



Automotive Supplier Excellence Australia



Stage 1 - Supplier Report

1. The aims of ASEA

The Automotive Supplier Excellence Australia (ASEA) initiative is a collaborative effort that involves government, the four local vehicle manufacturers and the FAPM.

The aims of the activity are:

- To develop a sector-wide competency framework for Australian automotive suppliers, based on a range of metrics agreed by Motor Vehicle Producers (MVPs) and suppliers
- To plan and implement a prioritised, sector-wide series of development programs to raise component supplier capability to a globally competitive standard.

This report represents the outcomes from Stage 1 of the project, founded on the questions of which organisations should be benchmarked, and what they should be benchmarked against. ASEA Stage 2 will take this agreed competency framework and map the current performance of a range of suppliers against it, and international best practice for each of the measures.

Stage 2 is planned to be completed before the end of the year. The planned development programs represent Stage 3 of the Project, and will be conducted from 2008.

2. Project methodology

This project gathered information from a range of sources to determine two questions in relation to the ASEA program:

- Who should be benchmarked? That is, which organisations or segments of the Australian automotive supply chain should be in the focus of the proposed benchmarking process?
- What should they be benchmarked against? That is, against what measures of organisational performance should the organisations be assessed?

Utilising information from comprehensive supplier and Motor Vehicle Producer (MVP) surveys, and undertaking a range of individual interviews and workshops, a preferred picture has emerged regarding the approach and conclusion to these questions.

2.1 Survey respondent profile

More than 100 companies were consulted through the process, either by way of survey, workshop or interviews. They represented a strong cross-section of the industry, based on:

- The varied customers to whom they supply
- Their size
- Their location
- Their ownership structure.

Survey participants represented the entire automotive supply chain, from Tier 1 to Tier 4 suppliers as well as MVPs.

Table 1-1: Profile of survey respondents

Tier Level	Average turnover (\$M)	Average number of Employees
Tier 1	\$338	270
Tier 2	\$274	256
Tier 3	\$50	170

2.2 MVP supply chains

Suppliers were asked to identify which MVP supply chains they supplied into.

At the Tier 1 level, there is a substantial degree of overlap, with 36% of Tier 1 respondents supplying all four MVPs, and more than half supplying to three of the four. We note however, that nearly half of the Tier 1 suppliers supply only one or two of the local MVPs.

When we consider the supply chain beyond Tier 1, however, the picture becomes much clearer. There is clear interdependence of MVPs on a pool of appropriate suppliers, with over half of the respondent suppliers supplying directly or indirectly into all of the Australian MVPs. Moreover, over 80% supply into three or more.



The conclusions that can be drawn from this are:

- Any supplier development activity will generally produce benefits for multiple MVPs
- The further down the supply chain supplier development penetrates, the more MVPs will benefit from the improved performance
- ASEA could incorporate the development of supply chains as a whole, including the development of suppliers at lower tiers.

3. The consideration of options

The approach adopted for the 'who' and 'what' to benchmark questions involved the consideration of a range of alternative approaches. Each approach was derived from the information generated by Stage 1, and assessed in regard to its:

- Comprehensiveness
- Alignment with the ASEA objectives
- Statistical rigour.

From this basis, a preferred approach was adopted, which in both cases drew from different aspects of the alternatives that had been considered.

4. What should organisations be benchmarked against?

There are literally hundreds of individual indicators reflecting dozens of functional areas of activity that have been used to measure performance in the automotive industry on a global basis. During this project, a comprehensive list of metrics has been developed, synthesised and consolidated. Starting with the consideration of over 400 metrics representing business performance, the ultimate survey was refined to around 200 specific indicators, based on industry and MVP consultation. These were then grouped into 16 broad competency groups, such as quality, cost and safety.

The information gathered through this Stage defines a common competency framework for the Australian industry.

In developing this framework, the following inputs were considered:

- Issues highlighted as important from both an MVP and supplier perspective
- Supplier and MVP views on relative satisfaction in performance
- The areas currently measured by MVPs.

4.1 ASEA as a competency framework

The 'what to benchmark' question has been refined having regard to the following principles:

- Consistent with the overall ASEA philosophy, the need to provide an industry-wide competency framework for Australian automotive suppliers. This focused on the 'importance' aspect of the feedback
- Utilising the 'satisfaction' aspect of the feedback, a consideration of those areas that will be more likely targets for the ultimate development programs through Stage 3.

An industry-wide framework

In the potential roll-out of Stage 2, an industry-wide competency framework would provide a comprehensive view of the attributes in which suppliers should be displaying excellence to be internationally competitive.

Taking this approach, the overall competency framework includes the following ten competencies:

- Cost structures and analysis tools
- Customer focus
- Financial systems and practices
- Global purchasing and marketing strategy
- Management leadership
- New model introduction
- Quality
- Safety
- Supply chain integration and management
- Technology investment.

This list reflects the combined views each of the key stakeholders held, in terms of the relative importance of various measures.

Through this process, some key communication issues were identified through the supply chain.

On one hand, the MVP view of the attributes and competencies they would like to see suppliers portraying extended beyond both the issues they currently measure their suppliers against, and the areas where they currently offer developmental programs.

Equally, the supplier view of the world was that they had a strong understanding of the areas that MVPs assessed currently, but that in reality the key focus areas of the MVPs came down to cost.

ASEA offers a specific opportunity to address these communication issues.

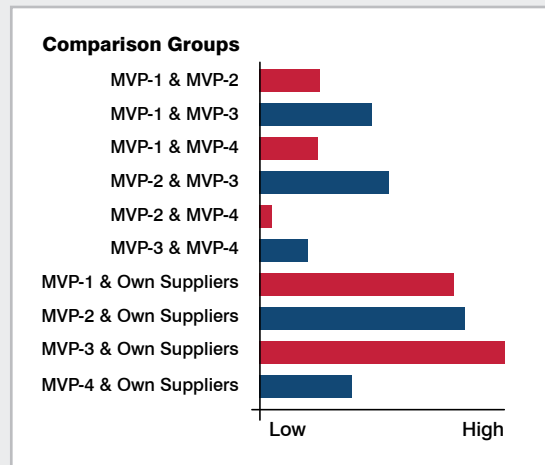
4.2 Variation in what issues are important

The data gathered through this part of the survey revealed a range of views amongst the MVPs on which competencies are more important than others. We note:

- A very low degree of agreement between each of the MVPs on the whole. This varied, however, between individual sets of MVPs. For example, MVP-2 and MVP-3 were in relatively more agreement than MVP-2 and MVP-4
- Relatively more agreement between each of the MVPs and their own supplier bases.

A correlation analysis in Figure 1-1 compares the relative views of suppliers and individual MVPs on the question of what areas are important to measure. The bars represent the extent of agreement or correlation between each set of views. The larger the bar, the greater the extent of agreement. For example, MVP-1 has a fairly high degree of agreement with its own suppliers as to what is important, but a low degree of agreement with MVP-2.

Figure 1-1: Correlation of relative importance of competencies



ASEA needs to consider the specific views of each MVP, and this variation is important in framing a single, agreed set of issues to benchmark in the Australian context. The proposed competency framework reflects the individual views of each of the MVPs and suppliers, by ensuring the competencies they individually consider to be most important are included. From a supplier perspective, the data highlights the challenges faced in trying to focus on the right areas for their specific customers.

Further stages of ASEA will take into account the individual expectations of different customers, helping suppliers understand the particular views of their own customer base.

4.3 What should be benchmarked? – Where ASEA can add value

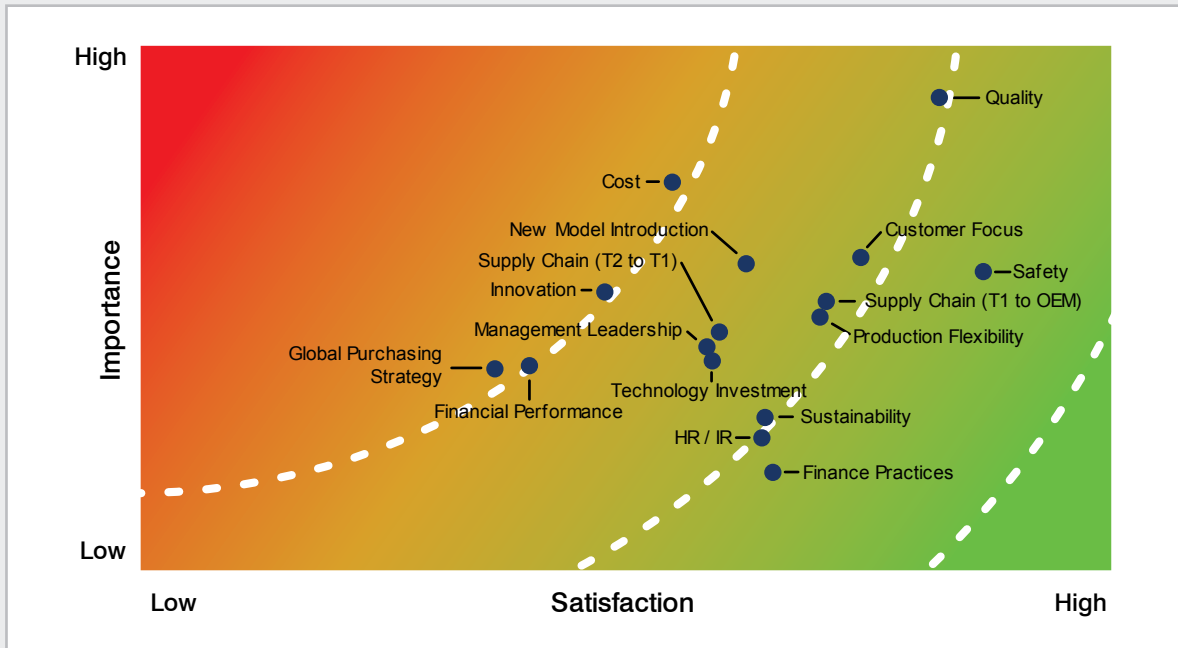
The Stage 1 data provides further information regarding the likely areas where ASEA can add value specifically by incorporating the “satisfaction” factor into the analysis. The 10 competencies that comprise the overall framework can then be refined.

Focussing on performance

Having regard to existing levels of satisfaction with performance, the base proposition for the analysis is that ASEA could focus on the areas which are more important, but where supplier performance has been poor in terms of satisfaction. This approach identifies a shorter list of competencies; the competencies in which ASEA is likely to be most active.

The following graph reports the analysis of supplier feedback on the competencies.

Figure 1-2: Relative importance and satisfaction – Supplier view



The potential focus area for ASEA is to assist companies with those issues that are considered highly important, but where there is low satisfaction within the industry. Moving these to a higher satisfaction rating is a key objective. In regard to Figure 1-2, the results in the top half of the graph represent potential focus areas for the initiative, with the aim to move issues toward the highest rating possible from a satisfaction perspective.

Supplier view

From the supplier perspective, this highlighted the following areas:

- Cost structures and analysis tools
- Financial systems and practices
- Global purchasing and marketing strategy
- Innovation
- New model introduction.

Overlaying the MVP view

Considering the MVP responses increases the complexity of the analysis. As noted previously, there was significant variation between each of the MVPs in terms of importance of key issues. This divergent range of views tends to nullify each other when considering averages only. An alternative approach was adopted by overlaying the critical competencies (competencies which are important, but where there is poor performance) of each of the MVPs and suppliers. When we select the top 10% of competencies for each of the stakeholders, the following combined list of six competencies emerges:

- Cost structures and analysis tools
- Finance practices and performance
- Global purchasing and marketing strategy
- Management leadership
- New model introduction
- Technology investment.

This final list provides an overview of the areas where ASEA's future efforts are likely to be directed. However the principle of the need to be flexible in tailoring solutions for specific companies will be paramount, and the specific issues to be addressed will be designed to suit the needs of individual suppliers.

4.4 Sector-wide competency assessment versus benchmarking exercise

A key issue that has arisen in answering the 'what to benchmark' question is what role these agreed set of competencies will ultimately play. This has come to light in relation to issues such as quality, which would obviously be a cornerstone of a set of metrics that attempted to describe the areas where companies needed to perform at a world class level to be competitive, but which is not included in the refined list of competencies. These issues are not in the refined list because of the high levels of satisfaction with performance.

The suggested approach is to use the expanded list of ten most important areas as the basis for Stage 2. This provides:

- A more complete picture of the performance levels of the supplier base against the total competency framework
- The ability for individual suppliers to be internationally benchmarked against a broader set of measures.

The shorter list of six competencies that incorporates the satisfaction criteria then provides an indication of where Stage 3 development programs are more likely to be directed. It will also assist in differentiating ASEA from previous programs by considering a relatively new set of performance areas beyond those traditionally measured by the MVPs.

4.5 The Supplier of the future

Stage 1 of the ASEA process also identified some characteristics that describe a successful supplier in the Australian industry in the medium term. This analysis highlights areas where suppliers should be focused to achieve sustainable excellence in their operations.

In summary, the supplier of the future:

- Is driven to succeed by its management team:
 - Has a vision it achieves through managing organisational culture
 - Is professionally managed and resourced.
- Recognises that employees are the cornerstone of organisational success:
 - Focuses on people by adopting best practice human resource and industrial relations strategies
 - Manages organisational change to drive success
 - Appreciates the contribution that training makes to the business, and has a program aligned to the broader vision of the business.
- Continuously develops its manufacturing capabilities, and understands the next generation of technology that applies to its products and processes:
 - Accepts world-class levels of quality as an absolute must, and actively links its quality accreditation processes to the continuous improvement program.
- Is integrated with the markets in which it operates:
 - Is internationalised in its operations, either in terms of:
 - Export markets
 - Sourcing globally
 - Accessing world-class technology
 - Is diversified beyond Australian-based OEM automotive markets
 - Manages customer relations for mutual benefit.
- Is conscious of its optimal position in domestic and international supply chains, and seeks to position itself accordingly:
 - Understands the logistical, technological and people aspects of supply chain positioning
 - Acknowledges the role the company has to play in developing suppliers further down the chain
 - Utilises supply chain linkages to identify and deliver greater efficiencies, or functional improvements in the product or service offering.
- Manages its operations to achieve the strategic vision:
 - Recognises quality as a foundation and goal
 - Leverages technology and innovation to reduce cost, risk and improve quality
 - Enhances research & development activities to deliver value outside traditional boundaries, and understands the contribution that R&D makes to the broader business
 - Adopts best practice finance and costing practices.
- Appreciates the pivotal role that culture plays in sustaining the success of an organisation.

5. Which organisations should be benchmarked?

In addressing this issue, a range of options were considered to identify suppliers who should be included in future stages of the ASEA program.

In consolidating this list, the following issues were taken into account:

- The need to be inclusive
- The ability to identify areas for improvement in the supply chain, and understand the potential points of rationalisation or consolidation
- Understanding the systems that the local customer base deems to be the most critical to be supplied locally
- The ability to drill into the supply chain to identify sustainability.

This approach was also cognisant of the overall aims of the ASEA program, and the quality of the outcomes associated with further stages.

The principle of being inclusive was an important concern here. Casting the net more widely in regard to future stages of the program has the following advantages:

- It provides more suppliers with an understanding of the industry-wide competency framework, and where their current business sits in relation to it
- The quality of the supply chain and aggregated data resulting from Stage 2 will be more substantial
- The ability to understand the whole supply chain, and identify potential areas for strengthening, consolidation or rationalisation becomes more comprehensive.

Consideration was also given to the role of larger, first tier organisations to drive improvement through the supply chain. These suppliers represent companies whose systems and performance levels are such that they offer strong opportunities for peer learning and Tier 2 and 3 supplier development, through later stages of the ASEA program. The inclusion of suppliers that already have an international footprint also potentially offers pathways into international supply chains for lower tiered suppliers who may be involved in the ASEA initiative.

The question, 'who should be benchmarked' is also driven by scarce resources. Given the time and financial constraints of the proposed ASEA Stages 2 and 3, there is a limit to the number of organisations which can be included in the process. As such, determining which organisations should be benchmarked is an issue of prioritising suppliers.

As a result of the work undertaken in Stage 1 and the analysis above, 215 organisations were identified and prioritised. The funding arrangements for Stage 2 provide for 100 suppliers to be subsidised into the program, with others having access on a fee-for-service basis.

6. Observations

The conduct of Stage 1 also identified a range of issues in regard to the design and delivery of Stages 2 and 3 and particularly opportunities for the engagement of suppliers.

6.1 ASEA and industry restructuring

A consistent theme arising through Stage 1 involved the way in which the ASEA outcomes could be used to assist in identifying opportunities for component space restructuring or consolidation. The more inclusive basis recommended to identify the suppliers involved in Stage 2, and the proposed supply chain approach, will provide a strong indication of the areas of the industry that are most suited for consolidation.

6.2 Stage 2 issues

The following matters should be taken into account in regard to the design of Stage 2:

- Flexibility in approach – the program cannot be designed on a one-size fits all basis
- The need for sustainable solutions – all key stakeholders raised the issue of ensuring that the solutions ultimately offered to the supplier base are long term and sustainable. In achieving this end, the importance of gaining senior management buy-in and addressing issues of organisational culture at individual suppliers were highlighted
- Assistance through the supply chain – another common thread was the need to incorporate lower-tiered companies in the overall offering
- Development team specialists – a strong preference was indicated through Stage 1 for the specialist team members to be drawn largely from the industry itself. Utilising professionals with MVP or supplier experience was seen as adding significant credibility to the Stage 2 activities. On the basis of resource constraints and commercial confidentiality, this position was refined to targeting the alumni of the industry, and selecting a pool of specialists from individuals with recent or high level MVP and component sector experience.

6.3 Stage 2 implementation - The supply chain approach

An additional design element that was identified for the delivery of Stage 2 was the potential adoption of a supply chain approach for participating suppliers. It was recognised that the competitiveness of an individual supplier is significantly affected by the competitiveness of the supply chain in which it operates. A Tier 1 supplier needs to work with its Tier 2 and 3 suppliers to better manage cost, quality and delivery. As such, Stage 2 could focus on supply chains rather than specific organisations.

The data gathered through Stage 1 highlighted the interrelationships between suppliers, and commonality of customer base, with more than 80% of respondent companies supplying in to three of the four domestic customers.

The advantages of this approach include:

- The encouragement of greater dialogue between supply chain participants, including the relevant MVP
- Understanding how the supply chain as a whole is performing
- The ability to promote ultimate successes of the ASEA program from a whole of supply chain perspective.

6.4 Stage 3 issues

There were also a range of issues identified relevant to the design and development of Stage 3 of the ASEA program. These include:

- The need for greater consistency and commonality in the supplier development programs currently being undertaken at both MVP and Tier 1 level
- The opportunity to leverage the best-in-class activities represented by existing supplier development programs, and a potential role for ASEA in filling the gaps in relation to the broader competency base
- The prospect of providing a graduated structure that suppliers can be taken through to become 'ASEA educated'. This provides clarity for them in where they stand relative to Australian and international competitors, where they need to aspire to be, and most importantly, the path they need to take to get there.

6.5 Registering for Stage 2

Suppliers now have the opportunity to register interest for ASEA Stage 2, which will be supported by a team of specialists across the pillar areas under consideration.

This group is largely being drawn from professionals who have shown a high degree of excellence in a specific functional area in an MVP or supplier environment. Specific teams will be formed to work with participating suppliers to help them understand:

- How their business is performing against the competency framework, including reference to domestic and international benchmarks, and
- What actions they can take to improve their international competitiveness and sustainability.

The consultation process in Stage 1 of the program characterised ASEA as a unique opportunity for suppliers and MVPs to work proactively to address the structural challenges facing the industry.

Companies can register either by using the Registration of Interest form, visiting the website, or by contacting Bruno Bello at the number below.



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