



# The Kapiti- Horowhenua TCFC Cluster: Major Regional Initiative Feasibility Study

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## **EXECUTIVE SUMMARY**

This report examines the feasibility of supporting the Textile, Clothing, Footwear and Carpet ("TCFC") industries in the Kapiti-Horowhenua region through the Major Regional Initiative ("MRI") programme.

A comprehensive review of the relevant literature, industry trends and policy reveals an industry in a state of flux in the face of substantial and ongoing structural change. A protected industry in New Zealand until the 1980s, the TCFC industries have been through significant structural change over the last 18 years, primarily as a result of the ongoing removal of tariffs on imported goods. Further change is forecast for the industry on a global scale with the expiry of the Multi-Fibre Agreement and China's accession to the World Trade Organisation and locally with the proposed China-New Zealand free trade agreement.

The report identifies the Horowhenua as one of the regions most dependent on the TCFC sectors and, consequently, as one of the regions most affected by the decline in domestic TCFC manufacturing. Moreover, it is one of only two regions in New Zealand where the decline in employment due to restructuring has not been offset by increased employment in other sectors. Nevertheless, the TCFC sector remains a major employer in the Kapiti-Horowhenua district catering for approximately 29% of manufacturing jobs with a resilient and responsive "cluster" of companies able to respond to a more open and competitive environment.

Crucially, a number of reports commissioned by Industry New Zealand/New Zealand Trade and Enterprise ("NZTE") refute the view that the TCFC sector is a sunset industry. While not disputing that the industry faces some real problems, these reports document a customer-driven export strategy that could lift total New Zealand TCFC exports from their current level of less than \$500 million per year to \$1 billion per year by 2008. These reports also propose that such a strategy can still take place within an environment of gradual tariff reduction, but only with government intervention and support thus enabling an industry transformation strategy to work.

The Government has now invested in this strategy with an industry transformation package of \$2.3 million over three years. The bulk of the funds are being channelled through the new industry development organisation, Textiles NZ. Further grants are available to regions under the Government's MRI programme.

This study is motivated by a number of the reports, including the tariff review and budget announcements, which indicate that the Government would give favourable consideration to the Kapiti-Horowhenua region being considered for an MRI based on the TCFC industries.

The TCFC industries in the Kapiti-Horowhenua region have already formed a cluster, representing almost all aspects of TCFC production, allowing them to exploit opportunities arising from higher levels of co-ordination and co-operation. The development of such clustering initiatives is also an international phenomenon. Some of the original clusters and associated service centres are found in Italy. There is much literature on these initiatives which provides useful insights including the case study of the CITER knitwear and textile service centre operating in the Capri locality in Italy.

MRIs can take a number of forms. The two studied in this report, the Nelson Seafood Cluster and Taranaki Centre for Applied Engineering, give good examples of what could be established in Kapiti-Horowhenua. The key common elements of these MRIs are that they:

- Are driven by the local firms;
- Are “knowledge” and skill-based and have universities and polytechnics as key stakeholders;
- Involve Maori and trade unions as stakeholders at the highest level;
- Are strongly supported by the regional economic development agencies and district councils;
- Are strongly supported by other regional businesses / trusts / utilities; and
- Are outward looking (export focused).

This study adopted a multifaceted approach in determining the viability of an MRI centred on the Kapiti-Horowhenua TCFC industries. Focus groups were held with cluster members backed up by a postal survey, while key stakeholders and an industry reference group were surveyed through personal interviews. This approach enabled each of the common elements listed above to be identified and / or addressed.

Through the focus groups the research team was able to identify a number of core competencies and advantages possessed by the cluster group. These fell into **five** categories:

- Regional/locational
- Diversity (in the supply chain)
- Capacity/capability
- Skills/resources
- Social capital

These factors highlight the achievements of the cluster to date and were reflected in the positive economic outlook in terms of employment and growth reported in the accompanying postal survey.

The research design also allowed the researchers to identify various constraints facing the Kapiti-Horowhenua TCFC cluster and to explore how these might be overcome through co-operation and/or through the possible implementation of an MRI. A high level of 'buy-in' from cluster members was clearly evident together with a strong desire to build on the cluster's strengths and achievements to date. Propositions with a predominately inward focus included infrastructure development, research and development, and business assistance. Those with a more outward focus included marketing and branding of the cluster on both a national and international level and export assistance. Analysis of the postal survey identified that the economic prospects for the Kapiti-Horowhenua TCFC cluster would be considerably enhanced in the presence of an MRI.

The interviews with key stakeholders, including territorial local authorities, regional economic development agencies, iwi, national industry organisations and unions, and tertiary education and training organisations allowed the research team to ascertain how the TCFC industry is regarded from a wider viewpoint, both at the Kapiti-Horowhenua level and at a national level. The perception of the industry as it stands currently is that of an industry facing further challenges in terms of changing technology and changing patterns of production. Such factors are placing considerable demands on the industry to upskill its labour force, upgrade its technology and continue to be innovative.

Considerable emphasis was placed on advances made in design, including emerging creative Maori designers, and the opportunities this may create for the TCFC industries. Linkages with design developments at Massey, UCOL and the Wananga were also identified including the possibility of cross-fertilisation through the provision of internships. The potential of an MRI to support such opportunities was endorsed along with support for building on the cluster's core strengths as identified in the focus groups.



The interviews with the industry reference group gave the research team the opportunity to further canvass perceptions of the TCFC industry from outside of the cluster, including firms in complementary industries and/or markets. The findings endorsed those outlined in the stakeholders' interviews in addition to identifying further linkages that might be developed through the provision of a clear focus for the cluster and clearly communicating that focus along with the skills and benefits of the cluster to their respective organisations. These respondents emphasised the importance of branding the cluster in order to communicate the core competencies and increased business opportunities.

Therefore the recommendations of this report are that:

1. The case for an MRI supporting the TCFC industry cluster in the Kapiti-Horowhenua region should proceed to the business case stage;
2. That any MRI initiative would seek to take advantage of the high social capital and innovative nature of the Kapiti-Horowhenua TCFC cluster;
3. That any MRI initiative would support the TCFC cluster to realise its export potential;
4. That the cluster market itself as the TCFC Business Centre focusing on:
  - Coordination and collaboration (enhancing the cluster);
  - Marketing and communications (inward and outward focus);
  - Providing business development services (to support cluster members);
  - Workforce development (upskill and assess future industry requirements);
  - Research and development (to provide an environment for innovation); and
  - Export and market development (to provide market opportunities for the cluster).

The TCFC Business Centre's point of difference will be its willingness and desire to be involved in the complete product development process, from concept to market. This will also seek to reinforce significant supply chain advantages the cluster already has and to ensure that key firms within the cluster continue to benefit from these. We believe that becoming an integral part of the development process, building on the tacit knowledge already inherent in the cluster, and providing an environment for future innovative

developments will provide the platform from which the cluster can seek to penetrate global value chains in an increasingly open global market environment.

## **BACKGROUND**

### **1. Context**

#### **1.1 The region and the industry**

The feasibility study for a Major Regional Initiative ("MRI") based on the Textile, Clothing, Footwear and Carpet ("TCFC") industries of the Kapiti-Horowhenua region takes place in the context of a unique set of circumstances.

At a regional level, a new Kapiti-Horowhenua Enterprise Board, Enterprise Coast, has been established to co-ordinate the economic development activities of the region covered by the Horowhenua and Kapiti Coast District Councils. One of the activities it inherited was a very active textile and apparel cluster group.

At an industry level, the New Zealand TCFC industry has been the subject of a series of major studies to determine whether it should be considered a sunset industry or whether it has the potential to transform, innovate and grow. The studies concluded that the industry did have the potential to achieve the latter through an industry transformation strategy. This culminated in the establishment of Textiles New Zealand ("Textiles NZ") as an Industry Development Organisation. Its goal is to help transform the industry from being a local supplier to one that focuses on customer-driven export growth, research and development, and business improvement. Textiles NZ has received significant government funding for the next three years to lead this process of transformation at a national level.

Globally the TCFC industry is going through a huge shake-up with the end to the Multi-Fibre Agreement (the agreement that regulates exports of TCFC product from developing countries to the major markets of the US and EU) and China's accession to the World Trade Organization. In addition New Zealand has just reintroduced its tariff reduction programme for TCFC which will see most tariffs reduced from the current average of 17% down to 10% by the year 2009. New Zealand has also started negotiations with China for a free trade agreement.

The Horowhenua-Northern Kapiti Coast has one of the highest concentrations of TCFC industry in the country and is only one of two regions where the decline in employment in this sector has not been matched or superseded by a growth in employment in other sectors.

The textile and apparel cluster in the Kapiti-Horowhenua represents almost all sectors of the TCFC industry, including the manufacture of carpet, textiles, footwear, apparel (including outdoor wear, knitwear, ties and socks), canvas and bag, embroidery and associated needle trades. It hosts the last operational flax stripper in New Zealand and is home to a growing group of Maori and Pasifika clothing designers. It has one internationally recognised carpet brand (Feltex), a major New Zealand outdoor clothing brand (Swazi), a long-established knitwear brand (Silverdale) and a number of lesser known brands. (For a complete list of the cluster members see Appendix 1).

## **1.2 Regional Partnership Programme**

The Kapiti Coast and Horowhenua Districts jointly commissioned an economic development strategy for their region in 2001 under the then Industry New Zealand's Regional Partnership Programme. The draft strategy contained a vision and identified seven areas of strategic focus, 21 specific strategies and 102 opportunities and initiatives to support the specific strategy.

Although many of these initiatives have been worked on over the last three years, the economic strategy did not clearly identify an industry with a potential export and employment generation focus that could become the candidate for an MRI. The MRI is the second phase of the Regional Partnership Programme between Government (through NZTE) and self-identified regions of New Zealand. It provides up to \$2 million for successful applications and requires regional / industry contributions of one quarter of the amount sought from central government.

Discussions between NZTE, Enterprise Coast, territorial local authorities, the textile and apparel cluster group and TCFC unions identified the TCFC sector as a potential candidate for a Kapiti-Horowhenua MRI.

Through Enterprise Coast, NZTE commissioned the Institute of Public Policy at the Auckland University of Technology to undertake a feasibility study into a TCFC-based MRI for the Kapiti-Horowhenua region.

This report contains the results of the feasibility study for consideration by Enterprise Coast and NZTE.

## **2. Literature review, industry trends and policy development**

### **2.1 Introduction**

The **two** questions outlined in the research proposal for the MRI feasibility study for Kapiti-Horowhenua are:

- Is there a viable case for an MRI centred on the Kapiti-Horowhenua TCFC industries?
- What form could such an initiative take?

This report reviews the domestic and international literature that will assist in developing the context of the study and answering the questions above. The feasibility study is not taking place in isolation from other local, national and international events and trends. At a local level:

- The Kapiti-Horowhenua TCFC cluster group is in its sixth year of operation and its co-ordination is supported by Enterprise Coast (the regional economic development agency for the Kapiti-Horowhenua);
- A Kapiti Coast and Horowhenua District Economic Development Strategy was developed in 2003;
- The potential for a central government part-funded MRI in TCFC is being investigated; and
- After a sharp decline during the 1990s, employment numbers in the Kapiti-Horowhenua TCFC industries have remained static for the last few years. There have been some major closures (e.g. L.R. Wisharts Ltd) but also some major employment growth (e.g. Swazi Apparel Ltd).

At a national level:

- A government / industry / union TCFC strategy that began with a report into the future of the industry in 2001 has now been institutionalised with the formation of Textiles NZ;
- During the same period the Government has undertaken a post-2005 tariff review that culminated in the decision to reduce clothing and footwear tariffs from their current 17% average to 10% by 2009;

- Textiles NZ has received a significant grant (\$2.3 million over three years) from central government to lead an industry transformation process involving moving from a domestic to an export focus over the next three years; and
- The Government is currently negotiating a framework agreement with the People's Republic of China for a future free trade agreement.

At an international level:

- China has joined the WTO;
- The Multi-Fibre Agreement ends at the end of 2004;
- Australia has also undertaken a post-2005 tariff review that has locked in a TCFC tariff reduction process to 5% by 2015 with a major subsidy and support programme for the sector; and
- Internationally, successful high-value TCFC clusters exist that are able to prosper against the background of cheaper product from China and other third world countries.

These trends provide the context in which the MRI feasibility study for the Kapiti-Horowhenua will take place. The following is a review of the literature describing the trends that will inform the study.

## **2.2 National TCFC studies**

The most regular studies into the New Zealand TCFC industry have taken place every five years at the time of each tariff review. This series of studies began in 1987 when the Government moved from an import licensing regime to a tariff reduction regime for the import of manufactured goods into New Zealand. On each occasion the Ministry of Commerce would produce a discussion document which was then commented on by industry and union organisations in a submission process, and then a final decision was made on the tariff levels for the next five years (Ministry of Commerce, 1991), (Ministry of Commerce, 1994), (NZIER, 1998) and (Office of the Ministry of Commerce 1998).

During this period, tariff levels fell from a peak of 65% for clothing in 1987 to the current level of 17% to 19.5%. On many occasions transition or adjustment programmes were promised as a result of the reviews, but none were forthcoming. Only on one occasion did a tariff level rise, namely that for footwear in 1991 as the result of a severe contraction in that industry (Burleigh Evatt 2001b, p. 5).

### 2.3 TCFC industry strategy

It was not until 2000 that the Labour / Alliance Government at the request of TCFC industry and union representatives agreed to undertake a study of the TCFC industry separately from the five-yearly tariff review studies. A number of reports were written in this process by consultants engaged for this purpose. The first two reports written for Industry New Zealand by Burleigh Evatt and NZIER were:

- *Textile & Clothing Industry, Stage 1: Scoping and preliminary development work, Preliminary Report Part A: Breaking with past patterns of uncompetitive behaviour* (Burleigh Evatt 2001a)
- *Textile & Clothing Industry, Stage 1: Scoping and preliminary development work, Preliminary Report Part B Textile Industry overview and profile* (Burleigh Evatt 2001b)

These were followed up by a further report by the same author and the Industry and Government TCFC Partnership report:

- *Textile, Clothing, Footwear and Carpet Industry. Training and Up-Skilling: A situation Analysis* (Burleigh Evatt, 2002).
- *The Way Ahead: A draft strategy for the textile, clothing, footwear and carpet industries* (TCFC Partnership, 2002)

These four reports deal with the question on a national basis of whether the New Zealand TCFC industry has a future (is it “sunset” or “sunrise”?) and, if it does have a future, what is the strategy to ensure the industry transforms and grows over the next decade.

These issues are of particular relevance to questions that this feasibility study seeks to answer. If this literature review concluded that there was no future for the TCFC industry in New Zealand, then the task of proving there is a future for the industry in the Kapiti-Horowhenua would be very difficult. If, on the other hand, it was concluded that there is a national future (and a strategy to reach that future) for the industry, it provides a basis to investigate what would be required for the TCFC industry in the Kapiti-Horowhenua to be part of that future.

The first Burleigh Evatt / NZIER (2001a) report into the industry pulls no punches. It states, “New Zealand's textile manufacturing industry is a mess.” It notes that:

"...like many parts of New Zealand's formerly protected manufacturing industries, the textiles (especially clothing) manufacturing sector suffers from falling domestic demand, volatile input prices, intensifying competition, an aging workforce (including management), difficulty attracting appropriately trained and motivated staff and management, the loss / contraction of key supporting industries and low profitability" (p. 20).

And further:

"...the industry exhibits symptoms of low self esteem about its viability in New Zealand and its export competitiveness beyond Australia." (p. 20).

However the report also describes the industry as "a paradox" (p. ii). It notes some "bright spots" as being:

"...glamour, mid and high end women's fashion, industrial work wear, uniforms and safety equipment and specialised safety fabrics, outdoor, sports, leisure wear utilizing New Zealand raw materials, designs and building on unique New Zealand brand values, quality, quick delivery and consistent reliable service." (p. 20).

The report notes that:

"...at a firm level the requirement for success in the industry seems to be middle and senior managers who can be two things at once: disciplined cost managers who can run a tight and customer-focussed supply chain along modern best practice lines; and *creatives* who can consistently get designs and fabrics right and market them effectively." (p. 21).

However:

"...such a variety of talents are rarely found in a single person and are usually assembled in close working teams. Few New Zealand textile firms are substantial enough to have management teams that embody all the right elements required for success. Many managers are so busy working for their business that they never find time to work on their business." (p. 21).

The Burleigh Evatt / NZIER report calls for a customer-focused development model as a strategy for the New Zealand TCFC industry and puts forward a framework for such a model (pp. 22-28) and how such a model could be applied (pp. 29-32).



It recommends the establishment of a “guiding coalition” between government and industry leaders and a small dedicated project team to drive the industry development effort in consultation with the industry for the:

“...creation of a strong and clear vision for the industry for 5 years ahead that all participants can readily understand and support. The development of strategies to fulfil the vision, including creating an industry association that provides management education, fosters research and development, informs small enterprises, and supports market research and development studies of foreign markets, distribution channels, and customers. A comprehensive implementation plan” (p. vi).

This recommendation was agreed to by Government, industry and unions; the convenorship group formed to undertake this work produced *The Way Ahead* strategy document in September 2002 (see below).

Part B of the Burleigh Evatt / NZIER scoping and preliminary development work was the textile industry overview and profile (Burleigh Evatt 2001b). This report drew on the various detailed investigations conducted over the previous 20 years relating to the tariff reviews, concentrating on official studies from the last ten years, namely three Ministry of Commerce reports for each tariff review:

- *Officials report on the post-1992 tariff review* (Ministry of Commerce 1991)
- *Review of post-1996 tariff policy* (Ministry of Commerce 1994)
- *General tariff review: Implications for tariff policy post 2000* (Office of the Minister of Commerce 1998)
- The NZIER Report to Ministry of Commerce, *New Zealand tariff reductions - post 2000: costs and benefits of alternative paths*. (NZIER 1998)

and various submissions on TCF industries produced for these reviews.

The Burleigh Evatt / NZIER Textile industry overview and profile report sets out an international overview, tariff change review, consumer and retail perspective and a series of tables on economic trends in the TCFC industry.

The international context section was a summary of the Australian Productivity Commission's report into the TCF industry (Australian Productivity Commission 1997).

"The report notes that TCF industries in all developed countries have been facing adjustment pressures resulting from a changing internal and external environment." (Burleigh Evatt 2001b p. 3).

It notes that the share of TCF manufacture in almost all OECD countries is declining; it further states that:

"...developing countries (mainly in Asia) now supply more than half of the world's exports of clothing and a third of global textile exports, double their shares in the late 1960s." (p. 3).

The authors describe the migration of clothing and textile industries in Asia from Japan to the "newly industrialised countries" such as Korea, Hong Kong and Taiwan, then to the other low-wage countries in Asia including China, Bangladesh and Sri Lanka. Finally the report notes specialisation in both final products and intermediate products, for example stitching of leather uppers of footwear, in the lowest wage countries and final assembly in higher wage countries (p. 3).

The section on tariff changes notes the reduction in clothing tariff from 65% in 1987 to 19% in 1999, footwear from 43% to 19% (although including a temporary increase to 55% in 1991) and carpet from 40% to 17% over the same period (p.5).

The section on consumer and retail perspectives notes that vertically integrated chains such as Glassons, Staxs and Hallensteins dominate the New Zealand market. At the lower end Farmers and The Warehouse dominate. Postie Plus and Ezibuy are successful mail-order companies, while Pumpkin Patch dominates the children's market. Much of the clothing at the lower and middle end is sourced from Asia. There are fewer intermediaries and distributors than before with manufacturers dealing directly with retailers. Chain stores tend to undertake more direct importing as opposed to smaller retailers, which are in decline (p.7).

Figures on employment by textile and clothing category over the five years to 1999 show a decline in most categories, although the majority of losses were in clothing manufacture. Over this period the number of clothing manufacturing activity units declined from 1239 to 1160, while the number of textile manufacturing units increased from 661 to 757 (p. 9). However, figures on employment by region within the report are not detailed enough to show the situation in the Kapiti-Horowhenua.

International trade figures show imports trebling by volume from 1988 to 2000 and exports doubling in the same period but from a base of only one-third that of imports (p.17).

Finally, retail and consumption figures show little change in dollar terms over this same period (p.21).

## **2.4 The way ahead**

The next phase of the TCFC strategy in the first three-quarters of 2002 saw the production of three documents. The key document was entitled *The Way Ahead* (TCFC Partnership, 2002) which contained the draft strategy for the TCFC Partnership between industry and Government. The two other documents were that of the Government Procurement Working Group (2002) and *Training and Upskilling: A situation Analysis* (Burleigh Evatt, 2002).

The Government Procurement Working Group report notes that the size of the total government spend on TCFC products is "over \$100 million and possibly as much as \$200 million p.a." The report also notes that the Government Purchasing Policy (GPP) was revised in 2001 and is based on the following core principles:

"...obtaining 'best value for money' over the 'whole of life', open and effective competition, full and fair opportunity for domestic suppliers, improving business capabilities, i.e. e-commerce, strategic trade policy goals including recognition of bilateral trade obligations, e.g. CER and Singapore, and enhancing open and transparent government purchasing in the international market." (Government Procurement Working Group, 2002, p. 3).

The report states that the New Zealand TCFC industry endorses the core principles of GPP and that the industry is not looking for preferences or hidden subsidies that are prohibited by international trade obligations. However the TCFC industry believes there is a lack of consistency in the approaches of government agencies to GPP and no mechanisms to "move under-performers in the direction of best practice" (pp. 3-4).

The report notes four key areas that should be addressed by Government to obtain greater consistency on GPP over all agencies. They are:

"...the narrowness of scope of mandatory GPP compliance, i.e. only departments and not the wider sphere of government, the limited mechanism currently employed for enforcing compliance, i.e. notification and consultation with ISO, over-emphasis on up-front costs in awarding

tenders, high cost of complying with tender and contract requirements.”  
(p. 4).

The report undertook an analysis of the Yakka Apparel Solutions Ltd (YASL) model and then made two recommendations. The first was the formation of a joint industry officials group to gain a more accurate picture of the New Zealand Government’s dollar expenditure on TCFC product and to look at ways and means of addressing the application of GPP at an operational level to get a greater constancy of approach. Second was to note that the YASL / New Zealand Defence Force model “provides a working example of the benefits to purchasers and suppliers in industry of the benefit of strategic purchasing” (p. 14).

The Burleigh Evatt (2002) report *TCFC Industry Training and Upskilling: A Situational Analysis* was sponsored by the Department of Labour as part of its contribution to the TCFC Partnership. It was published together with a letter written by Helen Kennard for the Secretary of Labour to the chair of the working group highlighting the key aspects of the report.

This letter notes that the TCFC industry is:

“...very fragmented and covers a range of subsectors, each of which face a unique and complex set of issues with regard to both growth potential and training and up-skilling industries” (Kennard, H. 2002 p. 1).

The letter differentiates between the problems of “recruitment difficulties” and “skill gaps” that the industry is facing. “Recruitment difficulties occur when there may be an adequate supply of workers, but employers are still unable to attract and recruit sufficient suitable employees,” whereas “skill gaps occur where existing employees do not have the required qualifications, experience and/or specialist skills to meet the firm's skill needs for an occupation” (p. 2).

On this basis the letter states that the industry needs to especially concentrate on the issues of:

- Management skills;
- Current production techniques;
- Current payment / work incentive systems; and
- Industry perception / marketing.

With respect to the last issue, the letter notes:

“...much of the industry is unattractive to young workers as career prospects appear to be limited, the sector is perceived as being under threat, the work appears hard, repetitive and relatively dull, with design being the only area that is attractive to students for formal education and training. The sector is concentrated regionally and has an aging and vulnerable workforce, vulnerable in the sense that generally the workers have specific skills and few qualifications.” (p. 2).

The letter further notes:

- The need to connect training needs and training provision (including an enhanced role of the Apparel and Textile Industry Training Organisation (ATITO));
- The availability of increased government investment in industry training; and
- How to achieve the change that is needed.

On the last point the letter notes that the sector has tremendous potential and pockets of good skill development. It offers the support of the Department of Labour to achieve the training and upskilling changes identified in the report (p. 2).

*The Way Ahead* report builds on all the previous reports and provides a draft strategy for the TCFC industries in New Zealand. Its recommendations were subsequently endorsed by industry, unions and Government, including the establishment of Textiles NZ as the Industry Development Organisation vested with responsibility for implementing the strategy.

#### **2.4.1 Sunset or sunrise industry?**

The report uses Statistics NZ 2001 data to describe the TCF industry as comprising 1940 firms employing 17,610 people. Clothing manufacturing employs 7,920 FTEs in 962 firms; carpet and textile employ 7,400 FTEs in 702 firms; knitting employs 1460 FTEs in 85 firms; footwear employs 830 FTEs in 48 firms. The situationer notes that the industry is regionally important in Auckland, Waikato, Wellington-Horowhenua, Hawke’s Bay, Canterbury and Otago. In 2001, the combined exports from all TCFC industries were \$385 million (TCFC Partnership, 2002 p. 3).

The report notes that in spite of the contraction in the TCFC industry, its exports are growing at a rate of 8.34% p.a. which represents a major economic opportunity. It

notes that apart from carpet, the sector is dominated by a very large number of SMEs, many of which are or have the potential to become high growth companies (p. 3).

The report provides a “transformational strategy” called “Strength and Grow Together”. The strategic vision proffered was:

“Transform the TCFC industries so that they grow profitably and sustainably in the global market place and to ensure that the growth opportunities are available for small, medium and large TCFC companies.” (p. 4).

The report proposes six five-year goals to create a TCFC industry that is perceived as thriving and growing and that is an attractive investment and career option, through:

- Stabilised and increased employment in local manufacturing;
- Significantly increased joint and collective action to access new markets and new customers;
- Actively sharing best management, marketing and manufacturing practices;
- Stronger, more strategic relations between TCFC manufacturing / marketers and retailers and purchasers (government and private sector); and
- Significantly increased training and upskilling across the industries including SMEs (p. 4).

The report set three five-year targets, the key being that “the TCFC industries export \$1,000 million in 2008 and annual export growth is 12.63 percent per annum” (p. 4).

The report calls for the creation of an industry development organisation to implement the strategy and action agendas, and establish a voluntary code of practice. “The new organisation will also challenge 'sunset' myths and promote the future of the industry” (p.4).

The report then sets three action agendas for the new Industry Development Organisation, Textiles New Zealand, namely improving customer focus, improving business performance, and developing enabling strategies.

The report notes the Post-2005 Tariff Review that was taking place at the same time and recommends that “if tariffs are removed or addressed, Government and the industry

should work together to develop specific assistance for TCFC firms of all types and sizes” (p. 9).

Appendices to the report include a draft code of ethical behaviour, an analysis of TCFC firm size and employment, an analysis of TCFC export / import data and export growth history and projections.

## **2.5 Post-2005 tariff review**

### **2.5.1 Infometrics report**

Soon after the TCFC industry strategy programme was started the Government announced the review of the Post-2005 Tariff Review. As part of the review, the Ministry of Economic Development commissioned a study by Infometrics, BERL and Decision Research.

The research for the report consists of **four** main components:

- An historical assessment of the impact of tariff changes on manufacturing employment broken down into region, ethnicity, gender, household type and income;
- A postal survey of companies in industries with high tariff protection;
- A series of case studies of selected firms; and
- A general equilibrium model analysis.

The executive summary of the report notes that “past tariff reductions on clothing and footwear have led to noticeable changes in the relative share of these industries in total manufacturing” and “data suggests that a few communities might merit some assistance if tariffs are reduced quickly in future.” (Infometrics, 2002. p. 4). It also notes that “there are a few companies, mostly in the clothing and footwear industries, for whom tariffs provide a significant degree of protection to their margin” (p. 5) and “the industries which would incur the greatest losses in output under free trade are clothing and footwear, with the reductions in output being about 8% in each case” (p. 6).

The recommendations from the report begin with the statement that “while the macroeconomic gains from further reductions in tariffs are likely to be small, consideration such as market signalling and rent seeking behaviour lead us to the view that all tariffs should be eventually abolished. ... Those companies for whom tariffs are

important tend to be those with relatively poor productivity, with low foreign exchange earnings and with mediocre future viability.”

The report then admits that “this is a generalisation; many [companies] would be viable without tariffs protection if given time to adjust.”

A phased reduction programme for tariffs is then proposed with a series of 5% drops in tariffs every two years from 2005 to 2010 when all tariff levels would be zero (p. 6).

It should be noted that the final outcome of the Post-2005 Tariff Review was not as proposed by the Infometrics report (see below).

Data and/or commentary in the *Review of Import Tariffs beyond 2005* report that are useful for consideration in the proposed Kapiti-Horowhenua MRI study are:

“On a territorial basis, employment losses [in tariff protected industries] over the period 1986 -2001 were primarily in Territorial Local Authorities located in Auckland and the Lower North Island. In the former group the losses were outweighed by expansion by other industries (precisely what tariff reform should accomplish). The latter group seems to have suffered a permanent decline in employment, but again this is not necessarily primarily attributable to tariff reduction.” (p. 15).

And again:

“In the Auckland TLAs, however, there are offsetting increases in employment in non-manufacturing industries, whereas this does not occur in the lower North Island TLAs.” (p. 25).

In the Horowhenua total weekly hours worked in manufacturing dropped from 128,400 in 1986 to 74,300 in 2001 and in all industries from 488,700 in 1986 to 465,300 in 2001 (p.26); by contrast, in the Auckland cities, although total hours worked in manufacturing decreased, total hours worked in all industries increased over the same period.

“...future reductions in tariffs may generate some adjustment and dislocation costs, especially amongst women, Maori, Pacific Islanders and perhaps in certain regions...” (p. 15).

“...there may be industry-dependent communities which require some form of assistance to help them adjust to the closure or contraction of local employers who depend on tariff protection...” (p. 15).



The report notes that TCF companies have used several strategies to:

“...achieve the competitiveness required to survive and to establish successful export operations. The most common has been the outsourcing of activities. Probably the most obvious has been the resort to contracting-out manufacturing operations to cheaper countries.” (p. 70).

However it was also noted that the outsourcing of:

“...specific functions and components is also occurring between independent New Zealand firms. At the core of the new strategies is the need to be cost competitive, but another important aspect appears to be that by being able to contract out activities firms have been able to continually strengthen their focus on what they are best doing.” (p. 70).

And finally:

“...this business distillation process is leading to a new business model. It is essentially a virtual business (solution provider) that pulls together a host of different activities along the value chain to deliver a finished product to customers... By combining large run low cost manufacturing in Asia with small run fast turnaround local manufacturers this business model can provide a highly flexible, customised and low cost service to retail chains and brand owners.” (pp. 70-71).

The report then notes “the actual manufacturing process is a diminishing part of the industry's overall value added” and that:

“...the emphasis is on developing strong relationships with key customers and suppliers -

- providing solutions for retailers and brand owners
- create value packaging for retailers
- business to business sales
- target quality rather than quantity of customers” (p. 71).

The report also notes that there has been little TCF exporting beyond Australia. However Australia is becoming more competitive and the Australian retailing industry more concentrated, which means they are looking for fewer, but larger suppliers (p. 73).

In spite of the contraction in the industry the report notes that the lack of machinists and machine maintenance people was often identified as a constraint to growth and that a

loss of infrastructure has been a logical outcome of the steady reduction in domestic manufacturing (p. 74).

Finally, the report notes the results of the general equilibrium analysis of alternative tariff regimes that was undertaken as part of the study. The largest (negative) changes from a business-as-usual to a zero-tariff regime occur in the footwear and clothing industry. For the total TFC (and leather) industries around 1,300 (or 4%) fewer full-time jobs are predicted against an increase of around 9,000 jobs in the business-as-usual model although this is still an increase of 7,700 jobs overall (p. 91). It further notes that the "districts of Horowhenua, Carterton and South Wairarapa ...are where the biggest changes will occur." (p. 92).

### **2.5.2 Ministry of Economic Development tariff review**

The 84-page Government's Post-2005 Tariff Review Report was released in August 2003 (Ministry of Economic Development, 2003). It proposed two possible options for tariff policy beyond 2005. Option A was the Infometrics option of reducing all tariffs to zero by 2010. Option B was to remove all tariffs by 2013 (p. 13).

The final decision of Government was to reduce most TCFC tariffs to 10% by July 2009 and to hold a further review in 2006 to "determine the continuing tariff reduction path post 1 July 2009" (see Key Decisions on Post-2005 Tariff Policy, September 2003).

The report notes that the TCFC industries have been the industries most affected by tariff reduction and that employment in the clothing, knitting and footwear industries has more than halved since 1987 (Ministry of Economic Development, 2003, p.29)

Few New Zealand TCFC firms have been able to compete on price with low-cost Asian countries and have therefore:

"...concentrated on service by providing for small runs, fast turnaround, just-in-time delivery, as well as quality, design and fit of the product. These strategies have been built on the areas of natural protection available to New Zealand firms - distance from competitors, small scale of demand and cultural and market specific factors" (p. 29).

There has been a significant growth in TCFC exports but 34% of clothing and 18% of footwear exports have been re-exports (p. 29).

"There are still many firms that remain subsistence businesses with few prospects for future growth. It appears that many survive by paying low wages" (p. 29).

"The lack of qualified machinists and technicians was often identified as a constraint to growth. The decline in domestic firms producing textiles and accessories for apparel companies was also cited as a concern in relation to meeting CER ROO criteria..." (p. 30)

The report quotes the Infometrics General Equilibrium (GE) model as stating that even with a zero-tariff regime by the year 2010 there will be an increase of 8,000 to 9,000 jobs in the TCF (and leather) sector. The report makes mention of the distinctive issues for the Horowhenua in a number of places. The proportion of TCF compared to other manufacturing employment in the Horowhenua is the second highest in the country at 10.7%. This places the Horowhenua at high risk in attempting to absorb any TCF employment shed as a result of redundancies or closures (p.37). Also the Horowhenua is one of the few regions still suffering from a total decrease in weekly hours worked in 2001 compared to 1986 (p. 27). On top of this in March 2001 Horowhenua had one of the highest unemployment rates in the country at 9.3% (p. 55).

The report sums this up by stating:

"...of the four TLAs likely to be affected by employment impacts of tariff removal, Horowhenua District is the only TLA to have suffered an employment decline since 1986. With an unemployment rate of 9.3% further work to assess impacts on Horowhenua and possibly the two Wairarapa TLAs of Carterton and South Wairarapa may need to be considered." (p. 56).

A section of the report on industry and regional development (pp. 44-45) also notes the problems faced by Horowhenua and details a range of government programmes (including the Regional Partnership Programme of which the MRI is a part) "to assist regions identify and develop sustainable economic growth strategies and put those strategies into action." (p. 45).

Point 9 of the tariff policy review (September 2003) states:

"that the costs from further tariff reduction across the economy as a whole are likely to be small and essentially confined to the clothing and footwear industries. Some regions, notably in the lower North Island, will be more affected than others." (p. 2).

With respect to strategy, point 16 notes:

“...noted that the TCF Sector Strategy is aimed at repositioning the sector to continue its transformation to higher value-added products, and that officials will continue to work with the sector to ensure that existing industry and regional development initiatives assist the sector in making its transition to a lower tariff environment.” (p. 3).

## **2.6 Transformation package**

As a result of the tariff review, the TCFC industry review, *The Way Ahead* document and submissions from Textiles NZ, the Government announced a transition package for the New Zealand TCFC industries as part of the 2004 Budget on 24 May 2004.

Two press releases from Hon Jim Anderton (Minister of Economic Development) and one from Textiles NZ dated 24 May 2004 outline the contents of the TCFC transformation package.

The total package is for \$2.3 million over 3 years. \$2 million is allocated to Textiles NZ over three years for its industry transformation programme and \$0.3 is allocated to the Tertiary Education Commission over two years for a “circuit breaker” employment assistance initiative (Anderton, J. 2004a).

Textiles NZ stated that the three key areas it would be focusing on are “customer-driven export growth, research and development, and business improvement”:

“With this funding from Government, Textiles NZ will be able to initiate a wide range of programmes with and for industry, to help them prepare for and access those markets.” (Textiles NZ, 2004).

## **2.7 Major Regional Initiative**

Just as the industry transformation package for Textiles NZ is the Government's key industry development initiative to assist the TCFC sector, the MRI programme is the key regional development initiative of the Government. A proposal for an MRI in TCFC for the Horowhenua therefore clearly falls within this government policy.

Two papers have recently been produced by Ifor Ffowcs-Williams and Robert Reid, making the case for a TCFC-based MRI in the Kapiti-Horowhenua.

Ffowcs-Williams (2003) "reviews the background to an apparel and textile cluster initiative in Kapiti-Horowhenua ... and highlights an opportunity for a major regional initiative (MRI) that could be developed during 2004" (p.1).

He states that the cluster provides a key opportunity for Kapiti-Horowhenua in terms of creating high value jobs, noting that 29% of local manufacturing jobs are currently in this sector (p.1).

Ffowcs-Williams notes a determination in the cluster to rebuild as witnessed by its preferred future statement at a March 2003 cluster workshop being " By 2008 to be firmly acknowledged as New Zealand's apparel center with exports more than double current levels" (p.2).

He notes the cluster consists of around 20 firms within a 20-minute drive from Levin employing around 600 staff. The capabilities of the cluster include:

- Cut, make and trim ("CMT")
- Dying textile and yarns
- Carpets and mats
- Textiles
- Yarns, elastics and cords
- Embroidery and screen-printing
- Shoes
- Apparel (top to toe, ready to wear and fashion wear, ties, socks, knitwear, sportswear, defence, industrial and specialised)
- Tents
- Trampolines
- Bags
- Bedding
- Automotive accessories
- Promotional items
- Flags, banners, sashes

Almost all companies in the cluster are SMEs. Effective subcontracting has been developed between the firms over time. In general firms have limited marketing capabilities and exports are a small proportion of current activities (p. 6).

At a cluster workshop in March 2003, the following key issues being faced by the firms were identified:

- Loss of pool of skilled staff
- Attracting new entrants
- Training
- Retraining
- Servicing - machinery and computers, control systems
- Replacing ageing equipment
- Upgrading
- Export development (pp. 8-9)

The key stepping stones to the preferred future (as noted above) were (in order of preference):

- Culture, strategy and goals (including how to work best as a cluster group, how to work with Textiles NZ, support structures, strategic plan);
- Marketing (including regional branding, exports, local pride, market research);
- Skills (including relationships with educational and training institutions, establishing an industry training facility); and
- Research and development (including new product development, quality strategy, international standards) (pp. 9-10).

The report then looks at a "low road" versus a "high road" strategy. It notes that the region has drifted into the "low road" but this is not sustainable. A "high road" strategy:

"requires a coordinated approach at a cluster level. In parallel it requires firms within the cluster to upgrade their individual strategies. ... National resources will be required to support this local activity." (p. 10).

Ffowcs-Williams then looks at international examples of cluster development. He selects Biella, Carpi, Castel Goffredo (all apparel and textile clusters in Italy) and Dalton, Georgia (carpet manufacturing, USA) as examples.

The characteristics of these clusters are that they are specialised, they are comprised of many small firms (especially Italy), there is heavy competition between firms yet also high collaboration. The culture is therefore one of "co-opetition". There are tacit information flows and all clusters are tightly linked to public infrastructure such as schools, tertiary education, export development and local government. All of these clusters have wage rates that are currently significantly higher than those in Levin (pp. 12-14).

The report notes the work being undertaken in the EU to assist the adjustment process of its apparel and textile industries, in particular how the sector can integrate with the EU's innovation and regional cohesion policies and strategies.

Finally the paper puts forward the concept of a Levin-based national centre of excellence for apparel and textiles. It recommends further study of the CITER service centre in Carpi, Italy, as an example and also the apparel cluster in Hickory, North Carolina, USA. The paper postulates that a Levin-based one-stop shop would need to address competitiveness simultaneously at three levels:

1. The firm level (supporting each firm in upgrading their competitiveness);
2. The network level (facilitating small groups of firms in developing commercial linkages and hard networks including supply chain development); and
3. The cluster level (including workforce development, skills and training, export market development, technology transfer, product design, investment attraction (pp.17-19).

The second paper on the MRI concept for Kapiti-Horowhenua (Reid, 2003c) also starts from the premise that the TCFC sector is going through a major transition phase. It notes that TCFC production has been dominant in the region since the flax industry of the late 19<sup>th</sup> century. There are both barriers and opportunities for the sustainable development of the TCFC sector in the region but there are definite benefits from a:

"...conscious industry transformation programme involving firms, industry associations, unions, research and education bodies, central

and local government and the regional economic development agency” (p. 1).

Reid (pp. 3-5) notes the barriers to the sustainable development of the TCFC sector in the Horowhenua as:

- A continuing reliance on the domestic market;
- Problems of scale and scope associated with SMEs operating in isolation;
- SMEs having vulnerable positions in the supply chain;
- Continuing low levels of investment in technology and innovation; and
- Financial barriers (capital availability).

He notes opportunities for development as:

- Opportunities for the sector as a whole (as detailed in The Way Ahead document);
- The existence of Enterprise Horowhenua (now Enterprise Coast) and the TCFC cluster group to increase collaboration and cluster effectiveness;
- A concentration of the sector in the region and proximity to other regions opens up immediate domestic opportunities;
- Proximity to research and training establishments creates opportunities in R&D and technology transfer;
- An active role of Maori and Maori institutions in the region providing opportunities for partnership and indigenous design;
- The example of successful firms providing leadership in export opportunities;
- CMT support and the availability of skilled labour as a basis for increased capacity and productivity; and
- Other inner- and inter-sector opportunities such as:
  - Redevelopment of the flax industry;
  - A national centre for one of the textile crafts (e.g. spinning, weaving or quilting); and
  - Greater synergy with other local industries / activities using TCFC product (e.g. racing, hang-gliding, yachting, parachuting) (pp. 5-8).



The strengths of the regional TCFC industry were noted as:

- Small and compact region;
- State Highway 1 location and close proximity to larger centres;
- Active and supportive Enterprise Board;
- Active TCFC cluster group;
- Good links to Maori initiatives;
- Experienced and skilled workforce; and
- lower costs than other regions.

Weaknesses were listed as:

- Many firms facing problems typical of all SMEs, e.g. capacity to export;
- Some firms currently occupy vulnerable positions in the supply chain;
- Low levels of technology transfer and innovation;
- An ageing workforce in key skills areas; and
- A history of low wage rates not attracting skilled workers.

Immediate opportunities for the TCFC cluster were seen as:

- Building strategic relations with local research and training organisations;
- Building a strategic relationship with Textiles NZ;
- Cooperative R&D, innovation, marketing and exporting programmes;
- New product development; and
- Marketing new career paths open to youth.

Reid advocates for an MRI in the Kapiti-Horowhenua to be based on the local TCFC industry through a strategy of "open regionalism, 'cooperative advantage' and innovation." By open regionalism, Reid means the region "needs to think and act beyond its own boundaries" through:

- Becoming a TCFC centre for the lower half of the North Island. It is less than 75 minutes from Wellington, Palmerston North and Wanganui. It must build links with

the Wellington fashion and design industries and the Wellington-based Textiles NZ; and

- Becoming a strategic partner with other TCFC institutions and regions such as the Auckland and Christchurch TCFC industries and the Christchurch-based Apparel and Textile Industry Development Organisation (ATITO) and Canesis / Wool Research Organisation of New Zealand.

Cooperative advantage highlights that the sector will only develop through the cooperation of the local firms inside the cluster and linkages made with other significant institutions and organisations that can support and benefit the cluster.

Innovation in this context therefore means that the sector must look at how it can move up the value chain away from competing solely in manufacturing and on price. Examples of new fibre development, new products and branding are given (p. 11).

## **2.8 Other MRIs**

A number of MRIs have been developed and supported in other regions of the country. This paper reviews two MRIs: the Nelson Seafood Centre of Excellence (Nelson Marlborough Seafood Centre of Excellence, July 2003) and the Taranaki Centre for Applied Engineering (Venture Taranaki, May 2003).

Both of these MRIs are useful comparators in as much as they are being established in small regions and are based on a manufacturing / processing industry.

The Nelson-based MRI is an "open-regional" project. It describes the Centre of Excellence as "being located in Nelson, New Zealand's largest fishing port and is designed to actively and practically promote further development of the seafood industry in the Nelson Marlborough region and nationally" (Nelson Marlborough Seafood Centre of Excellence, 2003 p. 4). Interestingly Marlborough is seen as an integral part of this MRI even though Marlborough has its own MRI projects.

The MRI will fund a part of the total Seafood Centre of Excellence project. The proposal is to build a physical centre, which will be leased to seafood-related research and educational organisations. The total capital cost of the proposal over ten years is \$17.2 million of which \$1.5 million is being sought from MRI funding (pp. 21-22).

The case for this MRI looked at the report to the Scottish fish industry in 2002 which studied the export seafood industry in 20 countries and looked at the factors for sustainable development of these industries. New Zealand was ranked third in this survey but lost marks on "cluster level indicators" and was well behind in providing advanced education for this sector in New Zealand (pp. 9-12).

From this analysis key components of the MRI were identified as research and education, hence the project has major involvement from Otago and Canterbury Universities, the Nelson Marlborough Institute of Technology, NIWA, Crop and Food and Cawthorn Institute.

In addition to this the project has involved Maori, trade unions and local authorities in all stages and at all levels.

Finally, the Nelson Centre of Excellence proposal outlines how it is in alignment with:

- The Government's tertiary education strategy;
- The Government's research, science and technology strategies;
- The Government's focus on high-growth industries;
- The Government's employment strategy; and
- The regional development strategy (p. 34-35).

The Taranaki Centre of Applied Engineering is based on "the region's historical and well-known expertise in the engineering sector" which consists of 175 businesses and 2,319 full-time equivalents (Venture Taranaki, May 2003, p. 5).

"The key strategies that will be pursued by the Centre are:

- addressing the skill gaps in the Taranaki engineering industry;
- new product development through both product and market diversification;
- engineering sector branding and marketing;
- enhancing industry competitiveness and efficiency;
- growing sales revenue by pursuing new business opportunities" (p. 6).

In addition to the applied engineering cluster the other key parties to the strategy are:

- Venture Taranaki (the regional economic development agency)
- Western Institute of Technology at Taranaki (WITT)
- Heavy Engineering Research Association (HERA)
- New Zealand Engineering, Printing and Manufacturing Union
- Maunga Tu Mauga Ora (a local Maori business promotion organisation)
- The three district councils ( p. 7)

The Taranaki MRI is not establishing a “bricks and mortar” centre like Nelson. Rather its \$3.9 million budget over two years (including an MRI contribution of \$1.8 million) is divided between the key strategies mentioned above. The source of regional funds for the project will come from WITT (\$0.7 million), businesses (\$1.9 million) and local government / community (\$0.3 million) (p. 50).

The key common elements of these two MRIs are that they are:

- Export focused;
- Driven by the local firms;
- Knowledge- and skill-based and have universities and polytechnics as key stakeholders;
- Partnered with Maori and trade unions at the highest level;
- Strongly supported by the regional economic development agencies and district councils; and
- Strongly supported by other regional businesses / trusts / utilities / investment funds.

## RESEARCH FINDINGS

### 3. Methodology

As observed in section 2.1 the research proposal for this study outlined **two** key questions:

1. Is there a viable case for an MRI centred on the Kapiti-Horowhenua TCFC industries?
2. Presupposing a positive response to the first question, what form could such an initiative take?

In order to ascertain the case for an MRI, the research team gathered information from three different groups, comprising the Kapiti-Horowhenua TCFC cluster members, key stakeholders, and representatives from an industry reference group external to the cluster. This was done through a combination of semi-structured interviews, questionnaires<sup>1</sup> and focus groups. The key issues to be addressed were determined in consultation with the Kapiti-Horowhenua MRI feasibility project team. The project team also made the decision to invite all cluster members to the focus groups where the questionnaires were distributed. The questionnaires were designed to elicit the minimum information required to support the analysis underlying this study but also to give the respondent as much opportunity as possible to share their industry knowledge and to canvass as wide a range of viewpoints as possible within the cluster.

The next three sections detail the composition of each of the interview groups, the key issues addressed by each and their responses to these issues. The information gathered from the questionnaires was also used to ascertain various economic considerations pertaining to the current state of the TCFC firms in terms of employment, growth, and their outlook as things currently stand. A further set of questions was designed to elicit views on how that outlook might change in the event of an MRI being adopted and to explore what form such an initiative might take. The results of this analysis are reported in section 8 and the report concludes with recommendations in section 9.

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<sup>1</sup> The questionnaires are available on request.

## **4. Focus groups**

### **4.1 Introduction**

On 25 and 26 August 2004, focus group meetings were held with representatives of the firms comprising the Kapiti-Horowhenua TCFC cluster. Twenty-one individuals attended, representing 18 of the cluster companies. The discussion was facilitated by members of the IPP research team and observed by a representative of Enterprise Coast.

The themes examined in the focus group meetings were:

- What are the core competencies / advantages of the cluster group?
- What are the major constraints on the cluster group?
- What are the possibilities for collaboration?
- Given the above, what form should an MRI take?

Each of the themes is discussed below.

### **4.2 Core competencies / advantages**

The core competencies and advantages of the cluster group fell into six categories: regional and locational advantages, versatility, capacity and capability, skills and resources, and high social capital.

#### **4.2.1 Regional and locational advantages**

A number of participants pointed to advantages arising from the cluster's location in the Kapiti- Horowhenua region. Specifically, the historical importance of the textile industry in the region was seen as an advantage, along with the industry's regional importance as a major employer. Participants mentioned the low cost of establishing and running a business in Kapiti-Horowhenua compared to, for example, Auckland or Wellington. Proximity to major transport routes (road, rail, air and sea) was cited as an advantage that outweighed the disadvantage of being located at some distance from major markets and customers (although one participant mentioned the high cost of exporting small quantities).

#### **4.2.2 Versatility**

The discussion revealed that the cluster firms cover a large section of the vertical supply chain, from the production of componentry to the manufacture of garments and other textile products. The cluster therefore provides a one-stop shop for textiles, all within a small geographical area and, for the most part, locally owned and managed. This concentration of capacities and expertise was seen as an advantage to servicing, for example, Wellington-based designers: they can get a wide range of production work done and get advice on an equally wide range of production issues, from patternmaking and fabric choice to embroidery. A further advantage is that the cluster includes companies that have a monopoly status, being the sole New Zealand manufacturers of products or providers of services. Alongside the companies involved in apparel, there are key companies within the cluster that work with textiles in related industries (such as carpet) and have a demonstrated ability to take advantage of market opportunities in related products, such as tents, trampolines, bungy cords, bags, bedding, automotive accessories, promotional items (such as corporate apparel, caps etc), flags, banners, sashes and so on. While upon first appearances these products and businesses may seem somewhat unrelated, they do in fact share market information, manufacturing capability and technical ability, thus providing fertile ground for knowledge and technology transfer.

#### **4.2.3 Capacity / capability**

The participants pointed out a number of advantages relating to their capacities and capabilities, particularly their ability to service contracts requiring small runs, quick turnarounds and versatility on the operator's part. The attendees considered their outputs to be of high quality and noted their ability to provide a level of customer service which would be difficult for overseas competitors to match. In addition, companies have invested in technology which allows for greater efficiency and capacity. Finally, participants noted that collaboration between cluster firms permits individual companies to bid for and service large contracts often with the support, in terms of logistics and / or capacity, of other cluster members.

#### **4.2.4 Skills / resources**

The participants viewed the Kapiti-Horowhenua region as having skills and resources which give the cluster members a competitive advantage. The region boasts a stable workforce and a wealth of technical knowledge in the area. Cluster members have shown business resilience, versatility and adaptability, having in many cases transformed or adapted their operations and focus in response to market demand. Cluster members

show a willingness to collaborate and adapt, both individually and as a group, and see this as a real advantage for the future.

#### **4.2.5 Social capital**

Finally, the existence of a well-established cluster was seen as an advantage. In particular, there is already a high degree of trust between members, with cluster firms currently sharing technology, labour and information, which can lead to the increased production capacity and economies of scale required for export. Additionally, participants had a strong desire to make a success of the cluster and a growing awareness of each other's capacities and capabilities.

### **4.3 Constraints**

The challenges facing the cluster companies relate primarily to losses in skills and infrastructure as discussed below. Other concerns included the profile and function of the cluster, popular misconceptions about the industry, a rapidly changing business environment, issues relating to capacity, and access to capital.

#### **4.3.1 Loss of skills**

It was pointed out that the industry has lost a great deal of technical skill due to shrinkage in the industry over the past few decades. The workforce is ageing, as low wages and negative perceptions of the industry discourage youths from entering it (and experienced workers from remaining or returning). Consequently, the skills transfer upon which the industry depends has been disrupted, yet few companies put resources into training new staff themselves and student demand for industry training through technical institutes or other tertiary providers is diminishing.

Some of the skills which the industry will need in the future, however, differ from those of the past; specifically, new technology demands more specialised, higher-skilled employees, for example, with computer and design engineering skills.<sup>2</sup> Hence there is a need for training to be strategic, taking into account the skill demands of new technologies and the future direction of the industry.

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<sup>2</sup> However, it was also pointed out that the use of new technology can result in decreased employment.



The following skills were cited as in short supply:

- Knitting / dyeing / fabric finishing skills
- Machinists
- Customer service
- Warehousing and distribution
- Computer operators (e.g. CAD operators) with knowledge of textiles

Participants also noted the lack of middle and senior management skills, including marketing expertise.

#### **4.3.2 Loss of infrastructure**

Of particular concern was the potential loss of infrastructure. Participants noted that at present the Kapiti-Horowhenua region has a reasonably large manufacturing base, however losses in that base (especially of the larger operators) could compromise the viability of the cluster and the individual firms. Participants also noted that suppliers are dwindling (e.g. sewing machine suppliers), as are the number of technicians capable of servicing machinery.

#### **4.3.3 Cluster profile / function**

Participants noted that the wealth of experience and production capacity in Kapiti-Horowhenua is largely unknown outside the region, even among potential customers based in Wellington. Others pointed out that cluster members themselves are not fully aware of each other's capabilities. Furthermore, one participant argued that the structure, function and direction of the cluster needed to be clarified.

#### **4.3.4 Perceptions of the TCFC sector**

A major concern expressed during the focus groups was the popular perception of the TCFC sector generally. The sector is perceived to be in decline, rather than being dynamic and an area of development and innovation. In addition, the perception still exists that apparel is a sweatshop industry with poor pay and working conditions, contrary to present-day realities; one consequence of this is that school leavers are not encouraged or motivated to enter the industry as technical workers.

#### **4.3.5 Business environment**

Changes in the business environment, such as the possible free trade agreement with China and the reduction in tariffs, were cited as negative short-term factors for the cluster; however there was a mixed response as to the sustainability of the industry with some respondents feeling insecure while others had a positive outlook regardless of changes. All agreed that there needs to be some time allowed for adjustment to new market conditions, and that we should be careful not to undermine the productive capacity of the industry with rapid changes.

Unpredictable and onerous compliance regulations were also cited as barriers, and there is a feeling that policymakers misunderstand the issues facing SMEs. The key issue stressed by the respondents was the amount of time required to comply. In this sense companies are not resistant to compliance with, say, OSH regulations, but to the amount of time required to interpret the legislation, work out how to implement it, and put systems in place to monitor it and comply.

#### **4.3.6 Capacity / capital**

Although participants pointed to the cluster's production capacity as a positive factor, one participant noted that the cluster needed *more* capacity. Two participants raised the problem of access to capital to fund growth. In the past, this has tended to be left up to the SME, often with limited time, resources and expertise available to obtain the best result.

### **4.4 Opportunities for collaboration**

Participants were asked what opportunities they saw for collaboration within the cluster. The participants saw potential for sharing resources such as engineering facilities, technology, labour, and IT support. There was also support for technical and business skills training to be done collaboratively, for collaborative product development and collaborative marketing (e.g. marketing the cluster as a unit).

### **4.5 Form of MRI**

In each focus session, participants were asked how an MRI based on the TCFC industry in the Kapiti-Horowhenua region could be used to best effect. The majority of suggestions focused on developments which would strengthen the cluster internally ('inwards focus');

in addition to these, there were proposals which focused on strengthening the cluster's external profile via marketing and branding ('outwards focus').

#### **4.5.1 Inward focus**

##### *Developing infrastructure*

A number of suggestions involved developing the regional industry infrastructure. These included investing in technology (with reference to technology which helps overcome geographical distance and improves efficiency), setting up a call centre to improve customer service and consolidating freight. Further suggestions were that a textiles-based training centre be established,<sup>3</sup> that apprenticeships be set up, and that links with tertiary institutions be fostered to encourage them to send students to cluster firms on placements. The provision of training and rotation of students / apprentices among firms was put forward as a means of fostering cross-pollination of ideas between sites and increasing the potential for innovative ideas and practices.

##### *Research and development*

A number of participants supported the idea of the cluster's involvement in research and development in a bid to (amongst other things) get involved in product development and increase the cluster's intellectual property. This could be done through collaboration with design, research and development institutions (and marketing the cluster's diversity to those institutions) and/or through forming a company to drive and own innovation.

##### *Business assistance*

The suggestion was put forward that the MRI be used to provide business assistance; specifically, the participants saw a need for export assistance (including financing attendance at trade shows), website development (both for the cluster and individual members), national and international marketing, accreditation, compliance and barcoding.

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<sup>3</sup> One suggestion was that the training exposes students to all areas of the textile industry rather than focusing on one aspect.

#### 4.5.2 Outward focus

##### *Marketing of cluster*

There was a call from many participants for the MRI to be used to market the skills of the cluster. Specifically, the members wished to see the cluster's diverse skills marketed as a textiles one-stop shop (i.e. market the cluster as a package offering concept-to-product capacity); they envisaged targeting potential customers, both nationally and internationally, Textiles NZ, and design and R&D institutions. There was a further suggestion that market research be undertaken to stay ahead of market demands and to identify and explore suitable niche markets (such as the tourism market which looks for New Zealand-made products). One participant favoured identifying a sustainable market sector, rather than opting for a number of niche markets, in order to obtain critical mass.

Participants also pointed out the need for internal marketing and communications, that is, increasing awareness of each other's capacities and capabilities, particularly with a view to increasing members' ability to tender for larger contracts. In addition, there was a call for a central point in which individuals living in the area could list their skills and availability in order to tap into the huge amount of skills and knowledge in the area.<sup>4</sup>

A number of marketing vehicles were proposed. These included a website incorporating a database of cluster capacities and expertise, promotion of the cluster at trade fairs (or promoting individual companies under a cluster banner), a retail outlet and an information/showcase centre. There was little support for a retail outlet, however the idea of an information or showcase centre received some support.<sup>5</sup>

##### *Branding*

The question of a regional brand was raised at both focus group meetings. One participant proposed creating a local brand which all cluster members could contribute to; it was suggested that this would help increase the visibility of the cluster nationally. Another suggestion was that the cluster members piggy-back on an established brand (i.e. as suppliers).

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<sup>4</sup> This was seen as useful for existing residents and people who were new or returning to the area.

<sup>5</sup> A centre where products could be displayed is already being considered by the tourism personnel at Enterprise Coast.

As for what the brand would represent, the following were proposed:

- A textiles one-stop shop for all components of the textile and apparel market;
- Making Kapiti-Horowhenua synonymous with textiles (c.f. Sheffield and cutlery);
- The outdoors (i.e. a rural, outdoors brand); and
- New Zealand (for overseas markets).

## **5. Key stakeholders**

### **5.1 Introduction**

As part of the research for the feasibility study, 15 stakeholder organisations external to the Kapiti-Horowhenua textile and apparel cluster were interviewed using a semi-structured questionnaire. The stakeholders fell into three categories:

- Territorial local authorities and economic development agencies
- National industry organisations and unions
- Research, tertiary education and training organisations

The semi-structured interviews comprised three parts:

- Perceptions of the New Zealand-wide TCFC industry;
- Perceptions of the Kapiti-Horowhenua TCFC industry and cluster; and
- Views on the merits of and support for a TCFC-based MRI for the Kapiti-Horowhenua.

These parts are discussed below.

#### **5.1.1 Section 1: perceptions of the New Zealand-wide TCFC industry**

The questions under this heading endeavoured to solicit the interviewees' prognosis on how the New Zealand TCFC industry might develop over the next ten years. Trigger questions gathered the stakeholders' views on:

- Growth
- Profitability

- Employment
- Skills
- Staff training and development
- Product development

### **5.1.2 Section 2: perceptions of the Kapiti-Horowhenua TCFC industry and cluster**

Interviewees were asked how they saw the Kapiti-Horowhenua industry and cluster changing over the next ten years, including the key constraints and key positive factors. They were also asked to rate the impact of a range of international, national and local factors on the industry and cluster in the region.

### **5.1.3 Section 3: the Major Regional Initiative**

All stakeholders were asked for their views on the proposed TCFC MRI for the Kapiti-Horowhenua region. These questions identified:

- a. The interviewee's knowledge of the MRI and MRI process;
- b. How a TCFC MRI in the Kapiti-Horowhenua could be used to best effect;
- c. Key benefits to the interviewee's organisation of an MRI as suggested in (b);
- d. Key benefits to the Kapiti-Horowhenua region of an MRI as suggested in (b);
- e. Key benefits to the TCFC industries in the Kapiti-Horowhenua region of an MRI as suggested in (b); and
- f. Key areas where the interviewee's organisation could contribute to such an MRI.

Interviewees were then asked to rank the importance of a number of factors on the development of the TCFC sector in Kapiti-Horowhenua.

Finally, the stakeholders were asked to indicate their support or otherwise for a TCFC-based MRI in the Kapiti-Horowhenua and whether their organisation would consider contributing to the project:

- Time
- Money
- Other

The quantitative parts of these semi-structured interviews will be reported on separately (see section 7). This section analyses the qualitative data captured through the interviews. While not identifying the respondents, the analysis will describe any differences within and between the four broad groupings of respondents defined at the beginning of this report.

## **5.2 Perceptions of the New Zealand-wide TCFC industry**

With one exception, perceptions of the New Zealand-wide TCFC industry were consistent both within and across each group of respondents. All respondents identified the industry as having been in decline for some time, however one made the point that it depended on how one identified the industry: manufacturing had been in decline, but a number of apparel and associated companies (including brands and retailers) had become incredibly successful.

Participants expressed a range of views on whether the industry would decline or grow over the next ten years. However in response to supplementary questions, almost all respondents agreed that in its current structure the industry as a whole will struggle, but with strategic intervention the industry (including its manufacturing component) had the potential to grow over the next ten years.

### **5.2.1 Growth and profitability**

Many respondents identified declining growth and profitability as a major problem for the industry. The CMT sector in particular was identified as existing only at “subsistence level”.

However it was noted that other parts of the industry (especially at the design, brand and retail ends) were growing and were very profitable. It was also noted that many of these now successful businesses relied on a New Zealand manufacturing base in their start-up phase but, once they became successful and could handle large production runs, they usually shifted production offshore, mostly to China.

Respondents across the groups identified design- and customer-led strategies as key to increasing growth and profitability.

The research and education group placed much emphasis on innovation, technology and training as key factors for improving growth, productivity and profitability. Many also view the existence of New Zealand-sourced, unique or desirable raw materials as another factor of growth and profitability with unrealised potential.

### **5.2.2 Employment, skills and staff training and development**

There was a varied response from all groups to the question of employment growth in the industry. However, almost all respondents agreed employment would decline if the industry were not to respond to increased competition in production. There was a significant view that even if the sector grows in dollar terms there may not be the corresponding growth in employment numbers. The main reason given was that the technology required to ensure the industry remains innovative and competitive is more capital intensive and less labour intensive.

However, many respondents stated that the nature of employment in the industry would change over the next ten years. There may be fewer machinists but they would need to be more versatile and be involved in the design and production process (sampling machinists, for example, are in high demand). The respondents also predicted an increase in design, technical, product development and computer-based occupations. These occupations are likely to be better paid.

The specific skills identified as being needed by the sector in the next **ten** years were:

- Garment making and construction (sampling, machining, cutting etc)
- Technical, computer-based skills (CAD)
- Management
- Strategic planning
- Marketing
- Design at all levels textiles, apparel and related products
- Quality assurance
- Product control / quality assurance and sourcing
- Foreign languages



While the need for an increase in skilled machinists was identified, many respondents pointed to the fact that the current perceived lack of machinists was due more to the low wages being offered than a lack of skills available – that is, a wage gap rather than a skill gap. One interviewee stated that the industry was not training New Zealand machinists because it was easier to get already trained migrant machinists. However, the demands of a sustainable competitive industry will dictate a longer-term approach to skills development within the industry.

### **5.2.3 Product development**

All respondents saw product development as one of the key ingredients to the growth of the TCFC sector over the next ten years. While there was some difference as to whether there would be fewer or more products in a range (the majority said more), all respondents agreed that the products would have to be higher value, rather than some of the lower value products that the industry still manufactures.

Mention was made a number of times of the need to make more use of New Zealand raw material in product development.

### **5.2.4 Perceptions of the local Kapiti-Horowhenua TCFC industry and its cluster**

As with the views on the New Zealand-wide TCFC sector, there was a variety of views on the future of the Kapiti-Horowhenua TCFC cluster over the next ten years. However there was the same common response that without strategic intervention the cluster as a whole would struggle. This view was more strongly held for the Kapiti-Horowhenua region than for the national TCFC sector.

### **5.2.5 Constraints and positive factors**

Identified constraints on the Kapiti-Horowhenua TCFC cluster were:

- A lack of designers;
- Distance from designers;
- Distance from the national and international markets;
- Transport (identified by out-of-region interviewees);
- Lack of internationally recognised brands;
- Lack of middle management / problem of SMEs;

- Too many small companies reliant on the overall success of the industry;
- Ageing workforce;
- Some older owner / managers without succession plans;
- Lack of new skills; and
- Differing core competencies within the TCFC industry in region.

Some of the factors identified as constraints by some respondents were seen as positive factors by others. These and other positive factors identified were:

- Proximity to key tertiary institutions: Wellington-based Massey University, Victoria University, the Wellington Institute of Technology and Wanganui-based UCOL design schools;
- Maori and Pasifika designers and Maori design courses in region;
- High level of human capital resident in the region;
- A skilled workforce;
- Significantly lower location costs (especially land and buildings) relative to Auckland or Wellington;
- Proximity to sea and air ports;
- State Highway 1 location;
- Competitive overnight freight services and rates (especially to Auckland);
- Two international brands;
- Expanded productive capacity through collaboration;
- Lifestyle opportunities in the region; and
- Comprehensive TCFC industry (from concept to finished product) within region.

### **5.3 The Major Regional Initiative**

There was strong support for a TCFC-based MRI for the Kapiti-Horowhenua region, even from the one MRI / "horizontal cluster" sceptic. Almost all respondents were aware of the MRI programme; the most knowledgeable were those from the territorial local authorities, economic development agencies and industry / union groups.

There was a number of views as to how a TCFC-based MRI could be used to best effect in the Kapiti-Horowhenua. They were (grouped by respondent):

**Respondent 1**

- Form a joint organisation of committed local TCFC industries;
- Full-time coordination role;
- Involvement of other parties such as universities;
- Address staff training and management needs;
- Coordination of marketing and exporting efforts;
- Assist with skills training and missing infrastructure; and
- Bring outside knowledge and information into the cluster.

**Respondent 2**

- Greater links between education and training organisations and the cluster;
- Joint project between cluster and staff / students from education and training organisations (especially design); and
- More internships with the cluster members.

**Respondent 3**

- Must have high-level vision;
- Assist the local transition of the TCFC industry;
- Provide training and education opportunities;
- Build a "corporate" of the small businesses in the region;
- Hub / industrial park / one-stop shop; and
- Aggressive marketing of current competencies.

**Respondent 4**

- Involvement of "good people" the key;
- Clear ownership / governance of project; and
- Identification and measurement of outputs.

**Respondent 5**

- Invest in skills, technology and infrastructure that can be shared across multiple niche manufacturers;
- Incubation activities for new product development;
- Promote design / development relationship;
- Investigate market opportunities;
- Look at lower North Island as the greater region for the project;
- Link with design and specialised fabric (e.g. sport) developments at Massey and UCOL;

<ul style="list-style-type: none"> <li>▪ Look at what Kapiti-Horowhenua can bring from the TCFC sector to the lower North Island design project;</li> <li>▪ Use the MRI as a “touch stone”, a focal point;</li> <li>▪ Ensure involvement of local iwi (runanga and waananga) in the project; and</li> <li>▪ Tap into emerging creative Maori designers in the region.</li> </ul>
<p><b>Respondent 6</b></p> <ul style="list-style-type: none"> <li>▪ A centre of excellence with a national as well as regional focus.</li> </ul>
<p><b>Respondent 7</b></p> <ul style="list-style-type: none"> <li>▪ A regional centre of excellence from where research, funding opportunities, marketing could be undertaken.</li> </ul>
<p><b>Respondent 8</b></p> <ul style="list-style-type: none"> <li>▪ Develop an inventory of skills, resources, competencies and brands;</li> <li>▪ Ensure firms in the cluster are an active and healthy part of the supply chain;</li> <li>▪ Ensure the supply chain is stabilised and supportive of the firms in the cluster; and</li> <li>▪ Support and develop international brands.</li> </ul>
<p><b>Respondent 9</b></p> <ul style="list-style-type: none"> <li>▪ Market targeting / identification of market opportunities.</li> </ul>
<p><b>Respondent 10</b></p> <ul style="list-style-type: none"> <li>▪ Development of a national / regional centre of excellence / hub for TCFC; and</li> <li>▪ Boost the linkages between the cluster and the external research, design and development institutions.</li> </ul>
<p><b>Respondent 11</b></p> <ul style="list-style-type: none"> <li>▪ Remove obstacles to the growth of the industry such as lack of infrastructure and skills;</li> <li>▪ Play a marketing role for the cluster as a whole; and</li> <li>▪ Assist with new start-ups.</li> </ul>
<p><b>Respondent 12</b></p> <ul style="list-style-type: none"> <li>▪ Identification of opportunities in the global market and leading the cluster's response to taking advantage of these opportunities;</li> <li>▪ Build brand distribution networks; and</li> <li>▪ Incubate new product ideas and then scale up local production of these ideas.</li> </ul>

## 5.4 Key benefits

All respondents were able to detail benefits that a TCFC-based MRI in the Kapiti-Horowhenua would be able to bring to their own organisation. The territorial local authorities and economic development agencies saw the MRI as the next concrete step in their regional development strategy. The research and education organisations identified the mutual benefits for their institutions of collaboration with the MRI project. They were very keen to be involved with the project. The industry / union group saw benefits for the industry as a whole and the workers within it.

Key benefits to the region included:

- Stabilising and growing the key local industry;
- Assisting in the economic development of the region as a whole;
- Employment growth giving rise to an economic multiplier effect;
- Retaining more young people in the region;
- Reducing the southern commuter pull;
- Boosting the image of region; and
- Increasing inward investment.

Key benefits to the Kapiti-Horowhenua TCFC industries included:

- Helping with the transition of TCFC firms in Kapiti-Horowhenua to a more outward focus;
- Increasing the growth and profitability of TCFC firms;
- Moving firms up the value chain;
- Linking businesses with research and educational organisations;
- New ideas, innovation and knowledge transfer;
- Product development;
- Facilitating cluster activities; and
- Growing exports.

See section 7 for an economic analysis identifying the importance of key factors to the future development of the TCFC sector in the Kapiti-Horowhenua.

## 5.5 Additional comments and conclusions

The overwhelming response from interviewees was one of goodwill and support for a TCFC-based MRI for Kapiti-Horowhenua. Only one respondent was negative, but the pessimism was aimed more at cluster and MRI methodology than the proposal itself.

The territorial local authorities and regional economic development agencies were very supportive of the initiative. Both territorial local authorities are prepared to allocate resources to the TCFC-based MRI as part of the regional contribution. It is important to note that the Kapiti territorial local authority is fully behind the MRI proposal even though the TCFC sector is not as significant within its boundaries as it is within the Horowhenua. Kapiti does have a strategy for the northern part of the district; this area, including Otaki, has a significant TCFC sector, particularly in new Maori design-based initiatives. There were some doubts about the ongoing viability of TCFC manufacturing firms in New Zealand. However a common theme was that building on an established base of skills, capabilities and market opportunities has a greater chance of success than entering a new industry sector with no or little basis for doing so.

The counterfactual scenario of allowing businesses to fend for themselves in a deregulated market was universally seen as leading to a situation where some firms would survive and others would not. On the other hand, with some strategic intervention, firms are more likely to collaborate and support one another, allowing leading firms to compete more effectively and support firms to play their part in the cluster's overall success. The interviews identified a wide range of ideas on how the MRI could be used to best effect, however the following themes emerged:

- The MRI must be industry led;
- The MRI should be the focal point for industry development regionally (and nationally together with Textiles NZ);
- It should be focused on the Kapiti-Horowhenua but draw in and link with firms and institutions that will contribute to the success of the sector;
- There is great potential to link to the lower North Island design project and existing design schools (Massey, Victoria, the Wellington Institute of Technology and UCOL), the industry training organisation (ATITO) and to the key industry research and development organisations (Canesis and LASRA);

- The identification and marketing of the core competencies of the cluster should be an early part of the MRI as an outward and export focus was seen as a key to the continued success of the sector;
- Ongoing skills development (management, technical and machining) needs to be at the core of the project; and
- While maintaining its manufacturing strength the cluster needs to either gain control of more parts of the supply chain or move up the value chain to remain competitive.

## **6. Industry reference group**

### **6.1 Introduction**

In August and September 2004, interviews were held with representatives of key industry organisations operating outside the Kapiti-Horowhenua TCFC cluster. The semi-structured interviews comprised three parts:

- Perceptions of the New Zealand-wide TCFC industry;
- Perceptions of the Kapiti-Horowhenua TCFC industry and its cluster; and
- Views on the merits of and support for an MRI for the TCFC cluster in the Kapiti-Horowhenua region.

Each of these sections is briefly discussed below.

#### **6.1.1 Section 1: perceptions of the New Zealand-wide TCFC industry**

The questions under this heading endeavoured to solicit the views of the interviewees on how the New Zealand TCFC industry will develop over the next ten years. These questions centred on:

- Growth
- Profitability
- Employment
- Skills
- Staff training and development
- Product development

### **6.1.2 Section 2: perceptions of the local Kapiti-Horowhenua TCFC industry and its cluster**

Interviewees were asked to identify how they saw the Kapiti-Horowhenua TCFC industry and cluster developing over the next ten years. Key questions focused on:

- Constraints; and
- Positive factors influencing the industry cluster in the Kapiti-Horowhenua region.

Interviewees were then asked to rate the impact of a series of international, national and local factors on the industry cluster over the next ten years.

### **6.1.3 Section 3: Major Regional Initiative**

Finally, interviewees were asked for their views on the feasibility of an MRI based on the Kapiti-Horowhenua TCFC cluster. Respondents were asked about:

- Their knowledge of the MRI process;
- Their views on how an MRI in the Kapiti-Horowhenua region could be used to best effect;
- Key benefits to the respondent's own organisation;
- Key benefits to the Kapiti-Horowhenua region;
- Key benefits to the TCFC industries in the Kapiti-Horowhenua region; and
- Key areas where the interviewee's organisation could contribute.

Respondents were further asked to rank the importance of a range of factors, from workforce skills training and management skills training, through to access to legal expertise and export assistance. To conclude the interview, respondents were asked to indicate whether or not their organisation would support an MRI based on the TCFC cluster in the Kapiti-Horowhenua region and whether they would contribute:

- Time
- Money; or
- Any other input that they would see as beneficial for the MRI.



## **6.2 Perceptions of the New Zealand-wide TCFC industry**

Without exception, respondents indicated that there had been significant structural changes to the TCFC industries within New Zealand over the last ten to 15 years. These changes, such as past and planned tariff reductions, were seen as a major contributor to the closure of many manufacturing-based firms and CMT operations; and Wisharts in the Kapiti-Horowhenua region was seen as the latest victim of these structural changes.

The respondents saw the ability to remain flexible and innovative as the key to business survival over the past ten to 15 years. Those businesses that have been reliant on manufacturing processes or a single part of the supply chain were seen to be the most vulnerable; those that had survived and fared best had invested in branding and moving up the value chain, in strengthening their supply chain networks or gaining increases in intellectual property either through branding or technical advantages. Respondents indicated that companies which display these characteristics would remain competitive in the coming years.

### **6.2.1 Growth and profitability**

Interviewees were asked how industries in the New Zealand-wide TCFC industry would change over the next ten years in terms of growth and profitability. Respondents felt that businesses in the CMT sector would be particularly vulnerable; those that were not CMT, but still do not have something of value to add to the production process, would also be particularly vulnerable. A key contributor to this vulnerability was the fact that most of the larger New Zealand apparel companies, whether supplying an export or domestic market, were using China for up to 90% of their production. The difficulty for New Zealand manufacturers is that China is competitive both in terms of cost and quality. Indeed, one respondent reported that producing a T-shirt in New Zealand is ten times more expensive than producing one of equivalent quality in China.

This means that, for the larger industry players, New Zealand production is typically restricted to short-run, quick turnaround, and/or in-season production runs to meet local demands. This of course is not a good position for dependent local manufacturers to be in, especially in terms of forecasting, planning production and profitability. Those manufacturers that have remained competitive are those that are linked to brands or target niche markets, such as industrial design apparel or contract work for large organisations such as St John Ambulance, the New Zealand Police or the New Zealand Army. Therefore, as a generalisation for the future growth and profitability of the TCFC industry as a whole in New Zealand, businesses that are design-led, have technical

expertise or better service offerings have a greater chance of increasing their profitability and growth than those that are competing in a generic market where there is very little intellectual property involved in the products they are producing and / or they form only one small part of the production process. Businesses falling into this latter category are likely to decline and find it increasingly difficult to maintain profitability.

### **6.2.2 Employment skills, staff training and development**

Interviewees were asked how industries in the New Zealand-wide TCFC industry would change over the next ten years in terms of growth in employment skills, staff training and staff development. A number of key issues emerged involving skills shortages:

- A lack of skilled machinists for what local production there is and in particular a lack of sampling machinists;
- A lack of skilled people with knowledge of the complete construction of a garment from beginning to end. This would include pattern-making, sampling, grading, and garment construction (fusing, trimming, stitching and the whole CMT process); and
- A general lack of business skills including finance, marketing, production, logistics and knowledge of import / export processes.

At the other end of the scale there seems to be an abundance of creative and design skills; however, interviewees felt that such skills alone cannot form a sustainable base for the industry. In a global environment where one can source textiles, fabrics, printing, embroidery, production and skilled labour from all over the world (and particularly, in New Zealand's case, China), there is an absolute need for businesses in the apparel and textiles industry to be complete in all the aspects listed above. Compounding the problem of skills shortages (and in particular the shortage of technical skills around construction and machining) is that these jobs have traditionally been low paid and are in danger of being undermined by low-cost production from overseas. Even Australia, which has invested in retaining a large percentage of its production within Australia, has difficulty in maintaining labour standards within its own shores.

Therefore respondents did not see the future for New Zealand in terms of huge numbers of production machinists; rather, they saw the need for more highly skilled machinists who are capable of putting together sample ranges and short runs and who have an understanding of the whole construction process. Respondents also believed that there will always be a suitably large domestic economy in which new designers and manufacturers can test and develop their products and product ranges.

One respondent commented that the industry had already undergone huge structural transformation in the last ten to 15 years and that not much more could happen in terms of that transformation. However as a result of that transformation many of the skills that were present 15 years ago are no longer available in quantity (not many had knowledge of the Kapiti-Horowhenua TCFC capacity) and the existing workforce is ageing, as these occupations are seen as low-skilled, low-wage options. Therefore it is important that machinists and others involved in the construction, sampling and production of garments are seen – and see themselves – as a valued, integral part of the overall production process and consequently as contributors to the success of any company.

It must also be recognised that people with this knowledge have the potential to bring new and innovative ideas to the construction process and thus add value to the overall creation process and the company itself. *Hence there was a call for more staff with a complete "concept-to-product" knowledge; that is, people who are able to take a concept and produce a finished product, and who are knowledgeable about each step in the process.*

As far as creative and design skills are concerned, respondents believed that there is an abundance of new designers and people with creative flair entering into the apparel market. This needs to be preserved and encouraged. However, there is a belief that many of these designers lack the business skills needed to compete in a global market. As one respondent put it, they need to know how to work imports, they need to know about designing and styling, graphic art, importing, logistics, approvals and managing the whole process whereby one takes a design idea, follows it through to production and then on to the retail shelves. This process also involves a series of other skills such as communication, branding, buying and marketing.

"They don't teach a lot of that at Tech. It is a business; it's business management they need to know. I don't think they spend enough time on that."

In terms of investment in skills for the future, many of the SMEs have been understandably nervous after the first round of tariff reductions and the impending round, and are reluctant to take on more staff. This nervousness, however, has to be countered with the absolute necessity to be able to compete globally. This also means that viewing fashion as a form of art may be aesthetically pleasing but will not put us in a position to compete on a world stage.

### 6.2.3 Product development

Respondents were asked how industries in the New Zealand-wide TCFC industry would change over the next ten years in terms of product development. With the exception of one respondent who saw the protection of our industry through tariffs as the only way forward, respondents saw a design-led approach as the key to retaining some manufacturing base within the domestic market. However, allied to this, fashion in most countries retains and supports a small but significant domestic industry. It is also important to realise that fledgling companies utilise the domestic market as a testing ground for their products.

Several respondents also pointed out that many companies were overlooking a major market on our doorstep: Australia. For one company alone, Pumpkin Patch, exports to Australia account for roughly 60 - 70% of its annual turnover of over \$200 million. A general consensus was that over the next ten years the industry has to move towards more high-end, quality products, which have a significant design component and more short-run technical and niche products. A number of respondents also mentioned that the industry needs to take advantage of New Zealand's natural resources. Wool production was singled out by some respondents in this regard (e.g. merino wool) as was examination of other natural raw materials and fibres such as flax, hemp, and specialised fabrics. This is because, as one respondent put it, smaller designers and companies within the burgeoning fashion industry in New Zealand need to differentiate themselves:

"But as far as using natural fibres, I think that's what the topic is. It's going to be very important for me and I am sure lots of other [designers]. It's what makes New Zealand designs unique. It's what the real New Zealand is: all natural. It fits well with the clothing. The advertising and uniqueness of New Zealand - it's very natural."

### 6.3 Perceptions of the local Kapiti-Horowhenua TCFC industry and its cluster

A common view from respondents in this group about the future of the TCFC industry cluster in the Kapiti-Horowhenua region was that the future holds more of the same. According to the interviewees, the future was generally brighter for businesses that have some control over their supply chain, that have some added value component, in taking a product from an idea to a saleable product in the market, and that remain flexible, innovative and able to see opportunities. Such businesses would thrive in any competitive environment and thus be able to compete with China and other Asian countries whose competitive advantage is based on streamlined and cost effective

production processes. On the other hand, those that are reliant on the cost of labour and/or one part of the production process would continue to be highly vulnerable.

### **6.3.1 Key constraints**

Key constraints for the Kapiti-Horowhenua TCFC industry cluster were thought to be:

- Locality (distance from major centres);
- Low profile;
- The mixed nature of the industries and firms involved in the cluster;
- Increasing competition from China in particular;
- Ageing workforce;
- Lack of management, middle management and general business management skills; and
- A series of small companies with owner-operators with varying degrees of competency or ability to adapt and compete.

One participant's views revealed a perception of companies in the Kapiti-Horowhenua TCFC cluster as being mainly concerned with the manufacture of outdoors and low-value products, such as T-shirts and sweatshirts, rather than high-quality designer goods. The participant felt that Auckland-based manufacturers were "more in touch with what's happening [in fashion design]," more skilled in this type of production and hence better able to service that sector of the industry. This perhaps is more perception than reality, but is nonetheless something with which the Kapiti-Horowhenua firms have to contend.

### **6.3.2 Key positive factors**

For some, proximity to Wellington was an extreme positive; in terms of clustering initiatives, proximity is seen as a key component for linkages and networks of suppliers and customers working together. Even with the increase in information and communications technology, eye-to-eye and handshake contact is still seen as an important component of any cluster. However, location was generally seen as a negative by Auckland-based industry players; the main reason for this was that they could see no benefit in dealing with the Kapiti-Horowhenua region when all of those services were available locally.

Often the respondents knew little about the Kapiti-Horowhenua region or the cluster, therefore key positives were sometimes slow to come at first. However, the fact that a cluster group had been formed was seen as positive in terms of increased networking, higher social capital and the ability to work together.

Key international brands that came out of the region were seen as very positive. The fact that the TCFC industry has a long-standing history in the region and there is seemingly an abundance of traditional skills was also seen as a positive - given that for the most part the rest of the industry was struggling to find those traditional skills.

## **6.4 The Major Regional Initiative**

In the main, there was little or no understanding of what an MRI is among the industry reference group respondents. However, when the concept was explained, all thought that basing an MRI on the Kapiti-Horowhenua TCFC cluster was a good idea and that it could be beneficial to the region as a whole. The qualifier to that statement would be the form of the MRI. The respondents specified the following key features:

- Taking advantage of the latent and resident expertise in the region;
- Using local expertise to become innovative through information sharing;
- Bringing together members of the cluster to increase collaboration especially in the areas of marketing and production;
- Focusing on training and workforce development, possibly including internships and industry training;
- Increasing cluster members' business and management skills;
- Fostering design, innovation and research in addition to business and development skills;
- Access to working capital; and
- Export assistance.

The respondents were then asked to list the key benefits to the region of an MRI of this nature, the key benefits to their own organisation, and the key benefits to the Kapiti-Horowhenua TCFC cluster itself.

#### **6.4.1 Key benefits to industry reference group's own organisations**

Some members of the industry reference group already had links with the Kapiti-Horowhenua region. In general, these respondents were in favour of increased business and linkages with the TCFC cluster group. They saw that the MRI would provide more focus to the cluster and provide for more access and greater communication between their organisation and the cluster group.

Respondents who had little to do with the TCFC cluster group and the Kapiti-Horowhenua region believed that an MRI that brought the benefits mentioned above could open up possibilities for future engagement in business. There was also a clear message from this group of respondents about providing a focus and the need to communicate clearly that focus, together with the skills and benefits the cluster group could bring to their respective organisations. This would require, especially with Auckland-based industry organisations, that the industry cluster group was active in marketing and promoting its businesses and services.

#### **6.4.2 Key benefits to the Kapiti-Horowhenua region**

The TCFC cluster group was seen as a key employer in the region; therefore an MRI that gave this cluster group a strategic focus and improved management, marketing and communication skills would help maintain its status as a key regional employer into the future. Respondents also saw some benefit in making linkages with tertiary institutions and other research organisations in the region, as well as training institutions and industry training institutions.

#### **6.4.3 Key benefits to the Kapiti-Horowhenua TCFC industry sector group**

Key benefits for the TCFC industry cluster group cited by the industry representatives were:

- The long-term sustainability of the businesses in the region;
- The ability for businesses within the cluster group to specialise;
- Collaboration (in terms of logistics and capacity);
- Joint promotion and marketing;
- The sharing of expertise and production processes; and
- Providing a cluster approach to skills training so that new employees and employers of the future had a well-rounded and grounded training experience.

Another suggestion was that other cluster group members could support key brands from the region that have export potential and / or are already exporting, and that this would be a key feature of the MRI. This suggestion is possibly related to the idea that relying solely on manufacturing or being part of the supply chain is not enough to “future-proof” this industry sector. Finally, several mentioned that intellectual property, in the form of branding, (although this should be extended to innovative processes and products across the board) is a key to the survival of the cluster group members, both singly and collectively.

## **6.5 Additional comments and conclusions**

In general, most of the respondents believed that those companies in the Kapiti-Horowhenua TCFC cluster group which had been flexible and innovative enough to survive the tariff reductions and structural adjustments of the past decade would be well placed to survive the next round of tariff reductions to 2009 and increasing competition from China. The respondents saw this as no different from New Zealand industry generally where clusters have developed around perceived competitive advantages, usually in the form of branding and/or design. Some respondents saw canvas, carpet and footwear companies as somewhat distant cousins to the textiles and apparel cluster members. In particular, those industry reference group members whose core business was the apparel industry saw these businesses as peripheral, but understood that textiles, fabrication, design and branding were all key components of all the cluster group members. However, in terms of providing services to businesses or key industry groups outside the Kapiti-Horowhenua region, branding and promotion needed to be focused and specialised, outlining the key benefits to those industry sectors. This would mean taking on board the notion that “export” means more than just export out of the region to the likes of Wellington, Christchurch or Auckland, but included Australia, which all respondents saw as a key step in the path to export growth and beyond.

When asked whether or not an investment in the form of an MRI in the Kapiti-Horowhenua region would benefit this industry sector and cluster, the response was that some firms will survive regardless, namely, those with key competitive advantages in terms of production process, technical skills, and / or intellectual property and branding. However, a key to those companies’ survival is the supply networks and linkages in the supporting region. This is where a key component of the MRI needs to be focused according to the industry reference group: stand-alone companies will find it difficult to survive without support structures around them. These support structures would include, for example, industry training, management training, access to capital, ongoing research



and development, being market-led, maintaining a critical mass, being innovative and having local supply chain networks.

## **7. Economic considerations**

### **7.1 Employment and growth prospects**

All participants at the focus group meetings (see section 4 above) were asked to complete a survey indicating their views on the future of the industry and their organisation in particular. A number of the survey questions was designed to elicit responses with respect to economic impact. Questions were designed first to gather information on the current state of the TCFC firms, in terms of employment and turnover, and their outlook as things currently stand. A further set of questions was designed to elicit any perceived change in that outlook in the event of an MRI being adopted. Consistent with the methodology throughout this study, responses were gathered from members within the cluster, relevant stakeholders and an industry reference group.

#### **7.1.1 Projections from within the Kapiti-Horowhenua TCFC cluster**

Of the ten respondents from within the cluster, six projected an increase in employment numbers, one a reduction,<sup>6</sup> and the remaining three either indicated no change or did not provide a figure.<sup>7</sup> Significantly the strongest positive projections were from the larger employers and the projected positions were full-time. Three of these respondents also indicated an increase in the employment of part-time, casual or seasonal workers. Given the composition of the firms projecting increases the average projected growth rate of employment (FTE) within the sector was reported at 5% per annum over the next five years compared with 6.4% over the next 12 months and an actual increase of 16.7% in the last 12 months. The outlook for the TCF firms, i.e. excluding the region's carpet manufacturer, was also 5% over the next five years.

This positive outlook was supported by projected increases in turnover reported by the respondents, which averaged 8.5% per annum over the next five years. Turnover was chosen as a proxy for growth given the mix of business structures and different market sectors that cluster members operate in. Two of the cluster respondents projected an increase but did not provide a figure and two projected a decline in turnover. The

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<sup>6</sup> The respondent reporting a negative projection for employment reported that they had increased employment by a third in the previous 12 months.

<sup>7</sup> One respondent not reporting a figure "hoped" for an increase.

projections are quite positive given an average annual increase in turnover of only 3.6% being reported by the respondents over the last five years.

The survey did not directly address exports but the relationship between output and exports in the New Zealand TCFC sector is historically high with export to sales ratios of close to 65% although imports currently dominate exports by a factor of more than 3.75 (Manufacturers Survey, June 2004). The projected figure for growth in turnover closely reflects the annual increase in exports for the national TCFC industry (8.3% per annum) over the decade 1993-2002 reported in the industry consultancy document, *The Way Ahead*, published by the conveners of the TCFC Partnership in September 2002.<sup>8</sup> As such, it may reflect targets this group has set itself in terms of expanding output in light of export opportunities.

In contrast to the export growth observed in the 2002 consultancy document, recent national trends within the textile clothing and footwear (TCF) industries, have shown a contraction in exports in all but one of the last six quarters (Manufacturers Survey, June 2004). This is disappointing in light of the stated target rate in *The Way Ahead* of 12.6% (approximately 50% above the trend recorded in the previous decade) and highlights the need to encourage an outward focus for the more competitive firms.

### **7.1.2 Projections based on an MRI being adopted**

When respondents were asked to review their responses in light of an MRI, the responses were generally more positive with those respondents previously reporting a decline in employment and turnover emphasising either a return to growth or, at worst, arresting the decline. Responses indicated more growth through increased sales, greater competitiveness through increased product range and higher value products. The survey did not request the respondents to revise their projections in percentage terms but asked them to indicate the likely direction of impact in relation to a number of different variables. Responses indicated the impact of the MRI in the Kapiti-Horowhenua district would be reflected in:

- (a) Higher growth through increased industry sales (including exports) profitability and incomes;

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<sup>8</sup> The key arguments and recommendations embodied in *The Way Ahead* were detailed in section 2.4 of this study.

- (b) Greater competitiveness through increased product range and higher value products;
- (c) Increased investment (level and quality) generated through lower transaction costs and increased opportunities arising from greater levels of co-ordination and co-operation, including marketing initiatives; and
- (d) The growth and development of more skilled and productive employment through increased staff training and development.

The responses in terms of employment levels were more mixed, although only one respondent projected that levels would decline. However, a successful MRI would underwrite more vulnerable members of the cluster through backward and forward linkages across the sector.

### **7.1.3 Perceptions external to the cluster**

The industry reference group does not broadly support the positive indicators resulting from cluster surveys and is generally more pessimistic, highlighting a downward trend in industry growth and employment. This is partially ameliorated when the MRI proposal is introduced. Similarly some of the key stakeholders also indicate that the industry is in decline in economic terms and the outlook is relatively bleak. Their responses, however, tend to be more positive with respect to the adoption of the MRI highlighting linkages with research and development and across sectors. Co-operation in terms of training, transport, marketing and technology-sharing are all highlighted as areas where transaction costs can be reduced or economies of scale and scope exploited.

The responses also highlight the resources existing in the Kapiti-Horowhenua cluster in terms of labour and infrastructure and indicate how an MRI might enhance these through a more strategic focus and improved management. Given the adjustments that the industry has already made with respect to changes in the tariff regime and changing patterns of demand the cluster firms are perceived as being relatively flexible and responsive to market conditions, but again responses from this group indicated that these could be enhanced with an MRI through helping develop marketing and communication skills within the cluster.

These groups were not asked explicitly to attempt projections for the likely economic impact of an MRI but many of them highlighted linkages that would be of mutual benefit to their own organisations. Such linkages would increase any potential multiplier effects

if an MRI is adopted in the region, i.e., an increase in the size of the multiplier coefficient that is applied to translate the direct effect arising from expenditure on the initiative to an estimated total impact on the region or economy.

## **7.2 Additional comments and conclusion**

A recent study (Abernathy, Dunlop, Hammond and Weil, 2004) examining the impact of globalisation on the apparel and textile sector in the United States highlights that commonly held perceptions pertaining to the removal of tariffs miss the mark. The authors argue that replenishment considerations arising from new distribution and production channels necessitated by the emergence of “lean retailing” practices and brand proliferation. Abernathy et al. highlight the importance of proximity to markets and suggest that TCF industries solely reliant on low wage as the source of competitive advantage are vulnerable. The authors emphasise a stable environment, the need to build infrastructure, service, short production runs and flexibility as the source of advantage. The Kapiti-Horowhenua cluster already possesses these attributes with respect to the Australasian market but it will need to overcome the challenge of location and hence come up with innovations to reduce transaction costs, particularly transport, to be competitive in more distant markets.

From a New Zealand perspective, the Abernathy et al. study suggests opportunities in the domestic market will remain crucial to the TCFC sector. The Kapiti-Horowhenua cluster is well positioned to take advantage of such opportunities given its proximity to Wellington and efficient transport links to Auckland and Tauranga, which also act as crucial export hubs. However, the study’s methodology may also be applied to situations where the TCFC industries are providing inputs to other export-orientated industries and exchanging input with the design industries. In this scenario the location disadvantages for export are not so significant and aspects such as service, short production runs and flexibility become more important.

A caveat to the positive cluster projections recorded above is the possible presence of sample bias with only ten out of the 18 firms that participated in the focus groups returning surveys. However, analysis of the questionnaires revealed that the firms that they represent account for more than 60% of the FTE positions in the region's TCFC industries. Moreover, these respondents are active participants in the cluster and also clearly indicate their willingness to contribute to an MRI through the contribution of resources, including time, expertise and in some cases direct financial support.

Given the focus of this study was on the feasibility of an MRI centred on the Kapiti-Horowhenua TCFC industries, the economic projections are hypothetical and primarily based on the survey responses. A more detailed economic impact assessment could be undertaken when the form of an MRI is decided upon (and approximate budget) using multipliers derived from an input/output model of the regional economy.

This study has shown that the TCFC industry is a scaled-down sector arresting decline but facing considerable uncertainty and, at the current time, falling short of the targets set out in Textiles NZ's vision (set out in *The Way Ahead*). However, it has also identified a core of firms in the Kapiti-Horowhenua TCFC cluster that have maintained economic performance above the industry average and project that they can continue doing so. This self-selected sample accounts for a substantial proportion of the region's employment and output, and this initial study suggests that an MRI will make the targets achievable.

## RECOMMENDATIONS

### 8. The case

Two questions were posed at the outset of this report concerning the feasibility of an MRI based on the TCFC industry in the Kapiti-Horowhenua:

1. Is there a viable case for an MRI centred on the Kapiti-Horowhenua TCFC industries?
2. What form could such an initiative take?

The study has answered the first question in the affirmative. The most compelling reason came from the counterfactual “business-as-usual” / “do nothing” approach. The industry reviews and external interviews predict that this approach will see the Kapiti-Horowhenua TCFC industries steadily decline, shed labour and have a severe negative impact on local economies. The Infometrics study for the recent tariff review (2002) highlights the severity of this impact as compounded by the fact that the Horowhenua (and we believe north Kapiti Coast), unlike almost all other parts of the country, is not replacing jobs lost in this sector with jobs from other sectors.

This study is also able to answer the first question in the affirmative from a positive as well as counterfactual perspective. The TCFC industries in the Horowhenua have a long history, going right back to Maori and settler home-based industries, through the flax industry of the late 19<sup>th</sup> century followed by the wool processing and apparel industries. This has led to a textile and apparel culture in this region, with some local families’ involvement in these industries stretching back over a number of generations. Significantly, eight of the ten respondents from the cluster survey predicted significant growth over the next five years. These eight respondents represent approximately 60% of the FTE positions in the region’s TCFC workforce. Although these responses may be seen as optimistic, they are important in identifying the strengths of the key firms that will be able to lead the MRI process.

Although the TCFC industry globally and in New Zealand is undergoing major restructuring, TCFC firms, unions, local authorities, iwi and economic development agencies in the Kapiti-Horowhenua region have demonstrated an impressive determination to do what is required to remain competitive. In addition to industry and other local support, a successful strategy must also be supported by appropriate research, education and training organisations. Interviews with representatives of these

organisations revealed a strong commitment to the project and a willingness to be involved at a strategic level.

The strategy would also need to build on the inherent capacities and capabilities evident in the cluster and region. The cluster has a major manufacturing component; however this is mostly linked to established supply chain advantages both within and outside the region. Much of the current employment in the region is linked to the productive process and it is important that this productive capacity and capability be maintained to preserve and enhance future competitiveness. Without this base, future employment opportunities, product development, technology transfer and the chance for new, innovative products and processes coming out of the cluster become severely limited.

Interviews with companies and industry experts outside the cluster force one to think very hard about where the cluster should position itself for future sustainable growth. The model of building a major brand and moving into export markets often seems to result in the transfer of manufacture from New Zealand to offshore. While the brand and the company continue to be successful, the local economic development benefits are limited. Even the creation of a considerable number of jobs in warehousing and logistics for such companies could be short-lived as they consider warehousing offshore to be closer to both production facilities and markets. The model of providing manufacturing services to local and national firms also leaves some cluster members vulnerable to marketing and production decisions made elsewhere, and to low-cost manufacturing options overseas.

The conclusion that we have therefore reached regarding the form of the MRI is that it should seek to build on the strengths of the cluster but provide a mechanism for business development and support, innovation and collaboration. We did not find one dissenting voice at a local level for the concept of an MRI with respect to its ability to increase the capacity and competitiveness of the local TCFC industry. The interviews and literature suggest a creative, innovative and growing TCFC industry will continue to exist in New Zealand even after the major restructuring of the industry on a global scale. However, if it is to compete globally, no region or locality can expect to grow such industry without an active regional strategy. The study suggests that unless the Kapiti-Horowhenua TCFC sector is able to collaborate, it will find it difficult to compete with larger scale industry sectors in other countries. Such collaboration is necessary to establish economies of scale and scope as well as to minimise transaction costs. Key elements of a competitive industry sector would include:

- Collaboration and high levels of social capital;
- Ongoing innovation;
- Continued upskilling and redefining essential workforce skills;
- An outward focus both domestically and internationally;
- Investment in research and development; and
- Increased middle- and upper-management skills to aid in understanding and exploiting global value chains.

## **9. Form of MRI**

We propose the establishment of a TCFC Business Centre. This research highlights that, while there is a core of apparel-related companies in the cluster, there are also companies involved in the cluster that at first glance seem to be involved in unrelated industries in the traditional sense. While initially this was seen as a disadvantage, as the research progressed it became clear it illustrated the flexibility of the cluster around common threads such as textiles, fibres and manufacturing, with larger companies owning significant brands and intellectual property.

Synergies in technology and production are evident and provide opportunities for technology transfer and innovation. There is some evidence of research and product development but this is largely guarded and within individual firms at present; however, there is a high level of social capital and collaboration already evident that can be built upon to enhance innovative processes and technology transfer across the sector.

Within the cluster, there are also some medium-to-large sized firms which provide critical mass alongside the SMEs. This provides opportunities for forward and backward integration and supply chain advantages. Market opportunity in terms of exports is huge, providing the sector can collaborate to gain productive capacity to meet demand and minimise transaction costs.

As mentioned above there is intellectual property already within the sector; alongside this, there are high levels of tacit knowledge and expertise. Therefore the key to the ongoing success of the TCFC sector in the Kapiti-Horowhenua region (and indeed nationally) is innovation.



In a recent report to NZTE, Catts and Kirk (2004) describe innovation in this way:

“Innovation has become one of the primary drivers of economic development. It is at the core of new business opportunities in a world that is shifting from resource-based economies to those that are focussed on the management and application of knowledge. Innovation, more than the application of labour and capital, is the major driver of knowledge economies. It accounts for more than half of all growth in modern economies. While industries built on leading edge technologies (e.g. information and communication technologies, biotechnology, nanotechnology) are often seen as characteristic of a knowledge intensive economy, all industry sectors can be enhanced by innovation.”

“Technological change is a major driver of innovation in developed countries. Advanced technologies have applications in many fields and need not be confined to ‘hi-tech’ or new industries. Industries and sectors traditionally characterised by lower levels of research and development activity can also experience strong growth driven by innovation. Innovation lifts profits, creates new jobs and provides skills training opportunities across many industrial sectors.”

These are all positive factors that provide a basis for a long-term and sustainable industry; however there are some critical success factors that need to be addressed to ensure this:

- A clear vision and purpose for the TCFC Business Centre;
- The centre must be industry led;
- The central involvement of at least one key research organisation, one key educational institution and / or industry training organisation;
- Strong interaction and cross-fertilisation between business and research;
- A project champion;
- The effective economic and social integration of the TCFC Business Centre with the community and region;
- Central and local government and economic development agencies playing key leadership, facilitation and enabling roles; and
- Financial self-sufficiency over time.

## **9.1 The TCFC Business Centre**

The TCFC Business Centre should perform six key functions:

1. Coordination and collaboration

2. Marketing and communications
3. Business development
4. Workforce development
5. Research and development
6. Export development

The centre will need to establish an agreed mechanism with iwi to ensure Maori participation in the overall project.

### 9.1.1 Coordination and collaboration

<b>Activities:</b>	<b>Key partners and linkages:</b>
<ul style="list-style-type: none"> <li>▪ Cluster facilitation and internal communications</li> <li>▪ Web development and maintenance</li> <li>▪ Increased economies of scale and scope</li> <li>▪ Decreased transaction costs</li> <li>▪ Coordination of all other programmes and projects</li> <li>▪ Regional, inter-regional and sector collaboration</li> </ul>	<ul style="list-style-type: none"> <li>▪ TCFC cluster firms</li> <li>▪ Iwi</li> <li>▪ Enterprise Coast</li> <li>▪ Massey University Business School</li> <li>▪ Textiles NZ</li> <li>▪ New Zealand Trade and Enterprise (NZTE)</li> <li>▪ Economic Development Association of NZ (EDANZ)</li> </ul>

### 9.1.2 Marketing and communications

<b>Activities:</b>	<b>Key partners and linkages:</b>
<ul style="list-style-type: none"> <li>▪ Conduct market research</li> <li>▪ Promote cluster competencies and skills to current and potential customers</li> <li>▪ Communicate the cluster and Business Centre benefits to the community and region</li> <li>▪ Set up and maintain a website and centre as first point of contact for [new / international] customers, suppliers, partners and collaborators.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Enterprise Coast</li> <li>▪ Local councils</li> <li>▪ Iwi</li> <li>▪ Textiles NZ</li> <li>▪ Fashion Industry of NZ (FINZ)</li> <li>▪ NZTE</li> <li>▪ Export Institute of NZ</li> <li>▪ Employers and Manufacturers Association (EMA)</li> </ul>

### 9.1.3 Workforce development

<p><b>Activities:</b></p> <ul style="list-style-type: none"> <li>▪ Training and apprenticeships</li> <li>▪ Future skills-needs assessments</li> <li>▪ Middle and upper management training</li> </ul>	<p><b>Key partners and linkages:</b></p> <ul style="list-style-type: none"> <li>▪ Apparel and Textile Industry Training Organisation (ATITO)</li> <li>▪ Massey University (Business, Management and Design Schools)</li> <li>▪ UCOL (Design School)</li> <li>▪ Tertiary Education Commission (TEC)</li> <li>▪ Unions</li> <li>▪ EMA</li> </ul>
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### 9.1.4 Business development

<p><b>Activities:</b></p> <ul style="list-style-type: none"> <li>▪ Small business advice</li> <li>▪ Enterprise training programmes</li> <li>▪ Employment advice</li> <li>▪ Maori business support</li> <li>▪ Incubators</li> <li>▪ SME export assistance</li> <li>▪ Inward investment</li> </ul>	<p><b>Key partners and Linkages:</b></p> <ul style="list-style-type: none"> <li>▪ Enterprise Coast, Vision Manawatu</li> <li>▪ Maori economic development agencies</li> <li>▪ Textiles NZ</li> <li>▪ FINZ</li> <li>▪ EDANZ</li> <li>▪ NZTE</li> <li>▪ EMA</li> <li>▪ Export Institute of NZ</li> </ul>
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### 9.1.5 Research and development

<p><b>Activities:</b></p> <ul style="list-style-type: none"> <li>▪ Textiles, fabric and apparel research</li> <li>▪ Innovation</li> <li>▪ Product development</li> <li>▪ Facilitating technology transfer</li> <li>▪ Market research and forecasting</li> </ul>	<p><b>Key partners and linkages:</b></p> <ul style="list-style-type: none"> <li>▪ Massey University</li> <li>▪ UCOL</li> <li>▪ Wananga o Raukawa</li> <li>▪ Leather and Shoe Research Association (LASRA)</li> <li>▪ Canesis</li> <li>▪ Crown Research Institutes (CRIs)</li> <li>▪ Textiles NZ</li> <li>▪ FINZ</li> <li>▪ Wearable Arts Awards</li> <li>▪ NZTE</li> <li>▪ Foundation for Research Science and Technology (FRST)</li> <li>▪ Technology NZ (Tech NZ)</li> </ul>
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### 9.1.6 Export development

<b>Activities:</b> <ul style="list-style-type: none"><li>▪ Research, target and provide information on key export markets</li><li>▪ Develop export market opportunities for the cluster</li><li>▪ Coordinate joint ventures, partnerships and project groups to increase export capacity</li></ul>	<b>Key partners and linkages:</b> <ul style="list-style-type: none"><li>▪ Textiles NZ</li><li>▪ FINZ</li><li>▪ NZTE</li><li>▪ Export Institute of NZ</li></ul>
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## 10. Conclusion

This study sought to answer two questions:

1. Is there a viable case for an MRI centred on the Kapiti Horowhenua TCFC Industries?
2. What form could such an initiative take?

The study has answered the first question in the affirmative for the following reasons:

- Numerous government reports over the last decade have highlighted the Kapiti-Horowhenua region as one that relies on the TCFC sector as a major employer and economic driver.
- Recent national studies have concluded that, although this sector has been through a tough period of structural transformation, a customer-driven and export-focused TCFC industry has the potential to increase production, employment and exports. As a consequence a national export target has been set and an industry development organisation (Textiles NZ) has been established to lead this process.
- The Kapiti-Horowhenua region already has an active and enthusiastic TCFC cluster group, which with the right support could lead the industry growth at the local and regional levels. The diverse range of competencies along the supply chain among the cluster members should be viewed as a positive when combined with the design and innovation capabilities being developed by the tertiary training and research institutions in the region.
- The study found that the key role an MRI could play is to bring the capacities and skills of the cluster together with design, product development and innovation strategies to lift the cluster's capacity to engage in global value chains thus accelerating export earning potential.

As to the form such an MRI might take it is proposed that an export-focused TCFC Business Centre be established. Such a centre would:

- Act as the hub for the TCFC sector at a local level and in the lower half of the North Island;
- Bring innovation, design, technology, research and development together with local firms and production;

- Link the cluster with the relevant training, research and development organisations within and beyond the region;
- Assist with forward and backward integration and supply change linkages within and beyond the cluster; and
- Develop and lead the export capabilities of the region.

Local support for this development is apparent. The proposal is supported by industry, the two local authorities, the main training, research and development organisations in the region, and the local clothing and textile trade unions. It is also strongly supported by Maori through their Runanga, Wananga and individual Maori textile and design businesses that are beginning to grow in the region.

However, there needs to be a catalyst. While individual firms can respond to market conditions in their own way and there is evidence of cluster activities already, sector-wide activity to provide critical mass and coherence will allow for a more strategic approach to lifting the overall capacity of this sector and provide a platform for accelerated export growth. This will have the intended consequence of increased employment in the sector but also associated economic benefits through increased business activity (both within the sector and with associated service businesses) and forward and backward supply chain linkages.

Therefore it is recommended that work now be undertaken to establish a business case for the TCFC Business Centre. As work on the purpose, form, function and scope of activities of the centre has been done, key components in the business case should include:

- The market opportunity
- Governance
- Organisational structure and staffing
- Investment (both locally and externally)
- Objectives
- Milestones

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## APPENDIX 1

### Kapiti Horowhenua Apparel & Textile Industry Cluster Group

#### Apparel & Textile Businesses:

Business Name	Location	Description	Contact
Wilkes & Prior Ltd	Feilding	Buyers of possum fur, skins and bodies.	06 323 6927
Feltex Tufted Carpets	Foxton	Carpet manufacture	06 363 8169
Beardsley Pearce Ltd	Levin	Apparel manufacturing unit specialising in knitted fabric garments – men’s, women’s and children’s clothing, thermal underwear; women’s fashion t-shirts; corporate and teamwear t-shirts, polos and sweatshirts.	06 368 4075
Canvasland	Levin	Canvas and vinyl fabrication, and manufacture. Awnings, blinds, shade covers, trampolines. Promotional inflatables.	06 368 7930
CBS	Levin	Embroidery, screen-printing and stencilling on fabric and other materials for corporate, personal and promotional apparel and banners.	06 367 2277
Classic Apparel & Print	Levin	Specialising in screenprinting services and sublimated apparel, flags, sports bottles, iron-on labels, flock transfers, Transflex transfers.	06 367 9168
Comfort Socks Ltd	Levin	Sock design and manufacture to suit all needs. Product development, sales and support. Outdoor socks, family and everyday socks, bedsocks, and socks featuring specialist yarns.	06 368 6592
Cordall Ltd	Levin	Elastic cord manufacture with woven exterior. Many diameters, colours and designs. Uses from automotive to apparel (parkas and jackets, fashion).	06 368 6276
Cotdotz Enterprises Ltd	Levin	Tread for industrial workboots.	06 368 4711
Decoart Products Ltd	Levin	Apparel and textile screen printing. Rosettes and sashes for awards, pony clubs.	06 368 4099
Elastic Threads Ltd	Levin	Elastic threads.	06 368 3408
Embroidery World	Levin	Embroidery of apparel and garments including epaulettes, shirts, T-shirts, polo shirts. Embroidered pennants, flags, signs, and other promotional material.	06 368 6149
G Kerr Industires	Levin	Contract apparel manufacture.	06 367 0022
Levana Textiles	Levin	Textile manufacturers and designers. Fabrics designed, knitted, dyed, printed, and quality laboratory tested. Lycra stretch fabrics including Supplex, Tactel, Coolmax, Dri-Release, and Meryl. All-sport fabrics for active wear and sports, including Tactel Viscose, cotton, and poly-cotton Lycras in stripes, ribs, plains, and prints.	06 368 9259
Levin Canvas Co	Levin	Canvas fabrication.	06 368 4346
Linda Thomas	Levin	Patternmaker.	06 368 4149

Lindsay Royal Ltd	Levin	Lindsay Royal brand quality socks manufactured from finest yarns and specifications. Yarns include merino wool, cotton, Du Pont nylon, and lycra. Children's socks and tights. Men's and women's hosiery. School socks, sports socks, team socks.	06 368 6747
Materia Matrix Ltd	Levin	Men's and women's apparel and garment manufacture and design, from jeans to ballgowns and suits. Tailoring. Pattern-grading.	06 368 4346
Mika NZ	Levin	Men's and women's apparel and garments for New Zealand tourism. Polo shirts and other styles.	06 368 9201
MSA Ltd	Levin	Comprehensive range of textile designing, cutting, sewing and manufacturing for New Zealand and international markets. Army combat clothing, belts, vests. Freezer clothing. Oilskin and wet weather gear – vests, riding coats, overtrousers, hats, mittens. Automotive accessories such as carpets, service seat covers, tonneau covers. Baby buggy seats. Theatre seating and seat covers.	06 368 3664
MTS Sport	Levin	Apparel manufacturers – sportswear, teamwear, childrenswear. Tourism apparel.	06 367 2604
Mudden Apparel	Levin	Contract apparel manufacture.	06 368 7771
Plastic & Leathergoods Co Ltd	Levin	Manufacturers of bags, satchels, sportsbags, schoolbags, backpacks.	06 368 5106
Silverdale Knitwear Ltd	Levin	Marketers and manufacturers of men's and women's fashion knitwear.	06 368 8219
Swazi Apparel Ltd	Levin	Marketers and manufacturers of high-performance rugged outdoors garments for hunting, climbing, tramping, leisure.	06 368 4822
Tararua Yarns Ltd	Levin	Yarn dyers.	06 368 4189
Waka Prints	Levin	Sportswear, teamwear, and corporatewear, with a modern Maori design.	06 367 8004
Marlan Trading Co. Ltd	Otaki	Men's and women's apparel manufacture and supply.	06 364 8183
Native Style	Otaki	Designer of women's and men's fashion and corporate apparel with Maori-Pasifika influence.	06 364 5205
Sander Apparel Ltd	Otaki	Manufacturers, designers and exporters of ties for corporate, day wear, and evening wear in a range of fabrics and fibres including finest Italian silks.	06 364 6650
Te Ihioa Design	Otaki	Designers of women's and men's apparel, fashion, corporate and leisure, with unique Maori-Lakota design.	06 364 8608
Academy Apparel Ltd	Palmerston North	Manufacturers and suppliers of quality clothing, corporate, business, schools, sports, groups, design, fashion, garments, uniforms.	06 354 0979
Central Orthotics Ltd	Palmerston North	Medical supplies and equipment, orthotic manufacturers and suppliers.	06 356 3310
Exclusive Furniture Co. Ltd	Palmerston North	Cabinetmakers, furniture makers, exporters, soft furnishing manufacture and wholesale.	06 357 6429
Ihi	Palmerston North	Retailers of apparel, art and crafts by Maori and Pacific Island artists and designers.	06 354 0375
Kilt	Palmerston North	Designer and retailer of women's fashion apparel.	06 356 7657
Lana Spinning Co.	Palmerston North	Wool spinning.	06 358 7621

LP Robert & Co. Ltd	Palmerston North	Embroidery, manufacture of Masonic and Friendly Society regalia.	06 358 6287
Manawatu Knitting Mills	Palmerston North	Manufacturer of knitwear using natural fibres such as Possum Fur, Merino, Angora & Cashmere. Brands include Lyle & Scott, Paihamu, Native World, Woolly Jumpers, Gentleman Farmer, Southern Isles.	06 357 7029
Tomorrow Today NZ Ltd	Palmerston North	High performance sports apparel and equipment.	06 356 6060
Town & Country Textiles Ltd	Palmerston North	Woven fabric.	06 358 8764
AHL Embroidery	Paraparaumu	Embroidery for corporate, sports, and schoolwear.	04 902 4636
C.A Craigie & Co Ltd	Waikanae	Minx brand women's shoes and footwear for daywear, evening and urban sports, in exotic colours and materials including leather, fish skin, paua, and wool fibres.	04 293 5511
Quality Safety & Medical Manufacturers Ltd.	Wanganui	Clothing, industrial protective, medical equipment manufacturers and suppliers, safety equipment, security equipment, hospital equipment and supplies.	06 348 9522