

**Review of TCF Assistance
Position Paper dated April 2003**

Supplementary Submission by Harold Boot Company Pty Ltd

Introduction

1. At the hearings in Melbourne on 4 June, the Commissioners asked how a scheme of assistance might be framed to meet the needs of companies like Harold Boot. This supplementary submission addresses that question.

Meeting the Objective

2. A major objective of the Inquiry is to consider means of assisting firms likely to be viable in the medium to long run to become so without continuing government support.
3. In our submission of 30 May 2003, we agreed with comments in the Position Paper about the existing SIP scheme and supported Option A. Addressing the deficiencies would go a long way towards adapting the scheme to meet its aims particularly with respect to innovative small firms.
4. We also suggested that a more flexible assistance package may be needed. A revamped SIP assistance package could sit side by side with a supplementary scheme based on Option C.
5. An Option C scheme might work best if it were a limited option designed to kick along eligible firms in particular circumstances. An expectation that every firm in whatever circumstances should “have a go” would probably sink the scheme. The revamped SIP package would remain the principal form of assistance.
6. A scheme based on Option C might best proceed by way of a limited number of pilot projects. The aim would be to target a selected number of small firms judged capable of and likely to grow and remain as efficient manufacturers in Australia in the long term. Based on the results the scheme could be refined and extended to other firms in similar circumstances.

Purpose of the Proposed Scheme

7. The scheme we have in mind would have the specific aim of assisting small firms in developing product lines aimed at export and/or import replacement.
8. The scheme would be project based, ie geared to the development of specific new products aimed at specific markets.

Eligibility

9. General eligibility would be based on factors such as:
 - a track record in exporting and/or import replacement; for example, an export level of at least 10% of production over the previous two years;

- annual turnover in the previous year of between \$1m and \$5m;
- a track record of growth in turnover, product range and export sales over the previous two years;
- a track record in the development of new product lines, taking into account the range and variety of existing product lines;
- an existing network of distribution channels in overseas and/or domestic markets depending on the project;
- positive profitability in each of the last two years;

10. Specific eligibility would be based on the “project”:

- a specific new product line with a written production plan, consistent with existing norms in the industry area;
- a defined marketing strategy, consistent with existing norms, including target sales in each identified market;

11. Pre-determined selection criteria such as the above would require discretion to be exercised by the selection panel. A way to deal with this could be to set a limit to the number of cases and/or to the total sum available to be applied. The selection panel would then judge the applications and select the best within the limits set. The selected projects could be regarded as pilot projects intended to test the feasibility of such a scheme. The message would be that the scheme at this stage was not intended as a major avenue of assistance.

Selection Process

12. Selection would be a two stage process. In the first stage applications would address the general eligibility criteria such as those listed above and name the project for which assistance was being sought. The criteria are mostly objective. Neither the applications nor the assessment by the selection panel should require excessive effort.
13. Successful applicants in the first stage would be invited to submit a production plan and marketing strategy for the nominated project and an estimate of the funds being sought. The selection panel could interview applicants and, where practicable, visit the production site.
14. The estimate of export sales or of domestic sales against imported product would be a major consideration in the second stage.
15. Applicants would be encouraged to limit applications to one three typed page in the first stage; and to three in the second stage, including both the production plan and marketing strategy (in summary form if necessary).

Application of Assistance

16. Assistance would be applied to the production process including in particular tooling, machine modification and/or purchase, training and the development of prototypes, as spelled out in the production plan for the specific project. Where applicable project marketing costs would be included.

17. Consistence with simplicity and the size of firms being targeted, consultants' costs if any would be specifically excluded.
18. For the same reason, actual assistance would be for the project, not allocated against specific expenditure categories.
19. Where the production process could be broken into stand alone stages, assistance would be provided by stages. For example, production and market testing of a product line might be supported initially and if successful be followed up with support for the main production stage.
20. Assistance would be provided in advance on a 50/50 basis for each project or each stage. In other words assistance would be sought for half the estimated cost of the stage or project. As an incentive consideration could be given to reimbursing the second half on the achievement of sales targets specified in the marketing plan.
21. Overall assistance to a firm under this scheme would be limited to a percentage, eg 15%, of the applicant firm's turnover in the previous year.

Compliance

22. Compliance would be in two parts: evidence that the funds, including the firm's half, had been allocated to the project and secondly evidence of sales of product.
23. Each assistance project might be seen almost as a partnership between the applicant and the authority. This would assist to limit the paperwork burden on the small firms at which the scheme would be aimed.

Footwear Industry

24. We suggest that the initial application of this scheme be limited initially to the footwear industry for the following reasons.
25. As a pilot scheme, it may require a higher level of supervision by the administering authority than usual. So limiting the pilot to one of the smallest sectors in the TCF group would be sensible.
26. The footwear industry has demonstrated an ability for productivity improvement as shown on page 13 of the Position Paper and so may be worthy of some special treatment.

19 June 2003