

AUTOMOTIVE SUPPLIER EXCELLENCE AUSTRALIA

Stage 2 Report:
Australian Automotive
Supplier Performance –
Strengths, Weaknesses
and Opportunities

June 2008





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→ GLOSSARY

Acronyms

ACIS	Automotive Competitiveness and Investment Scheme
ASEA	Automotive Supplier Excellence Australia
AutoCRC	Cooperative Research Centre for Advanced Automotive Technology
CRM	Customer Relationship Management
DIFOT	Delivered In-Full, On-Time
FAPM	Federation of Automotive Products Manufacturers
HR	Human Resource
IT	Information Technology
KPI	Key Performance Indicator
MNC	Multi-National Corporation
MRP	Material Requirements Planning
MVP	Motor Vehicle Producer
OEM	Original Equipment Manufacturer
PPAP	Production Part Approval Process
R&D	Research and Development
RFQ	Request for Quotation
SME	Small-to-Medium Enterprise
SWOT	Strengths, Weaknesses, Opportunities & Threats
VA/VE	Value Analysis/ Value Engineering

ASEA Core Competencies

Management & Leadership – the processes by which the organisation develops and executes strategic and operational goals.

Customer Focus – the processes by which the organisation understands its customers’ needs and disperses this knowledge.

Manufacturing & Quality – the processes of managing quality throughout the manufacturing process.

Safety – the extent to which the organisation manages the safety of its employees.

New Model Introduction – the processes that the organisation adopts to facilitate new product development.

Global Sourcing & Marketing Strategies – the processes by which the organisation engages in the global industry.

Financial Systems & Practices – the processes by which the organisation manages financial information.

Cost Structures & Analysis Tools – the processes by which the organisation understands its products’ costs and controls them.

Supply Chain Integration & Management – the processes by which the organisation integrates suppliers and customers in product development and manufacturing.

Technology Investment – the processes by which the organisation develops and manages technology, including production technology.

→ FOREWORD

Automotive Supplier Excellence Australia (ASEA) was established in 2007 with the goal of assisting the local automotive supply base in achieving world-class levels of competitiveness and sustainability. Over 60 Australian automotive suppliers have participated in Stage 2 of the ASEA Program. Stage 2 has been about understanding where our supply base currently sits in the context of the global automotive landscape and where we need to improve to ensure we continue to grow and maintain a healthy industry sector.

The results show that some Australian companies are performing well relative to their international competitors. These suppliers display world-class business practices and utilise leading-edge technology to supply globally competitive products to both local and international customers. Local industry can learn from these suppliers and indeed, a key part of ASEA Stage 3 will be to facilitate such knowledge transfer.

Stage 2 results also show however, significant gaps between many local suppliers and their international competitors. In some cases, immediate action is required to stabilise operations before longer-term improvements can commence. In other cases, suppliers can begin the implementation of medium- to long-term improvements now as a basis for business development and growth.

It is clear that our industry is very customer-focused - as it should be. What we are finding however, is that this overt focus comes at a higher than normal cost with large overheads and expense required to “keep the customer happy”. ASEA Stage 3 presents an unprecedented opportunity for suppliers to improve their business and ease such pressures. What ASEA clearly shows, is that a whole-of-business approach to improvement is required. The traditional focus on manufacturing and quality alone has not, and will not be enough to sustain our supply base going forward.

This point is emphasised by the overwhelming need for improvement in non-operational areas of the business, and in particular the area of management and leadership. Operational pressures associated with the industry have left little time for key management activities especially around strategic and business planning. In most cases, ASEA has prioritised these improvements first as they lay the foundation for sustainable improvement in other areas of the business – including manufacturing and quality.

I hope all suppliers that have taken part in Stage 2 have found the process and outputs valuable. I also hope that all participants will begin to address their Improvement Plans in the coming months – if they have not already done so. ASEA Stage 3 will commence with a pilot phase in June 2008 and I encourage each of the ASEA Stage 2 suppliers to register for participation.

Finally, I believe the results and commentary presented in this report offer a unique and for the first-time, completely independent assessment of a large part of the Australian automotive supply base. It shows our strengths, our weaknesses and where we need to improve. If each of us is proactive in implementing these improvements, we will have moved a significant step closer to improving our international competitiveness and sustainability.

Dr Victor Pantano

**ASEA Project Leader
Australian National University**



I. ASEA STAGE TWO MEASURING AUSTRALIAN AUTOMOTIVE SUPPLIER PERFORMANCE

Automotive Supplier Excellence Australia

ASEA is a national program supported by all Australian Motor Vehicle Producers (MVPs) – Ford, GM Holden, Toyota and (until recently) Mitsubishi - both the Victorian and South Australian Governments, the Federation for Automotive Products Manufacturers (FAPM) and the Commonwealth Government, through the Cooperative Research Centre for Advanced Automotive Technology (AutoCRC). The AutoCRC manages and facilitates the ASEA program, under the guidance of a Steering Committee, which includes MVP, supplier and government representatives.

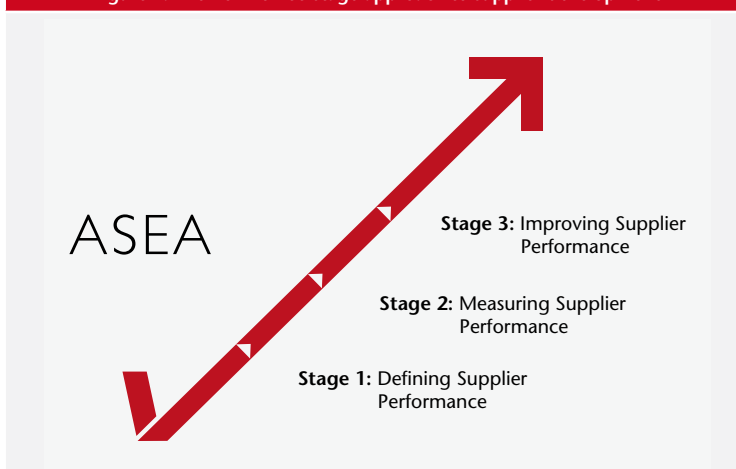
1.1 The Aims and Objectives of ASEA

The ASEA program aims to assist the Australian automotive supply base in achieving international levels of competitiveness and sustainability through:

- The development of a sector-wide, international competency assessment framework for Australian automotive suppliers, based on a range of metrics agreed by MVPs and suppliers; and
- The planning and implementation of a prioritised, sector-wide series of improvement projects to raise automotive supplier capability to a globally competitive standard.

These aims are being vigorously pursued through a three stage process to ensure targeted use of limited resources to achieve maximum benefit for the industry.

Figure 1: The ASEA three-stage approach to supplier development



Stage 1 was completed in June 2007 and considered the dual questions of:

1. What to measure, in order to holistically evaluate supplier performance; and
2. Who to measure (i.e. which companies), in order to prioritise allocation of limited funding and resources.

Undertaken principally through a series of surveys, interviews and workshops with over 100 suppliers and the Australian MVPs, Stage 1 identified:

- A whole-of-business competency framework with which to assess and internationally benchmark Australian automotive component suppliers; and
- A set of criteria upon which to rank suppliers for priority inclusion in Stages 2 and 3 of the program.

This report presents the outcomes from Stage 2 of the ASEA program, whereby the competency framework was used to evaluate the current performance of a number of priority suppliers.



1.2 A Whole-of-Business Competency Framework

The development of the competency framework in Stage 1 began with 16 broad areas of supplier competency, underpinned by over 400 metrics. Through several iterations of refinement (centred around determining: the importance of a company performing well in each of the competency areas; and the current level of industry satisfaction with performance in each of the areas), a framework consisting of ten core competency areas was developed (see Table 1). This represents the key areas in which a component-producing company should have a high level of performance in order to be globally competitive, from a whole-of-business perspective.

The identification of these core competencies formed the foundation for Stage 2, allowing the development of an assessment methodology to evaluate suppliers and benchmark them against their global competitors.

Table 1: The ASEA competency framework – core areas in which automotive suppliers need to perform

Core Areas of Supplier Competency	
1	Management & Leadership
2	Customer Focus
3	Manufacturing & Quality
4	Safety
5	New Model Introduction Capability
6	Global Sourcing & Marketing Strategies
7	Financial Systems & Practices
8	Cost Structures & Analysis Tools
9	Supply Chain Integration & Management
10	Technology Investment

→ THE SUPPLIER OF THE FUTURE

ASEA has identified key characteristics that describe a successful Australian supplier in 2009 and beyond. This analysis highlights areas where suppliers should be focused to achieve sustainable excellence in their operations

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 into overseas and non-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 methods.
- Appreciates the pivotal role that culture plays in sustaining the success of an organisation.



1.3 The Stage 2 Process

The Stage 2 process involved the development and application of an assessment scheme and associated methodology, based on the ten core competencies established in Stage 1.

1.3.1 Designing the Metrics

Expert working groups were established around the ten competency areas, each of which represented a broad cross-section of industry including at a minimum: two supplier representatives, one MVP representative and an independent expert in the competency area.

The primary function of the working groups was to identify and prioritise metrics that underpin each of the core competencies and the specific questions that support evaluation of these metrics. The metrics and associated questions (or data points) were discussed at a very detailed level by each working group. As an example, the Management & Leadership group identified a robust strategic planning process as a key requirement for business excellence. This group then identified a series of attributes that described a comprehensive planning process (e.g regular reviews, communication, KPI structures etc). Questions were then formulated from this output.

The draft metrics and associated question set were then presented to the ASEA Steering Committee for approval. The final group of questions consisted of 53 metrics and over 350 specific data points. Figure 2 shows the 53 ASEA metrics according to competency area.

1.3.2 Identifying and Applying International Benchmarks

The more than 350 data points underlying the ASEA assessment scheme represent a mix of both quantitative and qualitative information. A search of local and international sources was conducted to identify areas where comparison with global companies could be made.

The following list of sources was accessed:

- Industry Week
- The Benchmark Index
- The Benchmark Exchange
- American Productivity & Quality Center
- Industry Week
- Deloitte Domestic and Global
- Economist Intelligence Unit
- Massachusetts Institute of Technology

International benchmarks were then used to scale the ASEA assessment scoring to reflect performance against a global best practice (see Section 2 for an explanation of the ASEA assessment scoring).

Figure 2: The 53 ASEA assessment metrics underlying the ten competency areas

<p>1. Management & Leadership</p> <ul style="list-style-type: none"> Executive Vision Strategic Planning - Process Strategic Planning - Content Strategic Planning - Implementation Plan KPIs & Goals - Processes & Targets Goal Achievement - Monitoring & Reporting Benchmarking Performance Change Management Organisational Risk Management Organisational Culture - Targeting Organisational Culture - Monitoring Continuous Improvement - Culture Training & Development - Extent of Training Engagement of People - Cross Functional Training 	<p>4. Safety</p> <ul style="list-style-type: none"> Safety - Cost & Reporting 	<p>8. Cost Structures & Analysis Tools</p> <ul style="list-style-type: none"> Financial Practices - Total Cost Awareness Cost Reduction - Achievement Cost Reduction Plans
<p>2. Customer Focus</p> <ul style="list-style-type: none"> Market Knowledge - Internal Dissemination Customer Relationship - Processes 	<p>5. New Model Introduction</p> <ul style="list-style-type: none"> Resources for Model Launches Comprehensiveness of Process Supply Line Management - Run-out & NMI PPAP Approval - Controls & Processes PPAP Approval - Resources Pre-production Validation - Processes Launch issues - Number & Severity 	<p>9. Supply Chain Integration & Management</p> <ul style="list-style-type: none"> Risk Management -Supplier Stability Logistics Management Procurement team - Skills & Effectiveness Pipeline Visibility Supplier Development Supplier Improvement - Processes Adopted Delivery to Customer
<p>3. Manufacturing & Quality</p> <ul style="list-style-type: none"> Quality Performance from Supplier Quality Performance Lean Manufacturing - Methods & Effectiveness Labour Productivity Facility Utilization 	<p>6. Global Sourcing & Market Strategies</p> <ul style="list-style-type: none"> Global Product Capabilities Competitive Sourcing - Importing & Processes Sourcing for Speed & Agility Networking Global Organisation Suppliers & Product Development Linkages to Global OEM Platforms 	<p>10. Technology Investment</p> <ul style="list-style-type: none"> Innovation - Customer Focus Innovation - Exporting Design Technology - VA/VE Overall Equipment Effectiveness Technology R&D
	<p>7. Financial Systems & Practices</p> <ul style="list-style-type: none"> Performance - Sustainability Financial Practices - Financial Reporting Financial Practices - Budgeting 	



1.3.3 Selecting the Review Teams

A key element of the rigour of the ASEA Stage 2 process was the delivery of an external, independent assessment of suppliers, as opposed to the more common self-assessment. The ASEA assessment was conducted by a team of experienced automotive/manufacturing professionals. The resulting assessments and improvements suggested for individual companies were therefore richer in that they reflected both the objective data as well as the observations made by these experienced reviewers. These professionals were ex-industry to avoid any conflict of interest and/or confidentiality issues.

As the basis for assembling the review team, over 80 individuals were contacted; 30 of these interviewed and 15 finally appointed as ASEA Stage 2 reviewers. In making these selections, the following requirements were incorporated:

- A diverse set of skills across different functional areas that could ultimately be combined into a cross-functional review team to cover all areas of a business;
- Expertise drawn from both the supplier and MVP segments of the industry; and
- A cross-section of experience from both small and large organisations.

Each reviewer underwent an intensive three-day training course designed to ensure consistency and objectivity through the use of techniques such as convergent interviewing.

1.3.4 Assessment Methodology

An eight-step assessment methodology was developed to facilitate the supplier evaluation process. A number of key templates and assessment workbooks were also produced to support the process and ensure consistency and repeatability. Figure 3 shows the complete assessment process, the key steps of which are summarised below.

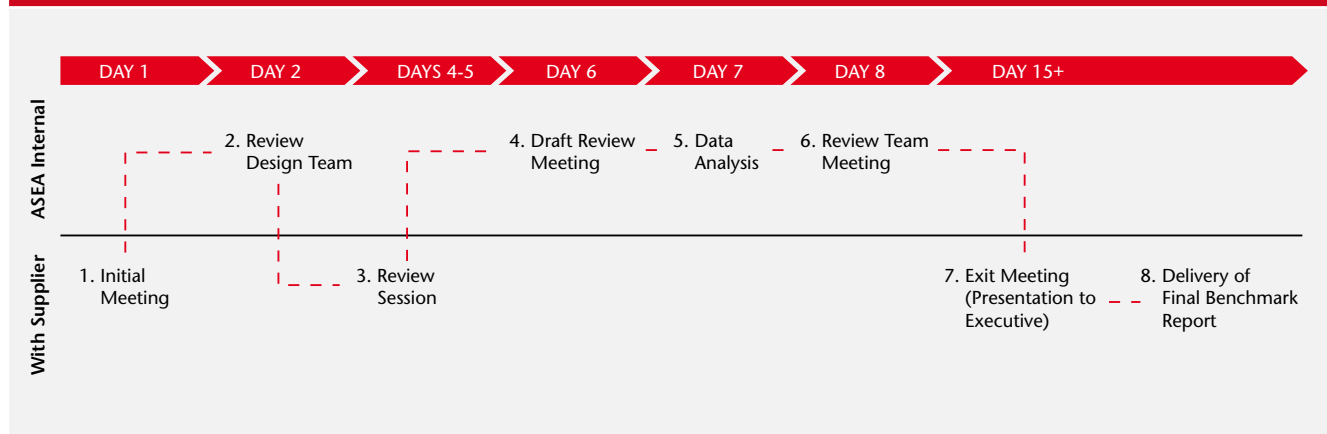
Initial Meeting

Held to brief the Managing Director/ CEO and senior management team in relation to the ASEA assessment methodology and also ensure full company engagement. Initiation documentation was also left with the company, including an initial questionnaire - the starting point of the data collection process.

Review Session

Conducted over one or two days at the company, the review team each assessed different areas and aspects of the business according to their assessment workbooks. Each team was selected to ensure good coverage across the functional areas of the business being assessed.

Figure 3: ASEA Stage 2 assessment process



Draft Review Meeting

The review team conducted a SWOT analysis and undertook an 'Impact versus Changeability' analysis for the company. The data was also reviewed and compared with the observations/analysis of the review team to determine any discrepancies. Following this, the team began drafting a set of prioritised Improvement Plans for the company.

Exit Meeting

Conducted by the assessment team leader to present the draft findings to the company, and receive initial feedback from the Managing Director/ CEO and senior management team. On a few occasions, the feedback from the company was incorporated into an altered Improvement Plan, but in the majority of cases disputes were resolved by explaining the background to the proposed improvements.

The outcome of Stage 2 for each participant is:

- A comprehensive Benchmark Report detailing their performance in each of the 53 metrics and their overall score for each competency; and
- A set of Improvement Plans identifying specific, prioritised opportunities for maximum business improvement.

1.4 Suppliers Reviewed

In total over 70 automotive suppliers registered to take part in Stage 2. Registration was open to all Australian automotive component producers and was free of charge (suppliers instead expected to contribute in-kind towards the assessment process by making staff available, providing data/evidence and access to other resources). Suppliers were prioritised for inclusion in Stage 2 of ASEA based on the criteria developed in Stage 1, which incorporated a number of critical factors including the importance of the company to maintaining an automotive industry in Australia and the potential for the company to be globally competitive. A total of 62 suppliers were accepted for participation, which equates to approximately one quarter of all Australian automotive component producers.

The breakdown of participating companies according to their turnover, location of operations, export status, vehicle system and (Australian) location is shown in Table 2. As this table shows, the ASEA participants represent a broad cross-section of the industry.

Table 2: Breakdown of ASEA Stage 2 participants according to turnover, operations, export status, vehicle system and location

Turnover	% of Companies
< \$50 million	56
\$50-\$100 million	23
> \$100 million	21
Location of Operations	
Local	47
MNC	53
Export Status	
Exporter	49
Non-Exporter	51
Operations & Export Status	
Local Exporter	11
Local Non-Exporter	36
MNC Exporter	39
MNC Non-Exporter	14
Vehicle System	
Body	21
Braking	5
Electrical	16
Engine and Fuel Systems	11
HVAC	5
Interiors	16
Suspension	21
Wheels and Tyres	5
Location (State)	
Victoria	68
South Australia	19
New South Wales	6
Queensland	5
Tasmania	2



2. CURRENT STATE WHERE IS THE INDUSTRY NOW?

Assessment Scoring

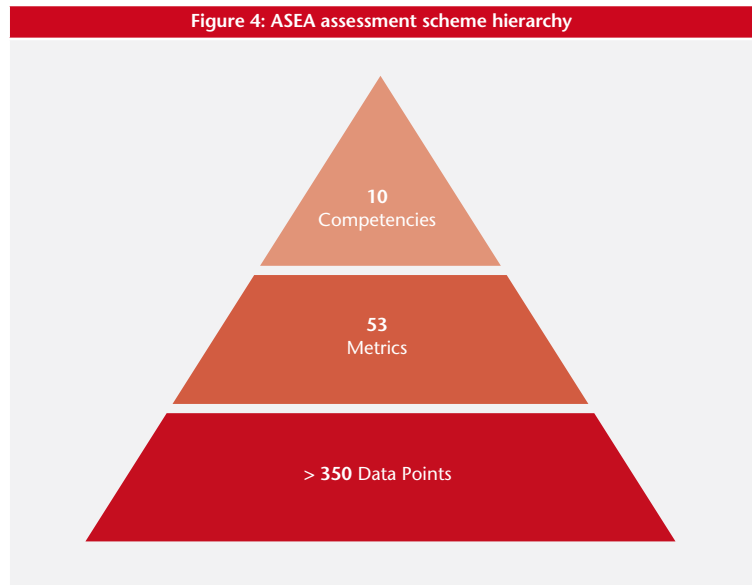
At the high level, the ASEA assessment is based on ten competency areas identified as critical for a globally competitive supplier. These ten competencies are based on a total of 53 metrics, underpinned by over 350 specific data points which are collected for each company (see Figure 4). Each of the 350 data points is assessed on an individual scale appropriate to the specific data point (such as reject rates in parts per million).

These results are then aggregated at the metric level to provide a score between one and five based on international benchmarks and global best practice such that:

- five equates to performance in the top 10% of companies globally,
- four is top 25%,
- three is top 50%,
- two is top 75% and,
- one is bottom 25%.

The metrics are then aggregated to provide an overall assessment of performance in each of the ten competency areas using the same one to five scale.

Figure 4: ASEA assessment scheme hierarchy



Analytic Method

Overall, the assessments produced a dichotomy of results, with a small number of large companies performing very well in comparison to the majority of companies and thus skewing the mean so that it did not represent the general performance of the industry. Consequently, in analysing the data to determine areas of strength and weakness, the decision was made to examine the spread of results rather than the means. In this way, it is possible to identify areas where a significant portion of the industry is performing either well (in the top 25% of companies with comparison to global standards) or poorly (in the bottom 50% of companies globally). Further, this analytic method supports the overall philosophy of ASEA in identifying the core areas of greatest need for the development of targeted improvement products in Stage 3 of the program. Note that use of this analytic method means that an area which is not a strength is not automatically a weakness, as it may be neither.



As well as analysing the data for the industry as a whole, the companies have also been classified according to:

- Turnover – less than \$50 million, \$50 million to \$100 million and, greater than \$100 million
- Location of Operations – local company (with operations only in Australia) versus Multi-National Corporation (MNC) (part of a company with operations in Australia and overseas)
- Export Status – exporter versus non-exporter

The impetus for this classification was to assess the impact of these factors on the performance of a company. Particularly, to identify:

- any benefits associated with company size;
- the impact of additional support and global integration provided by being part of a MNC; and
- the performance differences between companies solely supplying locally and those already competing on a global scale.

2.1 Overall Industry Performance

Figure 5 shows the mean score (on the one to five assessment scale) of companies assessed, according to company turnover. Note that, while averaging results across the whole industry was potentially misleading due to the impact of disproportionately good results from larger companies, the means within turnover bands are fairly representative. The figure clearly shows that performance typically improves as company turnover increases.





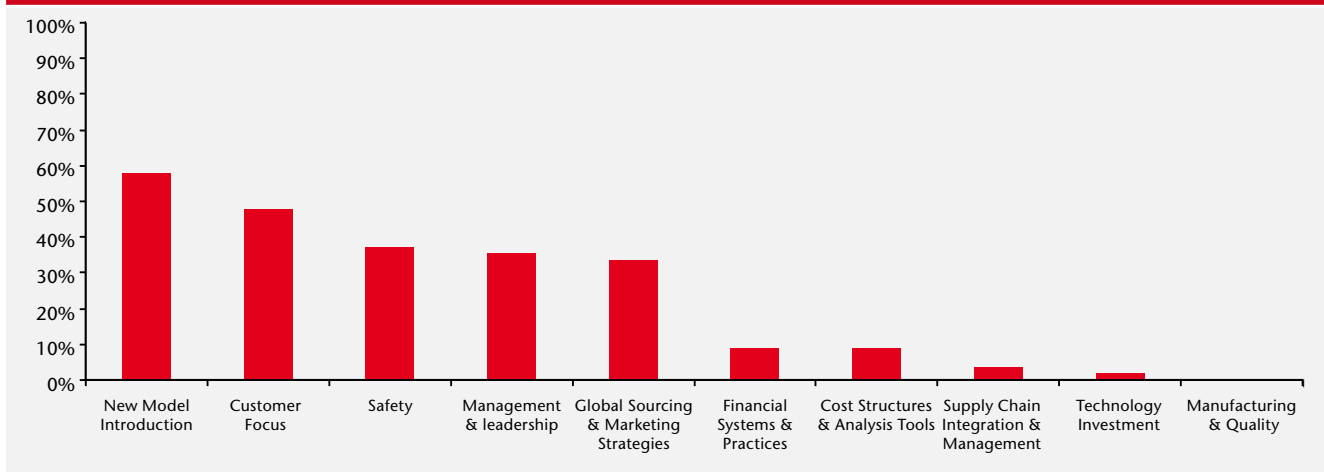
2.2 Industry Strengths

Figure 6 shows the percentage of the participating companies who scored four or greater in each of the ten competency areas, thus placing their performance in the top 25% of companies globally. At the industry level, it indicates a relative strength in New Model Introduction, being the only competency where more than half of the companies rated highly. Customer Focus was the second strongest competency overall, with almost half the companies scoring in the top 25% against the global benchmarks. The strength of these metrics reflects the general customer-centric mindset noted by the ASEA reviewers as a prevailing characteristic of component producers. The strength in New Model Introduction however, should be read in light of the overall assessment of the industry that noted significant disruption to standard processes and operations as companies worked to ensure KPIs were met in regard to new model activity.

New Model Introduction was established in ASEA Stage 1 as a very high priority for the MVPs and is a part of the supplier evaluation scheme of all Australian MVPs. The industry’s strong performance in this area and in Customer Focus demonstrates the ability of customers to drive supplier performance through their assessment processes.

At the metric level, the top ten industry strengths (having the greatest proportion of the companies scoring in the top 25% against global standards) are shown in Table 3 (page 20). Once again, many of the metrics demonstrate a strong customer focus, particularly on new model launches, such as Delivery to Customer, Resources for Model Launches, PPAP Approval and Launch Issues.

Figure 6: Percentage of companies scoring in the top 25% with comparison to global standards

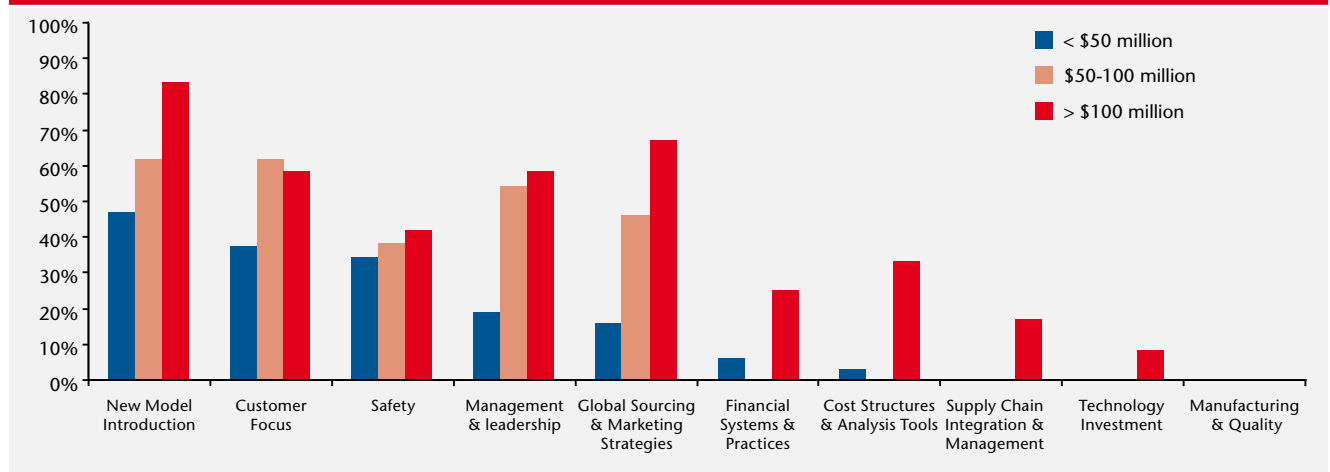


2.2.1 Company Turnover

The competency strengths of companies in different turnover ranges are shown in Figure 7. This shows a clear trend that larger companies (based on turnover) tend to outperform smaller ones. In addition to this general trend, Figure 7 also highlights some noteworthy differences in the strengths of companies in different turnover brackets:

- Less than 50% of the under \$50 million turnover companies scored highly in any competency, indicating a relative lack of definitive strengths amongst this sector of the industry. Note that this does not indicate across-the-board poor performance, but that there is no common area of high-performance.
- In the \$50 million to \$100 million turnover and greater than \$100 million turnover categories, as well as a definitive strength in New Model Introduction, which was generally common to the industry, there was consistent high performance (greater than 50% of companies) in Customer Focus and Management & Leadership. This reflects the need for high-quality management and leadership and a strong customer focus in order to build and maintain a company of this size.
- Companies with over \$100 million turnover also had considerable strengths in Global Sourcing & Marketing Strategies, with greater than 60% of participating companies receiving scores in the top 25% against the global benchmark. This may be expected, as good capabilities in Global Sourcing & Marketing Strategies provide opportunities for increased sales, thus driving up company turnover.

Figure 7: Percentage of companies scoring in the top 25% with comparison to global standards, according to turnover





2.2.2 Location of Company Operations

Figure 8 shows the competency strengths for MNCs and local companies. Overall, MNCs are stronger than the local companies in all competencies. This trend can be attributed to subsidiaries being able to leverage off the experience, infrastructure, technology, global presence, guidance and support of the global corporation. This is demonstrated in Figure 8 where more than half of the MNCs scored in the top 25% of the global benchmark in:

- New Model Introduction,
- Customer Focus,
- Management & Leadership, and
- Global Sourcing & Marketing Strategies.

In comparison, local companies only performed relatively strong in one competency, with almost half of the local companies scoring in the top 25% of the global benchmark in New Model Introduction.

The most significant differences in strengths between MNCs and local companies were observed in two competencies: Global Sourcing & Marketing Strategies and, Management & Leadership. Both these areas are heavily influenced by the corporate structure of a MNC.

For Global Sourcing & Marketing Strategies, 53% of MNCs scored in the top 25% of the global benchmark, as opposed to only 11% of the local companies. Since a MNC will tend to have more exposure and access to the global market through its various international locations, it could be expected that the performance in this area will generally be superior to a local company which does not have this exposure.

In the Management & Leadership competency, 53% of the MNCs also scored in the top 25% of companies globally, as opposed to 15% of the local companies. Again, this strength reflects the benefit of a globally integrated parent company providing strategic direction and support.

2.2.3 Company Export Status

Figure 9 shows the competency strengths for exporters and non-exporters. Companies who are active and successful in export markets are exposed to competitive pressures that are reflected in stronger performance across a range of areas in their business. This is demonstrated by at least half of the exporters scoring in the top 25% of the global benchmark in the areas of:

- New Model Introduction
- Customer Focus
- Global Sourcing & Marketing Strategies
- Management & Leadership.
- Safety

In comparison, non-exporting companies have a moderate strength in only one competency, with 42% of the non-exporters scoring in the top 25% of the global benchmark in New Model Introduction.

Exporters are substantially stronger than non-exporters in three main competencies: Global Sourcing & Marketing Strategies, Management & Leadership and, Safety. However, rather than being a driver of good performance, the ability to successfully export is probably more a result of good performance enabling companies to compete globally. Of the participating companies that export, 78% are also MNCs, and hence the strength of exporters can in part be attributed to the strength of MNCs and the factors discussed in Section 2.2.2.

To compare the relative performance of exporters and non-exporters, divorced from the influence of MNC status, Figure 10 shows a comparison of the strengths of local companies (non-MNCs) that export and those that do not export. This figure shows that the local exporters perform significantly better than the non-exporting locals in a number of competencies, potentially highlighting that strengths in Safety, Customer Focus, and particularly Global Sourcing & Marketing Strategies are enablers of export capability.

Figure 8: Percentage of companies scoring in the top 25% with comparison to global standards, according to location of operations

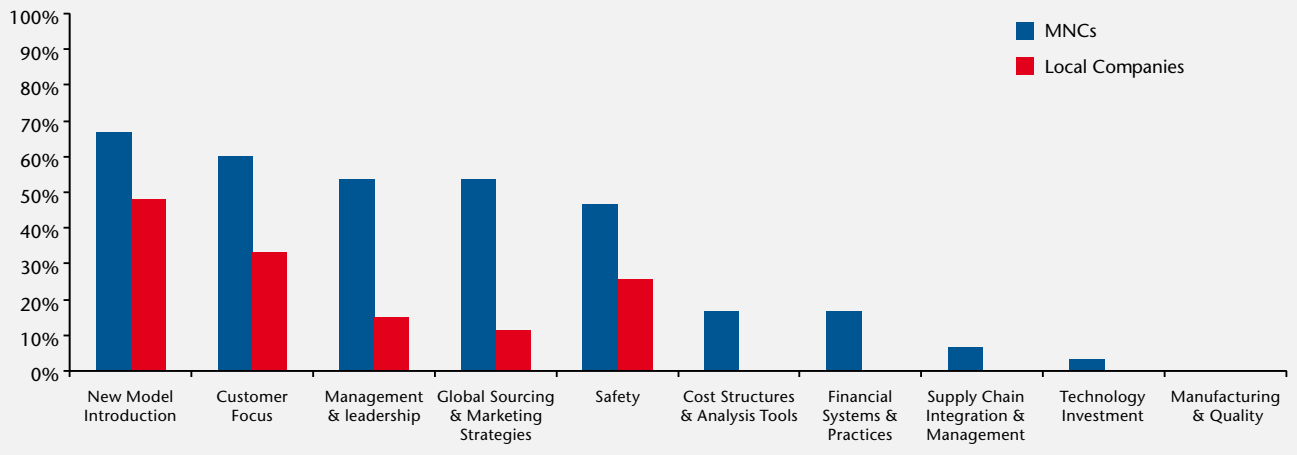


Figure 9: Percentage of companies scoring in the top 25% with comparison to global standards, according to export status

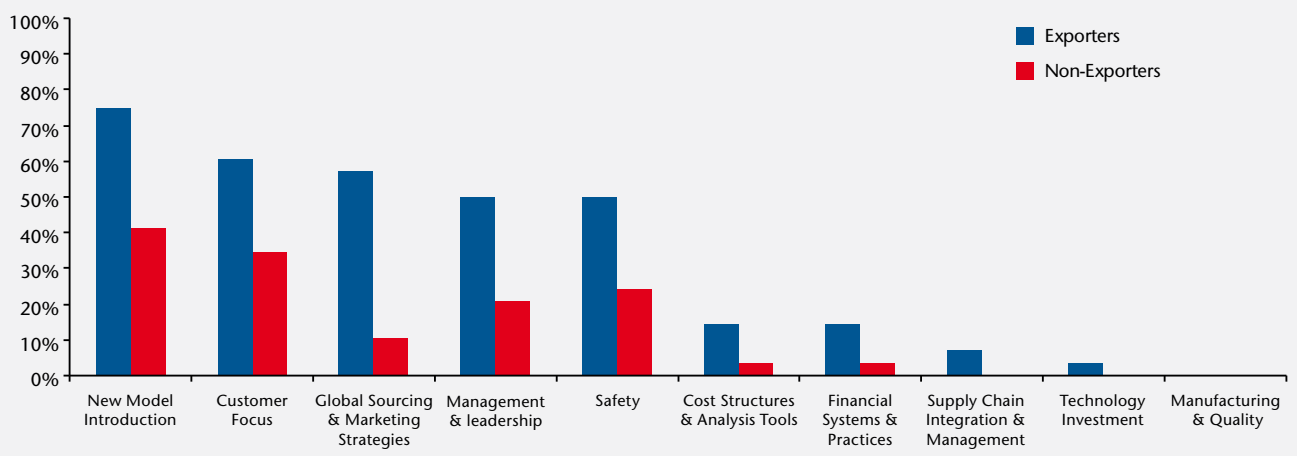


Figure 10: Percentage of local companies (non-MNCs) scoring in the top 25% with comparison to global standards, according to export status

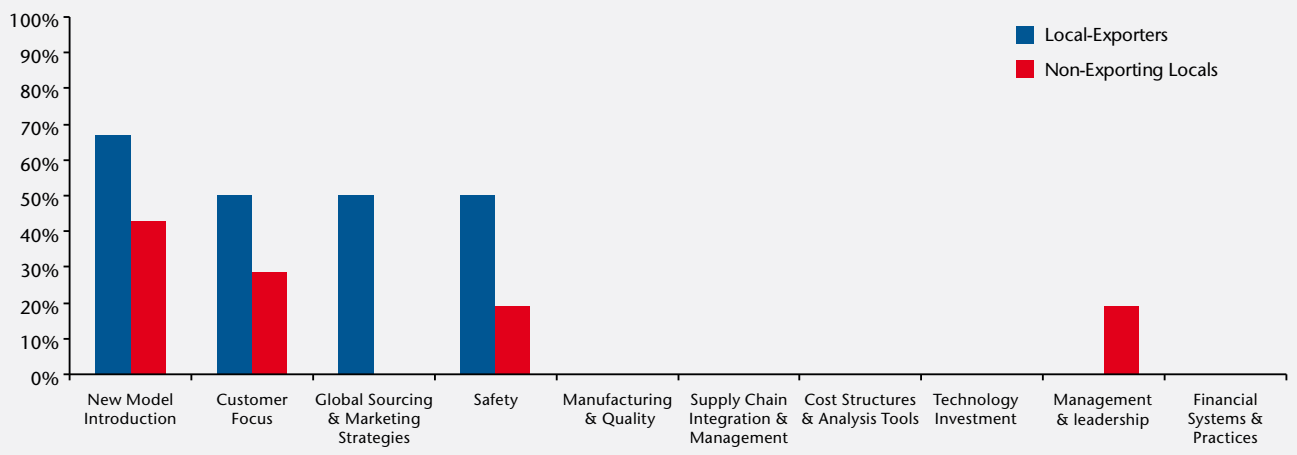




Table 3: Ten strongest performing metrics - having the greatest percentage of companies scoring in the top 25% with comparison to global standards

Industry	Turnover			Location of Operations		Export Status	
	< \$50 million	\$50-\$100 million	> \$100 million	Local	MNC	Exporter	Non-Exporter
1. Pre-production Validation Processes	1. Pre-Production Validation - Processes	1. Executive Vision - Involvement, Communication & Accountability	1. Executive Vision - Involvement, Communication & Accountability	=1. Delivery to Customer - DIFOT	1. Pre-Production Validation - Processes	=1. Pre-Production Validation - Processes	1. Pre-production Validation Processes
2. Delivery to Customer - DIFOT	2. Delivery to Customer - DIFOT	=2. PPAP Approval - Controls & Processes	=1. Strategic Planning - Implementation Plan	=1. Pre-production Validation Processes	2. Executive Vision - Involvement, Communication & Accountability	=1. Strategic Planning - Implementation Plan	2. Delivery to Customer - DIFOT
=3. Resources for Model Launches	=3. Resources for Model Launches	=2. Pre-Production Validation - Processes	=3. Pre-Production Validation - Processes	=3. Resources for Model Launches	=3. Delivery to Customer - DIFOT	=3. Resources for Model Launches	=3. Executive Vision - Involvement, Communication & Accountability
=3. Executive Vision - Involvement, Communication & Accountability	=3. Overall Equipment Effectiveness - Availability, Quality & Performance	=2. Organisational Culture - Targeting	=3. Technology R&D	=3. Launch Issues - Number & Severity	=3. Strategic Planning - Implementation Plan	=3. Technology R&D	=3. Launch Issues - Number & Severity
5. Technology R&D	=3. Launch Issues - Number & Severity	=5. Goal Achievement - Monitoring & Reporting	=3. Innovation - Customer Focus	=5. PPAP Approval - Controls & Processes	=3. Networking Global Organisations	=3. Delivery to Customer - DIFOT	=5. Goal Achievement - Monitoring & Reporting
=6. PPAP Approval - Controls & Processes	=6. Technology R&D	=5. Delivery to customer - DIFOT	=3. Networking Global Organisations	=5. Technology R&D	=6. Innovation - Customer Focus	=3. Networking Global Organisations	=5. Resources for Model Launches
=6. Strategic Planning - Implementation Plan	=6. PPAP Approval - Resources	=5. Resources for Model Launches	=7. PPAP Approval - Resources	=7. Executive Vision - Involvement, Communication & Accountability	=6. Resources for Model Launches	7. PPAP Approval - Controls & Processes	=7. Technology R&D
=8. Goal Achievement - Monitoring & Reporting	=6. PPAP Approval - Controls & Processes	=5. Sourcing for Speed & Agility	=7. Supply Line Management - Run-out & New Model Introduction	=7. Supply Line Management - Run-out & New Model Introduction	=6. Technology R&D	=8. Executive Vision - Involvement, Communication & Accountability	=7. PPAP Approval - Controls & Processes
=8. Launch Issues - Number & Severity	=9. Market Knowledge - Internal Dissemination	=5. KPIs & Goals - Processes & Targets	=7. Resources for Model Launches	=9. Strategic Planning - Implementation Plan	=6. Change Management - Consultation & Strategies	=8. Global Product Capabilities	=7. Supply Line Management - Run-out & New Model Introduction
=10. Networking Global Organisations	=9. Supply Line Management - Run-out & New Model Introduction	=10. Change Management - Consultation & Strategies	=7. Delivery to Customer - DIFOT	=9. Market Knowledge - Internal Dissemination	=10. Goal Achievement - Monitoring & Reporting	=10. Change Management - Consultation & Strategies	=7. Overall Equipment Effectiveness - Availability, Quality & Performance
=10. Global Product Capabilities - Linkages to Design & Manufacturing Globally	=10. Strategic Planning - Implementation Plan	=10. Strategic Planning - Implementation Plan	=7. Strategic Planning - Extent & Scope of Process	=9. PPAP Approval - Resources	=10. PPAP Approval - Controls & Processes	=10. Linkages to Global OEM Platforms	
=10. Supply Line Management - Run-out & New Model Introduction	=10. Technology R&D			=9. Global Product Capabilities - Linkages to Design & Manufacturing Globally	=10. Strategic Planning - Extent & Scope of Process	=10. Comprehensiveness of New Model Introduction Process	
				=9. Overall Equipment Effectiveness - Availability, Quality & Performance			

Table 4: Ten weakest performing metrics - having the greatest percentage of companies scoring in the bottom 50% with comparison to global standards

Industry	Turnover			Location of Operations		Export Status	
	< \$50 million	\$50-\$100 million	> \$100 million	Local	MNC	Exporter	Non-Exporter
=1. Facility Utilisation	=1. Facility Utilisation	=1. Facility Utilisation	=1. Facility Utilisation	1. Facility Utilisation	1. Labour Productivity	1. Labour Productivity	=1. Facility Utilisation
=1. Labour Productivity	=1. Labour Productivity	=1. Labour Productivity	=1. Labour Productivity	2. Innovation - Exporting Design	2. Facility Utilisation	2. Facility Utilisation	=1. Innovation - Exporting Design
3. Innovation - Exporting Design	3. Innovation - Exporting Design	=1. Technology - VA/VE	=3. Technology - VA/VE	3. Labour Productivity	3. Technology - VA/VE	=3. Technology - VA/VE	3. Labour Productivity
4. Technology - VA/VE	=4. Training & Development - Extent of Training	4. Financial Practices - Total Cost Awareness	=3. Innovation - Exporting Design	4. Training & Development - Extent of Training	4. Financial Practices - Total Cost Awareness	=3. Financial Practices - Total Cost Awareness	4. Technology - VA/VE
5. Financial Practices - Total Cost Awareness	=4. Supplier Improvement - Processes Adopted	5. Innovation - Exporting Design	=3. Training & Development - Extent of Training	5. Supplier Improvement - Processes Adopted	5. Innovation - Exporting Design	5. Innovation - Exporting Design	=5. Training & Development - Extent of Training
6. Training & Development - Extent of Training	=4. Technology - VA/VE	6. Organisational Culture - Monitoring	=6. Financial Practices - Total Cost Awareness	6. Technology - VA/VE	=6. Quality Performance	6. Training & Development - Extent of Training	=5. Supplier Improvement - Processes Adopted
7. Supplier Improvement - Processes Adopted	7. Financial Practices - Total Cost Awareness	=7. Organisational Risk Management - Strategies & Analysis	=6. Quality Performance	7. Financial Practices - Total Cost Awareness	=6. Organisational Culture - Monitoring	=7. Logistics Management	7. Financial Practices - Total Cost Awareness
8. Organisational Culture - Monitoring	8. Competitive Sourcing - Importing, Standardised Processes	=7. Cost Reduction Plans	=8. Supplier Improvement - Processes Adopted	8. Competitive Sourcing - Importing, Standardised Processes	=8. Training & Development - Extent of Training	=7. Quality Performance	8. Organisational Culture - Monitoring
9. Risk Management - Supplier Stability	9. Risk Management - Supplier Stability	=7. Logistics Management	=8. Overall Equipment Effectiveness - Availability, Quality & Performance	=9. Risk Management - Supplier Stability	=8. Risk Management - Supplier Stability	=7. Risk Management - Supplier Stability	9. Competitive Sourcing - Importing, Standardised Processes
=10. Quality Performance	10. Pipeline Visibility	=7. Quality Performance	=8. Logistics Management	=9. Organisational Culture - Monitoring	=8. Supplier Improvement - Processes Adopted	=7. Supplier Improvement - Processes Adopted	=10. Risk Management - Supplier Stability
=10. Competitive Sourcing - Importing, Standardised Processes	=7. Pipeline Visibility	=8. Procurement Team - Skills & Effectiveness	=8. Procurement Team - Skills & Effectiveness	=8. Logistics Management	=8. Logistics Management	=8. Logistics Management	=10. Linkages to Global OEM Platforms



2.3 Industry Weaknesses

Industry weaknesses are areas of consistently poor performance across the industry. Figure 11 shows the percentage of participating companies whose scores for the respective competencies placed them in the bottom 50% against global benchmarks. The areas of general weakness within the industry, with more than a third of companies performing poorly, are:

1. Manufacturing & Quality,
2. Cost Structures & Analysis Tools,
3. Technology Investment, and
4. Supply Chain Integration & Management.

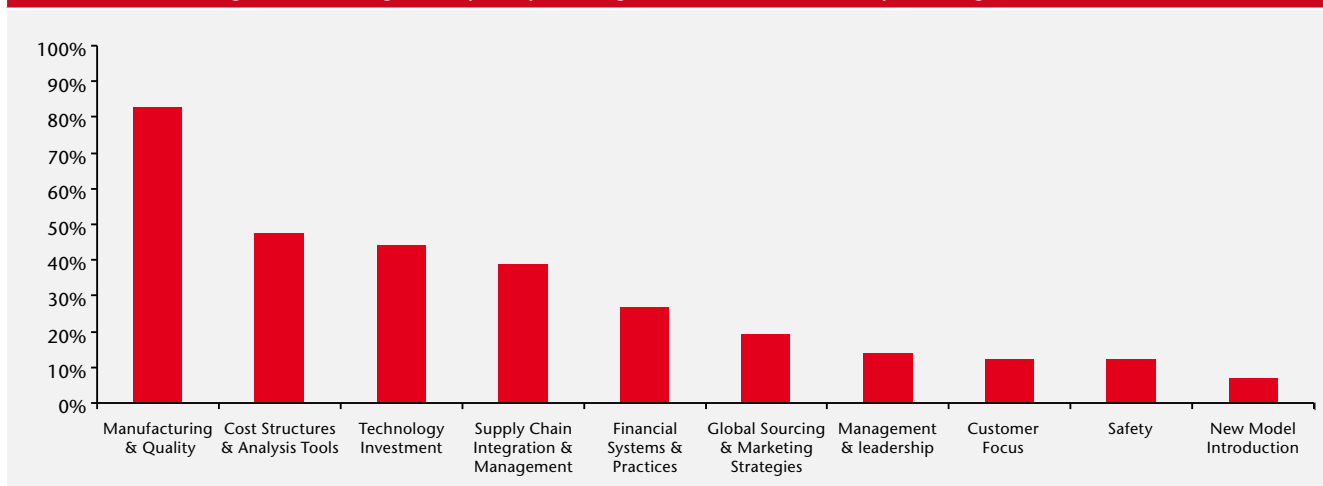
Manufacturing & Quality is a substantial area of weakness with over 80% of companies receiving scores placing them in the bottom half of companies globally. This is supported by the large number of Improvement Plans identified in this area; particularly for ‘lean’-based improvements (see Section 3.1).

In comparison to the industry strengths, which are primarily customer-focussed, the industry weaknesses are predominantly internal, process and performance related measures. This focus on meeting customer needs, without the support of high-quality, internal systems and processes, is a source of significant waste throughout the industry and ultimately comes at great cost to the component producers.

This is further evidenced by the quality performance throughout the supply-chain, as shown in Figure 12. Although customers were typically highly satisfied with quality in the Stage 1 survey, this is primarily due to good inspection processes rather than good production processes. Figure 12 shows:

- Most automotive component producers receive significantly poorer quality from their suppliers than they deliver to their customers.
- Internal quality levels are relatively poor across the industry and are significantly poorer for companies with less than \$50 million turnover.

Figure 11: Percentage of companies performing in the bottom 50% with comparison to global standards



- Quality is generally not designed into the products and production processes, but rather defects are inspected out to ensure that delivered quality is still high. This represents a significant cost to the companies and supports the high volume of manufacturing improvement opportunities identified (Section 3.1).

The high-quality delivered to the customer once again demonstrates the ability of customers to drive supplier performance through their assessment processes. However, the low internal quality highlights the issues when this external drive is not supported by internal improvement.

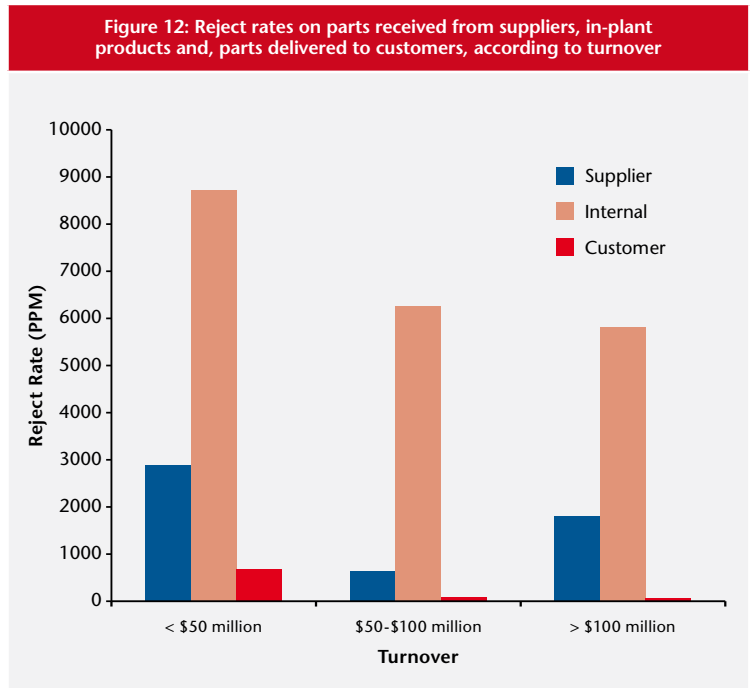
At the metric level, the most significant areas of weakness (having the greatest proportion of the companies scoring in the bottom 50% against global standards) are shown in Table 4 (page 21).

Many of the metrics appearing consistently as weaknesses in all sectors of the industry, such as Financial Practices - Total Cost Awareness, Supplier Improvement - Processes Adopted, Risk Management - Supplier Stability and, Training & Development, align with areas identified by MVPs in Stage 1 as areas where they felt there was generally poor performance amongst suppliers, but that they were not directly measuring.

The consistent poor performance in Factory Utilisation reflects a number of industry factors:

- Lower production volumes within the industry in general resulting in unused facility.
- The implementation of 'lean' principles in some suppliers creating additional capacity.
- A tendency to invest heavily in capital for a one-shift operation, rather than taking advantage of a second shift, which is also reflected in the Improvement Plans, with a number of companies receiving recommendations regarding enhancements to their financial decision making processes.

Labour Productivity is also a substantial area of weakness and is of particular concern given the relatively high cost of labour in Australia in comparison with 'low-cost' countries.





2.3.1 Company Turnover

Figure 13 shows areas of weakness by company turnover, indicating a clear trend that weaknesses are more significant as company turnover decreases, with a larger percentage of under \$50 million turnover companies performing poorly than \$50 million to \$100 million and, over \$100 million turnover companies respectively.

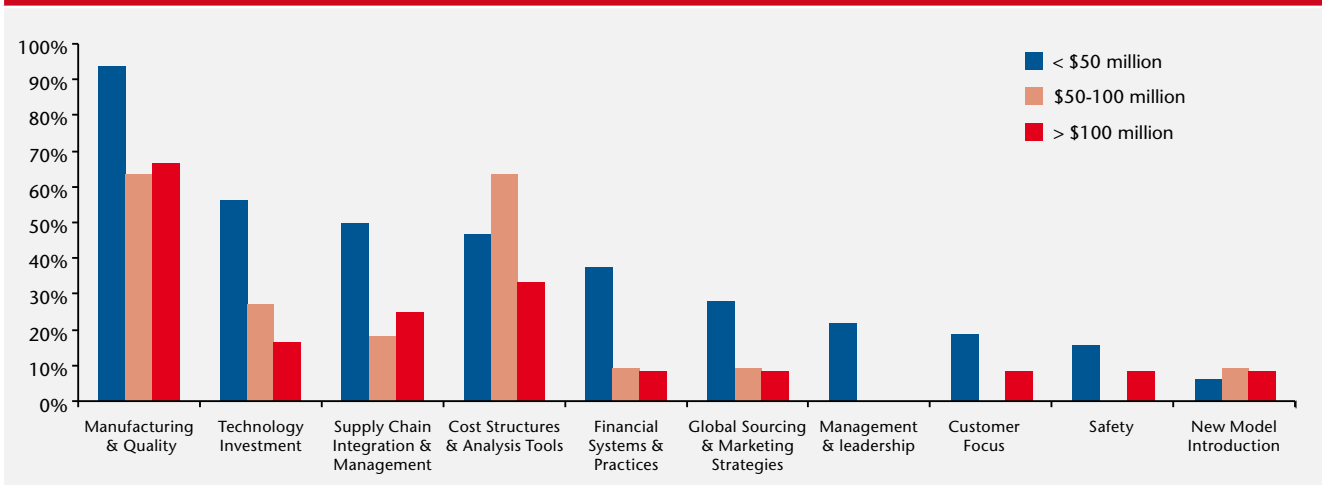
Manufacturing & Quality is the greatest area of weakness for all company turnover levels, but is of particular concern for the companies with less than \$50 million turnover, with over 90% of companies in this turnover range scoring in the bottom half of companies globally. Companies with under \$50 million turnover also have significant weaknesses in Technology Investment and Supply Chain Integration & Management. This perhaps reflects the fact that smaller turnover companies generally have less capital to invest in technology and developing their supply chain, and are also generally further up the supply chain, where it is harder to drive supply chain integration.

In addition to Manufacturing & Quality, the \$50 million to \$100 million turnover companies have a significant issue with Cost Structures & Analysis Tools. This turnover bracket represents a level where simpler financial systems that may have been adequate for a less than \$50 million company can no longer support the more complicated product costing and control of the company and hence performance drops.

Very few companies with greater than \$50 million turnover have any specific weaknesses in Financial Systems & Practices, Global Sourcing & Marketing Strategies, Management & Leadership, Customer Focus, Safety or New Model Introduction. This reflects the generally good performance required in these areas for a company to reach and maintain this level of turnover.

Manufacturing & Quality is the only significant area of weakness for companies in the over \$100 million turnover range.

Figure 13: Percentage of companies performing in the bottom 50% with comparison to global standards, according to turnover



2.3.2 Location of Company Operations

Figure 14 shows the competency weaknesses for MNCs and local companies. Overall, the local companies are weaker than the MNCs in all competencies with MNCs having a consistently lower percentage of companies scoring in the bottom 50% of the global benchmark when compared to local companies. As with the greater number of strengths for MNCs (Section 2.2.2), this comparative lack of weaknesses can be attributed to the support gained from being a part of a global organisation. The most substantial area of weakness for MNCs, with over half of the companies scoring in the bottom 50% of the global benchmark, is in the Manufacturing & Quality competency. In comparison, over half of the local companies performed in the bottom 50% of the global benchmark in:

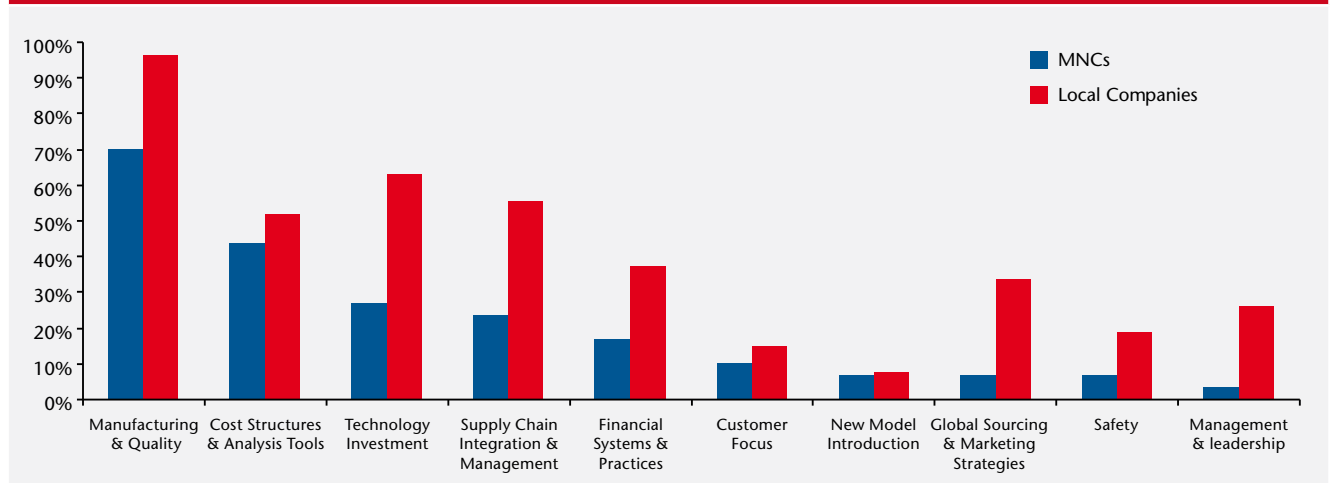
- Manufacturing & Quality
- Supply Chain Integration & Management
- Technology Investment

There are significant differences in the level of weakness of MNCs and local companies in both Supply Chain Integration & Management and Technology Investment.

For Supply Chain Integration & Management, 56% of the local companies scored in the bottom 50% of the global benchmark, compared to 23% of the MNCs. This is influenced by the global footprint of the MNCs enabling greater international integration, as well as the ability to draw on the supply network, experience and processes of the parent organisation. Furthermore, for many MNCs, other subsidiaries of the same company often form a large proportion of their supply base, thus enabling greater integration and better performance due to common ownership.

In Technology Investment, 63% of local companies scored in the bottom 50% of the global benchmark, compared to 27% for the MNCs. Stage 1 of ASEA established that suppliers generally place a low level of importance on Technology Investment; however, MNC performance in this area is boosted by the ability to leverage technological developments and other R&D outcomes from other members of the organisation and, in many cases being a part of a broader technology plan driven by the parent organisation.

Figure 14: Percentage of companies performing in the bottom 50% with comparison to global standards, according to location of operations





2.3.3 Company Export Status

Figure 15 shows the competency weaknesses for exporters and non-exporters. In general non-exporters are weaker than exporters in all competencies with exporters having a consistently lower percentage of companies scoring in the bottom 50% of the global benchmark compared to non-exporters. Over half of the local companies performed in the bottom 50% of the global benchmark in:

- Manufacturing & Quality
- Technology Investment

Exporters only performed consistently weak in one competency, with over half scoring in the bottom 50% of the global benchmark in Manufacturing & Quality.

As with the strengths of exporters enabling them to win business internationally (Section 2.2.3), the relative weakness of non-exporters is most likely a limiting factor on their ability to export, rather than a result of them not exporting.

Also, as the majority of exporters are MNCs (78%), their better performance can largely be attributed to the influence of being a part of a large global organisation. Figure 16 shows the levels of weakness of local companies (non-MNCs) that export and those that don't. This clearly shows that non-exporting locals are generally weaker in competencies than the local exporters, with particularly significant differences in Technology Investment and Financial Systems & Practices.

For Technology Investment, the weakness shows similarities to Figure 14, where local companies were much weaker than MNCs. However, from Figure 16 it is evident that this weakness is more specific to non-exporting locals. This indicates a link between the level of Technology Investment and the ability of a company to export.

Figure 15: Percentage of companies performing in the bottom 50% with comparison to global standards, according to export status

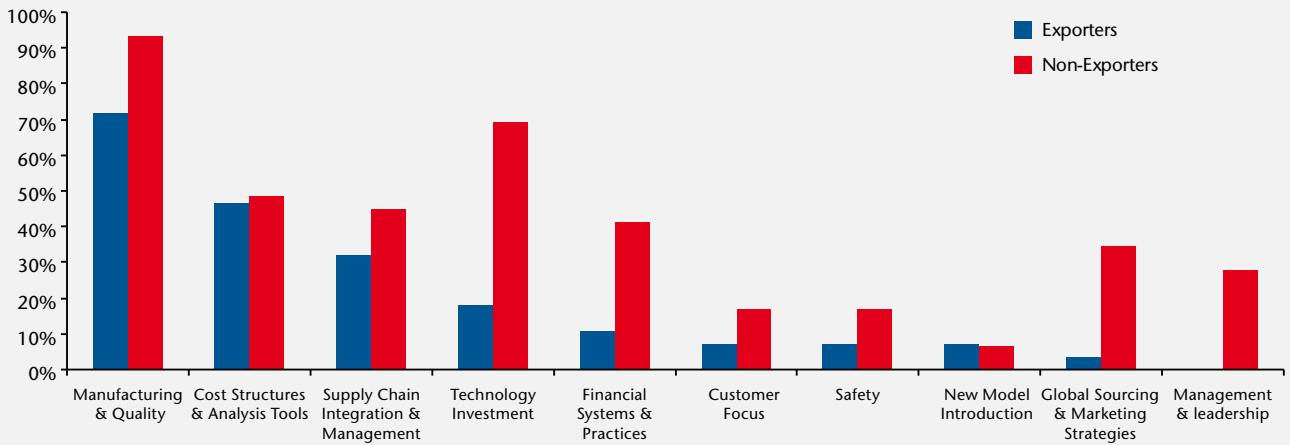
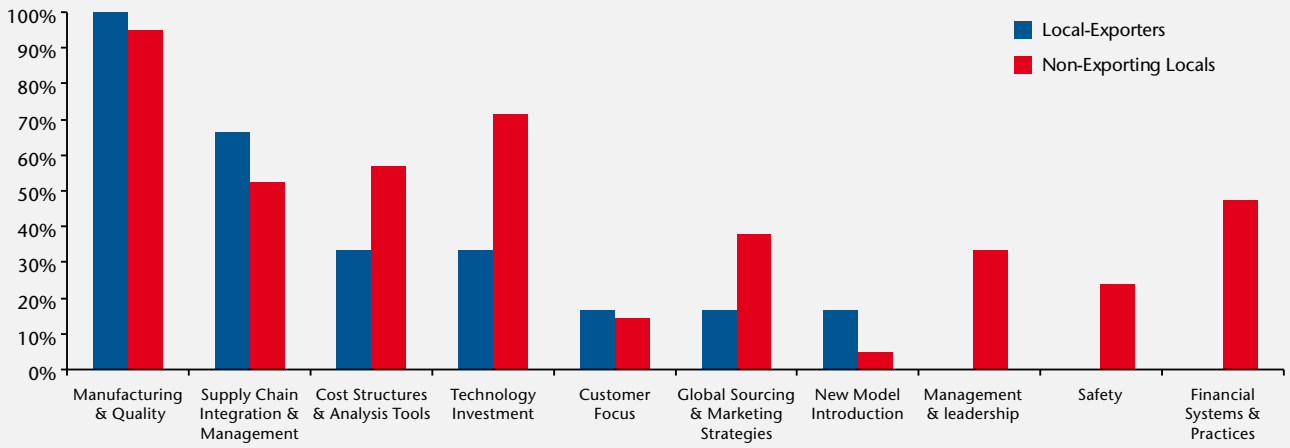


Figure 16: Percentage of local companies (non-MNCs) performing in the bottom 50% with comparison to global standards, according to export status





3. IMPROVEMENT NEEDS HOW CAN THE INDUSTRY IMPROVE?

Identifying Improvement Opportunities

In addition to a detailed benchmarking report, each company that participated in the ASEA assessment process received a set of Improvement Plans identifying specific opportunities to improve their performance. These Improvement Plans were developed based on a combination of the company's benchmarking results and the observations and expert knowledge of the ASEA reviewers. The improvement opportunities were scoped and prioritised according to what was achievable in a two year timeframe and would have the greatest impact on the company's performance. Consequently, while the Improvement Plans considered the company benchmark results, they do not always correspond directly to the weaknesses identified by the data.

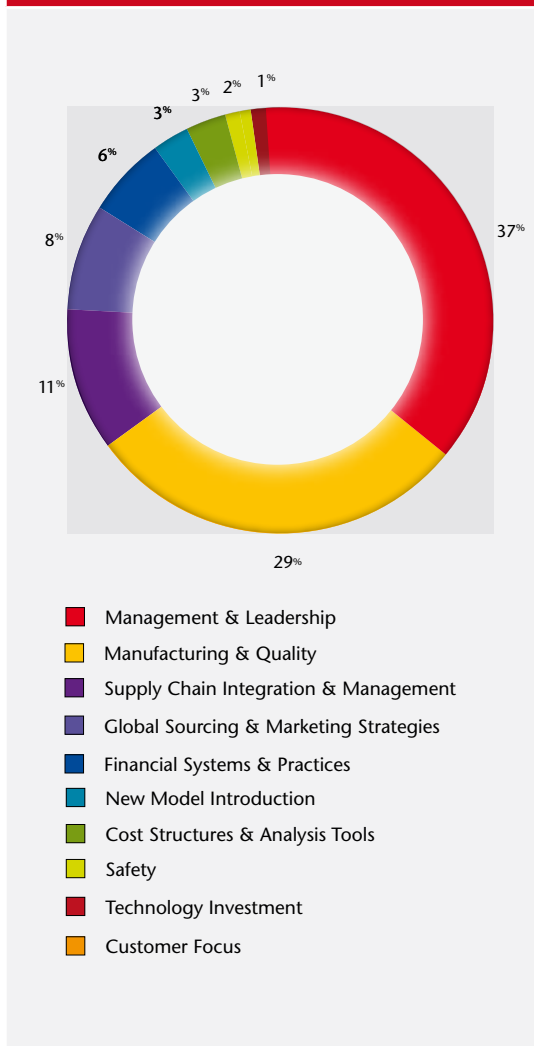
3.1 Improvement Opportunities

Over 250 improvement opportunities have been identified through the ASEA assessments. Figure 17 shows a breakdown of the improvement opportunities according to competency area.

The top five areas for improvement opportunities are:

1. Management & Leadership
2. Manufacturing & Quality
3. Supply Chain Integration & Management
4. Global Sourcing & Marketing Strategies
5. Financial Systems & Practices

Figure 17: Percentage of improvement opportunities identified in each competency area





Although Manufacturing & Quality and Supply Chain Integration & Management were both identified through the assessment data as significant areas of weakness (see Section 2.3), the other areas with a significant number of improvement opportunities, particularly Management & Leadership, were not. This reflects the development and prioritisation of the Improvement Plans to have the greatest, sustainable impact on the businesses' performance. The breakdown of the Improvement Plans represents a logical flow of development for the supply base in general:

- Management & Leadership – these improvements impact fundamental business and operational issues that go to the core elements of management, planning, employee engagement and culture. Good performance in this area is a necessity in order to successfully implement and sustain organisational changes in other areas.
- Manufacturing & Quality – these improvements directly impact the core business of the component producers, reducing waste and improving profitability, freeing resources to support other improvement activities.
- Supply Chain Integration & Management – these improvements provide a significant opportunity for further waste reduction and cost savings once internal manufacturing issues have been addressed. Implementing improvements in this area requires good management and leadership skills supported by appropriate processes.
- Global Sourcing & Marketing Strategies and Financial Systems & Practices – improvements in these areas support business growth and can only be explored if the fundamentals of each business are addressed.

Taking this more structured, whole-of-business development approach will have immense benefits for the automotive component industry, as opposed to the more traditional process of focussing on individual (and hence isolated) areas of the business without an understanding of the broader company direction. Some of the areas identified in Section 2.3 as significant weaknesses, such as Cost Systems & Analysis and Technology Investment, cannot be directly addressed until significant improvements are realised in other areas of the business. The large number of opportunities in Management & Leadership is also expected to have considerable flow-on effects in providing greater drive and direction for other areas of the business.

Within the competencies, there were also significant areas of commonality between some of the specific improvement opportunities. Appendix A contains a detailed list of the improvement areas. The most common improvement opportunities are summarised in Table 5.

Table 5: Most common areas of improvement opportunity	
Competency	Common Improvement Opportunities
Management & Leadership	<ol style="list-style-type: none"> 1. Strategic and business planning 2. Operational planning and KPI structures 3. Management & leadership training 4. Organisational development and HR processes
Manufacturing & Quality	<ol style="list-style-type: none"> 1. Value stream mapping of specific production processes 2. Introduction of 'lean' and use of specific tools such as 5S and visual management
Supply Chain Integration & Management	<ol style="list-style-type: none"> 1. Supplier development programs & associated quality management systems 2. Supply chain communication and logistics 3. MRP systems
Global Sourcing & Marketing Strategies	<ol style="list-style-type: none"> 1. Identification of new business opportunities 2. Development of an approach to export and international activity
Financial Systems & Practices	<ol style="list-style-type: none"> 1. Real-time Management Information Systems

By far the most common area of improvement opportunity was around planning – strategic, business and operational planning and the integration and implementation of the three – with over half of the companies receiving Improvement Plans in this area. It was observed that strategic planning in particular is, for many companies, a box-ticking exercise, and consequently most companies ticked some of the assessment boxes. However, many companies do not clearly understand the purpose of strategic planning, their planning processes are generally poor and they are not actually driving any value out of their strategic plans because they are not communicating and implementing them - only 52% of companies have a clear link between their strategic, operational and budget plans, dropping to 32% in the less than \$50 million turnover category.



Minimising Threats

Many of the improvement opportunities identified target areas that threaten the viability of the Australian supplier base. In many cases, the issues identified require immediate attention, such as:

- Risk management – most companies are aware of the issues facing the industry, but in some cases there is little evidence of companies implementing comprehensive risk management strategies.
- Reliance on a small number of customers – little evidence exists of any systematic approach to achieving greater scale across the supply chain. Few companies are being proactive in seeking out business beyond the automotive space, or in developing their capabilities in this direction.
- Balance sheet adjustment – in the majority of occasions where a company had undergone a significant downturn in its turnover, it had not taken the next step of adjusting its fixed cost base accordingly.

Maximising Opportunities

In addition to mitigating the threats to the component producers, a number of improvements were identified to capitalise on potential opportunities, including:

- Developing technology - a significant number of improvements were recommended around companies either developing their proprietary technology and investigating international markets, or becoming more active in the region within their global corporate group along technology lines.
- Reducing costs – there are numerous opportunities for extracting cost from business operations, both through measures aimed at improving efficiency, and also by being more conscious of competitive sourcing arrangements.
- Developing true supply chain activity – greater collaboration between tiers 1, 2 and 3 with the customer base to explore design for manufacture opportunities, and drive greater innovation through the local industry.
- Reducing waste – many companies have a large opportunity to improve productivity and reduce waste, lead-times, work-in-process and inventory through the implementation of well established 'lean' principles.

3.2 Categorisation of Improvements

In order to determine the development support needs of the Australian automotive supply base, Improvement Plans were also categorised according to the type of structure that would be most appropriate in assisting the companies to implement them:

Category O—Improvements that can be undertaken entirely internally, at no direct financial cost to the company.

Category A—Requiring the assistance of an external coach to provide direction and facilitation, in order to ensure that the improvement is implemented efficiently and effectively.

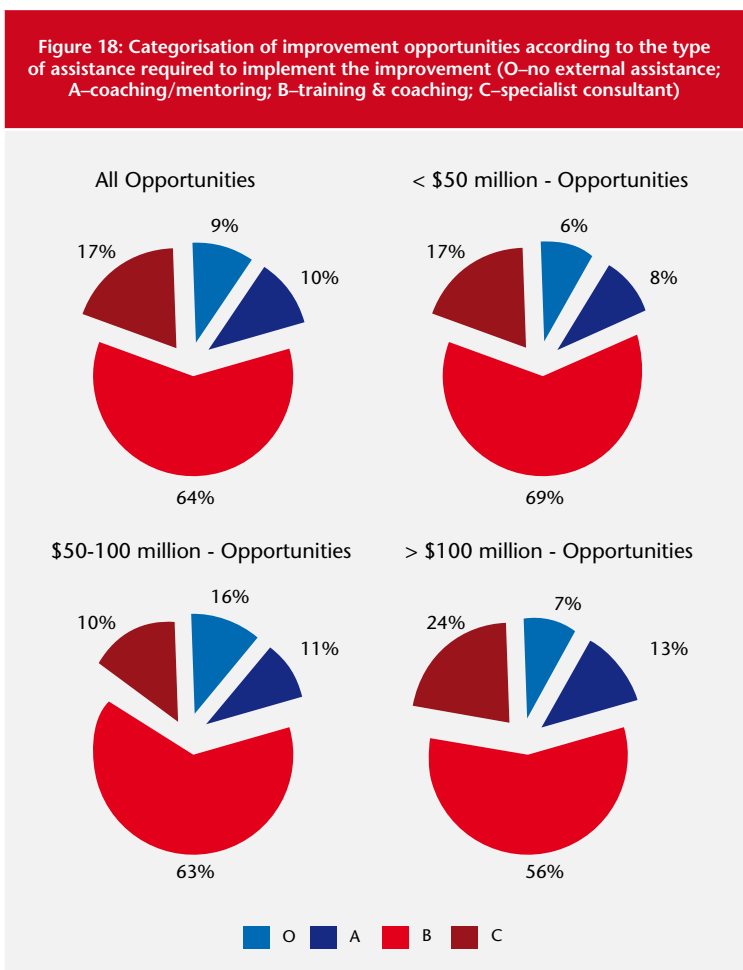
Category B—Requiring a combination of training (to increase company knowledge) with individual coaching (to increase practical application skills and sustainability).

Category C—Requiring expert assistance in specialist (or niche) areas of improvement.

Figure 18 shows the breakdown of improvement opportunities according to this categorisation. By far the majority of improvements (64%) fall into Category B. This provides a significant opportunity for ASEA to have broad industry impact through the delivery of common, cost-effective improvement products integrating targeted training with expert coaching.

Category O has the smallest number of improvements (9% overall), but nevertheless represent a significant opportunity for some early gains as they do not require funding. Typically these improvement opportunities require a change in the allocation of company resources and therefore do have associated time, internal resource and material costs; however these are far outweighed by the potential benefits.

Figure 18 also indicates that the lower the company turnover, the higher the percentage of Category B improvements and the lower the percentage of Category A improvements. This is because larger companies tend to have more resources to direct towards developing their people, whereas the smaller companies often overlook training in their focus on operational activities. It would therefore be beneficial for the lower turnover companies in particular, for the training associated with the Category B improvements to involve as many people within the company as possible.





4. ASEA STAGE 3

HOW CAN ASEA SUPPORT INDUSTRY IMPROVEMENT?

Supporting Whole-of-Business Improvement

Two common themes have emerged during the Stage 2 process:

- Companies are generally aware of improvement needs in the areas of manufacturing, quality and operations.
- The need for improvement outside these areas (management and leadership, human resources, technology, R&D and finance for example) is less apparent.

This reflects findings from ASEA Stage 1, whereby the MVPs described a broad range of areas (outside manufacturing and quality) in which they would like to see supplier improvement. The MVPs however, only measure and provide development opportunities in a smaller subset, typically focussed around the manufacturing and operational areas of the business.

4.1 Barriers to Implementation

A number of barriers to the implementation of specific improvement plans have been noted from both observations and discussions with suppliers as part of the Stage 2 process. Some of these are discussed below:

4.1.1 Industry Pressures

Short-term survival pressures are preventing many suppliers from devoting resource towards improvements that are perceived to have a longer payback period. The industry has a high demand for immediate returns on investments and as such, activities which require longer-term vision and planning are afforded very low priority.

Industry Uncertainty

A large number of suppliers are concerned with the high level of uncertainty regarding the future of the Australian automotive industry. This has resulted in a prevailing short-term outlook and a general reluctance to invest resources (in particular funds) into activities that will not return an immediate benefit.

Resource Perceptions

Resource constraints (both perceived and real) further limit the ability of companies to invest in longer-term activities. Very small margins, and in some cases losses on products, make the diversion of resources and funds into improvement activities an unattractive option.

Furthermore, many suppliers are so focussed on achieving mandatory targets (in areas such as safety, delivery, and new model introduction) to maintain existing business or gain additional business, that they have no time to implement improvement activities that will make them more cost effective and sustainable, such as 'lean'-based improvements, strategic planning, cost reduction and global sourcing.



4.1.2 Accessing Quality Assistance

Knowing where to source quality assistance to implement improvement activities is a common problem for suppliers. The Improvement Plans presented under Stage 2 are spread across a broad range of areas, where for example, a company may be advised to consider a strategic and business planning exercise, improvements to its costing systems, and an overhaul of its MRP system. Faced with such a diverse array of activities, the mere task of prioritising and identifying skilled resources who understand the industry across such a disparate range of areas can be discouraging. The task of identifying where to access improvement assistance therefore becomes time consuming, compounding the resource issues discussed above.

Modes of Assistance

Traditional types of delivery assistance to suppliers do not usually address issues around sustainability of the improvement and the ability of the company to become self-sufficient in terms of adoption and assimilation of the improvement. Typical approaches companies have to seeking assistance include:

- No external assistance being sought or utilised;
- Some ad-hoc arrangements with individual consultants or training providers; or
- Long-term arrangements with one consultant or consulting company who may be utilised as a trusted advisor in certain areas in which they are not necessarily specialised.

A single point of independent advice is required, which can direct a company to a range of best-in-class providers, across the spectrum of areas of need, using a simple, consistent, successful and understood format. Such an approach could also be tied to the development of a progress map for each participating supplier outlining the progression of improvements and hence providing a vision for the development of the business over a period of sustained and coordinated assistance (see Section 4.1.4).

Use of Coaches/Mentors

Analysis of the Improvement Plans generated through Stage 2 identified a number of opportunities that offer a significant and relatively immediate outcome in exchange for an investment of up to ten day of a specialist coach or mentor working with the company (these are designated as Category A improvements, the proportion of which are detailed in Section 3.2).

Furthermore, there is strong international evidence that shows that manufacturing companies (and in particular SMEs) prefer coaching and mentoring as opposed to classroom-based training. This mode of knowledge transfer supports work-based learning and increases the probability of effective assimilation (i.e. sustainability) particularly when delivered by experienced individuals (such as the ex-industry professionals selected as Stage 2 assessors).



4.1.3 Funding Issues

While ACIS is often cited as a common point of financial assistance for improvement activities within the automotive industry, less than half of the Improvement Plans recommended from Stage 2, and only 12% of Management & Leadership related improvements, would be eligible under ACIS.

Additionally, while there are a range of other government programs that may provide some assistance, they are typically not well-funded on an improvement-by-improvement basis, and the industry is disinclined to search for this type of help.

The result is that the majority of the Improvement Plans being recommended would need to be funded entirely by the supplier itself. A coordinated approach to providing subsidy assistance is thus required to encourage suppliers to implement Improvement Plans.

Such an approach is also likely to lead to a virtuous cycle whereby companies are encouraged through some initial funding to undertake their high priority Improvement Plans and once benefits are realised, further encouraged to fund some of their lower priority Improvement Plans independently. Triggering this approach across a significant number of suppliers will lead to a substantial industry-wide effect.

Accordingly, the AutoCRC has submitted to the Automotive Review Panel (2008), the view that ASEA Stage 3 is deserving of Commonwealth funding support to assist suppliers to undertake the Stage 2 recommended improvements. FAPM and some MVP's have made similar recommendations to the Automotive Review Panel in their submissions. The Government's decisions on this and other matters associated with the review will not be known until later this year. In the meantime, the ASEA Steering Group members have agreed to partially subsidise a Stage 3 Pilot phase which will commence in June 2008. All Stage 2 suppliers will be invited to register for participation in the Stage 3 Pilot, but the number of places will necessarily be limited.

4.1.4 Appreciating the Benefits

Assisting companies to recognise the variety of benefits that may result from the implementation of their Improvement Plans is a critical part of the overall process of supporting suppliers to improve.

Identifying the Potential for Development

Developing a coordinated approach to whole-of-business improvement, including the generation of a progress map to integrate the improvement activities, would assist companies to understand how the implementation of their Improvement Plans would combine to positively impact on their businesses. This would allow companies to envisage how they could progress over a period of time, and the resultant effects in terms of an improved balance sheet and profit statement.

The Management & Leadership Competency

Improvements in the area of Management & Leadership address cultural issues within the organisation as a matter of priority. Improvement opportunities centring around Executive Vision, Strategic Planning and KPI structures are first order priorities for a majority of Stage 2 companies. Addressing these priorities first, lays a cultural foundation and provides a stronger base for the implementation and sustainment of subsequent Improvement Plans.

Furthermore, many companies recognised the merit in the Improvement Plans they received but were unsure how to undertake the implementation and initiate the changes required. Initial improvements in the Management & Leadership area would help to overcome this issue.

Complementing the need to address cultural issues is the large number of opportunities for improvement in the area of communication, as this is a key aspect to implementing strategic and business plans.

4.2 The ASEA Opportunity

The assessments and tailored Improvement Plans developed through ASEA Stage 2 represent an unprecedented opportunity to affect significant change and improvement in the competitiveness of the Australian automotive supply base.

Stage 3 of the ASEA program then also presents itself as a significant opportunity to engage with suppliers in the sustainable delivery of Improvement Plans. The aforementioned observations (Section 4.1) not only present potential barriers to implementation but also key considerations for any Stage 3 model of supplier engagement and Improvement Plan delivery assistance. Current plans for Stage 3 draw both on these observations and international best-practice to produce a structured model that is best suited to the Australian automotive supplier environment.

Multiple suppliers have acknowledged the key importance and significance of support for the ASEA program by each of the Australian MVPs. In this respect, the participation of all MVPs in the ASEA process provides a unique forum where:

- The value of the ten core competencies and associated metrics can be maintained;
- Individual supplier development activities that are being undertaken by each car company can come together and be potentially integrated; and
- A communication avenue can be provided for all ASEA suppliers through to the MVPs as a group.

ASEA has followed a structured process to define and then assess Australian automotive supplier performance. Throughout the process, a number of suppliers have taken stock of the overall performance of their business and the steps needed to better secure their future. Further, acting on the Improvement Plans identified through Stage 2 will assist in promoting longer-term opportunities for suppliers – both domestically and internationally.

→ APPENDIX A

Table 6: Classification of improvement opportunities in each competency, from most numerous to least numerous

Management & Leadership	
1.	Strategic & business planning
2.	Operational & financial planning
3.	Management & leadership training
4.	HR processes & people development - multi-skilling & up-skilling
5.	Organisational review & restructuring
6.	Communication process & visual management
7.	Investigating potential growth areas/ expanding product range
8.	Risk management - processes & analysis
9.	Improving company culture - 'lean', continuous improvement, teamwork
Manufacturing & Quality	
1.	Value Stream Mapping of production & operations
2.	Implementing 'lean' - 5S, 7-wastes, visual management, Kanban, quick die change, etc.
3.	Improving quality systems, processes & problem solving
4.	Project planning & control systems (shop-floor planning)
5.	VA/VE review
6.	Reducing utility costs
Supply Chain Integration & Management	
1.	Improving supplier development & quality management systems
2.	Improving communication with suppliers & customers
3.	Value Stream Mapping of supply chain and logistics
4.	Materials, inventory & logistics management systems (including MRP)
5.	Reviewing & rationalising supply-base
6.	Improving supply contracts & RFQ's

Global Sourcing & Marketing Strategies	
1.	Identifying & obtaining new business
2.	Export development - opportunities, strategies & plans
3.	Developing a Marketing Plan
Financial Systems & Practices	
1.	IT & Management Information Systems (MIS) - real-time data collection
2.	Optimising R&D & ACIS claims - claims & recording system
3.	Reviewing & reporting on financials of entire business
New Model Introduction	
1.	Project management & new model launch systems
Cost Structures & Analysis Tools	
1.	Cost reduction plans & process
2.	Implementing/ improving costing systems (including integrated, IT-based systems)
3.	Financial reporting - management reporting & internal reporting systems
Safety	
1.	Safety process planning & equipment upgrades
2.	WorkCover improvements
Technology Investment	
1.	Technology planning (& integration into business planning)
Customer Focus	
1.	Improving customer relationships & CRM systems
2.	Improving design & change management processes to add value for customers

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Further Information

For further information on the ASEA program, please visit the ASEA website at www.asea.net.au

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