. Specialty produces both branded and unbranded products as well as conducting commission-coating services.

The Specialty Group has made a concerted effort to reposition the business over the past five years. The restructuring that was undertaken aimed to refocus The Specialty Group's attention on the development of technology to reinforce its position as a leading edge provider of proprietary coated and laminated textiles. The introduction of the TCF Strategic Investment Program has fostered a proactive environment enabling The Specialty Group to fast track investment strategies, helping underscore the longevity and viability of the business.

This submission to the Productivity Commission focuses on those aspects of the Post 2005 TCFL Inquiry's Term of Reference of direct relevance to our company. We trust this will assist the Productivity Commission in attaining a greater understanding of the implications of ongoing policy measures for the TCF industry, and particularly for The Specialty Group.

COMPANY BACKGROUND

The Specialty Group has grown substantially from modest beginnings as a small family owned business operating out of rented premises to its current status employing 42 people and operating out of its own purpose designed facilities in Moorabbin. The company is accredited AS/NZS ISO 9001:2000 Quality Management System.

Specialty's turnover increased from \$7.8 million in 1997/98 to \$11.8 million in 2001/02, with significant growth occurring in the latest year (Refer to table 1). The increase in turnover can be attributed to a number of factors, principal of which being the introduction and development of new processing technologies and products, implementing new management practices and controls, and undertaking an organisation wide cultural change process.

Essentially, The Specialty Group operates in four key areas:

- ❑ Coating fabric for the window furnishings market, servicing the wholesale market
- ❑ Coating and laminating fabrics for the military, for defence/protective apparel and for industrial use, with the finished fabric being sold to garment manufacturers who then make up for the end user.
- ❑ Coating industrial fabrics for non apparel applications
- ❑ Coating and laminating fabrics for health care applications (e.g. waterproof fabrics)

As highlighted in Table 1 below, Specialty's sales rose by 52% in 2001/02, staff number rose by one-third since 1999/00, and over 10% in sales is invested in research and development.

Table 1: The Specialty Group - Leading Indicators

	1998/99	1999/00	2000/01	2001/02	2002/03
Sales Change %	n/a	2%	-1%	52%	17%
Employment	40	31	33	42	42
Investment in Plant & Equipment (% of Sale)s	n/a	\$326,000	n/a	\$293,000	\$1,147,000
Investment In R&D (% of Sale)s	10%	10%	18%	13%	11%
* Exports (% of Sales)	n/a	12%	15%	5%	3%

Note: - Fall in export sales in 2001/02 and 2002/03 was due to the following factors:

- ❑ economic down-turn in the United States economy
- ❑ economic conditions in Japan forcing Japanese goods to be sold at lower prices in the United States and the Canadian markets
- ❑ generally much more competitive environment
- ❑ geographical disadvantage of distance, causing longer delivery times and cost of freight

The company's recent success can be attributed to our conscious pursuit of, and focus on, both short-term and long term strategies including:

- ❑ reducing fixed manufacturing and overhead expenses
- ❑ ensuring satisfactory reporting systems are established
- ❑ providing our customers with a quality product, in a timely fashion, at a competitive price that is also profitable for the company. Maximising customer service, by adding value at every stage of the selling, production and distribution process.
- ❑ extending existing and developing new (export) markets by focusing on new product development geared around high technology, high value add applications
- ❑ pursuing growth opportunities in the safety workwear, window furnishings and industrial markets and consolidating the military market, which is looking to move towards laminated textiles.
- ❑ establishment of strategic alliances with key customers, suppliers, research organisations and educational institutions, to develop high performance products such as laminates and advanced coated and breathable industrial products
- ❑ a commitment to innovation, focused on high performance/ high technology product (specifically technical textiles), underscored by a continued heavy investment in research and development and product development for commercialisation.
- ❑ ongoing market research to identify world trends and pre-empt Australian moves.

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- shifting production towards specialised high value added product rather than concentrating on the commodity end.

Although The Specialty Group's export sales have declined in the last two years (ie 2001/02 and 2002/03), we are encouraged by the commencement of FTA negotiations between Australia and the United States, as this offers to open up significant market access opportunities into the United States.

IMPACT OF CURRENT TCFL ASSISTANCE ARRANGEMENTS

(a) TCFL Strategic Investment Program Scheme

While The Specialty Group's restructuring efforts, and consequent performance, are a direct result of the active implementation of our forward looking business strategies, the indicators in Table 1 also highlight a strong correlation between our recent productivity improvement and the introduction of SIP (which gave us the necessary impetus to accelerate our investment in new plant and equipment and in developing new products).

Thus, from The Specialty Group's perspective, there is no doubt that the Strategic Investment Program has achieved its broad aim of promoting and encouraging Australian TCF firms to increase their investment in new plant and equipment and undertake increased levels of research and development (R&D).

SIP has clearly encouraged and supported The Specialty Group's re-structuring process and growth strategies. The direct assistance has enabled us to invest in new areas with greater confidence and consequently enabled Specialty to grow our product range and service new markets. For example one of our company's new high tech products emerged from the development of the Windjammer wool fleece fabric, used as a windproof jacket for the Australia Defence department. The jacket is made from Australian merino wool, laminated wool layers, and is knitted, windproof and breathable. The garment designed is also multi-functional with removable sleeves.

The Specialty Group has also developed other innovative products and ideas including chemical splash resistant fabrics, protective waterproof and breathable animal blankets, waterproof antibacterial carpet under lays, specialist incontinence and allergy barrier products, and shoe lining for the military services to name a few. Overall, SIP has given Specialty an opportunity to convert ideas into finished fabric that can be sold on the international market.

(b) Tariff

The Specialty Group has welcomed the Government commitment to hold tariffs for TCF products constant from 2000 until 2005 as it has given the TCFL industry the opportunity to further restructure and re-position itself. The pause in tariff reductions has assisted The Specialty Group to move away from producing volume "me too" products and return to being a supplier of leading technological products. It has enabled The Specialty Group the necessary "breather" to embark on new business strategies to expand into higher margin, value added areas, catering to niche markets.

FUTURE DIRECTIONS & POSITIVE ASSISTANCE

The structural changes to the TCF industry have also brought new opportunities and threats. To capitalise on these opportunities (e.g. accessing overseas markets, continuing the industry restructuring process, developing new products for new markets, and introducing new technologies in manufacturing), the Specialty Group believes the Government needs to assist the industry in the following areas to ensure these opportunities are brought to fruition.

(a) Tariffs - Post 2005

Although the tariff freeze has given the industry time to restructure, in reality it has also given some companies extra time to exit the industry as they are unable to compete against cheaper imports. With further reduction in tariff Post 2005, The Specialty Group believes there will be further TCF manufacturers exiting the industry. We understand the reason for focusing on tariff reductions (ie a freer trading environment), however given the uncertainty surrounding the forthcoming Doha Round of trade negotiations in achieving lower trade levels, we strongly believe the Government needs to monitor the actions of our overseas trading partners to ensure the same policy and tariff reductions are adhered to in these markets.

Consequently, we believe there is no need to further accelerate tariff reduction beyond the 2005 scheduled tariff cut. Any further tariff reductions without reciprocal arrangements from our key trading partners would make it more difficult for Australia manufacturers to compete competitively in Australia and the international environment.

The Specialty Group's competitive advantage is our ability to manufacture price competitive, high value added fabrics to service local and international fabric converters. However, given that many of our trading partners still operate under high tariff levels and enjoy other forms of non tariff protection, it seems unreasonable to expect Australia to introduce further tariff reduction without a detailed review of our trading partner's trading policies Post 2010 (ie to ensure our trading partners can demonstrate they have in place similar trade liberalisation measures).

(b) Positive Assistance

There is no question the SIP Scheme has assisted the TCF industry to restructure and become more internationally astute. We believe similar arrangements need to be retained post 2005, to continue the restructuring process.

Whilst the SIP Scheme has been an undeniable boost for The Specialty Group's business development, there are however two strategic areas of industry development in which we believe the Scheme currently has real short-comings. These are in encouraging improved market access development and in Brand Support. SIP tends to encourage supply side activities, but fails to recognise the need for focussed and ongoing investment in demand side factors.

Although the SIP Scheme allows funding for market access with regard to Brand Support, it does not assist companies to access overseas markets. From our experience we believe Brand Support needs to incorporate such expenses as travelling, market research, media support, communication strategy and trade shows. Application of the generally available Export Market Development Grant principles

specifically under SIP, would be a significant boost in this area, especially in terms of funding for expenditure on market analysis, trade shows, communication, and exploratory market research.

Supply Chain Management is the company's competitive advantage, which stem from its ability to manage its supply chain and cost structure. Any additional assistance to foster greater co-operation between companies in TCF supply chain and improve the company's understanding of its supply chain partners will also greatly benefit the industry as a whole.

(c) Government Procurement

Another area we feel the Government needs to consciously address is in actively facilitating the use of Australian made products, where they are of a comparative standard and quality to that available from offshore sourcing. Government (both State and Federal) can assist in promoting local manufactures by incorporating Australian made fabrics and raw material in their tenders. That is, The Specialty Group does not believe the current specifications with regard to Australian made products is sufficiently strong to encourage fabric converters to use Australian made fabrics. For example the current ANZ supplies policy needs to specifically call for the use of Australian made intermediate products unless the tenderer can offer sound economic reasons why this is not possible.

CONCLUSION

The Specialty Group is a successful SME servicing the TCF fabric converter markets. Our recent success has been contributed to by the company's strategy to restructure to ensure its long term growth and profitability. Overall, the SIP Scheme has enabled The Specialty Group to develop high value added products to service more sustainable markets where price is not the only dictating factor.

With the reduction of tariff Post 2005, The Specialty Group believes there will be further consolidation within the TCF industry, as more companies will find it difficult to compete against cheaper imports. This situation would be detrimental to the TCF industry in the long term, as Australia will eventually lose its skill base in manufacturing.

The Specialty Group advocates there should be a halt on further tariff reduction Post 2005 until our trading partners trading policies are fully evaluated to ensure they have implemented (or are implementing) measures to open up their markets to the same extent as in Australia.

Overall, the SIP Scheme has worked well and should be continued in its current form but with some minor changes to address Market Access and Brand Support issues Post 2005. This assistance will ensure continuous restructuring in the TCF industry and maintain a vibrant TCF manufacturing sector.