



Productivity Commission Inquiry into Post-2005 Textile, Clothing and Footwear (TCF) Assistance Arrangements

**Austrade Submission
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The Australian Trade Commission (Austrade) is the Federal Government agency that helps Australian companies win overseas business for their products and services. Austrade is represented in over 100 locations around the world.

Executive Summary:

The Commonwealth Government is committed to doubling the number of Australian exporters by 2006 and Austrade is the lead agency in achieving this goal. Austrade considers that the TCF industry will make an important contribution to the goal of doubling the number of exporters by 2006 and supports policies that enhance the industries export capabilities and market access arrangements.

The TCF industry is looking to export opportunities as a response to increased import competition in Australia, globalisation and technological change. TCF exports have more than doubled over the last decade and the share of total TCF sales contributed by exports continues to rise.

The paper that follows sets out Austrade's assistance to TCF clients and insights gained from Austrade's work with TCF exporters. The paper includes three case studies of successful TCF exporters and extracts key characteristics of their export success and the barriers that they have experienced in accessing international markets.

BACKGROUND

The Australian Trade Commission (Austrade) is the federal government's principal trade and international business facilitation agency. Our mission is to contribute to community wealth by helping more Australians succeed in export and international business.

Operating as a statutory authority within the Foreign Affairs and Trade portfolio and working closely with other Federal, State and Territory government agencies, Austrade helps Australian business reduce the time, cost and risk involved in entering and expanding overseas markets.

Austrade provides a range of services and assistance to Australian businesses. This includes advice on exporting, information on overseas markets and opportunities and grants available for export marketing. Austrade also provides financial assistance to Australian exporters through the Export Market Development Grants scheme, which encourages companies to seek out and develop overseas markets.

The Commonwealth Government is committed to doubling the number of Australian exporters by 2006. Research undertaken by Austrade entitled *Knowing and Growing the Exporter Community*, indicates that the next generation of exporters will be micro or small companies, knowledge-based and geographically dispersed. Many of the same characteristics exhibited in the TCF industry.

AUSTRADE & THE TCF INDUSTRY

Austrade has a client base of 1,349 TCF companies (27% of total TCF establishments in Australia). TCF firms avail themselves of Austrade services in a variety of ways depending on their export readiness and needs. In the first eight months of this financial year Austrade provided in market assistance to 23 TCF companies resulting in \$17.5 million worth of exports. In market assistance is provided through Austrade's network of over 1,000 staff in more than 90 locations throughout the world. This type of support ranges from locating agents and distributors, business introductions and market information to identifying business opportunities and assisting in negotiations to win export business.

Export Market Development Grants

The Export Market Development Grants (EMDG) scheme provides \$150.4 million of grants to around 3,000 small and medium sized Australian companies each year to help offset overseas marketing costs. Firms can apply for a grant if a minimum of \$15,000 is spent on marketing overseas. First-time applicants to the scheme can accumulate this expenditure over two years.

Claimable items include:

- communications;
- overseas representation and consultants expenses;
- marketing visits;
- overseas buyers;
- free sample expenses;
- trade fairs, seminars and in-store promotions; and
- promotional literature and advertising.

The scheme strongly supports small companies, with more than 65 per cent of grants going to companies with 25 or fewer employees. In the five years to 2000-01 Austrade has provided 654 grants totaling \$28.6 million to eligible TCF firms. The number of TCF firms assisted remains relatively constant at approximately 130 firms per annum.

New Exporter Development Program

From 1 July 2002, Austrade implemented a New Exporter Development Program (NEDP). The NEDP is a package of services to assist companies make their first export sale. Elements of the New Exporter Development Program (NEDP) include:

- Export capability assessment and preparation
- Export planning - including market selection
- Export plan implementation - involving a market visit
- Ongoing one-on-one export coaching

This program is ideally suited to first time exporters in the TCF industry and in the eight months since its inception 64 TCF companies have already signed up for services under this program.

THE TCF INDUSTRY

The TCF industry is one of Australia's major manufacturing sectors, accounting for more than four percent of total manufacturing value added and provides direct employment to over 87,000 Australians. Turnover in 1999-2000 was in excess of \$9 billion of which 28 percent (\$2.5 billion) were exports. Export growth of intermediate and finished TCF products has more than doubled in the nine years to 1996-97 (from \$294 million in 1987-88 to \$995 million in 1996-97) ¹.

The TCF industry is a major employer of Australians in city and regional locations, and a significant exporter. The industry incorporate every stage of the value chain

¹ TCF industry information sourced from Productivity Commission 'Snapshot of Australian TCF Sector & Market' and the Australian Bureau of Statistics.

from raw materials processing, intermediate and finished goods to retail. They include large and small business and the full range of production strategies from raw material and technology intensive production to more labour intensive production, branding and supply to differentiated markets and end users.

The range of products developed in Australia for local and international markets includes processed wool, cotton and hides; fine yarns; woven and knitted fabrics; woven and non woven industrial textiles; bed and bath products; carpets; domestic furniture and automotive leather; high fashion designer clothing and shoes.

Trends

The Australian TCF manufacturing levels and domestic sale shares are decreasing due to rising imports from lower cost producing countries while Australian TCF industry exports are increasing. This trend is highlighted in the Commission's 'Snapshot of the Australian TCF Sector and Market' as follows:

- import shares of the domestic TCF market increased over the decade to 2000-01: in clothing from 19 per cent to 45 per cent, in footwear from 36 per cent to 65 per cent, in intermediate textiles from 51 per cent to 62 per cent, in finished textiles from 18 per cent to 32 per cent and in leather from 36 per cent to 65 per cent; and
- TCF exports (excluding wool scouring, leather tanning and dressing) doubled in real terms over the decade to 2001-02 and the share of sales accounted for by exports has risen from 4 per cent to around 10 per cent over the same period.

TCF CASE STUDIES

In line with the government's goal of doubling the number of Australian exporters by 2006 and with a view to informing policy debate it is useful to examine the characteristics of some successful Australian TCF exporters. The following three case studies² provide some insights into why these firms have survived and prospered in the face of falling domestic tariffs and increased competition both at home and abroad.

² Views expressed in the case studies are those of the companies concerned and do not reflect government policy.

Done Art & Design

It's almost a given that when you think of Australian art and design overseas you think of Ken Done. Done Art & Design products range from clothing and accessories to homewares, posters, and even golf balls. Done's familiar, bright and colourful style can turn up all around the world. But what makes this company such an export success story?

Managing Director of Done Art & Design, Paul Lister, said "having a unique brand and keeping ahead of the market is the key to international competitiveness in the face of increased competition at home. No other brand applies this artwork to their product. We also have the edge with printing and fabrication technologies."

"We started by licensing our intellectual property in Japan, the USA and Canada. For example, in Japan Ken did advertising work for multinationals such as NTT, Suntory and Seiko. Over time we've pushed to export more products ourselves rather than licensing, particularly in the USA, so we can control the product and the positioning," Mr Lister said.

Done Art & Design have also been able to contend with a lot of the barriers to exporting. Mr Lister said that the Japanese distribution structure, where the product can often go through three sets of hands before it reaches the retail market, can drive the cost up.

"This means that a swimsuit that retails at \$80 in Australia can end up costing \$200 in Japan. We've gotten around this though by using an agent and taking out one tier of the marketing," Mr Lister said.

Tariffs can also add to the cost of exporting. High freight costs to the USA, plus a 25-26 per cent tariff on top, makes a product difficult to sell. Mr Lister said he takes the long-term view on tariffs, settling for much finer margins in the hope that the tariffs will soon disappear.

Done Art & Design certainly haven't had to go it alone in exporting though. When it started licensing overseas the company received an Export Market Development Grant. Mr Lister also said Austrade helped them to build the trademark overseas:

"It was useful to have people on the ground overseas, pushing the brand and helping to maintain the integrity of the product. In Japan recently, Austrade helped us to rebuild the brand when we decided not to license. We're also working with them to exploit the export path further," he said.

Zimmermann Wear Pty Ltd

Fashion and function are terms often bandied about in design circles as though they exist in some form of continuous opposition. Surry Hills, Sydney-based fashion company Zimmermann are proving that fashion and function can sit well together and their export successes show that others think so too.

Australian Fashion Week in 1996 proved to be a defining moment for Zimmermann. Director, Simone Zimmermann said that as an initial platform for a young company of only 5 years – it was warming to see such companies as Selfridges and Harvey Nichols taking an interest and continuing to invest in their products.

“This gave us great credibility when we were just starting to export. We’ve always seen our label as from Australia, but have not marketed it specifically as an Australian product. Your business should be about what you’re good at, not where you’re from,” Ms Zimmermann said.

Zimmermann produce a range of high fashion clothing and swimwear that is at the exclusive end of the market. Ms Zimmermann said this means they haven’t had to compete internationally on price point, but they do have to make sure that what they do is better than local suppliers.

Ms Zimmermann said that it’s important to treat your international business in the same way as your domestic.

“You want to be able to set yourself apart in terms of design, quality, delivery and the overall marketing mix. But this should follow the same rules domestically and internationally. If you follow, like we did, the trial and error approach to exporting, you shouldn’t expose yourself too greatly before you know what you are doing. The point of difference in your product should not be a weakness,” Ms Zimmermann said.

Austrade have helped Zimmermann internationally through the Export Market Development Grant scheme. Ms Zimmermann said that the structure of the grant, from a marketing point of view, is important and helpful.

“You have to travel to promote your business, sometimes two to three times a year, and this takes you away from your business. It’s great that the grant compensates you for the time and the expense,” she said.

These philosophies have allowed Zimmermann to grow, both domestically and internationally each season. At their first Australian Fashion Week Zimmermann chose to show their new swimwear range – which was a first for the company - as they thought it would make them stand apart from other collections. This belief in their product has helped the label to thrive.

Fertile Mind Pty Ltd

Belly Belt is a practical and innovative solution that turns your favourite jeans, skirts, trousers and shorts into maternity wear. A clothing accessory used during pregnancy that saves the cost and inconvenience of buying new clothes. Belly Belt is now available throughout Australia and around the world, and has become a real Aussie success story.

Belly Belt was invented by Christine Kininmonth, the result of her first pregnancy in 1996. A newsreader, she was keen to look her best by wearing her own suits for television. Some women try rubber bands and string to hold up their trousers but Christine wanted something more robust, stylish and easier to attach.

Christine made up her first Belly Belt and was given so much encouragement by family and friends, she worked on putting together a marketable version. To finance her vision she put her car up for sale.

The man who looked at it for his mum ended up buying into the business, and Peter Hooker and Christine jointly run the company Fertile Mind Pty Ltd to this day.

Mr Hooker said the main reasons for international success is a unique product, supported through a low cost structure and a well thought-out manufacturing agreement to bring it to market at a competitive price.

Access to overseas markets is also an issue. “Duty rates in other countries such as the US 8-9% and Europe 6.5% means that in order to remain competitive lower margins have to be accepted for these markets. It would be better if there were no duties, there or here”, Mr Hooker said.

Mr Hooker also commented on the pressures on export economics caused by the strength of the Australian dollar. “This has meant a substantial reduction in export margins that we have been unable to offset through cost-saving measures. Ultimately, if this continues without any offset from tariff reductions into key markets, it will force us to manufacture offshore to survive”. Mr. Hooker noted that the absence of duty when exporting Australian-made goods to New Zealand meant more funds could be used to promote volume growth.

Fertile Mind Pty Ltd, while only having three employees, is still able to effectively research global opportunities and distributors for the product with the assistance of Austrade’s global network.

CONCLUSIONS

Market Access Issues

The main barrier to overseas markets experienced by the case study TCF firms is the additional cost to get the product into international markets when compared to the domestic market, which has the effect of eroding export sale profit margins. These costs include, high tariffs, local distribution structures, freight and the rising Australian dollar. Strategies from the case studies to overcome some of these cost barriers include:

- Done Art & Design utilising different distribution channels and licensing;
- Zimmermann pursuing an exclusive market that does not compete on price point; and
- Fertile Mind exploring offshore production options.

Characteristics of successful TCF exporters

The three TCF case studies provide some empirical characteristics of successful TCF exporters. Characteristics common to all three firms includes having a unique product or brand that will appeal to both domestic and international markets. Done Art & Design leverage off their strong brand recognition which is uniquely Australian, Zimmermann swimwear range benefit from Australia's lifestyle / beach image to position their products internationally and Fertile Mind from their innovative solution to maternity wear problems.

All firms maintain international competitive advantages through a commitment to continual innovation in design and delivery of quality. Done Art & Design's products apply their innovative artwork, printing and fabrication technologies, Zimmermann's high fashion clothing and swimwear designs compete in an exclusive niche market and Fertile Mind continue to develop innovative products in the maternity and new baby wear market such as their recent innovation the 'Belly Bra'.

Finally a core characteristic of all companies is a strong belief in their product, perseverance and a willingness to seek assistance in winning exports. All three firms have used the services of Austrade in promotion and positioning of their brand and products in overseas markets. Done Art & Design were assisted in building their trademark overseas through an Export Market Development Grant; likewise access to the Export Market Development Grant assisted Zimmermann in raising their profile overseas and defrayed extensive travel costs and Fertile Mind's penetration into overseas markets was assisted through Austrade's overseas networks and market knowledge.