

7 April 2003

TCF Post-2005 Assistance Inquiry
Productivity Commission
PO Box 80
Belconnen ACT 2616

Dear Sirs,

PRODUCTIVITY COMMISSION INQUIRY INTO POST-2005 TCF ASSISTANCE

This submission is made by Longina Phillips Designs Pty Ltd, which is a highly innovative textile design studio implementing leading edge technology in Australian and international markets, from design to printing.

Our studio currently employs 10 full time designers and seven freelance designers, and we consider has significant further growth potential. We are active in the area of education, and offer work placements for university and high school students, and our studio is open to organized group visits from educational institutions, as well as industry visitors interested in adopting the technology we use.

The company is recognized as a leader in digital printing on textiles in Australia, and overseas. Our knowledge in that area is sought after by many Australian companies seeking advice as to how to go about implementation of digital printing processes - using textile materials - within their organizations.

In the last two years we have been invited to six international conferences on Digital printing on textiles to give presentations on our integrated process from design to print. The studio is recognised as a leading innovative studio and digital printer on textiles in Europe and United States, so much so there is pressure upon us to move our operations overseas.

In 2001/02, we invested over 10% of our revenue on new printing technology, experimentation and research.

A - Innovation and the TCF Strategic Investment Program (SIP)

Whilst Longina Phillips Designs Pty Ltd is currently registered under the SIP - despite all our achievement and recognition in the industry - we experienced substantial difficulty in our initial attempts to access to the Program because, as a design studio, we were viewed by Scheme administrators as not really being 'of the industry'.

Such difficulties indicated that as a program theoretically designed to help drive innovation to secure long-term Government objectives for company's to become sustainable against falling levels of assistance, there was a critical failure of cultural and technical appreciation of new approaches which might, in fact, make the critical difference in terms of achievement of the Government's objectives.

Nevertheless, we persisted with our belief that the nature of our operations offered the Australian textiles and clothing industries revolutionary technology and processes that can make a material difference to the competitive environment they current face, as well as the further rapid changes now gathering in the immediate future.

Even after the first year of SIP participation, we experienced further difficulty in achieving re-registration for the Program because Scheme administrators were not equipped with the necessary culture or tools to understand the process we were implementing. In essence, these involved the difficulty of printing digitally on textiles and the benefits that this process will bring to the industry in the future.

Digital printing offers Australia's clothing and related accessories industries an opportunity to move out of the strictures that have held it back from effectively competing against low-cost fabrics and garments from external sources. Because digital printing can yield small runs of design-intensive fabric that allow local garment makers to innovate product inside the production-cycle times of traditional manufacturers (including importers), an opportunity exists to substantially improve the delivery of product that is better matched to constantly changing customer preferences and needs.

We initially believed that such valuable outcomes might be rapidly taken up by SIP Scheme administrators as offering major potential for the industry if encouraged to be further developed in Australia, for the benefit of Australian textile and garment manufacturers. Unfortunately, this has not been the case - and instead of encouragement - we have encountered resistance to our innovation due to Scheme administrators not firstly understanding the metrics of the traditional fabric dying and printing process on textiles, and therefore, the follow-on ability to understand what a powerful competitiveness tool for the wider industries the digital textile printing process offers.

As you will be aware, the uptake and promotion of innovation depends critically on the ability of minds to take up new approaches, and this is often reflected in the state of entrepreneurial culture. In advancing our SIP application we have had to first explain the fundamentals of how our process differed from the graphics-based digital process for paper, despite the fact that printing on paper is certainly not the same as printing on fabrics.

REQUEST:

In looking at opportunities to improve future Scheme administration, we would make this important point. It is critical that the people involved in managing any future TCF programs where innovation is mandated by Government as being a prime objective and

outcome, that such persons be required to possess or master a thorough understanding of the workings of the textile industry, so that respective visions of the future can be fully shared to achieved opportunities for enhanced innovation.

B - The SIP Scheme & Small Companies

There is little debate within industry that the SIP is a valuable program for helping to refocus managerial culture on the long-term sustainability outcome. In general, the Scheme is just what the industry needs to help it innovate and to move forward. Its stumbling point was that in talking about the need for industry outcomes, the definition of 'industry' was effectively limited to large firms.

The Commission will be aware of recent manufacturing statistics (ABS series 8225.0) which attested to the contributions of both small, medium and large enterprises to the textiles, clothing, footwear and leather (TCF&L) industries. Whilst it is the norm for most to argue the general pattern in Australian manufacturing industries is for a relatively small number of manufacturing businesses to dominate the activity level of their industries, ABS 8225.0 (2 April 2003) shows such an assumption to be untrue for the TCF&L industries.

According to the statistics, the industry shares are much more evenly spread than first assumed with small enterprises (employing less than 20 people) contributing 34.2% of total employment and 24.8% of industry value added (IVA), whilst medium enterprises contributed 29.1% of employment and 30.1% of IVA. Large companies (those employing more than 100 persons) were said to contribute 36.7% of total employment and 45.1% of IVA. Looking at this another way, TCF&L enterprises in Australia employing less than 100 persons contribute 63.3% of total employment and 54.9% of industry value added.

Yet, benefits under the SIP appear to be predominantly paid to large firms undertaking technology refresh - but not necessarily innovative - investments, whereas access to SIP benefits for small firms are burdened by a high entry threshold which substantially defers the time when benefits become paid, thus making more difficult the ability of small firms to sustain innovative activity relative to large firms.

REQUESTS:

In looking at opportunities to improve future Scheme administration, the Commission should recommend to the Government that all restrictions on small enterprise participation in the SIP be abolished, whilst the burden of compliance - relative to larger firms - needs to be substantially reduced.

Further, Scheme administrators should be directed to be more positive and pro-active in terms of their relationships with small firms, recognising the role small firms can play in driving industry innovation as a result of their small size and open culture, which allows for quick changes in structures and processes to achieve sustainable competitive

positions. As such, the SIP Scheme and any future replacement scheme needs to be designed to encourage the participation of small companies, rather than to discourage it.

C - Innovation, Small Organizations and Collaboration

It is our observation that innovation requires a culture where experimentation and exploration is encouraged, thus requiring constant changes to the working process, changes to management and investment, culture and attitude. In supporting such a culture, risk also has to be managed effectively, and all learning experience captured.

To sustain such an environment, it is further important to break away from the conventional wisdom of doing things. Individuals need to be encouraged to experiment, and fail, on the path to greater wisdom and the opportunity for innovation that this brings. The role of small enterprises in delivering such outcomes is, we believe, substantially undervalued in the current SIP, both due to the legislative structure of the Scheme and the culture of Scheme administrators.

In contrast to the flexibility of small enterprises, it is difficult for larger companies to react with similar speed and flexibility or to do things in a new way, as there are numerous control systems in place and different departments to consider. Innovation involves considerable collaboration in the workplace, and this is much easier to achieve in a small single layer organization. Being small also has its disadvantages, as in being too different from the norm, we have trouble fitting into the outline of Government schemes such as the SIP. So if, as we have regularly experienced, Scheme administrators are reluctant to assist the entry and successful participation of small enterprises into such Schemes, then small enterprises need Government to step in and provide some help.

REQUEST:

In looking at opportunities to improve future Scheme administration, the Commission should recommend to the Government that legislative mechanisms be created and separately funded to encourage the formation of strategic alliances - both between similarly sized firms, as well as between small and large firms. By exchanging information and linking products and services, the innovation of small firms can truly be brought to the benefit of the TCF&L industries as a whole. Through product design/manufacture and related process innovations, substantial cost reductions are able to be achieved, new customer needs met, and substantive value added.

D - Strategy, Education, Management, Training and Best Practice

One of the biggest challenges in managing and advancing a small TCF&L business is in keeping up with not only the continually changing micro-needs of customers, but also maintaining sufficient global knowledge of macro-industry changes that ultimately reflect themselves in the daily expressions by customers of their needs. Whilst many small

enterprises struggle successfully to meet such challenges on a daily basis, many have little understanding of the 'global' drivers, and life may become much easier if there was some form or source whereby such information could be readily garnered.

The Government has foreshadowed in this current inquiry that it will be looking post-2005 to effecting further reductions in tariff protection, and the overall quantum of government assistance provided to the TCF&L industries. Given the record of substantive structural adjustment amongst larger companies over the past five years, we submit that in effecting such measures over the next five years, it will be small and medium sized industries that face the largest structural adjustment pressures.

We would also submit, however, it is the small and medium sized enterprises which are least equipped with material and information on globalisation pressures within the TCF&L sectors. If the coming period of further industry adjustment is to have any focus - in terms of minimising the quantum of corporate failures and employment reductions - a pro-active program is required that can provide valuable and relevant assistance to small business owners to help guide them in making valid decisions about future initiatives for their companies, whether this be organic growth, merger/consolidation, strategic alliance or collaboration, or sale/exit from the industry.

REQUEST:

In looking at opportunities to improve future Scheme administration, the Commission should recommend to the Government that funding be provided for the period 2004 to 2009 to sponsor access by small TCF&L enterprise owner/managers to value-added sources of industry specific advice, particularly in terms of strategy and planning, best practice management approaches, benchmarking and global business environment educational programs.

E - Summary and Conclusions

Longina Phillips Designs is a living example of how innovative small enterprises can bring forth innovation and new approaches to help Australian textiles and garment manufacturers with real solutions to the challenges of the post-2005 TCF&L industries assistance environment.

To date, we have been dismayed in regard to the barriers and other difficulties put in place under the SIP Scheme to limit or prevent the infusion of valuable small enterprise innovation into an overall TCF&L industry competitiveness solution. Our company is not a lone voice in this regard - there are many small innovative enterprises who are able to recount similar experiences and difficulties in access SIP Scheme benefits.

Rather than recriminations, however, and at this important point in the Productivity Commission's review of the SIP to date, and possible opportunities for extension of the Scheme, there is a pressing need for whatever longer-term industry assistance

arrangements that are implemented by Government to fully embrace small enterprise participation and the diffusion of their innovation to the benefit of the industry as a whole. We accordingly look forward to an innovative draft report from the Commission.

Yours sincerely,

Lola Phillips
Managing Director