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Inside this Issue:

Director's Message 1

Business Capability Support Program 3

Manufacturing Productivity Networks 4

ASEA-DSDBI-FAPM 5 Forum

Upcoming Events and Activities 6



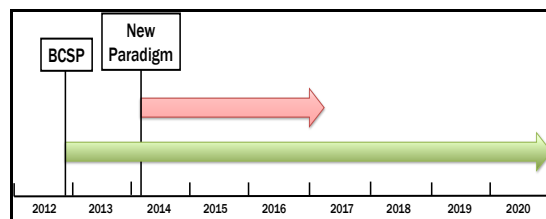
Director's Message



Recently ASEA was asked to examine the level of diversification of companies within the Australian automotive supply chain, and it immediately became apparent that companies fell into one of three groups, each of which required different strategies.

Since the announcements from the OEMs that they would cease manufacturing in Australia in 2016/17, the urgency of replacing lost OEM business with "other" business has been significantly increased, and the reduction in timing from a "manageable eight to ten years" down to a "potential two to three years" has meant that for some companies, the number of options that could have been available to them are now not possible.

To fully comprehend this urgency and the impact of the new paradigm, we need to understand the changes to the operating environment. This can probably be best demonstrated in the diagram below which shows that when ASEA embarked on the delivery of the Business Capability Support Program (BCSP) which was part of the Automotive New Markets Initiative (ANMI), suppliers expected to have at least eight years in which to transition their business from automotive into non-automotive.

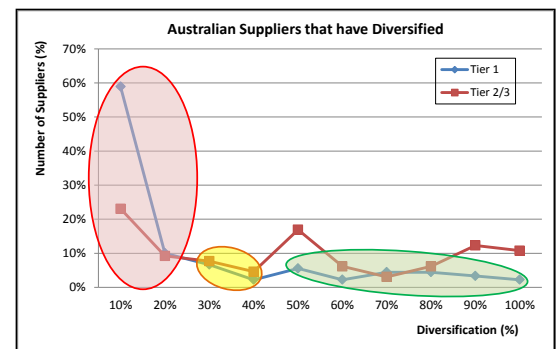


As can clearly be seen from the above diagram, they now have only two to three years to replace existing Australian OEM business. There are a range of "Diversification Strategies" which can

involve a combination of many different options. Some of those potential options could include diversification of:

- Products
- Processes
- Customers
- Sectors
- Markets
- Exports
- Aftermarket
- Services
- Acquisition
- Joint Ventures
- Licences
- Partnerships
- Collaboration

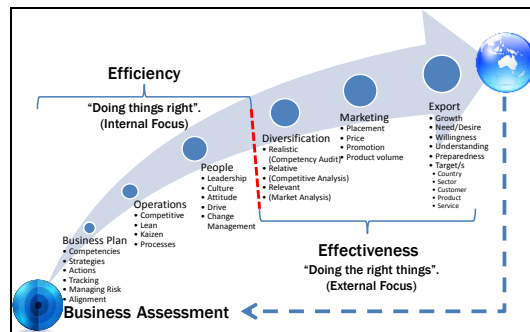
For those companies that have been committed to, and focused on supplying quality, cost-effective products to the local OEMs and have either not yet begun, or have only just commenced the implementation of a diversification strategy, their options are now limited. With an eight to ten year timeframe, diversification into other sectors such as Defence, Rail, Construction, Mining or Medical, were clearly options. However, unless these processes are already well underway, or the suppliers have products which these sectors need and want, the potential for success in a two to three year timeframe is limited.



If we look at the Graph of "Australian Suppliers that have Diversified" (above), we find that the majority of Tier 1 suppliers are clearly in the low diversification category (highlighted in Red). There are a small group that have commenced the journey (highlighted in yellow), while there is a further group

that are clearly quite diversified already (highlighted in Green).

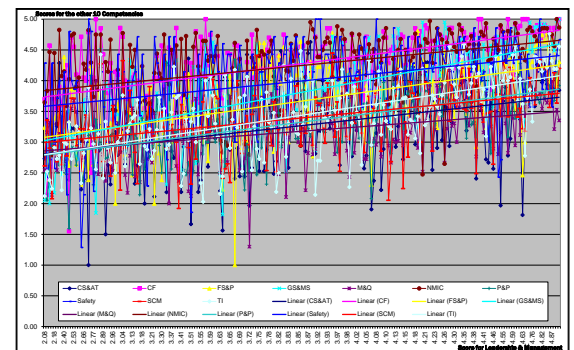
As stated in previous newsletters, apart from the challenge of a reduced timeframe, there is also the challenge of implementing the mindset change needed to successfully enter new markets and sectors. Companies which have only supplied into the automotive sector and have had captive markets for many years, generally find it very difficult to make the shift from being internally focused “efficiency” to externally focused “effectiveness”, particularly when this involves different sectors/markets.



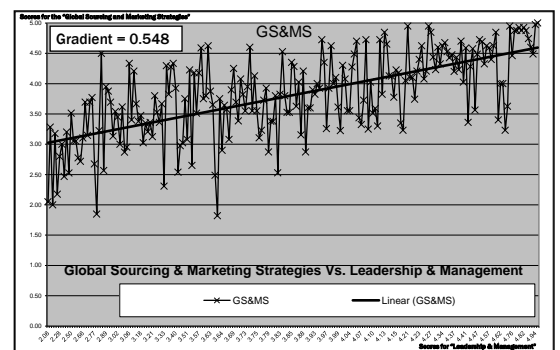
Those companies in the Green and Yellow ellipses will already have customers in multiple sectors and will be making multiple products, and may already be exporting. They have all of the diversification options open to them, while those in the Yellow ellipse will probably be keenly focused on getting some “quick wins”.

Those companies in the Red ellipse have probably only just commenced diversification activities, or they have previously been a low priority. Their immediate focus is on getting some “quick wins”. All key resources should currently be focused on those diversification options where they can win and begin new business within a two to three year timeframe.

The driving force behind these diversification activities and plans has to be the Leadership and Management (LAM) of the companies, as diversification activities have to be driven top down. By relating the ten Competency scores from over 250 Company Assessments to the Competency scores for LAM for those same companies, we can clearly see that there is a direct correlation between the scores for LAM and every other competency within a company’s business (See below).



It can be clearly seen that some Competencies have higher gradients than others, reflecting the fact that the LAM has more of an impact on them than on other competencies. From this Graph, we can see that the highest gradient (and hence the biggest impact of LAM) is for the Competency of “Global Sourcing and Marketing”, which is the competency related to diversification activities (See below).



With scores for 11 Competencies, 52 Metrics, 20+ KPIs and 300 separate questions, we have a huge

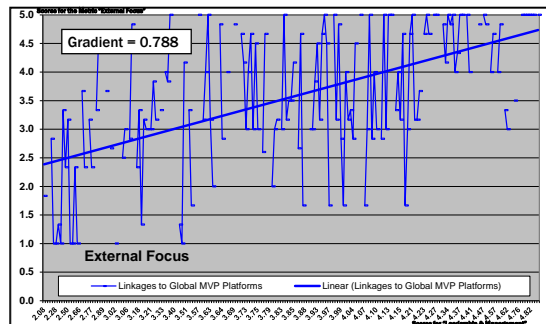


Automotive Supplier Excellence Australia

Newsletter - July 2014

amount of data that can be used to try to further understand this particular relationship. If we examine the effect of LAM on KPIs like “Labour Productivity” (Gradient of 0.325), or “Supplier Development” (Gradient of 0.342), we find that the LAM does not have an overly significant impact.

However when we look at the KPIs of “Risk Management” (Gradient of 0.788) and “External Focus” (Gradient of 0.788) we can see the huge impact LAM has on these (See below).



As time is now of the essence, the quickest way for a Company to find new opportunities, is to understand what they do best and utilize these existing competencies, rather than try to develop a complete new set of skills/products; which is fine if you have the time. Over the past 2 years, ASEA has already successfully worked with more than a dozen Companies using our “Evolving Innovation” program to help them through this process and to conduct a competency audit to identify their key competencies as well as their generic capabilities.

As part of good management principles, Companies need to both consider and manage “Risk”, and attempt to minimize it for the organization, as well as increase their “External Focus”. One way to manage risk is to make sure sales are spread across a diversified customer base, and are not “all in the one basket”.

If your organization would like to better understand how to lower risk and increase external focus through diversification or other activities, please contact any of the staff at ASEA.

Business Capability Support Program (BCSP)

The ASEA participants in the program are making steady progress with their respective pursuits of new business opportunities and a recent review of some participants shows a growth in their Non-Auto OE Sales.

This growth in Non-Auto OE Sales, which includes Aftermarket & Non-Auto business, will potentially enable these companies to have a sustainable business beyond 2017 when Ford, GM Holden & Toyota exit manufacturing in Australia. Due to the cessation of vehicle manufacturing in Australia, there is now a “survival imperative” for all automotive component suppliers to accelerate their new business growth activities to achieve a sustainable business model.

With this seismic change in the automotive industry, time is now of the essence, and the quickest way for a Company to find new opportunities is to firstly understand what they do best and then utilize these existing competencies, rather than try to develop a complete new set of skills/products. A common theme heard from many participants in the Evolving Innovation program is that it is crucial to understand the organisation’s competencies to enable a targeted approach to new business opportunities.

Currently there are 25 companies/sites participating in the Evolving Innovation program and discussions are currently underway with another five companies who will potentially join the program during the Q3 of this year. The 25 companies have undertaken 40 projects and of these 27 have been completed



already with the remaining 13 projects in various stages of completion. In addition to these, there are also another seven projects that are in the preliminary scoping phase that will potentially commence during Q3.

Many of the 25 ASEA participants are well along the diversification journey, and their engagement with the flexible and customer focused Evolving Innovation Program, complements and builds on their current new business development activities. We have found that to be successful, many other aspects of the company's business need to be streamlined to underpin the new business activities. Some of these include: strategic & business planning updates, organisational redesign, process engineering, fostering entrepreneurial leadership & culture, nimble & flexibility procurement processes and cost management & product development.

On the 9th April, 2014 at the Melbourne Convention Centre, ASEA hosted an Industry Forum entitled "*New Business Opportunities*". The speakers were from the Construction, Mining and Resources sectors, Enterprise Connect, FAPM, Venture Australia, MTM, and the ANMP Evaluation Panel Chairman.

The ASEA Forums are specifically aimed at helping supplier companies within the Automotive Supply Chain to understand some of the diversification opportunities that exist in the manufacturing and service sectors outside of Automotive. Therefore speakers are engaged from companies who have already successfully begun the diversification journey, plus speakers from other Sectors, to share their experiences and the potential new opportunities.

Based on the cessation of automotive production in 2016/2017, it is now a *survival imperative* for component companies to secure new business in the non-automotive and/or export 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 & Peter Taylor.

Manufacturing Productivity Networks (MPN) - latest

ASEA held the 4th MPN group networking workshop on 22nd May with the leaders of participating companies. This workshop was titled "The New Paradigm", as this was the first time the group had met since the Toyota announcement in February. The group discussed the current focus of their respective companies, and shared in a robust and comprehensive discussion on the potential for efficiencies to be gained up and down the critical commodity supply chains, given the massive changes in the auto sector.

We have since run a very successful project at one of the participating companies that focused on minimising material obsolescence at the close of local production, considering commitments to MVP customers, FAB authorities, minimum order quantities, Tier 2 suppliers and their future upstream purchase commitments. It was pioneering work which has broad application in the components sector, to plan ahead for the inevitable closure of automotive manufacturing in the most orderly manner possible.

Our next networking workshop for CEOs will be on this critical topic. It is planned to be held in early August.



Automotive Supplier Excellence Australia Newsletter - July 2014

ASEA - DSDBI - FAPM Joint Forum

DSDBI, ASEA and FAPM, jointly held a "New Business Opportunities" forum at the MCEC on Wednesday June 18th.

The theme of the forum was finding opportunities in other sectors for auto components suppliers, particularly opportunities which could be facilitated by DSDBI.

The presentations from other sectors included Defence, Rail, Mining, and Construction (including unitised building), and DSDBI presented on behalf of the food packaging and the medical technology sectors.

Christopher Wong from DSDBI presented on the following:

- Detail of the Commonwealth's \$155 million Growth Fund
- DSDBI current thinking and activities
- In - Market Supplier Advocate
- China outbound trade mission in September, in collaboration with Ford and GM
- USA trade mission in November to SEMA and Detroit in collaboration with Ford and GM
- Autoweek 2015 Program

DSDBI also collected the interests of the attendees in the following sectors:

- Construction
- Defence
- Food
- Med tech
- Mining
- Rail

Plans are underway for follow up activities. Further details will be announced progressively.

It was one of the biggest turnouts for an ASEA forum with 112 registrants in total. The feedback was positive, with ratings from attendees of "excellent" or "good" on a 50/50 split. According to this feedback, the best features of the forum were the information that was presented and the chance to network with others. Suggestions for future forums were mostly about continuing the theme business opportunities theme with these industry sectors and also to include other sectors.

Thanks to Richard Reilly from FAPM for acting as MC, and to all the presenters for their contributions.



The recent "New Business Opportunities" forum attracted a large number of attendees



ASEA Program Manager, Peter Taylor, speaks at the forum



Automotive Supplier Excellence Australia

Newsletter - July 2014

Upcoming Events and Activities

Victorian Government Automotive Trade Missions to the United States, China and Malaysia

Expressions of Interest have been extended until the end of this week, Friday 11th July.

[The trade mission to China](#) is from the 21st - 26th September 2014 and will involve meetings with Ford Asia Pacific and Shanghai GM Wulin commodity buyers and relevant auto suppliers.

[The trade mission to Malaysia](#) is from the 28th September - 2nd October 2014 and follows on from the mission to China. It will include the opportunity to engage with and promote products and capability to Malaysian OEMs and their supply chain.

[The trade mission to the US](#) is from the 3rd - 12th November 2014 and includes attendance at the Specialty Equipment Market Association's trade show, followed by meetings with Ford and GM accessories purchasing and engineering executives in Detroit. The second part of the mission will target Toyota's parts and accessories procurement and engineering decision makers in Florida and Texas.

Prefab AUS Conference

You may also be interested in attending the "Prefab AUS" conference from August 11th to 13th, which will address the use of "automotive" techniques in modular manufacturing for the construction industry.

Automotive Technology Conference - 20th - 21st October 2014, Melbourne Convention Centre



Find out about the latest research and new technology in automotive and manufacturing in this two day conference showcasing the work of some of Australia's best automotive researchers.

[More info](#)

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