



Automotive Supplier Excellence Australia Newsletter - December 2013

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Director's Message



The Holden announcement this week that they will cease to manufacture engines and vehicles in Australia in 2017, has put increased emphasis and urgency on component suppliers to diversify their business into other products, markets and sectors. ASEA has been helping companies to establish business plans and to implement diversification strategies since 2008, so please contact us if you need any assistance in these key areas.

Since the previous Newsletter the ASEA team has been very busy running multiple workshops for the Victorian based MPN program, completing another successful BCSP Diversification Forum, and working with a variety of clients and stakeholders on numerous projects, mainly focused on diversification.

Through the AutoCRC, ASEA has also been actively involved in providing input to the Productivity Commission (PC) which is undertaking an inquiry into public support for Australia's automotive manufacturing industry, including passenger motor vehicle and automotive component production. The Commission has been asked to:

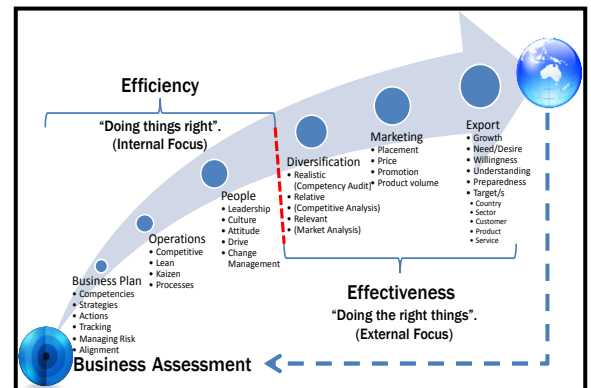
- Examine national and international market and regulatory factors affecting the industry
- Identify and evaluate possible alternative public support mechanisms
- Identify any significant transition issues or adjustment costs that may arise from alternative support mechanisms or policy changes and how they might be best managed
- Assess the significance of the capabilities within the industry, its direct employment and economic benefits, and its secondary impacts on other sectors of the economy
- Quantify the costs and benefits of existing and alternative assistance mechanisms.

The Commission is to release a preliminary findings report by 20 December 2013, and to provide a final report to the Government by 31 March 2014.

During the past six years ASEA has worked with more than 110 automotive supplier companies throughout Australia, and our preparation for the

Commission presented us with an opportunity to be able to review and update previous reports and analysis, using the large amount of comprehensive information and data collected.

We had learned that in general, the initial focus of SMEs was on improving the efficiency of their business by reducing costs and "doing things right". This journey usually commenced with the development of a 5 year business plan, followed quickly and sometimes simultaneously by an in-depth focus on improving their operational efficiency through the implementation of lean practices. However lean is not sustainable unless the people are knowledgeable and the organisational culture is supportive, so considerable effort was also needed there.



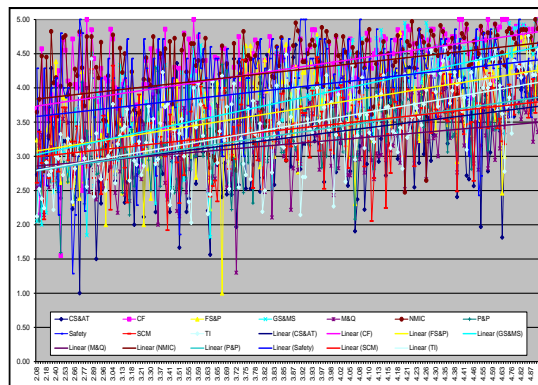
Improving internal efficiency reduces costs and improves competitiveness, which then allows the company to focus on external activities such as diversification, and to enhance their effectiveness by "doing the right things".

However SMEs who have only supplied into the OEM automotive sector and have had captive markets for many years, generally find it very difficult to make this shift. The step between an internal and an external focus is HUGE, but it is also an essential part of the business sustainability journey.

Companies that have successfully made the step between efficiency and effectiveness are typically quite entrepreneurial, and preparation for the PC provided the opportunity to be able to re-examine the age old question regarding the effect of Management and Leadership on achieving successful company outcomes.

More specifically, using the results of over 220 individual company assessments, we were not only able to examine the effect on 10 different competencies across the entire business, but also determine which areas of the business are typically most affected by Management and Leadership (MAL).

Plotting the scores for all 10 competencies (vertical axis) against the score for MAL (horizontal axis) for each company resulted in the following very busy graph, with the gradient of the linear “lines of best fit” indicating the magnitude of the effect of MAL on each. Using the lines of best fit it can be seen that typically, the higher the score for MAL the higher the score for every other competency within the Company, while conversely the lower the MAL score, the lower the other scores.

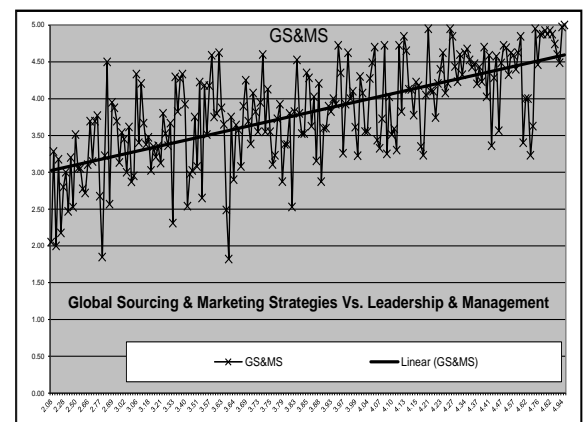


From the graph we can clearly see that there are three competencies with significantly higher starting values than the other seven, and these all happen to be competencies that Companies must do to stay in business. If Companies do not focus on these three - “Safety”, “New Model Introduction Capability” (NMIC) and “Customer Focus” (CF) - they will not get the business for the next model, so these are the things they must do.

Interestingly, the two competencies with the highest gradients (and hence the largest influence of MAL) are the ones that Companies don’t really have to do, but are the ones that can most influence and enable the transition between efficiency and effectiveness. They are “Technology Investment” (TI) and “Global Sourcing and Marketing Strategies” (GS&MS), which also happen to be two of the critical enablers

in moving a Company from efficiency to effectiveness.

While investment in new technology can typically be expensive and longer term, diversification using already existing competencies can be a lower cost and more immediate method of innovation. In the current environment most companies are focused on growing revenues using diversification, and the significant impact of Management and Leadership on this process can be seen below.



It can be clearly seen that diversification activities within a Company are very heavily influenced by the strength of the Management and Leadership team, and the direction they provide. While most SMEs understand the need to diversify using a combination of process, product, service, customer, sector and global diversification options, they struggle with how to do this, and where to start.

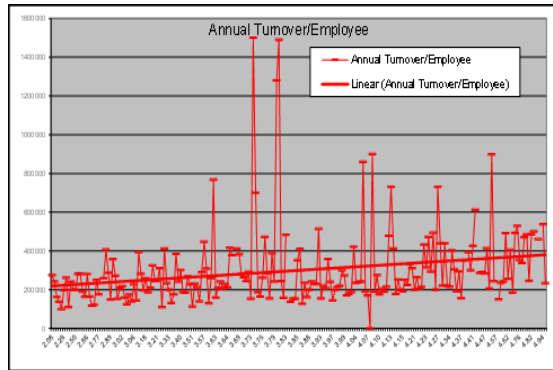
It is also clear that there are a number of globally competitive Australian automotive supplier companies that are at the upper end of their journey, and are very successfully exporting a variety of products and services to customers overseas.

However, there are also a number that are still struggling with becoming more efficient, rather than becoming effective. The challenge for the Australian automotive supply sector is to maximise the number of companies able to successfully make the transition.

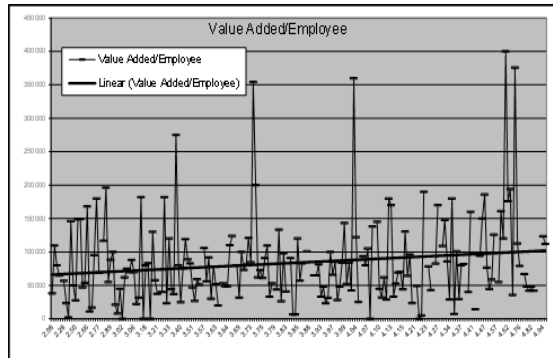
While analysing the competency data, we thought it might also be interesting to consider the effect of MAL on some of the key company metrics as well. Below is a graph showing the “Annual Turnover per



Employee” which almost doubles from \$200,000 to \$400,000 per employee, most likely reflecting higher value products.



This is verified by looking at the Value Added per Employee graph, showing that the average value moves from approximately \$70,000 per employee at the lower end of MAL scores to over \$100,000 per employee for the higher scores.



If you are considering a diversification strategy for your business but need help in starting please contact ASEA for assistance. Likewise, if you already have a strategy but need help in implementation, please also contact us as we have an outstanding program called “Evolving Innovation” to help companies throughout all stages of their journey.

Business Capability Support Program (BCSP)

The ASEA diversification program, *Evolving Innovation* has received outstanding feedback from participating Companies. There are currently 16 different company/sites actively participating, with

11 projects already completed out of the total of 21 projects signed up so far.

Discussions are also currently underway with another 6 additional companies who will progressively join the program during the early part of next year.

Evolving Innovation is an integrated program which commences with a *Business Diversification Diagnostic* and can then lead into the following four separate but related Diversification modules: Competency Audit, Competitive Analysis, Market Analysis & Export Fundamentals.

The majority of the projects completed so far have focused on the Diagnostic, the Competency Audit and the Competitive Analysis, however a number of other post diagnostic projects that underpin the company’s diversification activities, are also underway. These include projects reviewing Business Systems and helping Companies change Organisational structures and Cultural behaviours.

Darrin Spinks, the Managing Director of Precision Components Australia, a current participant in the program, has said “*The Evolving Innovation approach makes you think in a very different paradigm in order to fully understand the organisation’s competencies. Diversification is hard work, and as a result of the engagement with ASEA Precision will be making some organisational changes to enable a dedicated focus on pursuing diversification opportunities*”.

Along these lines, the ASEA team has found from our engagement with companies already on the diversification journey that the *Evolving Innovation* program complements and builds on their current diversification activities. What is also emerging from these companies is that to be successful, many other aspects of the business need to be streamlined in order to underpin their diversification activities. Some of these include organisation redesign, the fostering of entrepreneurial leadership and culture, process engineering, nimble and flexible procurement processes, cost management, and product development.

On November 7th, ASEA hosted an Industry Forum entitled *Diversification - In Pursuit of Success* at the Melbourne Convention Centre. Speakers from automotive suppliers included Philip Crosbie from

Australian Arrow and Dean Haritos from MHG Asia Pacific, who respectively shared their experiences with diversification as well as the many challenges that they have encountered during the process.

Also speaking at the forum was Michael Faulkner, who has over 40 years of experience across many different market sectors, and he is the lead ASEA Business Coach for the Evolving Innovation program. Michael has been involved with all of the current Evolving Innovation participants, and during his presentation he mentioned a number of key success factors for diversification. These included senior management and leadership, and dedicated autonomous business units supported by an entrepreneurial company culture.



The current Productivity Commission enquiry into the Australian automotive industry along with Ford and Holden announcements to cease production in Australia, are further highlighting the imperative for component companies to diversify into other non-automotive market sectors.

There are still opportunities for more companies to participate in the *Evolving Innovation* program so please contact your friendly Client Managers Tom Chappell, Peter Cesco and Peter Taylor.

Manufacturing Productivity Networks (MPN) - latest

The DSDBI-sponsored ASEA MPN program which runs from October 2013 to September 2015 is picking up momentum.

The initial workshop in October was well attended by companies in the critical commodity supply chains of Metal Stamping and Assembly, and Plastic Injection Moulding. That first workshop established

a positive climate of trust and co-operation across the group, and resulted in the identification of areas of common interest for collaboration and sharing of best practices.



The second workshop held in November focussed on one of the key areas identified in the first workshop, where the group participated in a productive workshop facilitated by Angela Malone, an ASEA Coach since 2010. There were two principal areas for follow-on work:

- The group determined that there was more to be done within this area, which now is the subject of an industry-specific self-assessment for the benefit of participants. Further development will also follow in the other areas of interest generated in these workshops, as we “drill down” on the specific issues raised in workshop 2. The consolidated results of the self-assessment survey will be issued to participants this week.
- The group agreed that there is an opportunity to collaborate on the use of test and development equipment, to achieve some scale economies and share the costs of new product development. ASEA is therefore facilitating the development of a register of test and development equipment available within the group of MPN participating companies.

We already have a number of projects scoped and underway with individual companies with several more in the pipeline, and are working on the development of group opportunities.

The next workshop is scheduled for Thursday 6 February, 2014.

Please contact Peter Taylor or Tom Chappell if you have any questions related to the MPN.



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Diversification is difficult and different - a view from South Australia

After many years of successfully working with South Australian Tier 1 and 2 automotive supplier Companies to help them improve the internal efficiencies of their businesses, the current focus has now changed to helping improve effectiveness. ASEA is now helping them to focus externally, and improve their effectiveness by assisting with their diversification efforts.

“This is a key part of the “Journey of Success” model, and we are using the ASEA Evolving Innovation program to help guide them through this difficult process” says Peter Cesco.

The ASEA “Evolving Innovation” diagnostic and diversification program has already received excellent feedback from the participants in South Australia.

Not all Companies currently have the capability of understanding all of the steps involved in the diversification process, but those that do, and implement them successfully, have a much better chance of not only surviving, but of growing and thriving.

The initial Evolving Innovation one day “Diagnostic” provides each participating Company with a breakdown of their needs and capabilities, related to their understanding and capacity to be able to implement the necessary changes.

The Diagnostic is coupled with the “Ready, Willing and Able” management diagnostic which is delivered on the same day. These tools are used to identify where difficulties may exist in implementing the diversification journey, so assistance can be provided to help develop new processes and a differing mindset.

Diversification is not simple, and it is not easy. Many automotive providers have limited experience dealing with product sales to non-automotive customers, and often don’t even have any marketing expertise within the organisation.

The move to a non-automotive sector may also require the use of different standards and systems. These can be complex such as those required for

the aerospace or medical sectors, or in some cases may not require the complexity of the automotive industry in order to minimise development costs and decrease the time to market.

Currently three South Australian companies have completed the first stage of the Evolving Innovation program, with one already completing a follow on project and another being scoped. All ASEA projects conducted under the BCSP remain 75% funded by ASEA.

One of the main benefits of the ASEA Diagnostic is the way it assists organisations to identify and understand their existing competencies, and identifying whether they are generic, advanced and unique. Understanding the competencies and capabilities that exist within the organisation allows a different mindset to evolve, which can quickly identify potential new products, processes or sectors. Hence the name of the program - “Evolving Innovation”.

The ASEA Client Manager for SA may have already contacted your company, but whether he has or hasn’t, if you require any sort of assistance in your diversification efforts, please feel free to contact him to discuss the support that ASEA can provide.

The ASEA South Australian Client Manager is: Peter Cesco

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Upcoming Events

ASEA are supporting FAPM with their Trade Mission to Malaysia and Indonesia, which will be held in 2014 between February 24th and 28th.

Meetings have already been organised with a number of OEMs and Tier 1 suppliers in both countries. These meetings are important to identify potential opportunities that may currently exist for suppliers in Australia, but more importantly they are the beginnings of creating and establishing critical relationships that can lead to far greater opportunities in the future.

If you are interested in participating, please contact either FAPM or your ASEA Client Manager.