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Inside this Issue:

- Director's Message 1
- Business Capability Support Program 2
- Manufacturing Productivity Networks 3
- The "Evolving Innovation" Program 4



Director's Message



As our two automotive programs (BCSP and MPN) enter their ramp-down phases, the past 6 months has seen a significant increase in project activity. Companies within the automotive supply chain are seeking support from ASEA to help them implement projects to improve both the efficiency and effectiveness of their businesses.

Many of the current projects are focused on the introduction of new product ranges in new market sectors, which is simultaneously creating both excitement and challenges. Companies have discovered that to enter new markets outside of the automotive sector needs a different set of skills, knowledge and thought processes. While disciplined automotive processes and procedures can still be used to manufacture and supply quality products, the range of customer needs and requirements can be quite different.

Since July 2015, ASEA has also expanded our support into a number of other industry sectors, and are currently working on projects with more than a dozen companies in the Construction, Food and Transport sectors. This has also meant a lot of travelling for our team as many of these new clients are located in Regional Victoria, including Swan Hill, Bendigo and Ballarat.

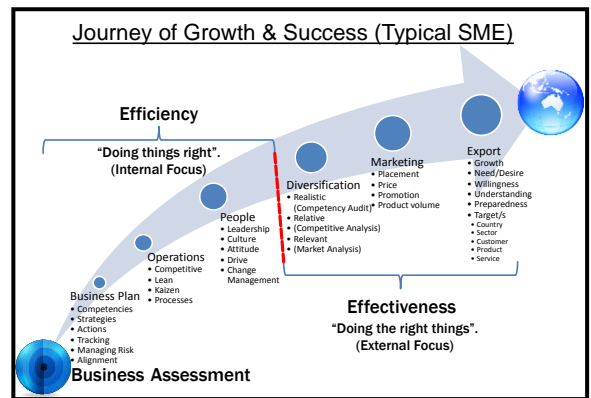
Moving from a purely automotive focus between 2007 and 2014 to now working across multiple sectors has provided a unique experience for the ASEA team. We have discovered that companies in all of these sectors face almost exactly the same challenges, and require the same disciplined approach for successful project implementation.

Our automotive history with its "lean" focus has provided us with an outstanding background to be able to deliver real value to companies in any industry sector. So far we have either finished or are currently working on more than 20 different projects in the Construction, Food and Transport sectors, and all of these projects are focused on the same issues we have been working on with automotive clients.

Projects include a focus on "lean" to improve quality and throughput while reducing cost and eliminating

waste; value stream mapping and visual management; the creation of 5 year Strategic Business Plans including the implementation of Operational Plans with integrated measurement and review systems; diversification and export programs; financial management and cost systems; supply chain management and ERP systems.

Most of the non-automotive companies we are currently working with are SMEs, and the gaps these projects are aimed at closing are precisely the same gaps we have been working on with the automotive supply chain. In fact most companies are following the exact same Growth Path (shown below) that we first published around 4 years ago.

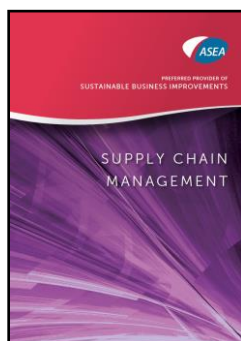
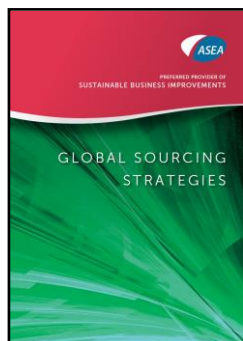
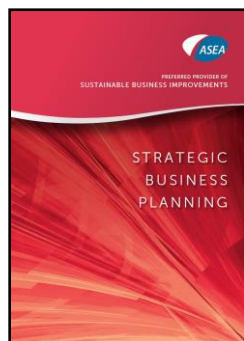


In hindsight this should perhaps not be too surprising, and in fact really just validates our own earlier thought processes. Most SMEs start business in much the same way, with an idea, and one or more individuals to drive it. The business begins to grow and soon all energy is focused on making sure the products get to the customers, with little time (or energy) left to spend on business systems, processes, improvements and strategy.

We continually hear the phrase "we're too busy making sure the customers get their products, and don't have any time left to spend looking at other things". In reality, if time was spent on implementing improvements, this would create efficiencies in the business that would free up even more time. We understand that for SMEs in particular, it is extremely difficult to break out of the work cycle that is so focused on completing the day-to-day activities, but in order to grow the business, this is absolutely a must. This is a mind-set change, and is not an easy thing to do.

However the leaders of companies who have made this attitudinal adjustment and have seen the significant benefits and value that can be delivered, are those that are now implementing the bulk of the projects. In fact it would appear that the earlier a company has made this change and the further along the “Journey of Growth and Success” path they are, the greater their appetite to do more projects.

The good news is that everything ASEA has developed to help companies in the automotive sector is directly applicable to help companies in the non-automotive sectors too. We have 10 ready-made products/processes that are directly focused on addressing all of the key issues and gaps we have found in the automotive sector, that can immediately be applied to address these same issues in other sectors e.g.



We also have more than 50 certified coaches/trainers that are experts in helping companies successfully implement projects to address these key areas, who are also immediately available to help other companies.

As we enter the last 3 months of our existing programs, we have reached the stage where all of

the funding available for project implementation has now been fully allocated. During this time, the ASEA team will be focused on an orderly and timely completion of all projects, and a successful finalization of the two programs. In the meantime you can continue to find out more information about the successes of the ASEA Program, or the Business Capability Support Program and the Manufacturing Productivity Network, at our website located at www.asea.net.au

Business Capability Support Program (BCSP)

The Business Capability Support Program (BCSP), funded by the Commonwealth Government, will conclude at the end of June 2016. This program continues to assist companies participating with ASEA to transition their businesses beyond the cessation of the Australian vehicle manufacturing Q4 2017.

The program which commenced in December 2012 has involved more than 40 companies. Over the past 9 months, 21 companies (7 South Australian and 14 Victorian) have been actively undertaking projects, with another 2 companies scheduled to commence projects during Q2 2016. There is also one new company that will undertake the ASEA benchmark assessment during Q1 2016, and then commence an improvement project.

Since the commencement of the program the 40 companies have undertaken 110 projects, with 86 already completed, and the remaining 24 projects in various stages of completion. Additionally there are another 12 projects that are in the preliminary scoping phase, and these will commence and be completed during Q2 2016.

There is progressive business transformation taking place with the diversification of the BCSP participants into manufacturing sectors which include Agriculture, Bus & Truck, Building Construction, Energy, Electronics, Food, Defence, Health & Medical, Mining Equipment, Water Storage, Solar Energy and Auto Aftermarket.

Opportunities are still available for additional short projects in the *Evolving Innovation Program* that will assist the transition out of automotive, provided they are completed by the 30th June 2016 when the BCSP program funding ceases.

A key feature of the BCSP program has been the half yearly Forums, which provides the opportunity to highlight potential diversification activities, and showcase company progress and achievement. We are planning to hold our final ASEA Forum in late May or early June, so please keep an eye out for your invitation.



Please contact your friendly Client Managers: Peter Cesco & Peter Taylor.

Manufacturing Productivity Networks (MPN)

The Manufacturing Productivity Network (MPN) program, funded by Victorian Government, will conclude at the end of May 2016. This program is assisting Victorian based automotive component suppliers, as well as some non-auto manufactures, to improve the business efficiency and effectiveness of their companies.

Since beginning in September 2013 the program has involved 28 companies, and to date 27 projects (including 7 non-autos) have already been completed. There are an additional 25 projects currently underway, with a further 2 projects that are awaiting scoping approval by the ASEA client company. Currently there are 22 companies

undertaking the 25 projects which will be completed by the 31st May 2016.

In June 2015, Ministerial approval was given to extend the program into the non-automotive manufacturing sectors with a particular focus on Food, Construction & Transport. Since June significant progress has been made in contacting over 30 non-auto companies, and we are now engaged with 14 companies (4 Food, 7 Construction & 3 Transport). These 14 companies have already completed 7 projects, with another 13 projects currently underway.

In addition to the project work, a key activity of the MPN program are the ASEA networking workshops where the participants share their respective experiences from projects undertaken, new business opportunities, and the issues involved in navigating through the transformation of their businesses.

On the 2nd March 2016, ASEA conducted the 11th MPN workshop with the theme "Collaborating for Business Success". This session was hosted by Ceramet (Ballarat) and included participants from the automotive and non-automotive sectors, so they could share their experiences. Each of the company participants gave a presentation that included:

- Types of ASEA projects undertaken
- New Business Opportunities
- How they were collaborating to progress the success of their businesses





The session generated a very positive discussion highlighting key issues, with some of the comments shared including:

- The Solar industry presents a big growth area with some positive business opportunities
- In order to grow our off-shore automotive business we have been leveraging the opportunities by assisting Ford Engineering
- Ongoing assistance from ASEA would be great to enable us to continue to be more efficient & effective
- We are networking among ourselves for mutual business opportunities
- There are opportunities to work with your Victorian competitors for mutual advantage
- We are developing the relationship with our core suppliers such that they become business collaboration partners
- Developing a positive relationship and having mutual trust is important for successful collaboration
- Due to these workshops we are now collaborating with other participants for mutual business opportunities both locally and overseas

- Diversification for our company into new products or markets is a great challenge, however we are collaborating with other companies to improve our business processes
- These workshops are very beneficial as they facilitate networking, and we can all learn from the experiences from the other participants
- It is great to hear what other companies are doing as this can help us with how we approach our business

The feedback from the workshops continues to be excellent, resulting in a number of participants increasing their collaboration with each other on new business opportunities and ventures. The last Workshop will be held during April 2016.

The “Evolving Innovation” Program

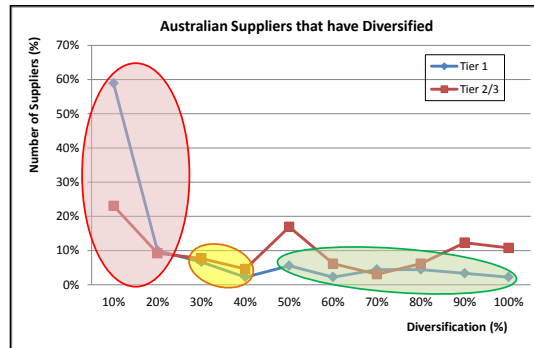
More than 25 companies in the automotive supply chain have worked with the ASEA team to implement an “Evolving Innovation” project to help focus the diversification activities for their business.

As discussed in the June 2014 Newsletter (Volume 6 Issue 2), there is a range of potential “Diversification Strategies” that could involve a combination of many different options. Some of those potential options could include diversification of:

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

For those companies that have been solely 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 extremely limited. With a 5 to 8 year timeframe, diversification into other sectors such as defence, rail, construction, mining or medical may be potential options. However, unless these activities are already well underway, or the company has products/services which these sectors need and want, the potential of successful outcomes before vehicle manufacturing ceases at the end of 2017, is highly unlikely.

If we look at a Graph of “Australian Suppliers that have Diversified” in 2014, we find that the majority of Tier 1 suppliers are clearly in the “Red” category. There are a small group that have commenced this journey (highlighted in yellow) and are well on their way, while there is a further group that are clearly quite diversified already (highlighted in Green).



To be able to successfully diversify into new markets and sectors, there is the significant challenge of changing the company mindset that needs to be overcome. Companies who 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 on “efficiency” to being externally focused on “effectiveness”, particularly when this involves different sectors/markets.

Those companies in the Green and Yellow ellipses will already have customers in multiple sectors and be making multiple products, and may or may not already be exporting. Typically they will have most of the above 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 either just commenced diversification activities, or they have previously been a low priority within their company. To survive, their immediate focus will be on getting some “quick wins”, and all key resources should currently be focused on diversification options where they can win and begin new business prior to December 2017. The key question is “What do they focus on?”

This is where the “Evolving Innovation” program can help. The program was developed jointly by the ASEA team and experienced coach, Mr. Michael Faulkner. It is specifically aimed at

companies that would like to diversify and get quick wins, by helping them to identify where they could have unique advantages over potential competitors.



The program involves 4 Modules that are individually tailored to each company:

- Module 1 - Competency Audit
- Module 2 - Competitive Analysis
- Module 3 - Market Analysis
- Module 4 - Export Fundamentals

The key to the success of this program is the completion of the “Competency Audit” (Module 1). Typically, businesses within different industry sectors adopt controls according to the critical drivers for success. Companies driven by Supply (Suppliers to manufacturers), focus on the development of specific and detailed process metrics, while companies driven by Demand (Consumer goods companies), develop specific and detailed market metrics. The way in which Supply driven companies diversify and evolve with Market driven products becomes a critical issue.

Many Tier 1 suppliers dedicated to supplying the OEMs, effectively relinquished control of their marketing activities and income to the local OEMs. These companies have focused almost totally on “efficiency” which is derived from internal factors such as costs, overheads and productivity, whereas “effectiveness” applies to the market relevance of a product and the extent to which an offer (product or service) makes a contribution to the market.

The challenge for those highly “efficient” Tier 1 suppliers is not just finding a new product they can



make, but to re-invent the company with an “effective” market focus. Companies can control their efficiency but their effectiveness is determined by the market. This is why Tier 1 companies can struggle with this concept, and with their diversification attempts.

Potentially there can be 3 stages to diversification. The first stage, and easiest to implement, is diversification with established products into similar Markets or Industries. The second stage of diversification is with established competencies and resources into new markets and new industries/sectors. The third and final stage [least desirable] is the diversification of assets or ‘liquidation’. Ultimately all products and services evolve through a ‘Product Life Cycle’, so there is a need to evolve all offers for any organisation to stay relevant and be sustainable.

Recent trends in diversification are reflective of similar trends of the 1970’s when western manufacturers were exposed to competition from Japanese manufacturers. Following mass diversification failures, industry observers recommended that Companies should “stick to their knitting”. Our approach is to commence an “Evolving Innovation” project with an internal review of the Companies competencies, followed by an external review of possible new business sectors.

The intention is to focus on growth opportunities which have a good fit with the Companies existing competencies, and hence increase the chances of success. However differentiation is simple in concept, but is hard work in practice.

Our process distinguishes between “capability” and “competency”. A “capability” is defined as a characteristic that may be developed (a potential aptitude), where a “competency” is defined as one or more related abilities, commitments, knowledge, and skills that enable a person (or an organisation) to act effectively in a job or situation. Competency indicates sufficiency of knowledge and skills that enable someone to act in a wide variety of situations. Hence, a capability could become a competency with time and resources, but it is time and resources that are scarce in the current situation.

In this process, competencies are further broken down into “Generic Competencies” - a competency

which is a basic requirement any company competing in this industry (e.g. compliance with mandated standards); “Advanced Competencies” - a competency which enables a company to supply a differentiated product for which the market will pay a premium price (above commodity); and “Unique Competencies” - a competency which enables a company to charge a premium for a product that is unique in the industry (e.g. supplier owns the IP). It should also be noted that a unique combination of “Advanced Competencies” may also be employed by a company to make a unique product.

Design / Development Material/Component Acquisition	Cost / Value Chain Stages							Internal			External			Ideas		
	Manufacturing	Assembly	Packaging	Distribution	Retail	Service	Active Competence	Inactive Competence	Capability	Generic	Advanced	Unique				
Over 20 in one factory								✓						✓	Idea 1	Idea 2
Real Processing								✓							Idea 3	Idea 4
Master control								✓							Idea 5	Idea 6
Local Or main assembly								✓							Idea 7	Idea 8
Full line type								✓							etc.	etc.
USCAR IV								✓								
USCAR -IT								✓								
								✓								

When the audit is complete, the company uses the list from the Competency Audit in a brainstorming exercise, to identify potential new products/services. This provides a list of product opportunities which have been linked to the company’s existing competencies and potential capabilities, classified as unique, advanced or generic. Opportunities are then prioritized by those which best fit with the company’s strategy and an appropriate number of opportunities are taken forward into Module 2.

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