

**ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE**

**Inquiry into Manufacturing in Victoria**

Melbourne — 23 November 2009

Members

Mr B. Atkinson  
Hon C. Campbell  
Mr P. Crisp  
Mr D. Davis

Mr H. Lim  
Mr B. Tee  
Hon M. Thomson

Chair: Hon C. Campbell  
Deputy Chair: Mr D. Davis

Staff

Executive Officer: Dr V. Koops  
Research Officer: Ms Y. Simmonds

Witnesses

Mr D. Langworthy, Chief Executive Officer; and  
Mr G. Meade, General Manager, Franchising, Bev Marks Australia.

**The CHAIR** — I welcome this afternoon David Langworthy and Gerald Meade from Bev Marks Australia to this all-party parliamentary Inquiry into Manufacturing in Victoria. Evidence given today is protected by parliamentary privilege. Anything you say in here is protected by parliamentary privilege; whatever you say outside is not. Could you each state your name, your business position, the organisation and the business address?

**Mr LANGWORTHY** — David Langworthy, Chief Executive Officer of Bev Marks Australia, 106–112 Dandenong–Frankston Road, Dandenong.

**Mr MEADE** — Gerald Meade, General Manager of Bev Marks Australia, 106–112 Dandenong-Frankston Road, Dandenong.

**The CHAIR** — Thank you. You are free now to make any introductory comments you wish. If you are still going after 10 minutes, I will interrupt so the Committee can ask some questions.

**Mr LANGWORTHY** — It will not take that long. I am the Chief Executive Officer of Bev Marks, and I have been the CEO since the inception of the company. We are just humble retailers, so all we can do is give you our view. Retail really is a simple business: we buy a product, we put it on display, we sell it, collect the money, bank the money, pay our accounts. That is what we do every day. Bev Marks has 11 showrooms in Victoria — 8 of them are company-owned and 3 are franchises. Three of the showrooms are located in regional Victoria, one in Mildura.

The company commenced trading 20 years ago in 1989. In 1999 we decided to sell only Australian made bedding and furniture. At that stage the company had two locations — one in Chapel Street, Prahran, and one in High Street, Northcote. We had a staff of four full-timers and two part-timers and a turnover of just over \$1 million.

What influenced our decision to sell only Australian made? In the 90s we noticed that the imports were just flooding into the market. It went from probably 1 per cent or 2 per cent of the furniture sold was imported, and it got to 50 per cent or 60 per cent of the furniture that was available was imported.

I read a survey put out by the Australian Made campaign, which stated that 20 per cent of the Australian public preferred to buy Australian made. Twenty per cent of any market is a significant segment. The view was that if they value Australian made, then we will carve out a nice little niche, and we could do very well.

Now having made that decision, the surprising thing was that our industry — all the reps who called on us — said we would go broke within 12 months. A lot of positive affirmations! It is a partnership: I am the majority shareholder, my son has a shareholding and another young bloke has a shareholding. Even they were opposed to the idea, but because I had the majority shareholding we went my way.

**The CHAIR** — We understand the numbers — maybe not financially as well as you, but certainly we understand the numbers.

**Mr LANGWORTHY** — Having done that, our decision was that the furniture and bedding industry is ultra-competitive, so if we are going to do it, let's not compete on price, let's only sell a quality Australian-made product. First decision: selling Australian made, then saying, what we will do is sell quality Australian-made product and forget about price.

We were operating in Chapel Street, Prahran, and in Northcote. They were not the ideal locations, and I wanted to move closer to home. I live in Narre Warren. There was a vacant block of land in Dandenong that Gerry Ryan from Jayco caravans owned. I had to do a deal with Gerry; I talked him into building two showrooms, and we would take one of them. We opened in December 1999 as Bev Marks Beds Australia; up until then we had been called Bev Marks Discount Bedding Centres.

It really was a runaway success. Just unbelievable results! If we sold \$25 000 a week in one of the other stores it was a really good week; we were doing \$25 000 a day — we just could not handle it. The showroom next door — Gerry had not rented it out, so we took the showroom next door. So we doubled in size in less than six months. Today, nine years later, we have 11 showrooms, we employ over 100 staff and our turnover this year will be in excess of \$40 million.

What lessons have we learnt? We survey our customers on a quarterly basis. We use an outside company. We only ask three questions, and one of the questions is ‘Why did you buy from Bev Marks Australia?’, and in our surveys the customers confirmed that 61 per cent — the highest score — bought because it was Australian made. That was the highest; the lowest was 24 per cent. They purchase from Bev Marks because of Australian-made product. We do not sell on price; all we offer is a top quality Australian-made product, and we endeavour to provide the best possible customer service.

We are doing all right, because we were nominated by the furniture industry association as the Australian retailer of the year and we got that recognition in October. It is normally only given to a national retailer, never given to a retailer operating in only one state but we knocked off our major competitors, your Harvey Normans, and we got that recognition. It was based on the level of service that we give to our industry.

I believe that Australian manufacturers, given the opportunity, can and do produce a product that can stand up in the world market — that is, a superior quality product. Australian manufacturers are innovative; their designs are world class; and Bev Marks has proved that they can compete.

What do Australian manufacturers really need to know? These are just observations. They need to know that they do not have to compete on price. There will always be somebody cheaper than you, so you do not have to compete on price. For too long the mantra of the retail gurus — and we read them all the time — is that the consumers buy on price. There is no available evidence to substantiate that. There is absolutely nothing. There is certainly a segment of the community that does buy on price, but if they all did, we would not be in business, Mercedes Benz would not be in business and Apple would not be in business.

I can only talk about the Australian industry. I have had 30 years experience in the furnishing and bedding industry. The bulk of our suppliers are small manufacturers — 20 to 50 employees — and what do they really need? They really are operated by guys who have been tradesmen and have eventually decided to go out on their own. They have very little training. They really need training. They do not know how to run a business. They know how to make good-quality product, but they do not have any business training. They do not have any marketing training. They do not have any accounting training. They have got street smarts.

This is my view, what they really need is to have mentors. In our community there are guys with a vast amount of business knowledge, who would love the opportunity to mentor small businesses. If there is an industry that needs it, it really is the furniture industry. I think it would be a fantastic training initiative if the government could initiate some sort of mentoring program.

I will just throw a curly one at you, now that I have got the opportunity to speak. Payroll tax: I think it would be a great initiative for manufacturing, just talking about manufacturing, if manufacturers with less than 15 employees did not have to pay payroll tax. It would be great for the manufacturing industry in Australia. Beyond that, I do not have much more to say, but these are my comments as a retailer.

**The CHAIR** — Thank you very much, we are used to explanations with very few in the way of key recommendations. You have cut to the chase immediately, and that is probably why you are so successful. A number of people, more on this side of the table than where you are sitting, have talked about mentoring and using the considerable past business acumen for the benefit of budding entrepreneurs.

How do you suggest they be linked? Have you seen it work anywhere particularly well? We have got to write recommendations, and we want to write recommendations that are going to be workable in the industry and implementable. Where does a person look for mentors if he or she is a small furniture manufacturer? Have we got a cluster, for example, of furniture manufacturers?

**Mr MEADE** — The FIAA?

**The CHAIR** — We have got the industry association. How would we set up the practicalities of this mentoring?

**Mr LANGWORTHY** — The practicalities? There is no mentoring program out there. They can certainly join organisations which could provide that. But they are quite costly. If they wanted to join something like a tech group it is going to cost them \$14 000 a year and they have got to give up one day a month to attend that meeting. It should be compulsory that they attend some sort of organisation like that, but there are really no mentoring groups available out there.

Even the furniture industry associations of Australia are fragmented. We have got the Victoria-Tasmania Furniture Industry Association; the Western Australia Furniture Industry Association; the South Australian one. They do not work together.

**The CHAIR** — Let us just look at Victoria. If we want to set up a mentoring system that would look at business skills, marketing skills, accounting training and it would be mentoring the small-to-medium furniture manufacturers, how would we do it?

**Mr LANGWORTHY** — I would talk to the Victoria-Tasmania Furniture Industry Association.

**Mr MEADE** — John Osmelak runs the FIAA. Because their organisations are voted on by their members, they can be a bit political, but to me that would be a great starting point, and there is an enormous need because we are a cottage industry on the furniture side. We have got factories that we deal with at the moment — for example, Di's furniture — she has got six workers; she makes us two kids' bedroom suites. They are desperately in need of someone to go there just one day a month or something and give them some skills in accounting, some skills in how to attack things — like they are trying to get a bunk passed through the Australian standards and they just have no idea.

It is five pages. The bunks are on our floor; we have got to take them off our floor if she cannot get them through the standards, because we are at fault. They really do need to be mentored and helped, and there are a million retired businessmen who, given a day or two days a week or something like that — —

**The CHAIR** — I had an idea when you said that last sentence. The State Government puts in what are called 'men's sheds' through the Department of Planning and Community Development, and the idea is for people who have trades and love working with their hands to use their time socially and be connected with each other. Would a business hub equivalent of a men's shed work? Do retired businessmen and women get to meet each other, other than at Probus clubs or Rotary clubs? Where do you go? Where do you two go when you retire, probably other than out of the house if your partner has anything to say?

**Mr MEADE** — He will never retire, but I will in three years. I am going to go off and do gardening, and I will do charity. That is what I have organised myself because I am part of the Woodpeckers.

**Mr TEE** — I suppose the question is if there is a role for government in bringing small businesses in this area together with those who have retired and have the expertise; how do we do that?

**Mr LANGWORTHY** — I think there is probably a training perspective. If the government is involved in funding training at a business level, if they could get involved in a mentoring program, pay the mentors and target them; put it out there.

**The CHAIR** — So we would need payment?

**Mr LANGWORTHY** — I think it has to be incentivised. It would not need to be a large amount of money, but it needs to be incentivised.

**The CHAIR** — We can explore that and see what the Committee thinks. As this is your particular topic that you have expertise in, Mr Atkinson, come into the discussion.

**Mr ATKINSON** — There have actually been mentoring programs like that in the past. I do not know how active they still are, but there are already mentoring programs. There was the Small Business Advisory Network and so forth as well.

I am interested in whether or not any of your manufacturers also supply to other retailers and, if so, what their position is as far as the support they get from those retailers, and I guess the viability of some of your suppliers. One of the concerns for a lot of businesses use is the supply chain issues, whether or not the qualities are consistent and the time frames are there that you need to meet your customers' demands.

The business acumen is obviously a key factor in the viability of those businesses too, but what is the health of the suppliers that you have had since 1989? Have you lost some along the way; have you been a critical part in seeing some of those manufacturers build their businesses and go out and get work with other retailers as well?

**Mr LANGWORTHY** — I think in the last 10 years there would be less than a handful that we have dealt with that have fallen over — gone into liquidation. Most of them have grown substantially and have much better businesses. We do not buy on price. We say, 'That's the product we want, and we do not mind paying a little bit extra to get it, but you have to give us what we want'. It has to be of a certain quality. So there is not that pressure to produce a product at a price. We know what it is worth, and that is what we will pay for it.

Our attitude towards our suppliers is that they are partners. We do not exist without them, so we have to have a good relationship with them, and if you are going to deal on price, price, price, you cannot have a relationship. The majority are doing really well. Some are doing exceedingly well. In terms of our competitors, they buy on price. It is not about price; it is about providing value, a good quality product. I would think that the Australian furniture industry today, the ones we deal with are having a good time. I think those that try to compete on price are in trouble, and there are a number of those.

**Mr ATKINSON** — Are all your manufacturers or suppliers Victorian-based?

**Mr LANGWORTHY** — No, we source Australia wide.

**Mr MEADE** — We source Australia wide. We source from Western Australia, Queensland and New South Wales. If you go back over the history of the Victorian furniture industry, Victoria really was the hub, and the imports that came in decimated to a degree the manufacturer base, but it has regrown and the manufacturers we have dealt with have gone through the GFC to be a lot healthier than a lot of the others, because when our product is on the floor it is only competing against what is made in Australia; it is not competing against what is brought in of poor quality and everything like that, so they have grown quite strongly.

**Mr LIM** — I am interested in a comment Bruce made earlier, the fact that there are mentoring systems, and yet you mentioned that there is a need for that. Is that because people are not aware of these programs?

**Mr LANGWORTHY** — I do not think they are aware. There are guys that are tradesmen who go into business or have bought their business from the previous owner. They are hard workers, they have got the street smarts, but they really have very little business knowledge or skills. It is amazing what they do not know. You only know what you know, and these guys really do not know. They really need somebody to come along and spend a few hours.

A guy spending half a day a month in these small manufacturing companies would make an enormous difference. They could bring all that accounting knowledge and how to do a budget. I do not think they would even know what a budget is. They make a product, they work out the best price, they sell it and they wait for the money to come in. They do not even know how to collect money.

**Mr LIM** — You think we need to break through this barrier if we are going to reach out to them. The other thing I want to know is do you export your product at all?

**Mr LANGWORTHY** — We do not export it as such, but we do get a lot of sales from overseas — from America, from Brunei. People overseas go to our website, see a product, make a phone call and order it. There is not that much, but it is always exciting when we do it.

**Mr TEE** — When you started your submission you talked about the fact that you saw a survey that said 20 per cent of people are looking for Australian made. It is great that you have found that niche, but I am wondering whether or not it is just that 20 per cent and you have found that niche. What is your sense of how much broader you can go? Is there space in your industry or in other industries to expand, and is that what is occurring? Are there other businesses in your area that are imitating your success by promoting their Australianness?

**Mr LANGWORTHY** — We used the Australian Made logo for a number of years free of charge, and then they had a change of CEO, Ian Harrison took over as the Executive Director and he made a phone call; it is no longer free. We became the first Australian Made campaign partner. Up until then you had to be a manufacturer to use the Australian Made logo. We were the first retail campaign partner for the Australian Made campaign. Since then Harvey Norman has joined and is a very strong promoter of Australian Made. Prior to that they dabbled in the market.

Forty Winks has joined us. They are an Australian Made campaign partner. There has been a reaction from the trade. They have obviously seen that we have grown dramatically. We grew from 1 store, really, to 11, and before the global financial crisis we had never borrowed a cent. We had put all the money back into the business, and we had absolutely no borrowings at all. During the middle of the global financial crisis we had to go to the bank and get some money, because of our cash flow. There was a total loss of consumer confidence for those three months, but up until then we had never borrowed a cent.

The truth is they are following us. You just have to pick up any magazine or any ad from any furniture retailer and they are out there: Australian Made, Australian Made. So we have had an impact on the industry. Our sales are increasing. They are up every week. Last week they were up 15 per cent. I think this year in our worst week we were up only 1 per cent, but some weeks we were up 40, 50 per cent on the previous.

**Mr TEE** — You have given us a few ideas, mentoring being one of them, but I am wondering if the other thing we should then have a look in that context is whether or not government has a role in promoting the Australian Made campaign. It has been a while since we have had those ads about the benefits of buying Australian, and it might be that we need to have a look at whether or not there is a requirement for product recognition around what the Australian Made logo means and the benefits of engaging on that or comparing it. I remember we used to have the Australian Made campaigns; what is your sense of the necessity around that: is that still occurring; do we need to think about giving that a kick along?

**Mr LANGWORTHY** — It is still occurring. It is the most recognised brand in Australia. Everybody knows what it is. The only money they get is the money they get in from the members and supporters, and it is being put into promoting Australian made. I think it is a very effective campaign. They get some funding from the Federal — —

**Mr MEADE** — Just a small amount. Also the other one that tagged on is the Australian Grown, which is part of Ian's area that he is looking after. I think he mentioned the other day that they are just about to start a new one for fruit or something like that.

**Mr LANGWORTHY** — That is right, they have got the Australian Made, Australian Grown.

**Mr MEADE** — And they are using those.

**The CHAIR** — We have had evidence from him. It was very interesting. We met up with him at Silver Lynx, the furniture manufacturer in North Coburg, and he talked about the importance of Australian Made, Australian Grown.

**Mr MEADE** — Yes, we were there.

**Mr LANGWORTHY** — Equally, when we became an Australian Made campaign partner working with Ian, he went out and got a lot of the Victorian-based manufacturers to join the Australian Made campaign, so they had a very dramatic increase in membership.

**Mr MEADE** — You were there on the night at Silver Lynx, when we introduced that. That was the night, we came along because we had just done the Australian design, the Australian Made, with Holmesglen TAFE and joined the whole thing together. We launched that into our stores as the first time for Australian design, Australian Made and Australian produced, with Holmesglen TAFE as part of it.

**Mr ATKINSON** — Can I ask about workforce skills, employee skills? Obviously part of the Australian Made proposition is a quality proposition and you need good quality workmanship. It is my understanding, in recent years there has been a bit of a shortage of skills in terms of wood-turners and a number of other people who are craftspeople, if you like, in this area. Are your manufacturers finding it easy to attract people to the industry and to get the skills they need to access? Or are they finding, like some other sectors of manufacturing, that it is not regarded as an industry with a great future, in a perception sense, and therefore the availability or the interest of young people entering the industry is perhaps not as good as it ought to be?

**Mr LANGWORTHY** — I really cannot comment, I will leave that to Gerald who deals with most of the manufacturers.

**Mr MEADE** — The apprenticeship problem, with every industry you talk to, is that they have changed all the apprenticeships and things like that. We do not have what in the old days was an apprenticeship for upholsterers, an apprenticeship for wood-turners, an apprenticeship for joiners and all of those. They have all been condensed into smaller overhanging things, so you do not get the expertise in certain areas that are lacking.

Every manufacturer has problems with staff, and getting them to work on it, but it seems to be, walking around factories and things like this, that one of the things I have noticed enormously in the last five years is the females working in manufacturing in the factories, doing upholstery, cabinet making, spraying and things like that. It has changed enormously, and that has given a bit of a kick along to some of the areas.

**The CHAIR** — Do you have more women in design?

**Mr MEADE** — Males cannot design, we try to cull them out, but most of the manufacturers we deal with — —

**The CHAIR** — Are they beginning to pick up on that?

**Mr MEADE** — No. Most manufacturers are blokes. They walk in, there is the guy who has bought out his partner or something like that, and they reckon they can design, but they cannot.

**Mr ATKINSON** — What is the average age, or the general age of the owners of your manufacturing supply base? Are we looking at an issue where they are looking to exit the industry in a certain time period and we are facing some problems in that, or are you confident that those businesses are going to be sold or handed on?

**Mr MEADE** — Davis Furniture, which is one of the ones that has lasted through generations, has just had a generational change. One of the partners, Colin, left the business and sold out his share. Young David Bowman bought out a third of the business. He is a 31-year-old gentleman with a trade behind him and he is basically going to carry on that business. The furniture business always has a big churn in the manufacturing of furniture; in the bedding, mattress-and-base section. It is totally different, more professional, with larger players.

**Mr LANGWORTHY** — A lot of them are actually family businesses and they have, strangely, succession plans in place. The children are involved with the intent, you can see that the intent is there, to take over. There may not be a formal succession plan, but they do have their families working in the business.

**Mr MEADE** — I will give you a classic example, Simon taking over Howard.

**Mr CRISP** — What standards exist in the furniture industry and how are those standards enforced? How important are they to you, if they exist? We are getting to the quality issue.

**The CHAIR** — And to imported rubbish.

**Mr LANGWORTHY** — We set the standard and our standard is very high. It is quite simple: would I sell it to my mother? If I would not sell it to my mother, it does not get on the floor. End of story. It has got to be good quality.

**The CHAIR** — Yes, but are there standards in the Australian context on furniture?

**Mr LANGWORTHY** — No.

**The CHAIR** — No, there are not.

**Mr MEADE** — No, because you have got different ways of manufacturing a cabinet; you could have five different ways: there is mortise and tenons or you can have dovetailing and you cannot say which is good or which is bad. What you should have is labelling stating where it comes from as an import. Most consumers who go into retail stores, in most cases would think they are buying Australian made, and when you have got a store like Ikea, I do not think it has an Australian item on its floor.

**Mr LANGWORTHY** — There are Australian manufacturers that import goods and claim they are Australian made, but they are not, but that happens in any business. There are people who are unscrupulous. What do you do about them?

**The CHAIR** — No, the question is: if there were standards that were not being enforced, then we want to know about them. If there are not, that is all right, so we rely on retailers setting the standard.

**Mr CRISP** — In relation to the supply of quality timber, some evidence we received in the Inquiry related to difficulties in getting Australian timber for the Australian furniture industry. Have you encountered any issues like that with your suppliers?



**Mr LANGWORTHY** — Not that I am aware of.

**Mr MEADE** — There is a buyer from a couple of the manufacturers timber suppliers that have bought out mills and that is bringing the market down, but we have had no problem getting Australian. I would like to get some of the silver wattle and those things that have been cut out back in the marketplace, because they are magnificent Australian timbers.

**The CHAIR** — Excuse my ignorance: can they be grown and harvested?

**Mr MEADE** — No, they were harvested out of Tasmania.

**The CHAIR** — So they cannot put up a forest of them?

**Mr MEADE** — No, they cannot. We use Tasmanian oak, Victorian ash, jarrah, marri, all those timbers.

**Mr CRISP** — The furniture industry, to your knowledge, or your suppliers, is not being outbid by other users of logs?

**Mr MEADE** — Not at this time.

**Mr LANGWORTHY** — Not that we are aware of, no. No-one has come up to me; most of the time they will come up and say that there is a price increase.

**The CHAIR** — It has been very interesting and I declare that when we need office furniture, after that visit out to the factory we were at together, I know where I want to purchase our next lot of office furniture.

I, personally, have found it interesting and from the sound of the questions, everyone else has too. I know you have given up your afternoon and we appreciate that. The transcripts by Hansard will be sent to you within about a fortnight and you will be able to correct any typographical errors but you cannot change the substance of your submission. We thank you for your attendance.

**Witnesses withdrew.**