

The granting of credit on bills or promissory notes, involving as it does the loss of discount and the payment of interest, appears to result in no direct loss or cost to the manufacturer, since the true total rate of interest or gain to the manufacturer is appreciably higher than the rate which the manufacturer must pay for bank accommodation. At the same time, it involves the manufacturer in a very considerable capital outlay, with consequent restriction of his financial position.

Imports of footwear obtained by retail houses through agents in the Dominion are normally paid for on arrival, and the retailer is often virtually financing his importations as a result of the credit given him by local manufacturers.

The most serious aspect of this general question, however, has reference to the bad-debt risk involved in the granting of extensive and extended credit. Under present circumstances manufacturers carry a serious stock risk both in relation to raw material and finished goods, and when that risk is extended to the goods on retailers' shelves the position becomes even worse. Both by reason of general trade depression and the frequent changes in fashions, stock risks run high. Retailers are undoubtedly unable to gauge with more than a moderate degree of success the "saleability" of the goods which they purchase, and overbuying and injudicious buying are doubtless evidenced by the frequent offerings to the public of "dead" stock. It seems unreasonable that manufacturers should be forced to accept, through extensive credit, a serious proportion of this retailer stock risk. Moreover, the local manufacturer carries in some degree the risk in respect not only of his own sales, but also of the overseas lines handled by his retailer clients, who, having paid promptly for imports, remain indebted only to the local manufacturing houses.

This risk of depreciation of retailers' stocks is, of course, borne in the first instance by the retailer himself, and up to the limit of the retailer's financial ability to meet his commitments the manufacturer is protected. Figures which we have secured from a number of factories show, however, that manufacturers are increasingly called upon to bear the losses arising from the insolvency of retailers. In almost all instances it appears that bad debts have increased from being a minor item in the profit and loss account to a position of major importance. Several manufacturers are writing off bad debts at a rate of $2\frac{1}{2}$ per cent. on turnover averaging around 6d. per pair on the whole output.

(c) Insufficient Turnover.

We have already touched upon the general question of the extent of the business done by local manufacturers, and little needs to be said in regard to the improvement which could be confidently expected to follow from increased production and sale. Many factories are running well below a reasonably economic production, and none of the factories are securing output which at all approaches the reasonable plant-capacity. The influence of this fundamental fact is already seen both in production and marketing, and costs are undoubtedly much higher than would be realized if output and sales could be appreciably increased. The constant endeavour to secure a higher turnover has led to some very unhealthy features in the trade, and business of an undesirable character is not only accepted but is eagerly sought after at high cost. The retail trader is in a position to impose upon manufacturers almost any condition he chooses in relation to designs, sizes of orders, and conditions of payment, and as a consequence the manufacturing industry, through both internal and external competition, finds difficulty in improving its general status.

An immediate improvement to the industry would be experienced by the retailer deciding to give reasonable support to the local manufacturer. Some retailers who definitely give support to locally-made footwear state that the financial results obtained, combined with the diminution of risks of depreciated and unsaleable stocks, justify this policy.

CONCLUSION.

The report presented herewith has dealt principally with the manufacturing or producing side of the industry, and to some extent with the difficulties of distribution. There remains a further and final report to be prepared on the distributing side, dealing more particularly with the sales policy adopted by distributors towards New Zealand footwear. Joint conferences of manufacturers and retailers, with representation from the Committee, could well be held in various centres for the discussion of the difficulties of both parties, for the elimination of uneconomic costs, and for the development of co-operation and good will between the manufacturing and selling interests.

In our opinion, the present causes of depression in the industry may be summarized as follows:—

- (a) Unsatisfactory quantity output of factories as related to machinery and facilities.
- (b) Multiplicity of designs of footwear manufactured in individual factories and manufacturers' present inability to specialize.
- (c) Competition from overseas in footwear which could readily and economically be manufactured in the Dominion.
- (d) Vagaries in taste and changes of fashion of women's footwear (a world problem).
- (e) Apparent lack of cohesion and initiative among manufacturers, and failure on their part to discuss frankly and freely the problems and difficulties surrounding the production and marketing of footwear.
- (f) Lack of co-operation in dealing with marketing problems.
- (g) High cost of distribution from factory to consumer.
- (h) Non-flexibility of present labour conditions.
- (i) Lack of sustained national propaganda to assist sales and create good will towards local industry.
- (j) Unsatisfactory layouts of plant and equipment and general planning of factories.
- (k) Lack of satisfactory costing system.
- (l) Inadequate control by management over factory operations.