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**Australia's Automotive
Components Industry:
Driving on Innovation
and Competitiveness**

July 2008



Key Messages



Key Messages

Component manufacturers are actively pursuing global strategies to maintain competitiveness and innovation



Welcome to the second report in the new series of the Australian Industry Group/Deloitte surveys exploring the views of Australian CEOs on major economic and policy issues.

This report focuses on a sector that makes a significant contribution to the Australian economy and is important to our global competitiveness, the automotive industry. The industry is facing major challenges as global forces impact on the nature of production, processes, relationships, skills and innovation.

With a Federal Government review currently underway, now is the time to examine the pressures on the industry and its response, and look to the development of long term strategies that cement the industry's future in Australia.

Driving on Innovation and Competitiveness provides a picture of current conditions in the automotive components sector, the factors affecting the sector's competitiveness, and the actions, both strategic and operational, being taken to improve productivity. It looks at customer and supplier relations, production processes, skills, innovation and government assistance. The study was supported by members of the Federation of Automotive Products Manufacturers (FAPM) who participated in the survey.

The customer base for Tier 1 firms is considerably more concentrated than for Tier 2 firms. More than half of Tier 1 firms have a customer base of less than 20 firms, compared with one-eighth of Tier 2 firms. This concentration means that their future is heavily tied to the fortunes of the three Australian car producers.

The study identifies that competitive pressures and the global purchasing strategies of the domestic car manufacturers are causing more frequent contract negotiations between component companies and their customers. These competitive pressures have been compounded by the strong appreciation of the Australian dollar. Since 2002, the dollar has risen from 56 US cents to around 96 US cents today, contributing to a 40% decline in competitiveness in the automotive sector, higher import penetration, weaker export returns and lower margins.

Tier 1 companies, which directly supply to the car producers, report that they are most heavily affected by requests to lower costs (costdowns). Tier 2 firms tend to have a broader range of products selling into a wider range of industries. This may diffuse some customer procurement pressure.

The key drivers of Tier 1 and Tier 2 profitability over recent years have been the procurement policies of the car producers, import competition and raw materials costs. Tier 1 manufacturers also report that ACIS, the Automotive Competitiveness and Investment Scheme, has had a positive impact on their activity.

The sector is also becoming more internationalised. One in five CEOs expects sales growth in the US and Asia-Pacific over the next three years and around 11% expect growth in China. This growth needs to be sustained to ensure growth in domestic production.

Furthermore, 50% of automotive components manufacturers have switched (to varying extent) to lower cost suppliers in China over the last three years. A significant additional number of firms plan to switch to China, Thailand and other Asian suppliers over the coming years.

The study shows an industry seeking to respond to global forces to remain competitive. All companies surveyed plan to make major changes to production processes over the next three years with 83.5% of companies involved with lean manufacturing.

More fundamental restructuring is a major factor in the sector. In total, 52 companies stated they had moved out of the components industry. These were formerly Tier 2 suppliers.

Innovation is a priority, with over half of the CEOs surveyed reporting significant improvements through new products/services, and half achieving significant gains through organisational structure innovations.

The study revealed a modest focus on environmental issues, with scope for further improvement. This is consistent with the findings of the Ai Group study, ***Environmental Sustainability and Industry - Road to a sustainable future***, the largest study undertaken of industry environmental practice in Australia.

Despite considerable spending on training, technical skills shortages are high, with 81.5% of component companies suffering from shortages of expertise in this area. Managerial skills shortages were also an issue highlighted by CEOs.

In the context of the Federal Government's current automotive review, it should be noted that 40.5% of CEOs favoured a freeze in current tariff levels and maintenance of ACIS funding levels post-2010. Around a third of companies favoured a reduction in tariffs with or without an adjustment to ACIS.

Overall, the study identifies that while there has been considerable restructuring away from the automotive components sector, the sector remains vigorous and dynamic. The study shows that automotive components manufacturers are actively pursuing strategies to maintain competitiveness and to innovate to maintain a long term, sustainable future for the industry in Australia.



Heather Ridout
Chief Executive
Australian Industry Group

The most significant external change that will assist the local industry is a significant increase in local production numbers



The release of this Ai Group/Deloitte CEO survey is very timely, with continuing international pressures negatively impacting the Australian industry, and the Rudd Labor Government conducting a badly needed review of automotive policy settings.

This study uncovers some key issues in regard to the ways in which local component manufacturers are responding to domestic and global issues.

On a positive note, all companies surveyed anticipated improvements to their production processes over the next three years. This reflects the simple, and by now well established prerequisite that suppliers must be continually improving to maintain their competitiveness, and push towards global standards.

Equally, it is encouraging to see more than two-thirds of companies planning greater supply chain collaboration and design for manufacture opportunities. This has long been an area where the industry globally has not been capitalising on its opportunities. There is strong scope for Australian companies to work to establish a competitive advantage for themselves in this area.

The survey also indicates the significant focus on innovation within the sector, and points to strong engagement with key initiatives such as the Automotive Co-operative Research Centre.

However the survey also underlines areas on which the local industry needs greater focus.

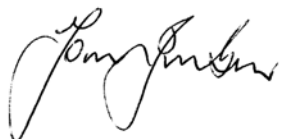
Less than 20% of firms see growth in the US or Asia-Pacific over the next three years, and 60% see the greatest growth coming from the domestic market. This is a troubling result with local production predicted to be flat over that period of time. While the Asian market is difficult in regard to product exports, the growth anticipated in the automotive industry in the region points to the need for local companies to think more broadly about the opportunities that lie there.

The forecasts for local production levels also highlight the importance of the current Bracks Industry Review, and its investigation of a 'game changing initiative'.

The most significant external change that will assist the local industry is a significant increase in local production numbers. Additional volume will provide greater scale economies, improve the viability of a broader range of components being manufactured locally, and drive greater efficiency through the supply chain with local companies competing with global players to win business. Recent announcements regarding the production of the Ford Focus and Toyota Hybrid Camry highlights that Australia can compete successfully for these builds.

In relation to policy setting, the survey results suggest more could be done by governments to support component companies to explore greater export opportunities. The survey found export development programs to be of limited success.

Deloitte is very pleased to be working in collaboration with Ai Group on this CEO survey. We commend its findings to the industry, and look forward to continuing to assist companies in their moves towards international competitiveness.



Tom Imbesi
Lead Partner – Automotive & Manufacturing
Deloitte Touche Tohmatsu

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Executive Summary



Executive summary

Competitive pressures demand innovative strategic and operational responses

Background

- 1 The automotive industry (covering producers, components suppliers, and repairers) is important to a globally competitive Australian economy. It makes a significant contribution to the Australian economy, with an annual turnover of over \$25 billion (page 16).
- 2 Direct employment is provided for over 52,000 people, and a further 100,000 jobs in other industries (steel, glass, plastics, textiles and services) are dependent on the automotive sector (page 16).
- 3 The changing nature of this industry is widely recognised. Global manufacturing strategies now dominate the industry; Australian-produced cars contain significantly more overseas sourced components than in the past (page 16).
- 4 The shift of global automotive production towards emerging economies, such as China, India, Thailand and Eastern Europe to take advantage of low cost production facilities, and the booming markets for car sales, means the Australian automotive industry will face ongoing pressure to remain globally competitive. The higher exchange rate compounds this pressure (page 16).
- 5 Competition is forcing Australia's automotive component manufacturers to continue to drive for innovation and efficiencies across their supply and customer relationships and in production processes. The need to address environmental and sustainability issues is another factor presenting both challenges and opportunities for component manufacturers (page 16).
- 6 A total of 150 CEOs of companies currently in (or who have recently left) the automotive components sector responded to the survey. 98 firms still manufacturing automotive components provided their views on the outlook for and competitive pressures facing their companies. They also outlined the strategic and operational responses to these challenges being undertaken in their companies. The importance of current and future government policy for the sector was an important additional element of this study (page 16).
- 7 Combined, the companies supplying to the automotive industry responding had sales revenue of around \$4.9 billion and employed almost 12,500 people (page 16).
- 8 Responses to the survey were received from 32 CEOs in Tier 1 and 118 CEOs in Tier 2, representing about one third of all current components manufacturers. It should be noted that 52 of these Tier 2 firms indicated that they had moved out of the industry, predominantly from the Tier 2 sector, and consequently did not complete a full survey form (and excluded from the overall response rate). Consequently, the reported response from Tier 2 companies throughout this report is based on 66 companies who completed a full questionnaire (page 17).
- 9 Overall, Tier 1 companies tended to be larger in terms of employee numbers than those firms in Tier 2 (page 17).
- 10 Nearly 70% of Australian automotive components manufacturers who responded to the survey are privately domestically owned. Just over 25% of respondents are foreign owned. Around 5% are publicly listed Australian companies. Despite the preponderance of Australian privately owned firms, foreign owned companies accounted for 65% of sales in the survey (page 18).
- 11 All sectors of the components industry face declining domestically produced vehicle volumes, reducing potential

domestic sales, and the ability to take advantage of scale economies and associated cost reductions (page 18).

Customers and markets

- 12 Around 90% of sales made by the automotive sector overall are made in the domestic market (page 21).
- 13 The greatest proportion of anticipated sales growth of automotive components over the next three years is in the domestic market according to 59.2% of CEOs (page 22).
- 14 Nearly one in five components firms (18.4%) expects sales growth in the United States and the Asia-Pacific region over the next three years (page 22).
- 15 Only 11.2% of automotive firms expect sales growth in China over the next three years. Similarly, just 9.2% of CEOs anticipates growth in India over the same period (page 22).
- 16 The expectation that sales growth will predominantly be in the domestic market is an important issue. Declining domestic vehicles sales and greater import competition is severely limiting the capacity for growth, domestic production and scope for economies of scale. The relatively small shift towards the strong growing Chinese and Indian markets indicates that the sector could miss potential sales opportunities and remain heavily reliant on the domestic market (page 22).
- 17 Tier 2 firms have a greater reliance on the domestic market than Tier 1 firms and a larger proportion of Tier 2 firms (63.6%) anticipate domestic sales growth over the next three years than Tier 1 firms (50.0%) (page 22).
- 18 Tier 1 firms have a greater exposure to globalised vehicle manufacturers than Tier 2, and more expect sales growth in each of the overseas markets identified, except Thailand (page 22).
- 19 The customer base for Tier 1 firms is considerably more concentrated than for Tier 2 firms. More than half of Tier 1 firms (53.1%) have a customer base of less than 20 firms, compared with 12.5% of Tier 2 firms (page 23).
- 20 An additional 52 former Tier 2 firms no longer supply to the automotive sector, reflecting how these companies have evolved in directions away from the automotive sector. This change reflects how current market forces have already acted to bring about restructuring and rationalisation in the industry (page 23).
- 21 The competitive pressures facing vehicle companies and ancillary industries are being clearly reflected in the key pressures which are driving profitability in the components sector (see point 25 below and page 24).
- 22 63% of CEOs reported that demands for costdowns from vehicle producers were a key feature of customer relationships over the past year (page 24).
- 23 Other key features of the client/customer relationship reflecting upstream competitive pressures were: more frequent negotiations of contracts and increased use of competitive tendering for customer contracts (page 24).

- 24 75% of Tier 1 respondents experienced demands for costdowns, compared with 57% of Tier 2 respondents, possibly suggesting Tier 1 companies may not be forcing cost down pressures to Tier 2 companies (page 24).
- 25 50% of firms experienced declining profits over the past three years compared with 36% which experienced increases. This decline in profitability reflects ongoing global competitive pressures, declining volumes, the sustained higher Australian dollar, greater import competition, and rising costs that have forced down automotive industry margins (page 25).
- 26 Nevertheless, 53% of firms expect to experience rising profits over the next three years compared with 22% which expect falling profits over the same period. The expected improvement however is only moderate and more reflects the anticipated fortunes of Tier 2, who are less exposed to the vehicle manufacturers and have a more diversified customer base (page 26).
- 27 It may also be the case that some companies anticipate improvement (if only modest) from recent very difficult conditions, given that some firms are making positive changes to production processes, developing more cost effective supply chains and seeking other, overseas, markets (page 26).
- 28 The most important overall drivers of component makers' profitability over recent years were raw materials costs and the procurement policies of customers (page 27).
- 29 Tier 1 firms rank customer procurement policies as their most important recent profit driver (page 27).
- 30 Tier 2 firms also see customer procurement policies as an important concern, but ranked raw material costs as their major concern. Illustrating the pervasive nature of rising materials costs across the economy, Tier 1 firms ranked it second in their list of key profit drivers (page 27).
- 31 Import competition and the compounding effects of the strong Australian dollar were also identified as key profit drivers for both Tiers 1 and 2 companies (page 27).
- 32 Government policy, in the form of the Automotive Competitiveness and Investment Scheme (ACIS), has had a considerable positive impact on Tier 1 manufacturers. Export development programs have also played a limited positive role (page 27).
- 33 Similar patterns of profit drivers are expected to persist over the next three years, though import competition, the exchange rate and labour costs are seen as becoming more important (page 28).

Input supplier relationships and production

- 34 As was the case in regards to customers, the supplier base for Tier 1 firms is more concentrated than for Tier 2 firms. Around 61% of Tier 1 firms source their inputs from less than 50 suppliers, compared with around 41% of Tier 2 firms (page 30).
- 35 On average, automotive component companies source 42.8% of their inputs from overseas (page 31).
- 36 Over the past three years, 50% of automotive component manufacturers, to a varying extent, have switched to lower cost suppliers from China. In addition, significant proportions of automotive component firms have switched to lower cost suppliers in India (17.3%) and Thailand (15.3%) over the past three years (page 32).
- 37 An even greater proportion of firms (58.2%) plan to switch to lower cost suppliers from China in the next three years. 30.6% are planning to switch to lower cost suppliers in India; 23.5% to suppliers in other Asia; and 19.4% to suppliers in Thailand (page 32).
- 38 A majority of final products/services sold in the marketplace (71%) are sourced domestically, with companies using their own production processes. A further 10% is sourced domestically with the actual production outsourced (page 33).
- 39 Of the 19.3% of final products/services sourced offshore, 12.2% of production is purchased from other companies, whilst 7.1% utilise their own production processes offshore (page 33).
- 40 In the past three years, the production processes most likely to have been introduced by companies are improved lean manufacturing (78.8%), expanded domestic production capacity (65.9%), and liaison with customers (62.2%) or suppliers (61.4%) before request for quotation (RFQ) process for design for manufacture (page 34).
- 41 Over the next three years all companies expect to undertake improvements to production processes. 83.8% of companies will be involved with improved lean manufacturing, and over two-thirds of companies will seek to improve liaison with customers (72.2%) and suppliers (69.6%) before the RFQ process for design for manufacture (page 34).
- 42 Over the next three years companies anticipate significant increases to overseas activity, with 39% to establish overseas production capacity, 34.6% to expand overseas production capacity and 54.3% to outsource production overseas (page 34).
- 43 In cases where CEOs are planning to move production offshore, China is the most popular destination (27.6%), followed by India (14.3%) and Thailand (13.3%) (page 35).
- 44 Firms indicated a modest focus on environmental issues in the automotive components sector (page 36).
- 45 Waste minimisation (31.6% of respondents); recycling of waste (25.5%); and material input minimisation (24.5%) are the key sustainability practices pursued by components makers (page 37).

Innovation and skills

- 46 Just over half the respondents (53%) reported that they have made improvements to a significant extent through new products/services over the last three years, and 50% of respondents have also achieved organisational structure improvements to a significant extent. Tier 1 companies reported a higher extent of improvement from new products/services (67.8%) (page 40).
- 47 Technical skills are most scarce in the nation's automotive components sector, with 81.5% of respondents indicating that a shortage in labour with these skills is affecting them to some extent (page 41).
- 48 More than two-thirds of the firms surveyed (67.7%) cited impacts from shortages of labour with managerial skills. A majority of respondents (63.4%) also indicated they are being affected by shortages of unskilled labour (page 41).
- 49 On average, companies in the automotive sector are spending about \$1,000 per employee on training. This is significantly higher than other sectors of manufacturing, reflecting the high skill levels within the industry (page 42).
- 50 Despite this investment in training, across all respondents, the number of additional full-time employees required as a proportion of total full-time

employment in the sector averaged 3.0%. This translates into an estimated components industry requirement of around 1,250 full-time employees (page 42).

Industry assistance

- 51 ACIS is viewed as significantly effective by 71% of Tier 1 firms, while the current tariff is seen in a similar light by 36% of Tier 1 firms. Other programs are seen as effective by a relatively small share of respondents (page 46).
- 52 Tier 2 firms in contrast see only marginal benefit flowing from the policies canvassed in this survey, largely due to them having a broader customer base beyond the automotive sector (page 46).
- 53 'Freezing' tariff levels post-2010 and an unchanged ACIS at current levels of funding is the preferred mode of government assistance for firms in the components sector, with 40.5% of respondents citing it as their preferred option (page 47).
- 54 While 40.5% of companies favoured a freeze in current tariff levels and maintenance of ACIS funding levels post-2010, a further third of companies favoured a reduction in tariffs with or without an adjustment to ACIS. Twice as many Tier 2 companies favoured this option compared to Tier 1 companies (page 47).
- 55 More than one in five CEOs (21.6%) stated that they favoured an enhancement to ACIS, with or without a pause in tariffs (page 47).
- 56 While the AutoCRC is composed of eight leading vehicle and component manufacturers, two state governments and 10 research institutions, it has been able to engage around 30% of Tier 1 companies. However, less than 10% of Tier 2 companies had any involvement, although the AutoCRC has recently moved to increase engagement, particularly through its involvement in the Automotive Supplier Excellence Program (ASEA). (page 48).



Study Details



Study details

150 component manufacturers participated, representing about one third of existing component manufacturers

The context

- The automotive industry (covering producers, components suppliers, and repairers) is important to a globally competitive Australian economy. Australia's automotive industry, with an annual turnover of over \$25 billion, is a significant investor in manufacturing facilities and plant (totalling over \$4.5 billion in the last five years) and a top 10 exporter for the Australian economy (totalling \$4.8 billion a year).
- Direct employment is provided for over 52,000 people, while an additional 100,000 jobs in other industries (steel, glass, plastics, textiles and services) are dependent on the automotive sector. It is a significant contributor to skills training and upskilling.
- The changing nature of the industry is widely recognised. Global manufacturing strategies now dominate. Australian produced cars are significantly more likely to include overseas components. Declining volumes mean that Australian produced cars now account for only 19% of local vehicle sales. Government support has facilitated the shift to imported cars and components. Tariffs stand at 10%, and the Automotive Competitiveness and Investment Scheme (ACIS) funding caps give recipients around 65% of full credit entitlement.
- The industry is a key provider of research and development expenditure (in excess of \$900 million) and it has responded positively to the R&D incentives offered under ACIS. Expenditure has almost doubled over a four year period, a growth rate well in excess of that achieved across the rest of manufacturing, making the automotive sector a key driver of innovation in Australia. Capital expenditure has also lifted under ACIS.
- The shift of global automotive production towards emerging economies, such as China, India, Thailand and Eastern Europe, to take advantage of low cost production facilities and the booming markets for car sales means the Australian automotive industry will face further pressure to remain globally competitive.
- Within the industry, Australia's automotive components businesses continue to face competitive pressures generated by these changes, with a higher Australian dollar compounding the competitive forces affecting local component makers.
- Australian car and component companies are doing much to improve their operations by lifting productivity through improved (lean) operational models, investment in new technology, the pursuit of global supply chains, and the upskilling of staff.
- Competition is forcing Australia's automotive component manufacturers to continue to drive for innovation and efficiencies across their supply and customer relationships and in production processes.
- The need to address environmental and sustainability issues is another factor presenting both challenges and opportunities for components manufacturers.

Background

- In order to better understand current developments and inform the policy debate, the Australian Industry Group (Ai Group) and Deloitte Touche Tohmatsu, in conjunction with the Federation of Automotive Products Manufacturers (FAPM), undertook in

March/April of this year a comprehensive survey of Australian automotive component company CEOs on issues regarding developments in their industry.

- 150 CEOs in the automotive components sector participated in the study. The survey is made up of about one third of existing Tier 1 and Tier 2 (an aggregation, for the purposes of this report, of the standard classifications Tiers 2-4) companies.
- The Tier 2 sector included 66 companies currently producing automotive components, who completed the survey form, and 52 firms who reported they had moved away from the industry.
- Companies that have left automotive component production did not complete a full survey, and consequently, are excluded from the overall response rate and reported responses for Tier 2 firms.
- The 98 respondents who remained suppliers to the auto sector had sales revenue of around \$4.9 billion in 2007 and employed almost 12,500 people.

Objectives

- The overall objective of the study was to seek an updated understanding of the current condition of the sector, identify the factors affecting the sector's competitiveness and sustainability and the strategic and operational responses that the sector is undertaking to meet these challenges.
- The study assesses the sector's: current and future profitability and its key drivers; developments in sales and supplier relationships and markets; and recent and prospective developments in companies' production processes.
- The study also assesses the state of play in the approach of components makers to innovation, environmental and sustainability issues. It deals with the impact of skills shortages on company innovation and performance.
- In the context of the Government's current review of Australia's automotive industry, the study also discusses CEO views on the role of current and future government policy affecting the sector.

The report

- The report outlines the findings of the survey and presents these in four broad sections:
 - Customers and markets
 - Input supplier relationships and production
 - Innovation and Skills
 - Government assistance.
- The survey was distributed to a sample of companies from the automotive components sector.
- The report has been designed so that it can be read from start to finish, or the reader can focus on key themes of interest.

Details of component manufacturers in the study

Tier 1 companies tend to be larger than Tier 2 firms

Chart 1: Companies in the survey by employee numbers

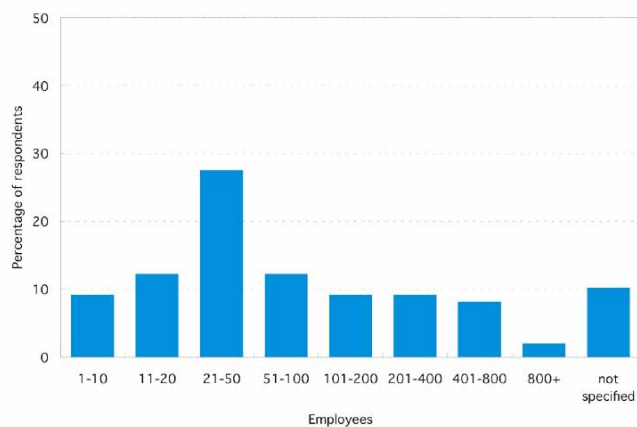


Chart 2: Companies in the survey by tier and employee numbers

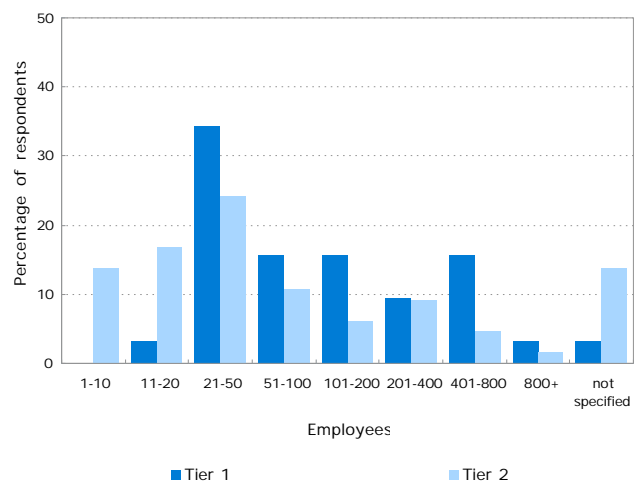
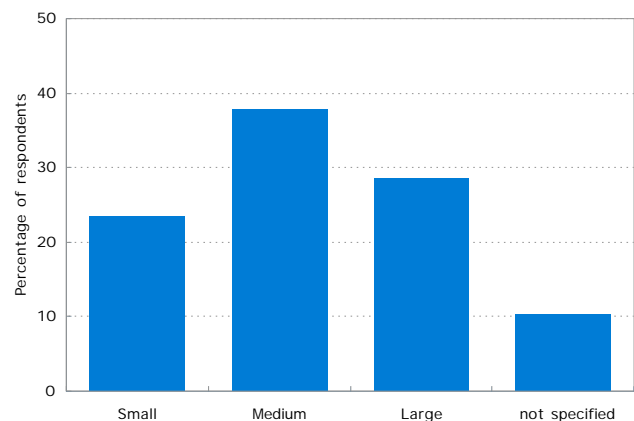


Chart 3: Companies in the survey by size of firm



Background to the survey respondents

- Data was collected across the automotive component sector and the 98 responses sorted into two groups – Tier 1 manufacturers and Tiers 2, 3 and 4 manufacturers as a combined group.
- Tier 1 companies hold a contract with a vehicle manufacturer to design and manufacture production components for the vehicle manufacturer.
- Tier 2 manufacturers make and supply a component which is incorporated by the Tier 1 supplier into the production component delivered to the vehicle manufacturers.
- Tier 3 comprises suppliers of materials or components used by Tier 2 manufacturers.
- Tier 4 comprises suppliers of materials or components used by Tier 3 manufacturers.
- For ease of reading, over the balance of this report we will refer to the companies as Tier 1 and Tier 2. Tier 2 will refer to Tier 2, 3 and 4 companies as an aggregated group.
- Responses to the survey were received from 32 CEOs in Tier 1 (46% of firms in the Tier 1 sector) and 66 CEOs in Tier 2 (26% of firms in the Tier 2 sector).
- 52 additional firms responding to the survey indicated that they had moved out of the industry, predominantly from the Tier 2 sector.

By tier

- Overall, the survey suggests that Tier 1 companies tend to be larger in terms of employee numbers than those firms in Tier 2.
- Around 44% of Tier 1 firms employ more than 100 employees compared to around 21% of Tier 2 firms.

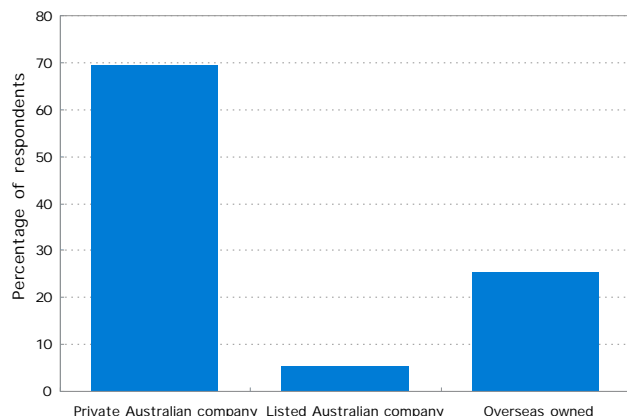
By size

- The analysis is also carried out in terms of company size. Small companies have less than 25 employees, medium companies have between 25 and 100 employees and large companies are those with more than 100 employees.
- 24% of firms in the study are classified as small, 38% as medium and 29% as large. The balance of CEOs did not specify employment levels.

Details of companies in the study

Most automotive component manufacturers surveyed are privately owned Australian companies

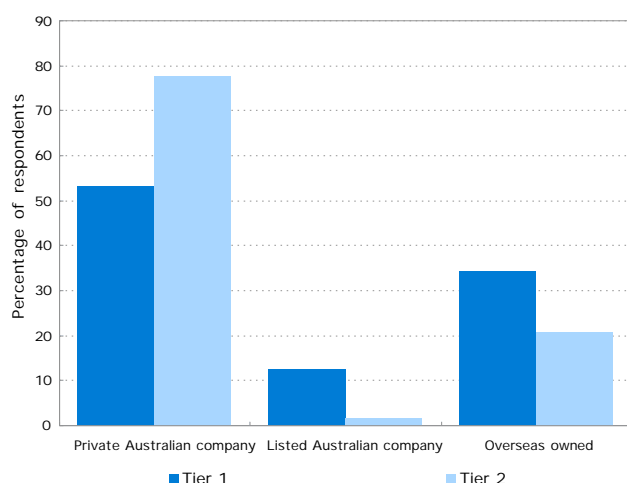
Chart 4: Company ownership



Overall finding

- Overall, nearly 70% of Australian automotive components manufacturers who responded to the survey are privately domestically owned.
- Just over 25% of respondents are foreign owned.
- Around 5% are publicly listed Australian companies.
- While 25% of surveyed component manufacturers are foreign owned, they account for \$3.2 billion, or 65%, of the survey respondents' overall sales of \$4.9 billion.
- All sectors of the components industry are facing declining domestically-produced vehicle volumes, reducing potential domestic sales, and the ability to take advantage of economies of scale and associated cost reductions.

Chart 5: Company ownership by tier



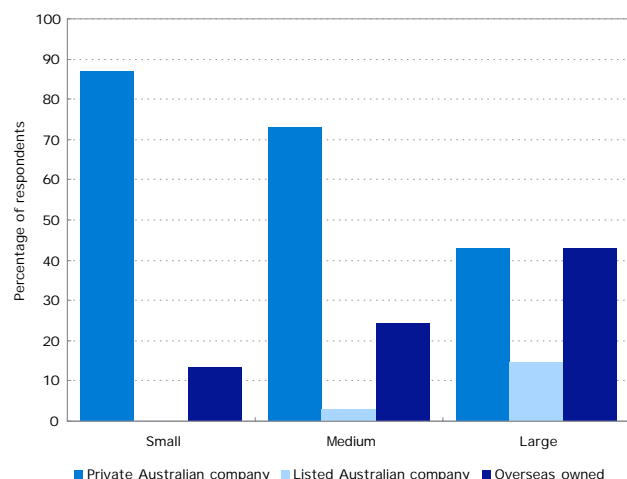
Company ownership by tier

- The survey found that just over 50% of Tier 1 companies responding were privately domestically owned. This tier had the highest level of foreign ownership with nearly 35% of respondents saying their owners were based overseas.
- Almost 78% of Tier 2 firms in the survey are private domestic operations, with only 20% foreign owned.
- Just over 10% of Tier 1 firms in the survey are Australian publicly listed companies.

Company ownership by size

- Tier 1 companies tend to be the larger firms, while Tier 2 companies tend to be smaller.
- Smaller companies are much more likely to be private domestically owned operations, while large firms tend either to be private Australian owned or foreign owned companies.
- The smaller firms tend to be more diversified in the products they manufacture and the markets which they supply.

Chart 6: Company ownership by size





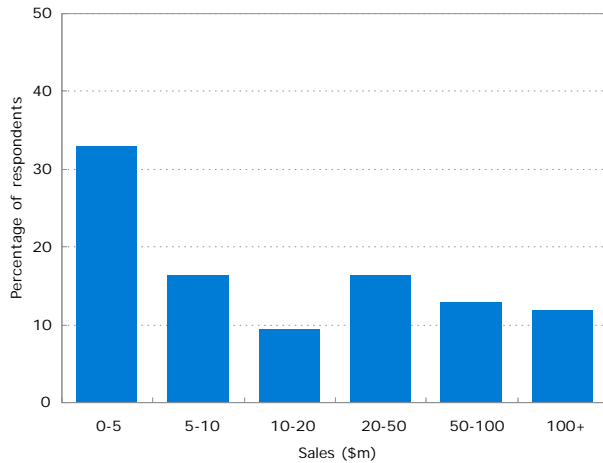
Customers and Markets



Sales performance of survey respondents

Component sales are heavily concentrated among the largest, mainly Tier 1, firms

Chart 7: 2007 Sales distribution



In this section of the report, CEO views on sales performance; the current and future geographic distribution of markets; factors affecting customer relations and past and future profitability are discussed.

Overall finding

- The sales distribution across respondents is wide, reflecting the broad range in firm sizes involved in the survey.
- However, the distribution is skewed towards smaller sales levels with 49% of respondents with sales of less than \$10 million, while around 12% had sales of greater than \$100 million in 2007.

Sales by tier

- In line with the fact that the Tier 1 group tends to contain the larger firms supplying components to the vehicle manufacturers, Tier 1 sales tend to be significantly larger than those of Tier 2 firms.
- This is reflected in the fact that over 36% of Tier 1 firms had annual sales in excess of over \$50 million in 2007 compared to 19% of Tier 2 firms.
- Tier 1 firms made up nearly 33% of the survey respondents, but accounted for nearly 45% of sales. This compares with Tier 2 firms which made up 67% of survey respondents and a proportionally lower 55% of sales.

Sales by size

- The small firms responding to the survey confirm this pattern of sales.
- 91% of small firms had sales of up to \$5 million in 2007, while 89% of large firms saw sales of greater than \$20 million in 2007.
- 24% of the survey respondents are small and account for just over 1% of sales. This contrasts with large firms which make up around 29% of respondents, but 80% of sales.

Chart 8: 2007 Sales distribution by tier

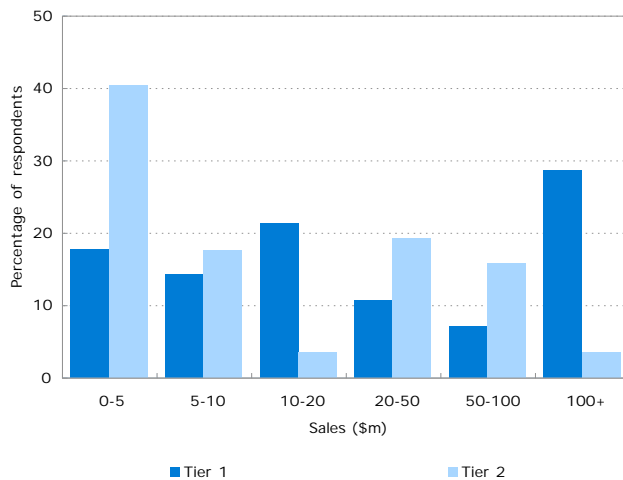
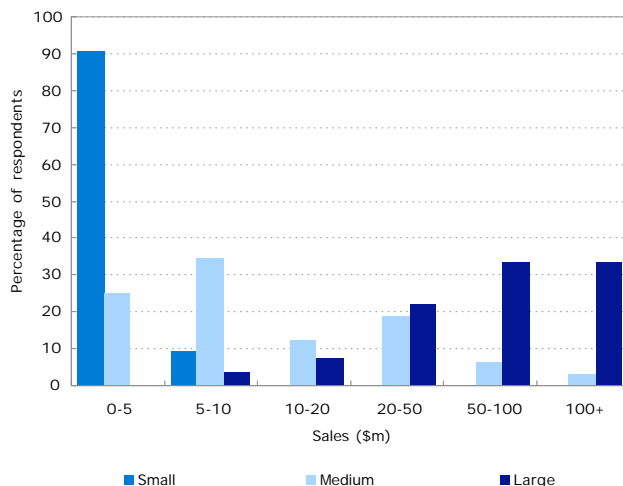


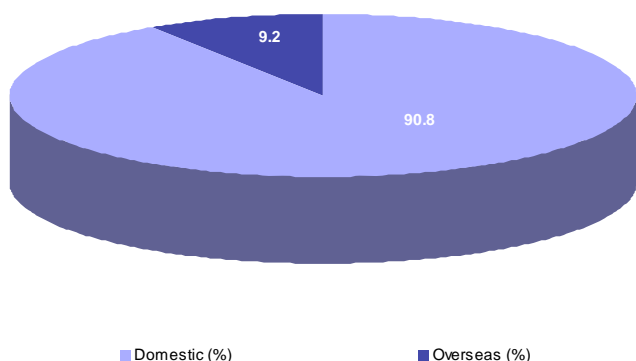
Chart 9: 2007 Sales distribution by size



Sales markets for automotive component products

Most automotive component sector sales are made into the domestic market

Chart 10: Sales market distribution

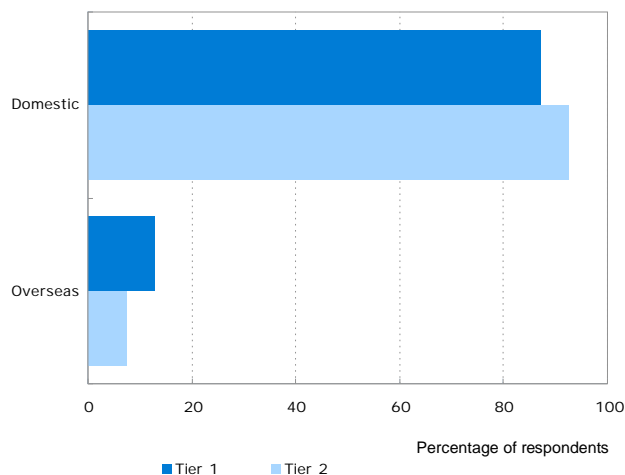


Traditionally, Australia’s automotive component industry has been heavily supported by demand from the local market. This enabled companies to take advantage of economies of scale to reduce costs. Declining sales of domestically produced vehicles means that there is increasingly a need to grow their overseas customer base in order to sustain volumes and protect their chances of survival.

Ai Group’s landmark 2006 study on the forces reshaping Australian manufacturing, **Manufacturing Futures: Achieving Global Fitness**, emphasised the need for Australian manufacturers to expand their presence in export markets.

The next part of the report will review the current sales market distribution for Australia’s automotive industry and the markets in which firms anticipate sales growth over the next three years.

Chart 11: Sales market distribution by tier



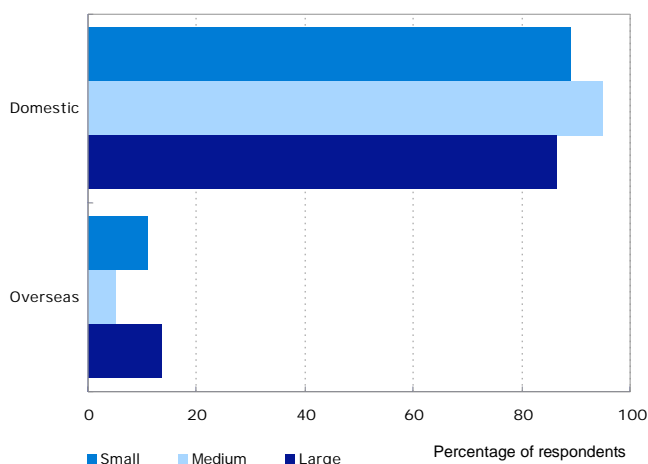
Overall finding

- CEOs were asked what proportions of their sales are to domestic markets and to overseas markets.
- Around 90% of sales made by the automotive components sector are made into the domestic market.

Sales market distribution by tier

- As might be expected, given the closer direct links of Tier 1 firms to globalised vehicle manufacturers with assembly plants crossing a number of markets, these firms tend to have a higher share of export sales.
- Tier 1 firms currently export 12.8% of their total sales, compared with just 7.4% for Tier 2 firms.

Chart 12: Sales market distribution by size



Sales market distribution by size

- Market orientation in terms of firm size tells a similar story of domestic focus, and a slightly higher export orientation amongst large automotive firms.
- Large firms presently export 13.4% of their total sales to overseas customers, compared with 11.0% of small automotive firms.
- Interestingly, just 4.9% of the total sales of medium-sized automotive firms are to overseas customers.
- It is unclear why medium-sized firms appear to be less export oriented than their large or small counterparts.

Expectations for future market growth

Sales of automotive components are expected to be more diversified geographically but remain domestically focused, despite declining sales for domestically produced cars

Chart 13: Future market growth

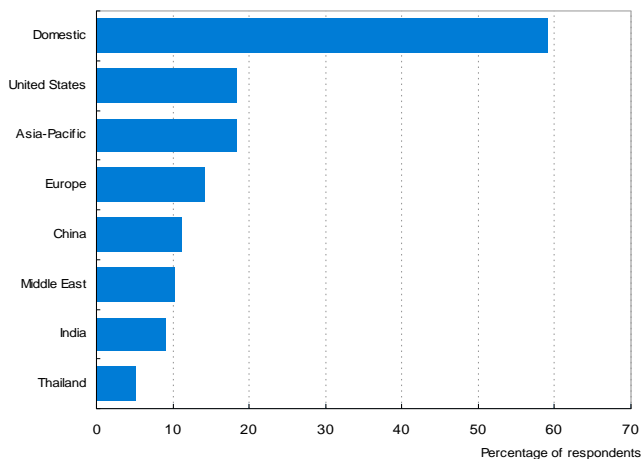


Chart 14: Future market growth by tier

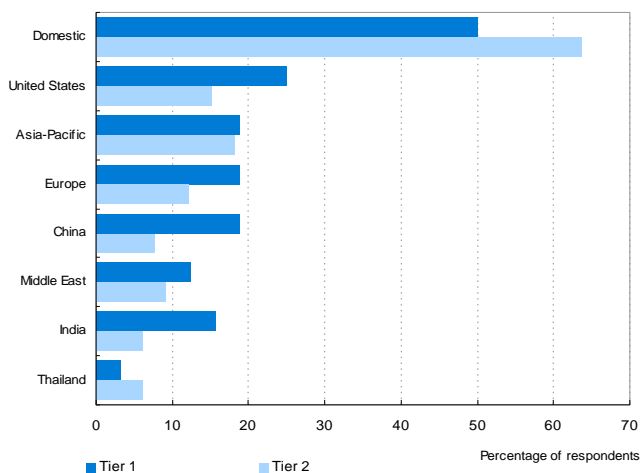
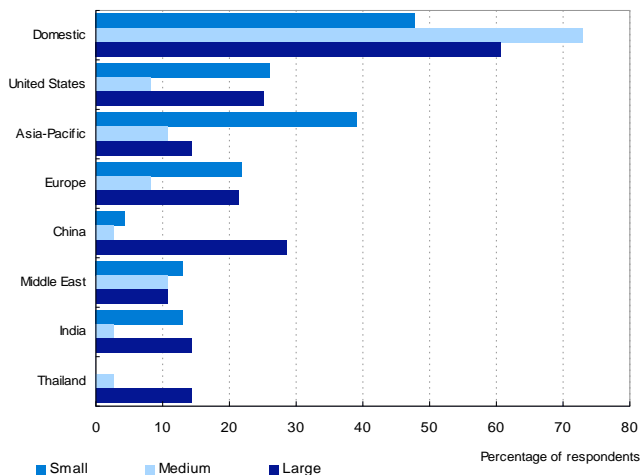


Chart 15: Future market growth by size



Overall finding

- On the previous page it was reported that around 90% of sales made by the automotive component sector overall are to the domestic market.
- The greatest proportion of anticipated sales growth of automotive components over the next three years is in the domestic market according to 59.2% of CEOs.
- While the domestic market is expected to remain the principal source of sales in the coming three years, the results indicate that sales will become somewhat more diversified geographically over the period.
- Nearly one in five automotive components firms (18.4%) expects sales growth in the United States and the Asia-Pacific region over the next three years.
- Only 11.2% of component firms expect sales growth in China over the next three years. Similarly, just 9.2% of CEOs anticipate growth in India over the same period.
- The expectation that sales growth will predominantly be in the domestic market is an important issue. This is because declining domestic vehicles sales and greater import competition is severely limiting the capacity for growth, domestic production and scope for economies of scale. The small shift towards the strong growing Chinese and Indian markets indicates that the sector could miss potential sales opportunities and remain heavily reliant on the domestic market.

Future market growth by tier

- Consistent with findings that show Tier 2 firms have a greater reliance on the domestic market than Tier 1 firms, a larger proportion of Tier 2 firms (63.6%) anticipate domestic sales growth over the next three years than Tier 1 firms (50.0%).
- Reflecting the closer direct links Tier 1 firms have to globalised vehicle manufacturers, a greater proportion of their CEOs anticipate future sales growth in each of the overseas markets identified, except Thailand.
- One quarter of all Tier 1 respondents anticipate sales growth in the United States over the next three years, compared with 15.2% of Tier 2 firms.

- A greater proportion of Tier 1 firms expect sales growth in Europe (18.8%); China (18.8%); and India (15.6%) over the next three years, than Tier 2 firms (12.1%; 7.6%; and 6.1% respectively).

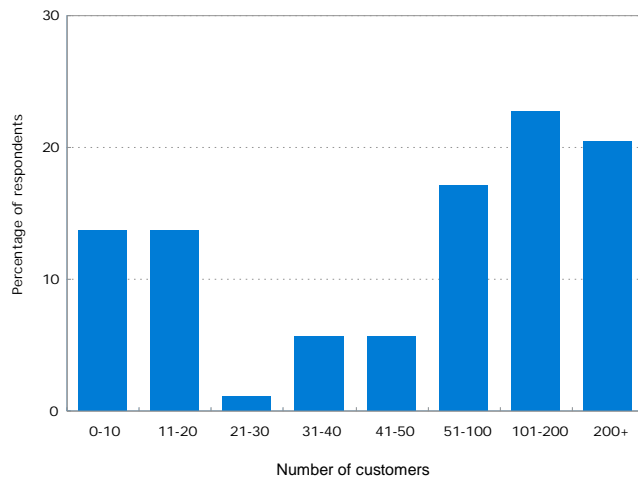
Future market growth by firm size

- While the domestic market is the major focus for future sales growth for small (47.8%); medium (73.0%); and large (60.7%) companies, there is a considerable degree of divergence in the expectations for growth in overseas markets by company size.
- A greater proportion of small firms anticipate growth in the Asia-Pacific region (39.1%); the United States (26.1%); Europe (21.7%); and the Middle East (13.0%), compared with their larger counterparts.
- By contrast, a greater share of large firms expects sales growth in China (28.6%); India (14.3%); and Thailand (14.3%), compared with medium-sized and small firms.

Automotive component industry customer base

The customer base for Tier 1 companies is more concentrated

Chart 16: Number of customers



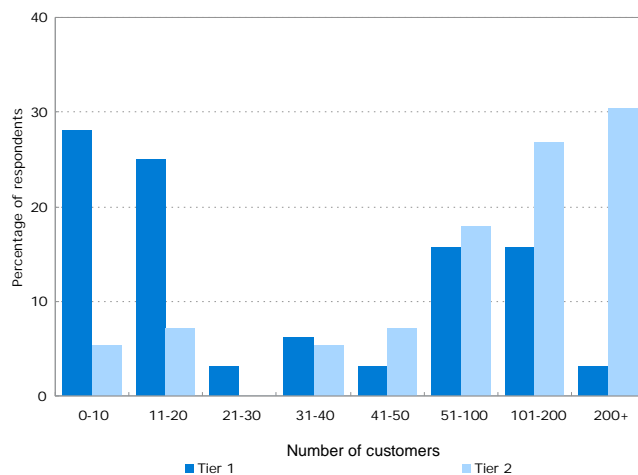
The analysis of customer base is based on the 98 Tier 1 and 2 companies that supply to the automotive sector.

As noted earlier, an additional 52 Tier 2 firms no longer supply to the automotive sector, reflecting how these companies have developed a more diverse customer base. This change reflects how current market forces are already acting to bring about restructuring and rationalisation in the industry. As competition intensifies, this trend can be expected to accelerate over the next few years.

Overall finding

- Overall, 27.3% of respondents to the survey have a customer base of less than 20, while more than 60% have in excess of 50 customers.
- However, while a majority of firms in the automotive components industry rely on a large number of customers, the bulk of their income is generated from a small proportion of these.
- On average, automotive components firms generate 80% of their sales from just 22.3% of their customers.

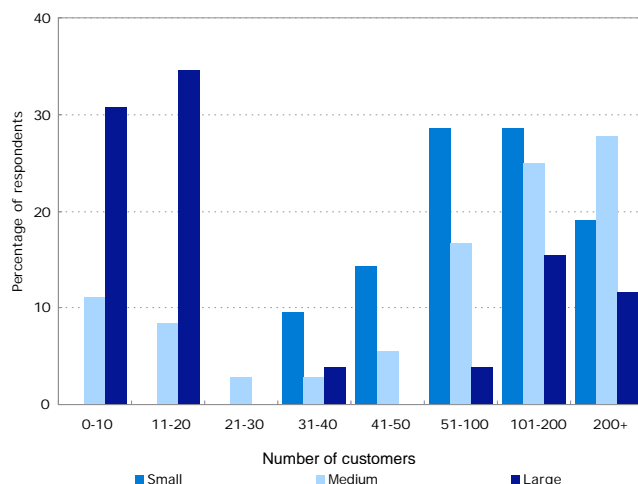
Chart 17: Number of customers by tier



Customer base by tier

- The customer base for Tier 1 firms is considerably more concentrated than for Tier 2 firms. More than half of Tier 1 firms (53.1%) have a customer base of less than 20 firms, compared with 12.5% of Tier 2 firms.
- By contrast, three-quarters of Tier 2 firms have a customer base exceeding 50 companies, compared with just 34.4% of Tier 1 firms.
- These findings make intuitive sense as Tier 2 firms are further down the production chain than Tier 1 firms, who supply directly to vehicle manufacturers.

Chart 18: Number of customers by size



Customer base by size

- Small automotive firms derive sales from a greater number of customers than medium and large firms.
- More than three-quarters of small firms (76.2%) have a customer base of more than 50 customers, compared with 69.4% of medium-sized firms and just 30.8% of large firms.
- By contrast, 65.4% of large firms have a customer base of less than 20 companies.

Key factors affecting customer relationships

Vehicle manufacturers are demanding costdowns, more frequent negotiations and greater use of competitive tenders

Chart 19: Key features of customer relationships in the past year

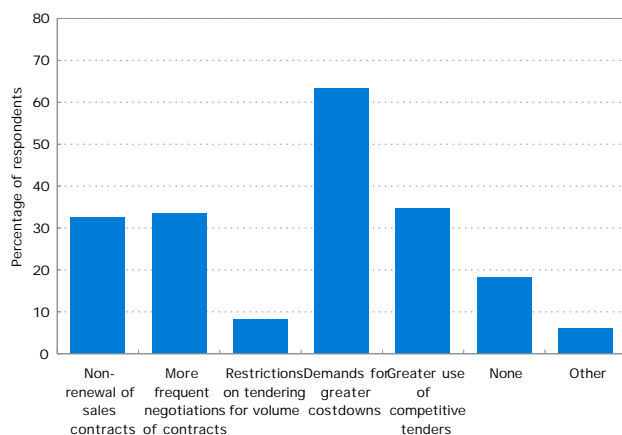


Chart 20: Key features of customer relationships in the past year by tier

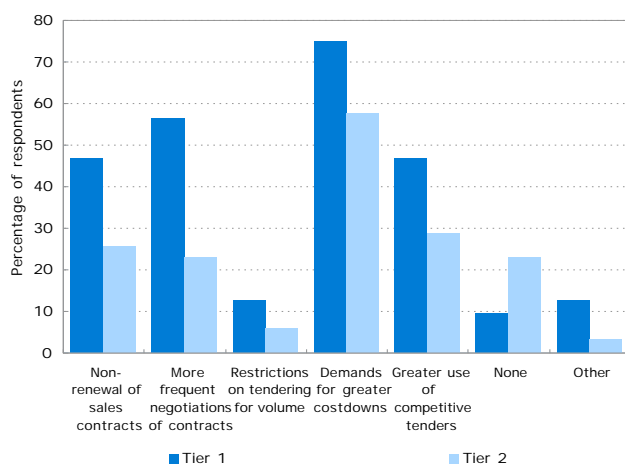
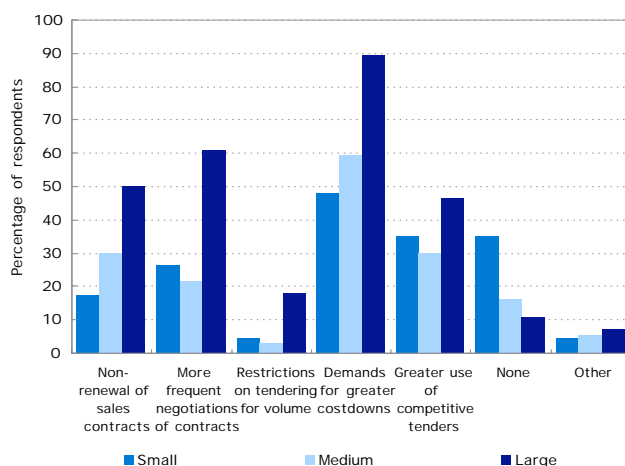


Chart 21: Key features of customer relationships in the past year by size



Overall finding

- The competitive pressures that are facing vehicle manufacturers and ancillary industries are being clearly reflected in the key pressures driving profitability in the components sector.
- 63% of CEOs reported that demands for costdowns were a key feature of customer relationships over the past year.
- Other key features of the client/customer relationship reflecting upstream competitive pressures were: more frequent negotiations of contracts and increased use of competitive tendering for customer contracts.
- As might be expected in a competitive market, non-renewal of sales contracts was experienced by over 30% of firms in the survey.

Key features of customer relationships by tier

- With a relatively smaller customer base, Tier 1 firms might face stronger customer pressures than Tier 2 firms.
- 75% of Tier 1 respondents experienced demands for costdowns, compared with 57% of Tier 2 respondents of the components industry (and 63% overall).
- A number of other results suggest that Tier 1 firms are feeling relatively stronger customer pressures than others in the components sector:
- More frequent negotiations of contracts were experienced by 56% of Tier 1 firms compared to 23% of Tier 2 firms, possibly suggesting Tier 1 companies may not be forcing cost down pressures to Tier 2 companies.
- Greater use of competitive tenders was experienced by 47% of Tier 1 firms, compared with only 29% of Tier 2 firms.
- Non-renewal of contracts was faced by 47% of Tier 1 firms and by only 26% of Tier 2 respondents.

Key features of customer relationships by size

- Given the concentration of large firms in Tier 1, large firms have experienced: consistently higher levels of demands for costdowns (89% of firms as compared to 48%); more frequent contract negotiations (61% compared to 26%); non-renewal of sales contracts (50% compared to 17%); and greater use of competitive tenders (46% compared to 35%) than small firms.

Current profitability in the sector

Profitability has been very weak over the past three years, with Tier 1 firms performing the worst

Chart 22: Profitability in the past three years

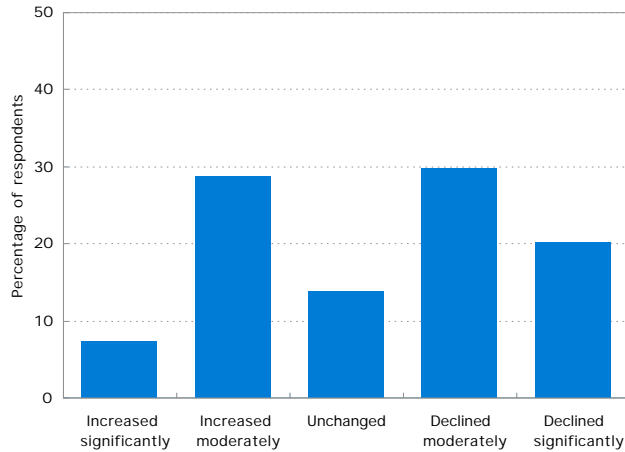


Chart 23: Profitability in the past three years by tier

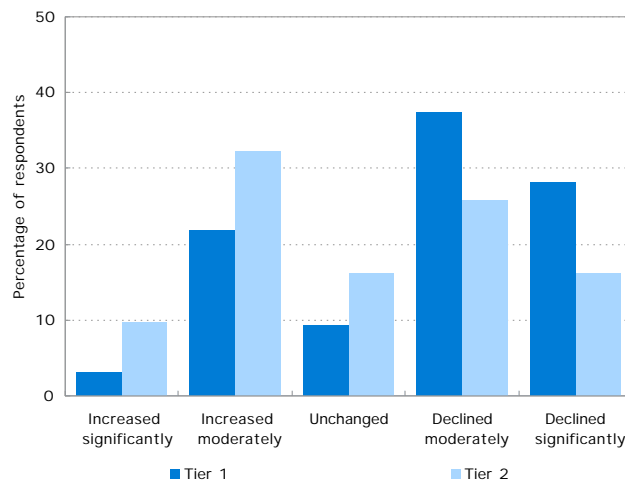
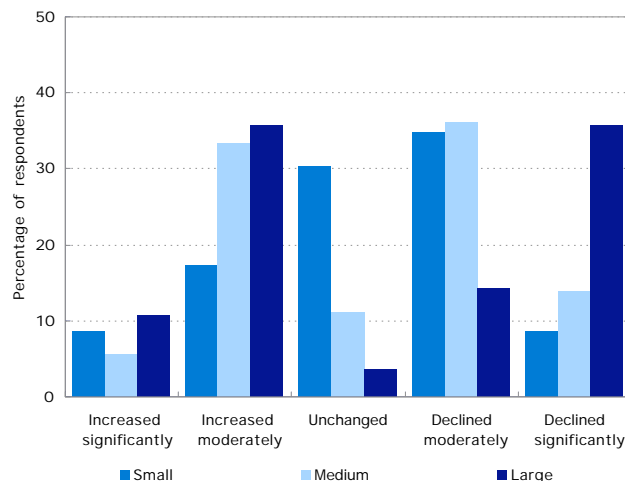


Chart 24: Profitability in the past three years by size



Overall finding

- Overall, the survey results indicate that the automotive components sector has experienced weak profits over the past three years.
- 50% of firms experienced declining profits compared with 36% which experienced improvement over the same period.
- This decline in profitability reflects ongoing competitive pressures, falling volumes, the sustained higher Australian dollar, greater import competition and rising costs that have forced down automotive industry margins.

Profits over the last three years by tier

- Nearly 66% of Tier 1 respondents saw profits decline over the past three years, while 25% saw profits rise in the same period.
- Tier 2 firms have had a relatively stronger profit performance than those in Tier 1 over the past three years, with profits falling for proportionally less firms and rising for more. 42% of respondents saw profits decline, while 42% of firms in this sector saw profits rise.
- This difference in relative performance likely reflects the highly competitive automotive manufacturing market, with Tier 1 firms expected to deliver costdowns, match (often lower cost) overseas suppliers, absorb large increases in raw materials costs, such as oil and steel, and respond to the limited number of customers.
- Tier 2 firms, while similarly experiencing some of these influences, are less dependent on the automotive market and have a wider range of customers and markets.

Profits over the last three years by size

- Small firm respondents performed better than their large firm counterparts in terms of profitability.
- 44% of small firms saw declining profits over the past three years compared with 50% of large firms experiencing the same result.
- However, a significantly smaller proportion of small firms, 8.7%, saw 'significant' declines in profits compared to 36% of large firms.
- Smaller firms did relatively less well in terms of increasing profits however, with 26% seeing rising profits over the past three years compared to 46% of large firms.

Future profitability in the sector

Profitability is expected to improve moderately over the next three years with Tier 2 firms most optimistic

Chart 25: Profitability in the next three years

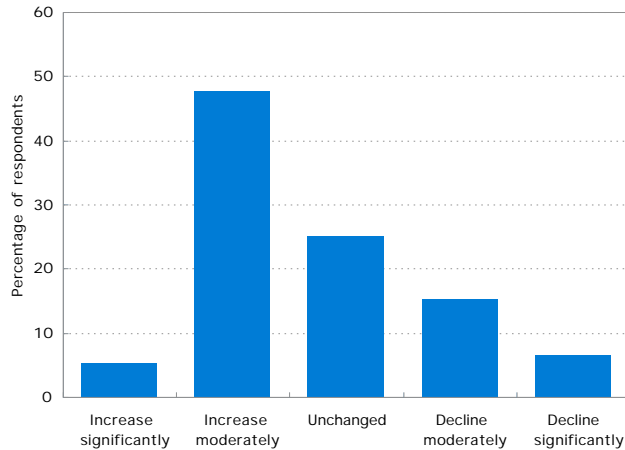


Chart 26: Profitability in the next three years by tier

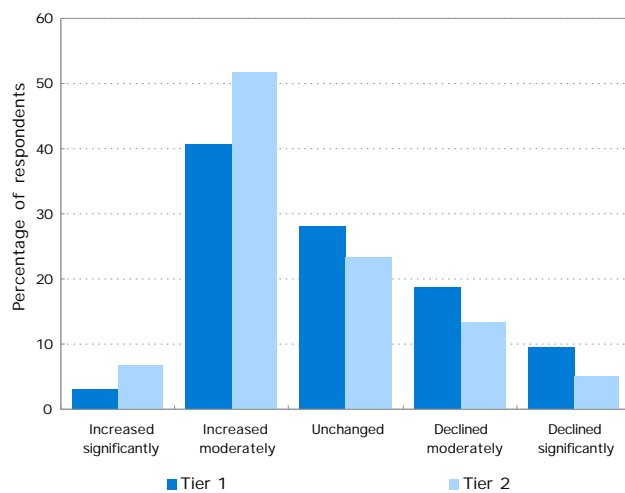
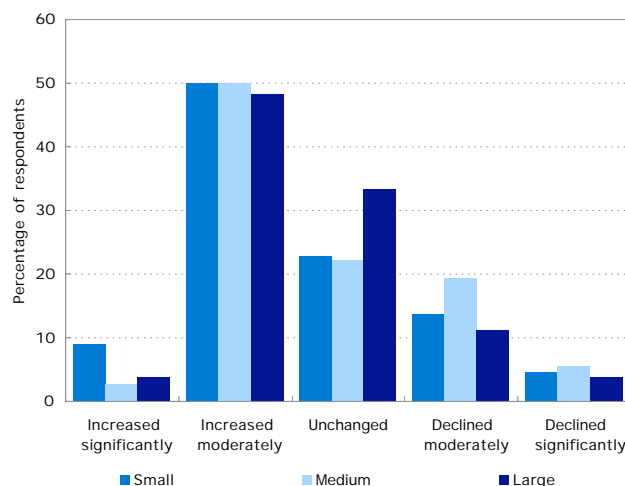


Chart 27: Profitability in the next three years by size



Overall finding

- Overall, the survey results indicate that the automotive components sector expects improving profits (if only modest) over the next three years.
- 53% of firms expect to experience rising profits compared with 22% which expect falling profits over the same period. Only a moderate increase was expected in most instances.
- The improvement however more reflects the fortunes of Tier 2 who are less exposed to the vehicle manufacturers and have a more diversified customer base. Other (non-automotive) markets in which they sell a broader range of products, may be seeing an improving profits outlook.
- It may also be the case that some companies anticipate a moderate improvement from recent difficult conditions, given that some firms are making positive changes to production processes, developing more cost effective supply chains and seeking other, overseas, markets.

Profits over the next three years by tier

- Nearly 44% of Tier 1 respondents are expecting profits to improve over the next three years.
- Tier 1 respondents are also more optimistic in terms of profit falls. 28% of respondents are expecting profits to fall over the next three years, compared with the 66% of firms experiencing falls over the past three years.
- Tier 2 are relatively more optimistic than Tier 1 firms, with proportionally more firms expecting rising profits, 58%, and proportionally less firms expecting falls, 18%.

Profits over the next three years by size

- Over the next three years, all size classes of firms in the automotive components sector are expecting improved profitability.
- Small firms are relatively more optimistic than others in the sector, with 59% of firms expecting improved profits compared with 53% and 52% of medium and large firms respectively.
- There are a number of possible explanations for the relatively sanguine outlook across the components sector.
- It may be that the components sector is expecting significant gains to come through the initiatives that it is taking to lift productivity, gain or retain market share, and reduce production costs.
- It may also be that the sector believes that the Federal Government may be more supportive to the industry's future. It has already announced a new Green Car Fund and a review of industry support is currently underway, chaired by Steve Bracks.

Current profit drivers

In the past three years, raw materials costs, customer procurement policies, labour costs and import competition, were the key profit drivers

Chart 28: Key profit drivers over the past three years

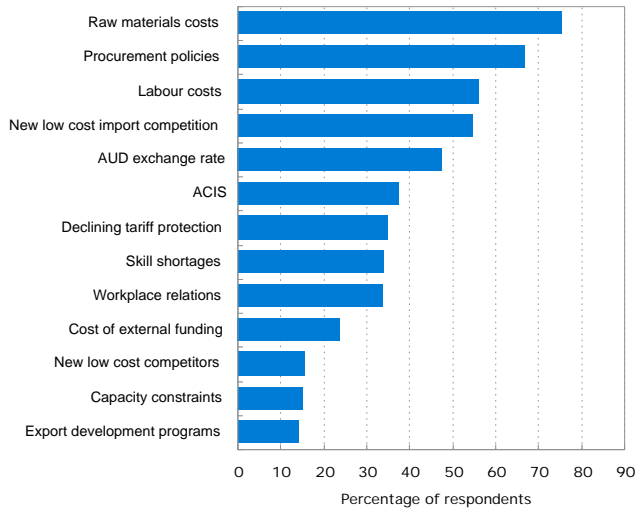


Chart 29: Key profit drivers over the past three years by tier

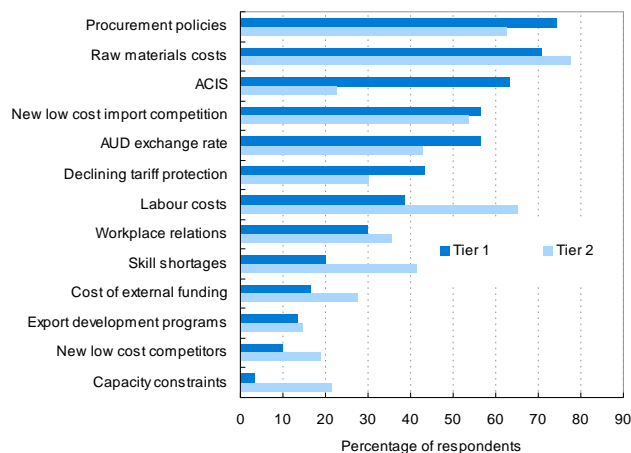
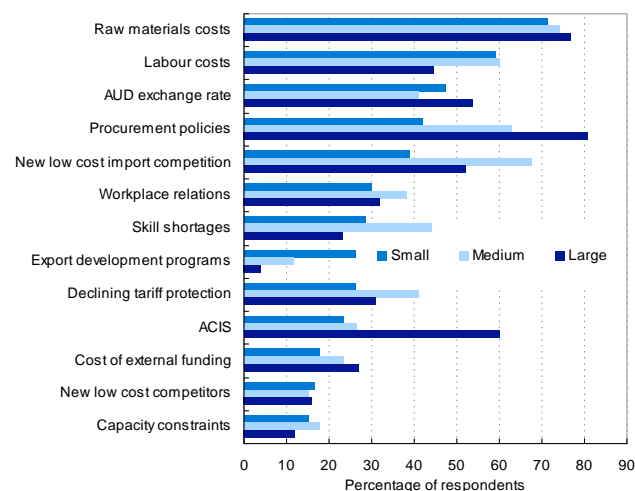


Chart 30: Key profit drivers over the past three years by size



Overall finding

- The most important overall drivers of component makers' profitability over recent years were raw materials costs and the procurement policies of customers.

Past profit drivers by tier

- Tier 1 firms rank customer procurement policies as their most important recent profit driver.
- Tier 2 firms also see customer procurement policies as an important concern. However, a less concentrated customer base and broader range of goods sold into a wider range of markets than Tier 1 companies may ameliorate the overall effect to some degree.
- Tier 2 firm respondents see raw material costs as their major concern. Illustrating the pervasive nature of rising materials costs across the economy, Tier 1 firms ranked it second in their list of key profit drivers.
- Tier 2 firms rank labour costs as their second major profit driver. Tier 2 firms tend to be smaller and may be relatively less able to access and maintain required levels of skilled labour. This may reflect an inability to outbid larger companies for scarce labour and provide other job features such as a defined career path, ongoing training, or non-wage benefits. It may also be the case that Tier 2 firms find it more difficult to automate their processes. (On this point it is worth noting that larger Tier 1 firms rank labour costs relatively lowly in terms of their importance.)
- Component makers saw new import competition as an important challenge to their profitability, with both tiers ranking this factor fourth.
- The higher exchange rate appears to have had a stronger effect on Tier 1 firms, though cheaper imported vehicle components and reduced export competitiveness have put both tiers under pressure. Lower tariffs, which have essentially the same impacts as a higher exchange rate, have also affected Tier 1 firms relatively more strongly.
- Government policy, in the form of the ACIS program, has had a considerable positive impact on Tier 1 manufacturers. Export development programs have played a limited positive role.

Past profit drivers by size

- While raw materials costs, labour costs and customer procurement policies feature strongly, there are differences in relative factor importance by firm size.
- The key challenges facing small firms, as expected given their congruence with Tier 2 firms, were raw material and labour costs, customer procurement policies, import competition and the exchange rate.
- It is unsurprising that these were identified as key drivers given the lack of market and buying power of small firms in tight materials and labour markets.
- Large firms' key profit drivers were the procurement policies of customers and raw material and labour costs. The latter reflect tightness in labour and input markets. The former reflects the very strong pressures facing vehicle manufacturers and flow on effects to firms with close relationships to the manufacturers.

Future profit drivers

In the next three years, raw materials costs, import competition, customer procurement policies and labour costs remain key profit issues

Chart 31: Key profit drivers over the next three years

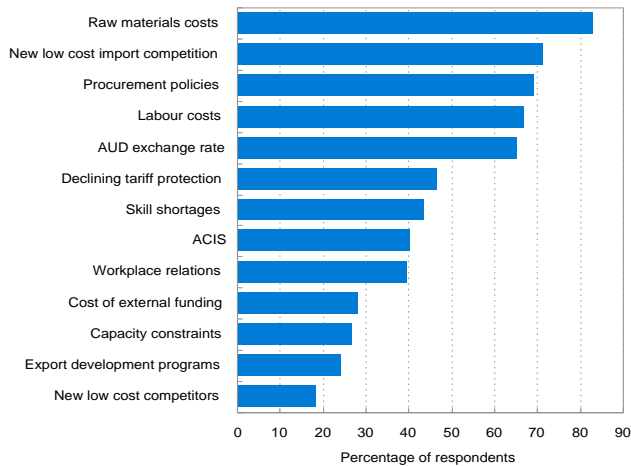


Chart 32: Key profit drivers over the next three years by tier

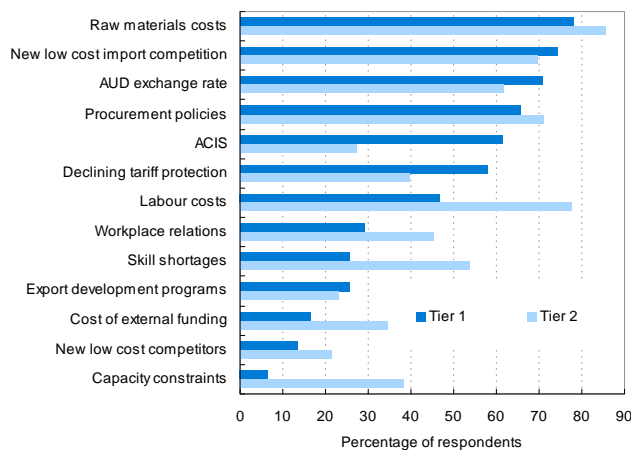
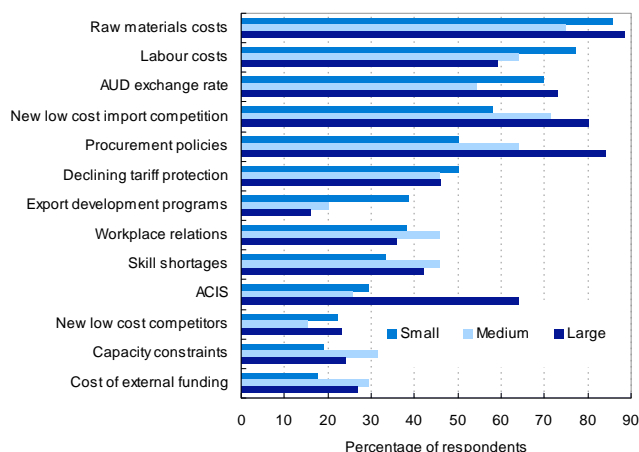


Chart 33: Key profit drivers over the next three years by size



Overall finding

- Patterns of profit drivers experienced over the last three years are expected to persist over the next three as well.
- Raw materials costs, import competition, procurement policies of customers and labour costs remain pre-eminent concerns. Import competition has superseded labour costs and procurement policies as second on the list of key future drivers.
- In addition, each potential factor listed in the survey was cited by more firms when considering future drivers than when considering the past.

Future profit drivers by tier

- Raw materials costs are cited by the highest level of respondents of both Tier 1 and 2 firms. This reflects the expectation that widespread increases in input costs, including in energy, will be sustained.
- For Tier 1 firms, the other key future profit drivers are: import competition; the Australian dollar exchange rate; and customer procurement policies.
- Some factors saw significant rises in importance for Tier 1 firms in the future as compared to the past, as measured by increases in the share of respondents citing them as very important. These factors are: import competition; declining tariff protection; the exchange rate; and export development programs.
- Tier 2 firms see the other key future profit drivers as: labour costs; customer procurement policies; import competition; and the exchange rate.
- The factors which have seen rising importance for future profits for Tier 2 firms are: the exchange rate; import competition; capacity constraints; and skills shortages.
- Both Tier 1 and Tier 2 firms cite declining tariffs as becoming more of a concern in the next few years, reflecting expectations that tariffs will be reduced further.

- In terms of government policy, ACIS will retain its importance for Tier 1 firms and both Tier 1 and 2 CEOs suggest that export development programs will become more important to more firms.

Future profit drivers by size

- Responses based on firm size show a very similar pattern to those based on tier based analysis.
- For small firms, raw materials and labour costs, the exchange rate and import competition are the key future profit drivers.
- Factors becoming more important for the future are: falling tariffs; the exchange rate; low-cost import competition; and labour costs.
- Large firms' key future profit concerns are: raw materials; customer procurement policies; import competition; and the exchange rate.
- Factors that are becoming more prominent for the future are: import competition; skills shortages; the exchange rate; and lower tariffs.



Input Supplier Relationships and Production



Automotive component industry supplier base

Tier 1 firms have a more concentrated supplier base

Chart 34: Number of suppliers

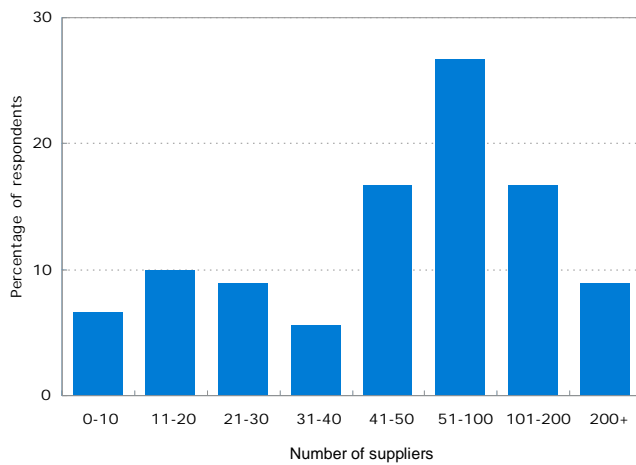


Chart 35: Number of suppliers by tier

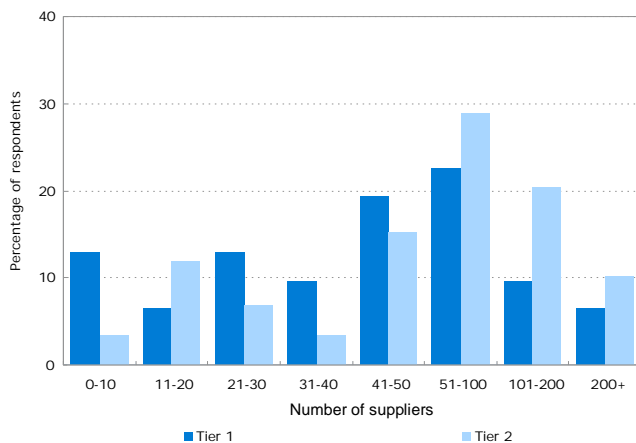
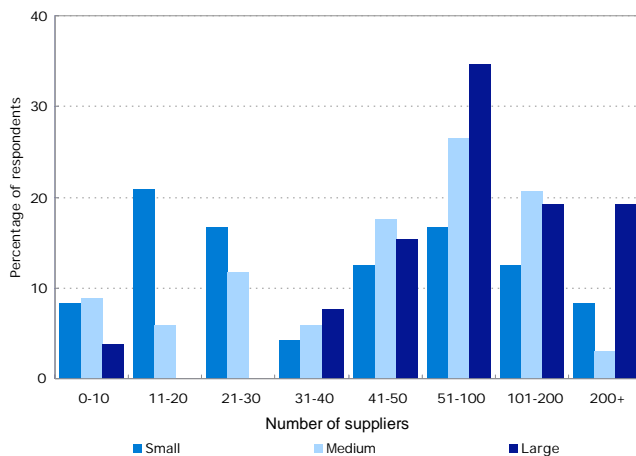


Chart 36: Number of suppliers by size



In this section of the report, CEO views on the concentration and current and future geographic distribution of input suppliers; and developments in production processes, including environment and sustainability issues, are discussed.

Overall finding

- In order to assess how firms in the automotive components industry source their inputs, the survey asked CEOs for their total number of suppliers and the number which provided 80% of their inputs.
- Overall, 16.7% of respondents sourced inputs from less than 20 suppliers, while around half (52.2%) rely on more than 50 suppliers.
- While most automotive components firms source inputs from a wide range of suppliers, the bulk of these inputs are provided by only a small proportion of these.
- On average, automotive components firms source 80% of their inputs from just 23.6% of their suppliers.

Number of suppliers by tier

- As was the case in regards to customers, the supplier base for Tier 1 firms is more concentrated than for Tier 2 firms.
- Around 61% of Tier 1 firms source their inputs from less than 50 suppliers, compared with around 41% of Tier 2 firms.

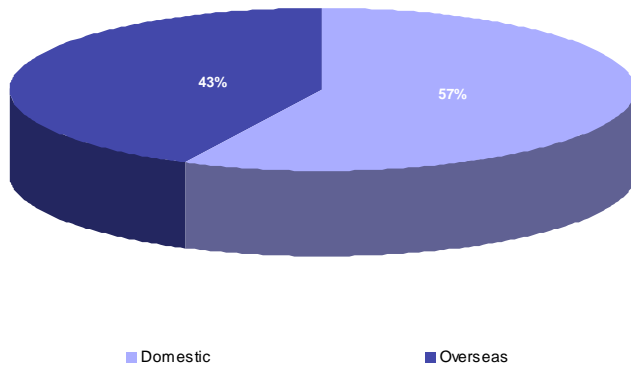
Number of suppliers by company size

- Reflecting the complexity of their products, large automotive components firms tend to source their inputs from a greater number of suppliers than medium-sized and small firms.
- Nearly three-quarters of large firms (73.1%) have a supplier base of more than 50 companies, compared with 50.0% of medium-sized firms and just 37.5% of small firms.
- By contrast, 45.8% of small automotive components firms source their inputs from less than 30 companies.

Source of automotive inputs

Automotive component companies source just under half of their inputs from overseas

Chart 37: Proportion of inputs from Australia and overseas



Manufacturing Futures discussed the need for local manufacturers to make better use of inputs from overseas.

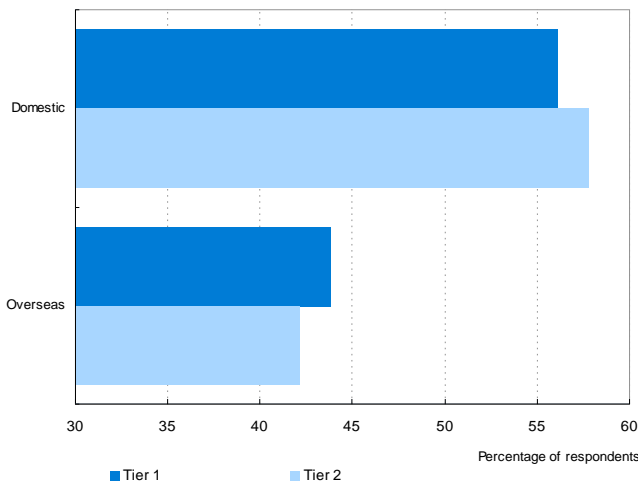
By making greater use of global supply chains, Australian manufacturers can benefit from the strong comparative advantages enjoyed by firms in developing countries.

Manufacturing Futures noted the movement towards using overseas inputs is 'most typified by Australia's automotive manufacturers', who buy a large part of their components from countries such as China and Thailand.

Overall finding

- The survey asked CEOs for the proportions of their inputs supplied within Australia and from overseas.
- On average, automotive component companies source 42.8% of their inputs from overseas.

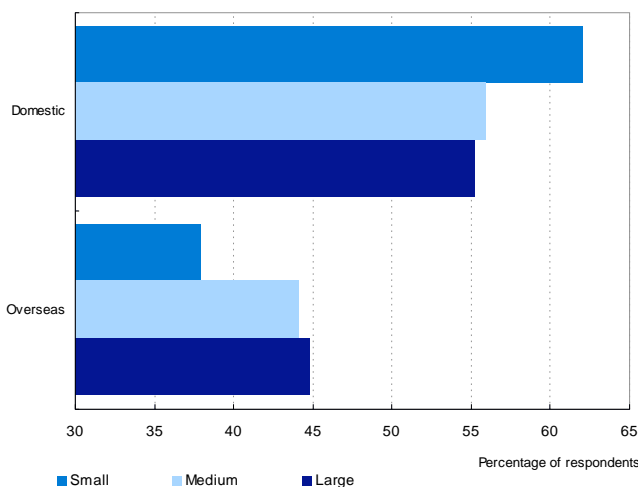
Chart 38: Proportion of inputs from Australia and overseas by tier



Source of inputs by tier

- There does not appear to be a great deal of variance in the source of inputs across the tiers of automotive supply.
- On average 43.8% of Tier 1 companies source their inputs from overseas.
- This is only slightly higher than the average proportion of inputs sourced from overseas by Tier 2 firms (42.2%).

Chart 39: Proportion of inputs from Australia and overseas by size



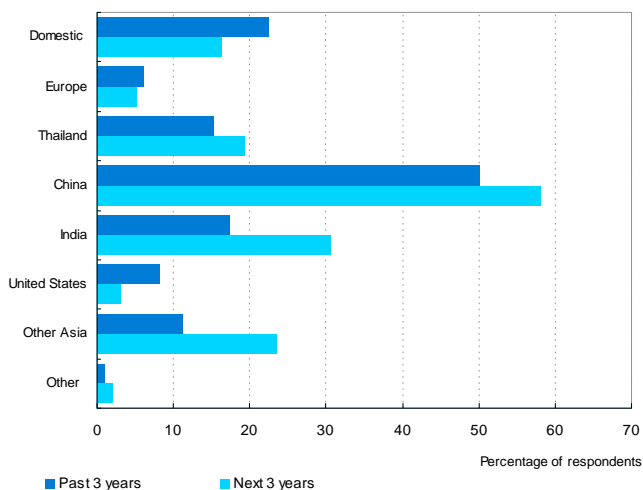
Source of inputs by size

- On average, large (44.8%) and medium-sized (44.1%) companies source a greater proportion of their inputs from overseas than small companies (37.9%).
- This finding is not surprising as large automotive firms are more likely to have the resources necessary to take advantage of global supply chains.

Move towards low cost suppliers

Half of Australia's automotive component manufacturers switched some input demand to low cost suppliers from China in the past three years

Chart 40: Movement to lower cost suppliers



Overall finding

- Over the past three years, 50% of automotive components manufacturers have switched some input demand to low cost suppliers in China.
- This was more than double the proportion of firms which had switched to domestic lower cost suppliers (22.4%).
- This finding confirms that Australian automotive components manufacturers have been increasingly taking advantage of the less expensive inputs produced in China.
- In addition, significant proportions of automotive firms have switched to lower cost suppliers in India 17.3% and Thailand 15.3% over the past three years.
- The growing movement towards sourcing components from overseas is expected to accelerate in Australia's automotive components sector over the next three years.
- An even greater proportion of firms (58.2%) plan to switch to lower cost suppliers from China in the next three years.
- Automotive components firms plan to make greater use of the strong comparative advantages of other developing economies, with 30.6% planning to switch to lower cost suppliers in India; 23.5% to suppliers in other Asia; and 19.4% to suppliers in Thailand.
- By contrast, only 16.3% of automotive components manufacturers have plans to switch to lower cost domestic suppliers.
- Automotive components companies plan to move less toward suppliers from the United States (3.1%) and Europe (5.1%) than they did in the preceding three years.

Planned switch to lower cost suppliers by tier and size

- A large proportion of Tier 1 (56.3%) and Tier 2 firms (59.1%) plan to switch to a lower cost supplier from China in the next three years.
- India and other Asia appear to be other major targets for both Tier 1 and Tier 2 firms seeking lower cost suppliers.
- By contrast, only 15.6% of Tier 1 firms and 16.7% of Tier 2 firms plan to switch to lower cost domestic suppliers over the next three years.
- A considerably larger proportion of Tier 1 firms (28.1%) are planning to switch to component suppliers in Thailand than Tier 2 firms (15.2%). This largely reflects the types of inputs demanded by Tier 1 firms and the fact that Thai producers enjoy a strong comparative advantage in these products.

Table 1: Planned switch to lower cost suppliers by tier and size

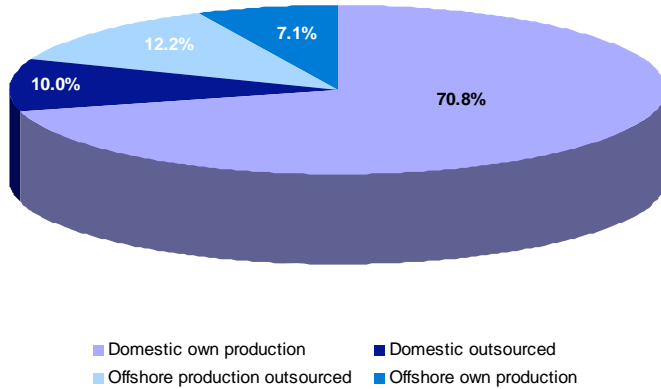
	Tier		Company size		
	Tier 1	Tier 2	Small	Medium	Large
Domestic	15.6	16.7	28.0	22.9	3.6
Europe	3.1	6.1	4.0	5.7	3.6
Thailand	28.1	15.2	12.0	11.4	39.3
China	56.3	59.1	48.0	57.1	75.0
India	28.1	31.8	20.0	22.9	50.0
United States	3.1	3.0	8.0	2.9	0.0
Other Asia	28.1	21.2	16.0	25.7	28.6
Other	0.0	3.0	4.0	2.9	0.0

- Consistent with the findings on the previous page, there appears to be a strong correlation between the size of a company and their plans to switch to lower cost overseas suppliers over the next three years.
- A greater proportion of large automotive components companies are planning to switch to suppliers from China (75.0%); India (50.0%); Thailand (39.3%); and other Asia (28.6%), than small and medium companies. The strong move towards Thai suppliers partially reflects that Tier 1 firms are generally larger in size.
- By contrast, 28.0% of small firms are planning to switch to lower cost domestic producers, compared with 22.9% of medium-sized companies and just 3.6% of large firms.

Characteristics of production processes in the industry

Final products are generally sourced domestically and produced within the company

Chart 41: Source of final product or service



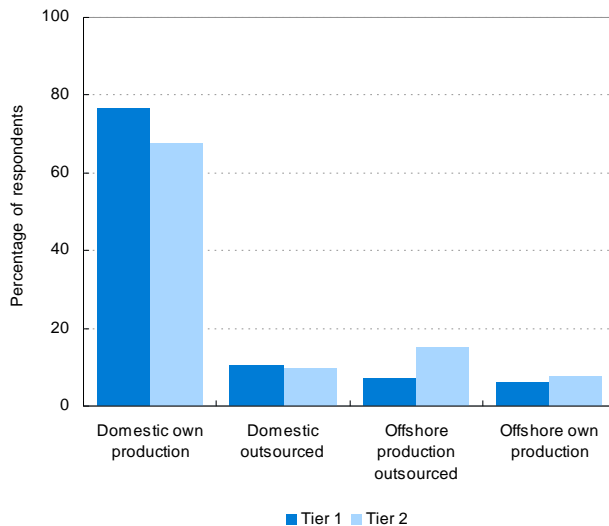
Overall finding

- A majority of final products/services (71%) is sourced domestically, with companies using their own production processes. A further 10% is sourced domestically with the actual production outsourced.
- Of the 19.3% of final products/services sourced off-shore, 12.2% of production are purchased from other companies, whilst 7.1% utilise their own production processes offshore.

Sourcing of final products by tier

- Whilst CEOs across different tiers reported similar patterns in their sourcing strategies for their final products and services, Tier 1 companies were more likely to source products domestically and use their own production processes (76.8%) compared with 67.6% of Tier 2 companies. This result is likely to be a reflection of the supply chain arrangements for Australian automotive companies.

Chart 42: Source of final product or service by tier



- Tier 2 companies on the other hand indicated greater offshore outsourcing of their final products/services (15%) than their Tier 1 counterparts (6.8%).

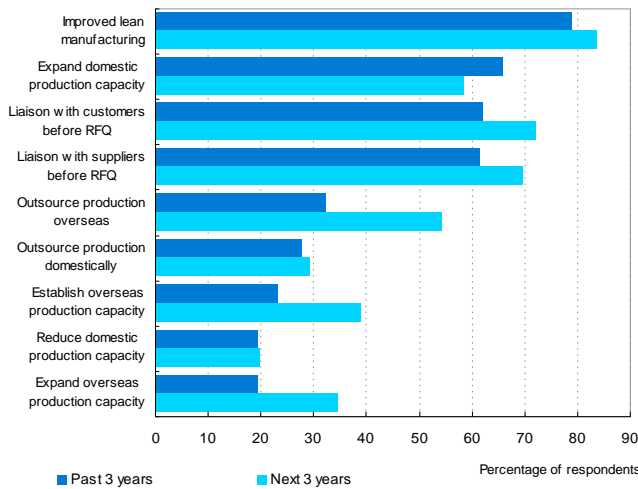
Sourcing of final products by size

- Responses indicated that the size of companies had no bearing on the sourcing of final products and services. Small, medium and large companies displayed very similar patterns in terms of their sourcing choices.

Changes to production processes in the industry

Improved lean manufacturing features highly in changes to production processes

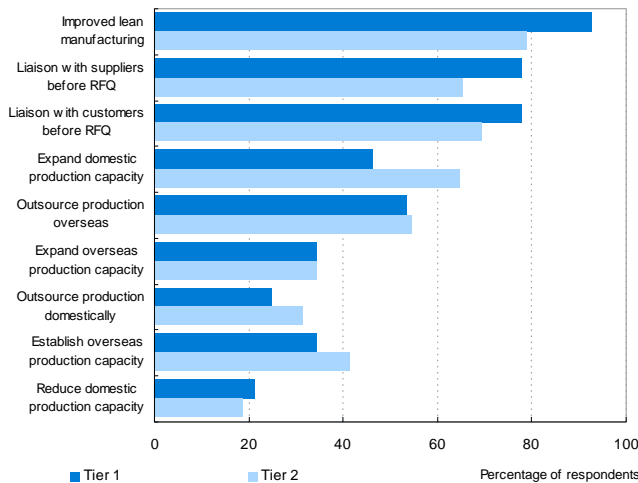
Chart 43: Introduction of changes to production processes



Overall finding

- Over the past three years, the production processes most likely to have been introduced by component companies are improved lean manufacturing (78.8%); expanded domestic production capacity (65.9%), and liaison with customers (62.2%) or suppliers (61.4%) before the RFQ process for design for manufacture. Nearly one third of companies (32.1%) outsourced production overseas in the last three years.
- Over the next three years all companies expect to increase production process related changes. In particular, 83.8% of companies will be involved with improved lean manufacturing, and over two thirds of companies will seek to improve liaison with customers (72.2%) and suppliers (69.6%) before the RFQ process for design for manufacture.
- Over the next three years, component companies plan significant increases to overseas activity, with 39.0% to establish overseas production capacity, 34.6% to expand overseas production capacity and 54.3% to outsource production overseas.

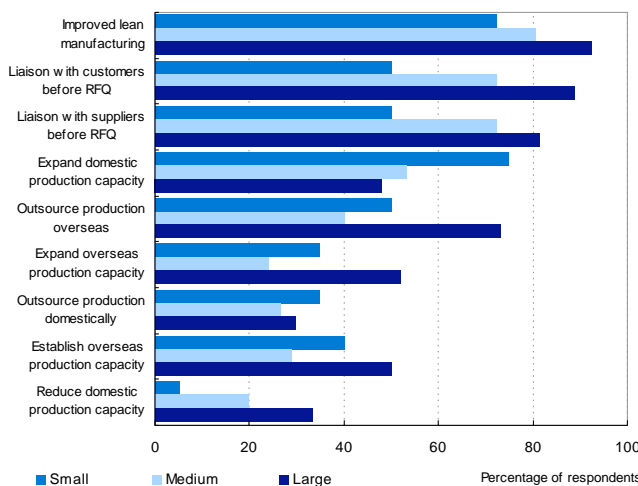
Chart 44: Changes to production processes by tier



Changes to production processes by tier

- Tier 1 companies indicated they will be more likely to concentrate on improving their lean manufacturing processes (92.9%) and their liaison with customers (77.8%) and suppliers (77.8%) than their Tier 2 counterparts.
- Tier 2 companies on the other hand indicate a greater preference for expanding domestic production capacity (64.8%), outsourcing production domestically (31.5%) and establishing overseas production capacity (41.5%).

Chart 45: Changes to production processes by size



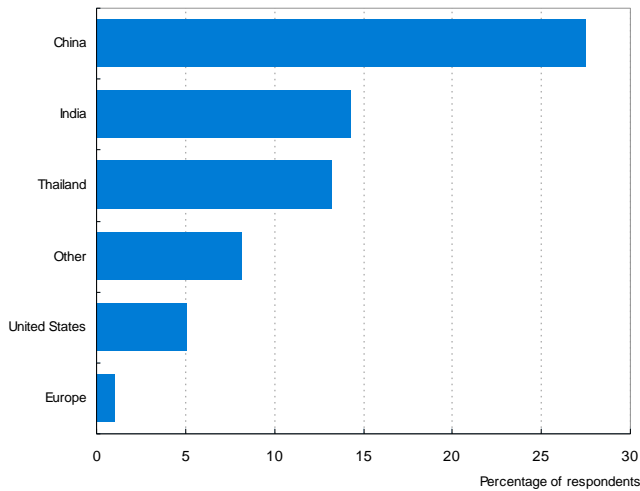
Changes to production processes by size

- The study revealed that in general, the larger the company, the greater the plans for involvement in a range of production process changes.
- The clear exception to this relates to expanding domestic production capacity, where the smaller the firm the greater the involvement in this strategy: 75% of small firms plan to expand production domestically, compared with just 48.1% of large firms.
- Interestingly, both small and large firms have greater plans to increase their overseas activities than medium-sized firms. Medium-sized firms lag in their plans to outsource production overseas, establish overseas production capacity and expand overseas production capacity.

Destinations for offshore production

China is the most popular destination for offshore production.

Chart 46: Planned destination for offshore production

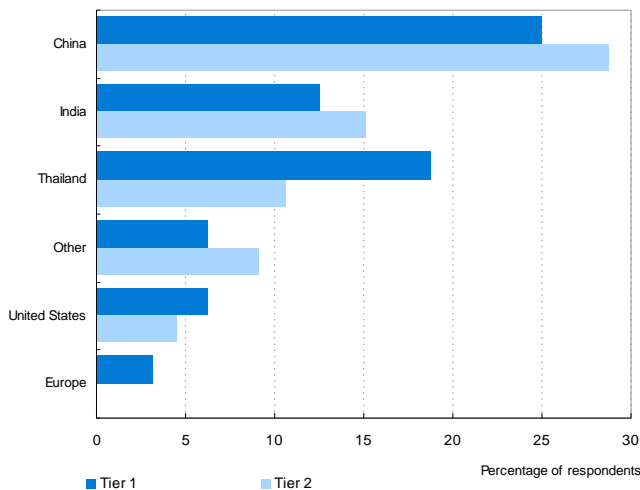


In 2006, *Manufacturing Futures* noted that the movement towards offshore production was “most typified by Australia’s automotive manufacturers”. This survey asked automotive CEOs to identify the offshore locations where they plan to move future production.

Overall finding

- China is the most popular destination for planned offshore production, with 27.6% of automotive components company CEOs confirming plans to move production to this location.
- India (14.3%) and Thailand (13.3%) are also popular destinations for offshore production by firms in the automotive components industry.
- By contrast, only 1.0% of respondents have plans to move production to a European location and just 5.0% intend to transfer production to the United States.

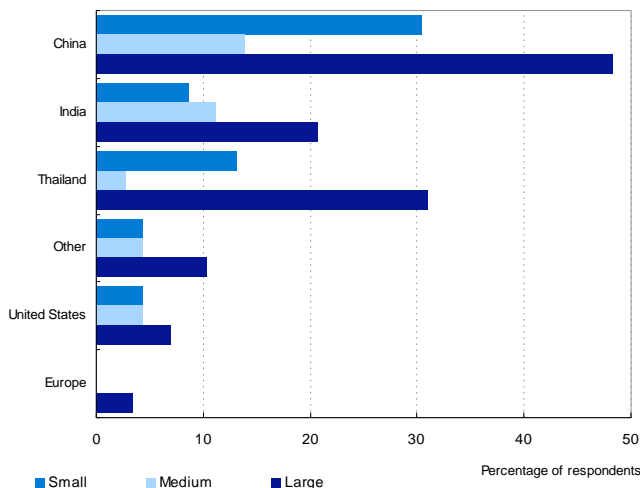
Chart 47: Planned destination for offshore production by tier



Planned destination for offshore production by tier

- Both Tier 1 (25.0%) and Tier 2 (28.8%) firms have identified China as their most likely destination for future offshore production.
- A significantly greater proportion of Tier 1 firms (18.8%) than Tier 2 firms (10.6%) cited Thailand as a planned destination for future offshore production. This finding reflects the items produced by Tier 1 firms and the types of production in which Thailand specialises.
- By contrast, India is a more popular destination for planned offshore production for Tier 2 firms (15.2%) than Tier 1 firms (12.5%).

Chart 48: Planned destination for offshore production by size



Planned destination for offshore production by size

- A higher proportion of large firms indicated they were planning to move production to each of the listed destinations, than small and medium-sized firms.
- This reflects the fact that large automotive firms are more likely to possess the resources and contacts necessary to transfer production offshore.
- China is the most popular destination for planned offshore production by large (48.3%); medium-sized (13.9%); and small automotive components firms (30.4%).
- Thailand, followed by India, were the next most popular destinations for future offshore production by large and small automotive components companies.
- Interestingly, a considerably higher proportion of small firms have plans to transfer production to China (30.4%) and Thailand (13.0%), than medium-sized firms (13.9% and 2.8% respectively).
- Behind China, India was the most popular destination for planned offshore production by medium-sized firms (11.1%).

Environmental focus

Automotive component makers are showing a moderate focus on environmental issues, but smaller firms are lagging

Chart 49: Firms with a significant environmental focus

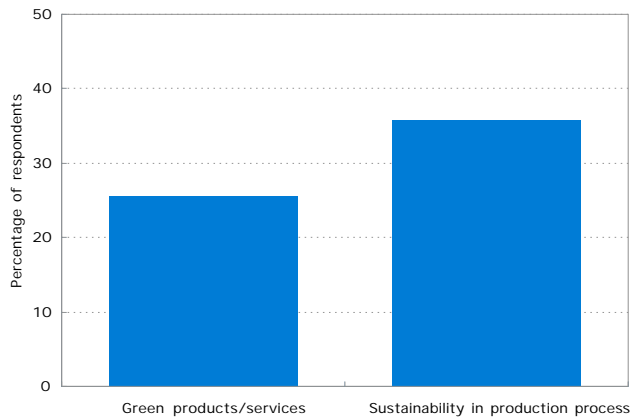


Chart 50: Firms with a significant environmental focus by tier

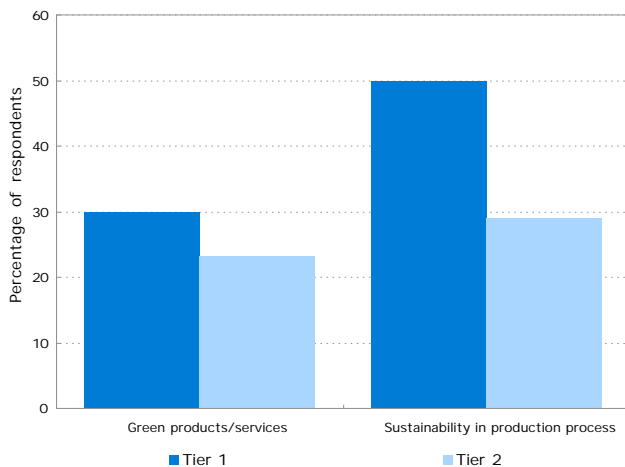
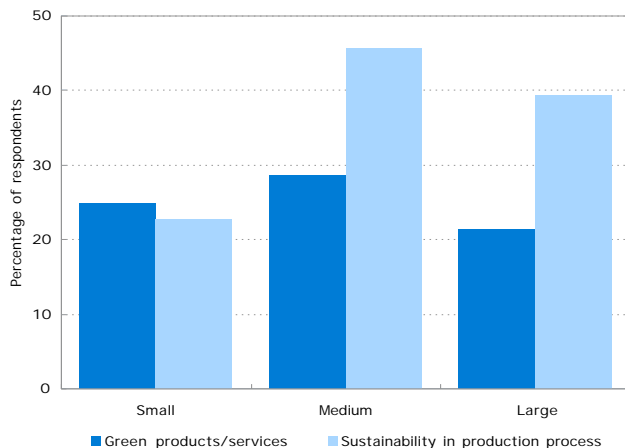


Chart 51: Firms with a significant environmental focus by size



Overall finding

- Overall, respondents to the survey indicated a modest focus on environmental issues.
- Around 36% of respondents are putting significant focus on environmental sustainability in the production process and 26% on the production of green products or services.
- This finding is consistent with the results of *Environmental Sustainability and Industry - Road to a sustainable future*, the largest study undertaken of industry environmental practice in Australia. Ai Group undertook this study with the support of Sustainability Victoria, with the results released in September 2007. The key message of that study was that Australian industry is at the beginning of its journey towards environmental sustainability.
- However, it is likely, given the ongoing focus on climate change as a policy issue, that over time more firms in the sector will begin to lift their focus on the environmental aspects of the industry.

Environmental focus by tier

- Tier 1 CEO responses indicated that 30% of firms are putting a significant focus on green products and services and 50% of firms are focusing on environmental sustainability in the production process.
- Tier 2 respondents indicated that 23% of firms are putting a significant focus on green products and services and 29% of firms are focusing on sustainability in the production process.
- The reasons for the difference in focus on environmental sustainability in the production process between Tier 1 and Tier 2 firms may partly lie in the differing abilities of firms to address the issue.
- Tier 2 firms are likely to be smaller and may find the costs of dealing with environmental issues in production prohibitive.
- Tier 2 firms are also likely to produce a wider range of products which on average may not be as environmentally sensitive as those produced by Tier 1 firms which are tied directly to vehicle manufacture.

Environmental focus by size

- Small firm respondents show a similar level of environmental focus on the products they produce (25% of respondents) as medium-sized and large firms (29% and 21% respectively).
- However, in a similar way to Tier 2 respondents, only 23% of small respondents show a significant focus on environmental sustainability in production. This compares to 46% and 39% of medium and large respondents respectively.
- Costs of replacing or modifying the production process may be part of the explanation for this difference.

Sustainability practices in the automotive components industry

Waste minimisation and recycling are the most implemented sustainability practices in Australia's automotive industry

Chart 52: Sustainability practices in the production process

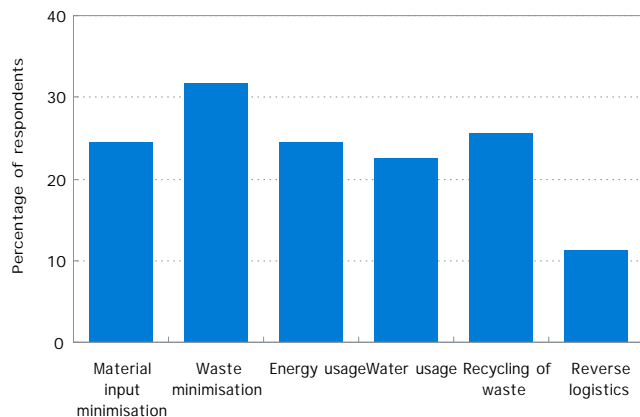


Chart 53: Sustainability practices in the production process by tier

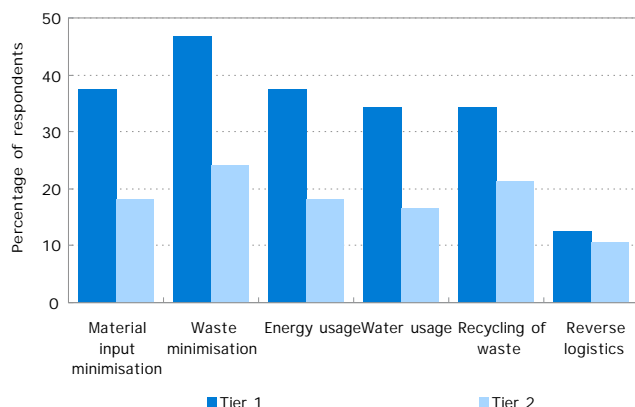
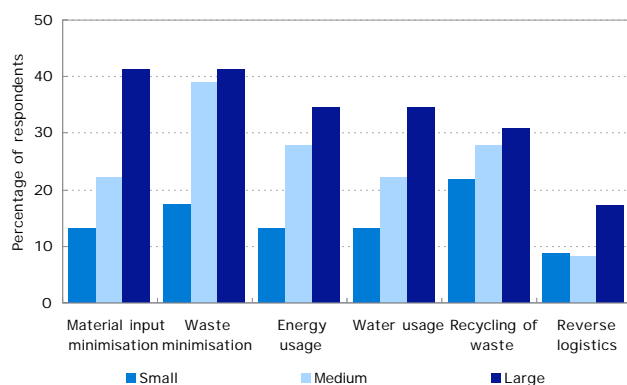


Chart 54: Sustainability practices in the production process by size



Overall finding

- Overall, respondents to the survey indicated only a moderate focus on operational sustainability within the automotive components sector.
- Waste minimisation (31.6% of respondents); recycling of waste (25.5%); and material input minimisation (24.5%) are the sustainability practices most pursued by firms in the automotive sector.
- In addition, just under one-quarter of respondents have significantly addressed energy (24.5%) and water (22.4%) usage issues.
- The stronger prevalence of these types of production strategies, compared to those dealing specifically with the environment, is likely to reflect the relatively transparent cost advantages of pursuing sustainability.

Sustainability practices by tier

- Reflecting the finding that a greater proportion of Tier 1 firms are focusing on environmental sustainability in the production process than Tier 2 firms, more Tier 1 firms have confirmed undertaking the listed sustainability practices.
- Almost half of the Tier 1 firms surveyed (46.9%) confirmed undertaking waste minimisation practices to a significant extent, compared with 24.2% of Tier 2 firms.
- A considerably greater proportion of Tier 1 firms have implemented practices to reduce their energy (37.5%) and water usage (34.4%), than Tier 2 firms (18.2% and 16.7% respectively).
- The lower focus on operational sustainability among Tier 2 respondents may reflect the up-front costs of changing operations, particularly if capital expenditure is involved.
- Tier 2 firms are likely to be smaller and may find the costs of making significant operational changes prohibitive.

Sustainability practices by size

- Small automotive firms show a similar focus on waste minimisation and recycling waste as large firms, but generally to a significantly lesser degree.
- A greater proportion of large automotive companies have implemented the listed sustainability practices, than small and medium-sized companies.
- This finding is to be expected given the up-front costs of changing operations, particularly if capital expenditure is involved, and the fact that the bulk of the automotive sector's usage of resources can be attributed to large firms.
- It is also consistent with the findings in the Ai Group report, *Environmental Sustainability and Industry: Road to a sustainable future*, released in September 2007.



Innovation and Skills



Innovation in the automotive components industry

Improvements to new products/services and organisational structures have featured over the last three years

Chart 55: Significant improvements made over the last three years

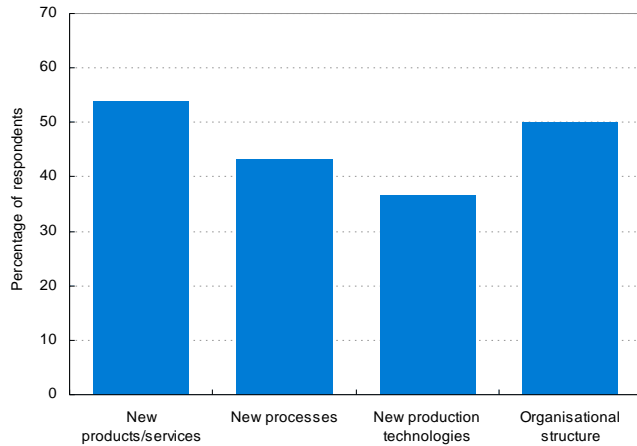


Chart 56: Significant improvements by tier

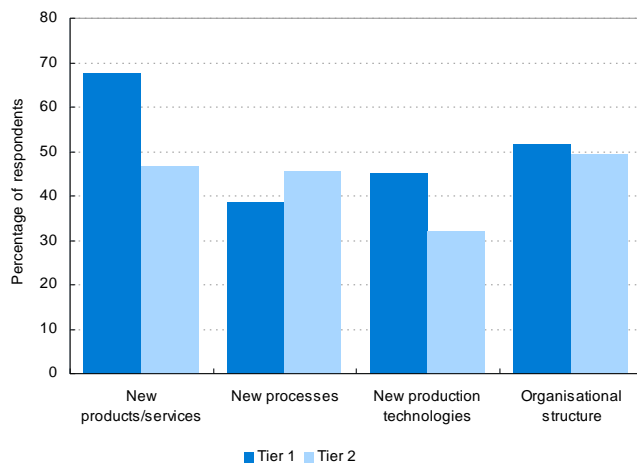
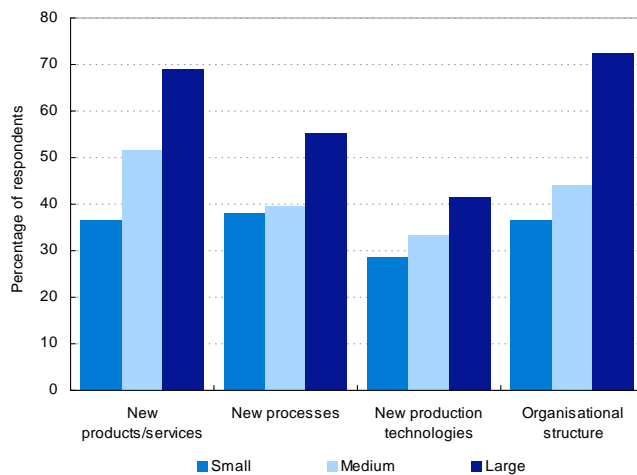


Chart 57: Significant improvements by size



The challenges facing the Australian automotive components industry require a continuing involvement in innovation in its broadest sense: R&D; product and process improvements; improved organisational capabilities; and workforce development. The industry is a significant investor in R&D, with a focus on excellence in design and engineering, the introduction of new models and the securing of new export markets. This section of the report discusses CEO views on innovation and skills requirements in the sector.

Overall finding

- On average, firms spend an equivalent of 3.3% of sales on research and development.
- Just over half the respondents (53%) reported that they have made improvements to a significant (in terms of the survey questions, a 'large' or 'very large') extent through new products/services over the last three years, and 50% of respondents have also achieved organisational structure improvements to a significant extent.
- A significant number of companies also reported improvements to a large or very large extent over the last few years through the application of new processes (43.3%) and production technologies (36.7%).
- Within the range of improvements possible, companies were most likely to have made no improvements towards new production technologies over the last three years (17.8%), with 10.9% of CEOs making no improvements to their organisational structure.

Significant improvements by tier

- All Tier 1 companies reported some involvement with new products/services and are more likely than Tier 2 companies to have made improvements through new products/services to a large or very large extent over the last three years (67.8%). By comparison 46.6% of Tier 2 companies reported significant improvements through new products or services.
- Another difference apparent between tiers shows that 14.8% of Tier 2 companies reported no improvements to their organisational structure over the last three years, whilst only 3.2% of Tier 1 companies made no improvement in this area.

Significant improvements by firm size

- The study shows that larger firms have been greater innovators over the last three years. There is a clear correlation between the size of the firm and its involvement with improvements in all areas: new products; new processes; new production technologies; and changed organisational structures.
- Differences are particularly related to new products/services where 69% of large firms, 51.5% of medium firms and 36.4% of small firms have had a significant involvement.
- Changes to organisational structures are also particularly influenced by size with 72.4% of large firms, 44.1% of medium firms and 36.4% of small firms reporting a significant involvement over the last three years.

Types of skill shortages in Australia's automotive components industry

Firms in the automotive industry are most affected by shortages in technical skills

Chart 58: Types of skill shortages

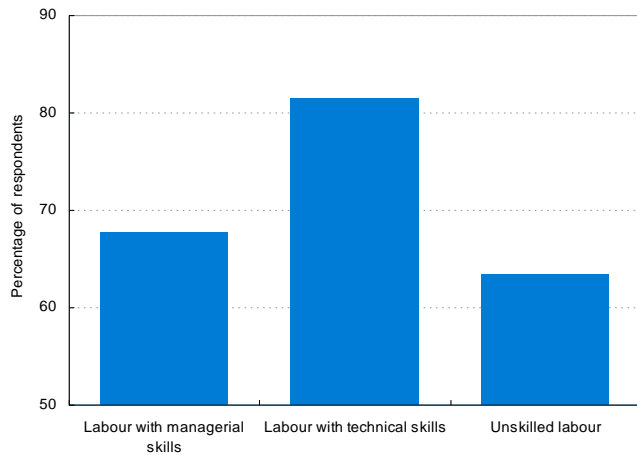


Chart 59: Types of skill shortages by tier

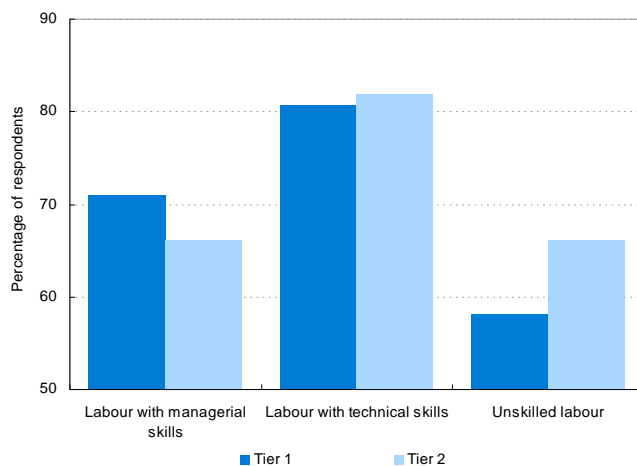
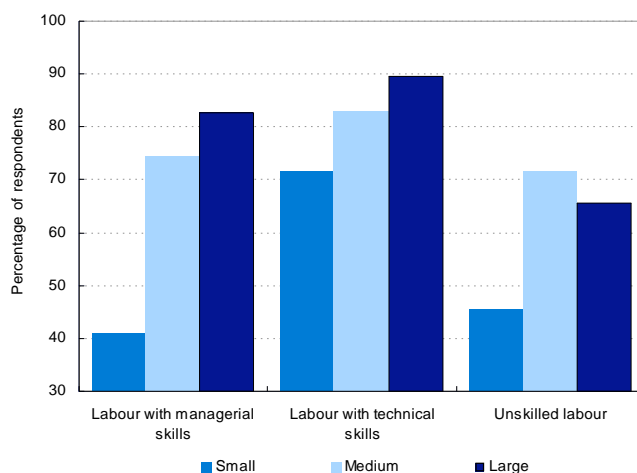


Chart 60: Types of skill shortage by size



Overall finding

- To determine the types of skills most lacking in Australia's automotive components industry, the survey asked CEOs whether they are being affected by shortages in: labour with managerial skills; labour with technical skills; and unskilled labour.
- Technical skills appear to be most lacking in the nation's automotive components sector, with 81.5% of respondents indicating that a shortage in labour with such skills is affecting them to some extent.
- This is consistent with the findings in *Skilling for Innovation*, (the first report in this CEO survey series, which was released in April 2008), which suggested Australian firms are finding it most difficult to secure appropriately skilled tradespeople & technicians.
- More than two-thirds of the firms surveyed (67.7%) cited impacts from shortages of labour with managerial skills.
- A majority of respondents (63.4%) also indicated they are being affected by shortages of unskilled labour.

Types of skills in shortage by tier

- Technical skills are clearly the most lacking in both Tier 1 and Tier 2 firms, with 80.6% of Tier 1 firms and 82.0% of Tier 2 firms citing impacts due to their shortage.
- Shortages of labour with managerial skills are having a greater impact on Tier 2 firms, with 71.0% claiming they are affecting their business to some extent, compared with 66.1% of Tier 1 firms.
- By contrast, Tier 2 firms are more affected by shortages in unskilled labour than Tier 1 firms. Nearly two-thirds (66.1%) of Tier 2 firms cited impacts from shortages of unskilled labour, compared with 58.1% for Tier 1 firms.

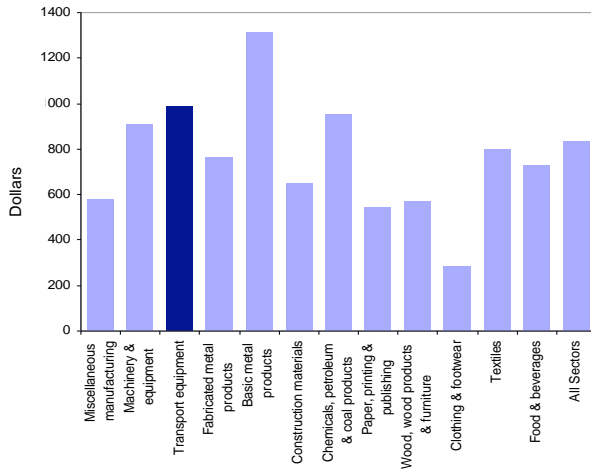
Types of skills in shortage by size

- Technical skills are the most lacking in automotive firms of all sizes.
- Large automotive components firms reported the highest incidence of impacts from shortages of labour with technical skills (89.7%) and labour with managerial skills (82.8%).
- Fewer small automotive components firms cited impacts from a shortage of labour with managerial skills (40.9%); unskilled labour (45.5%); and labour with technical skills (71.4%), than medium and large firms in the sector.
- Medium-sized automotive components firms reported the highest incidence of impacts from shortages of unskilled labour (71.4%).

Increase in employment and training needed to meet skill requirements

While component companies spend about \$1,000 per employee on training, they require approximately an additional 1,250 full-time workers to meet current skill needs

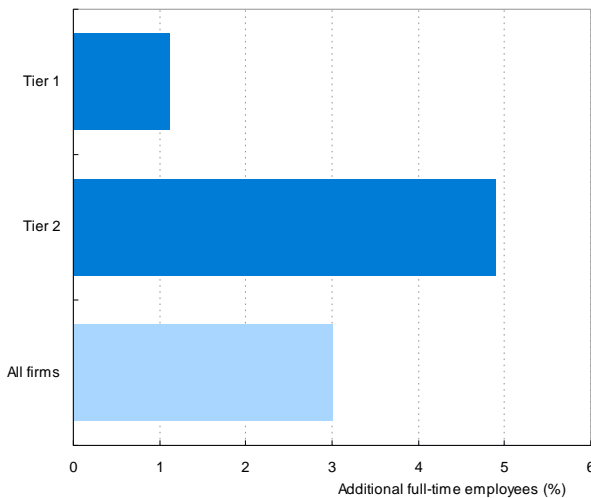
Chart 61: Training expenditure per employee



Overall finding

- Average labour costs are equivalent to about 21.8% of sales in the automotive components sector. While consistent with manufacturing overall, this is higher than some other sectors such as food & beverages (16.5%), basic metals (13%), and wood, furniture & paper products (16.5%).
- On average, companies in the automotive sector are spending about \$1,000 per employee on training. This is significantly higher than other sectors of manufacturing, reflected the high skill levels within the industry.
- Despite this investment in training, across all respondents, the number of additional full-time employees required as a proportion of total full-time employment in the automotive components sector averaged 3.0%.
- While it is difficult to determine the precise number of additional workers needed to meet current skill needs in Australia's automotive components industry, it is estimated to be somewhere in the vicinity of 1,250 full-time employees.

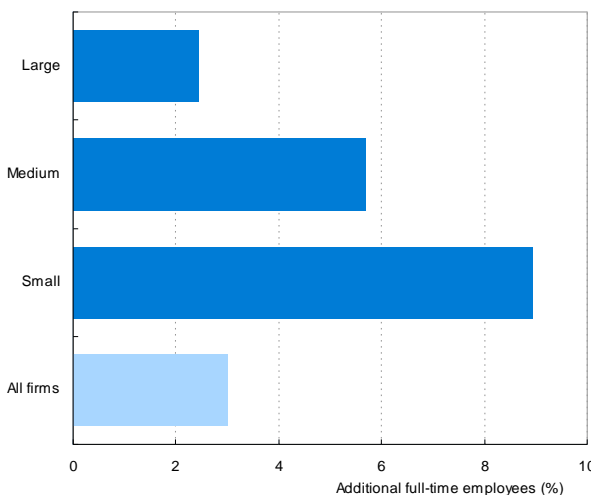
Chart 62: Employment increase needed to meet skills needs by tier



Skills gap by tier

- Tier 2 firms appear to be more severely affected by skill shortages than Tier 1 firms.
- Tier 2 firms require an average 4.9% increase in full-time employment to meet current requirements.
- By contrast, Tier 1 firms require a more moderate 1.1% increase in full-time employment to bridge their skills gap.
- The divergence in the proportional increases in employment required for Tier 1 and Tier 2 partly reflects the fact that, on average, Tier 2 firms employ fewer staff than Tier 1 firms.

Chart 63: Employment increase needed to meet skills needs by size



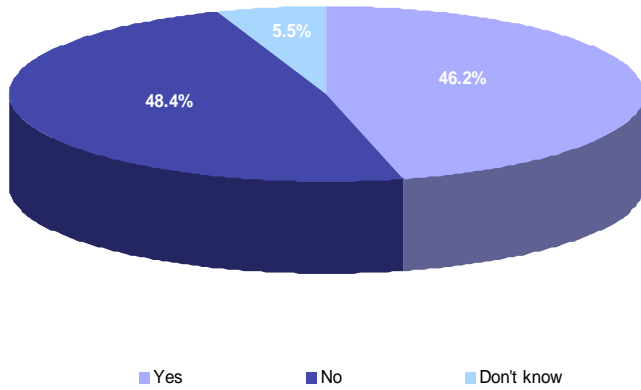
Skills gap by size

- Unsurprisingly, small automotive components companies require a greater proportional increase in full-time employment to meet current skill needs than larger firms.
- Small automotive components firms have indicated they need an average increase in full-time employment of 8.9% to meet current skill needs.
- By contrast, large automotive components companies need to raise full-time employment by just 2.4% to meet their skills deficits.
- Medium-sized firms need to raise full-time employment by an average of 5.7% to meet current skill needs.

Impact of skill shortages on innovation in the automotive components industry

Almost half of the automotive component firms surveyed reported that skill shortages are restricting innovation

Chart 64: Impact of skills shortages on innovation



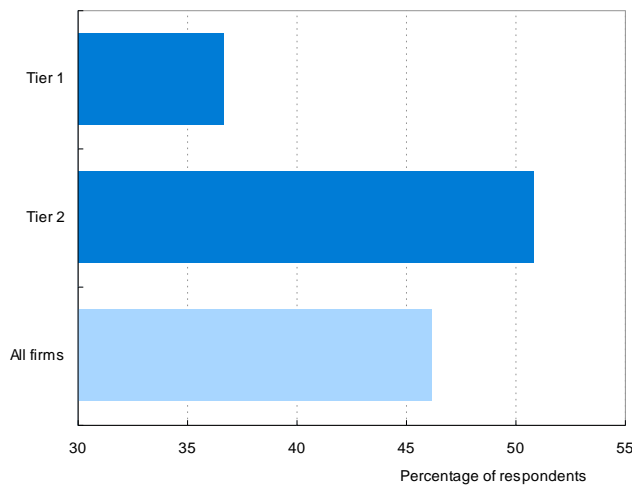
In the previous National CEO Survey, **Skilling for Innovation**, a clear link was established between skill shortages and a lack of innovative capacity in Australian firms. In fact, 42.2% of the CEOs surveyed reported that skill shortages were restricting innovation.

The current CEO survey has asked automotive components company CEOs whether skill shortages are affecting the capacity of their business to be innovative.

Overall finding

- Almost half of the automotive components firms surveyed (46.2%) indicated that skill shortages were affecting their capacity to be innovative, a slightly higher incidence than the 42.2% for all firms reported in **Skilling for Innovation**.
- A similar magnitude of automotive components companies reported no impacts from skill shortages on innovation (48.4%), with another 5.5% unsure of any link between the two.

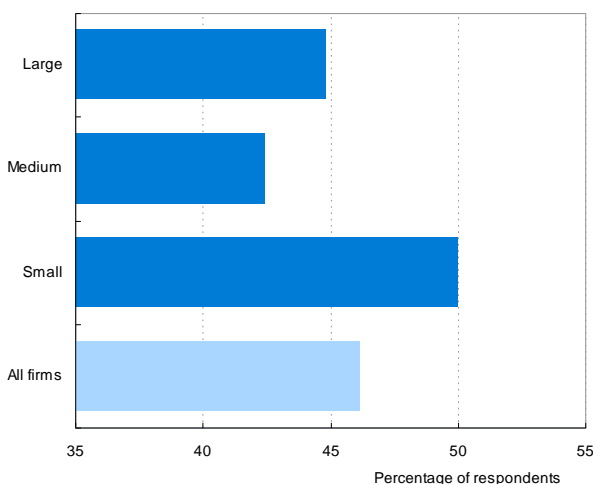
Chart 65: Impact of skills shortages on innovation by tier



Impact of skills shortages on innovation by tier

- A greater proportion of Tier 2 firms indicated skill shortages are having an effect on innovation, with 50.8% confirming they are limiting their capacity to be innovative.
- By contrast, only 36.7% of Tier 1 firms cited a link between skill shortages and reduced innovative capacity.

Chart 66: Impact of skills shortages on innovation by size



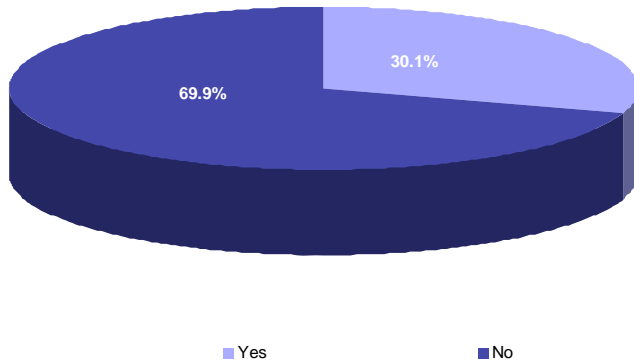
Impact of skills shortages on innovation by size

- Consistent with the findings of **Skilling for Innovation**, small automotive components firms reported the highest incidence of skill shortages restricting innovation (50.0%).
- While fewer medium and large automotive companies cited impacts on innovation from skill shortages, 42.4% and 44.8% respectively, these proportions are substantial enough to suggest this is a serious issue for automotive firms of all sizes.
- Policies that help lift the skills base of Australia's automotive components industry will have direct and positive effects on the level of business innovation in the sector.
- Conversely, worsening skill shortages will continue to impair the innovative ability of automotive components companies and render them less competitive with overseas rivals.

Employment of overseas skilled migrants in the automotive components industry

Large automotive component firms are the greatest employers of overseas skilled migrants

Chart 67: Employment of overseas skilled migrants



Overall finding

- Just under one third (30.1%) of CEOs indicated they are making use of overseas skilled migrants to relieve current skill shortages.

Employment of overseas skilled migrants by tier

- There doesn't appear to be a great deal of variance in the employment of overseas skilled migrants across the tiers of automotive supply.
- One-third (33.3%) of Tier 1 firms confirmed they are making use of overseas skilled migrants to overcome current skill shortages, while 28.6% of Tier 2 respondents are employing skilled international workers.

Employment of overseas skilled migrants by size

- There appears to be a strong correlation between the size of a company in the automotive components industry and their employment of overseas skilled migrants.
- Close to half (44.8%) of the large automotive components firms surveyed indicated they are making use of overseas skilled migrants to relieve current staff shortages.
- Medium-sized firms were the next most likely to employ overseas skilled migrants, with 25.7% confirming they have taken on skilled international workers to meet current skill requirements.
- By contrast, just 13.6% of the small automotive components companies surveyed indicated they are making use of overseas skilled migrants.

Chart 68: Employment of overseas skilled migrants by tier

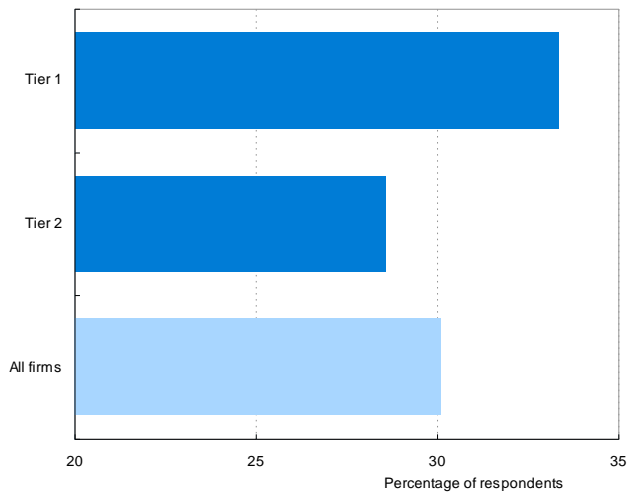
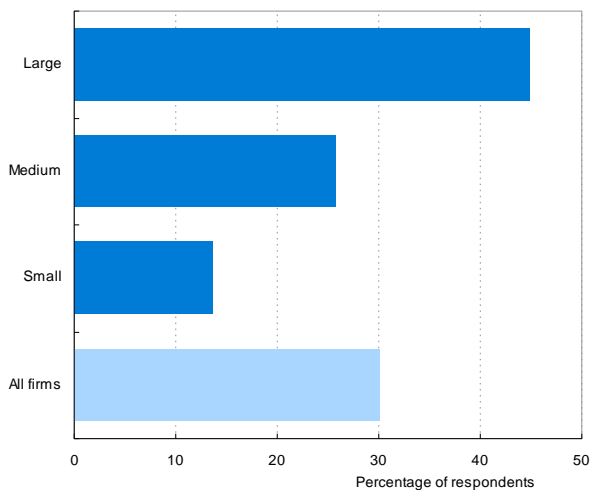


Chart 69: Employment of overseas skilled migrants by size





Industry Assistance



Industry assistance

ACIS is seen as effective policy by a majority of Tier 1 and larger firms

Chart 70: Respondents seeing significant effectiveness in government programs/policies

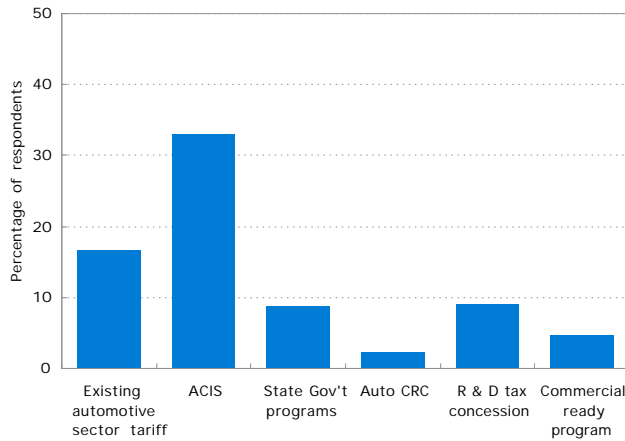


Chart 71: Respondents seeing significant effectiveness in government programs/policies by tier

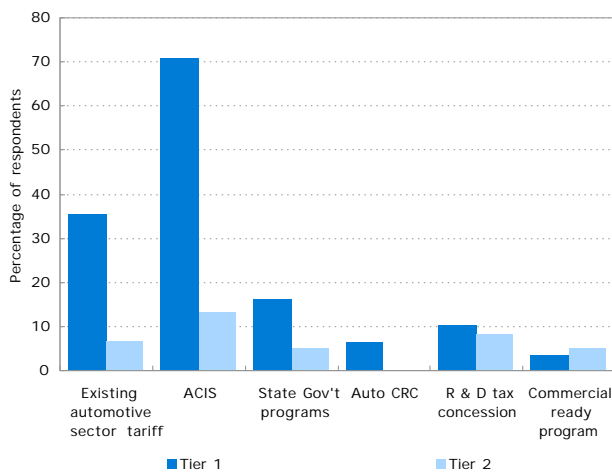
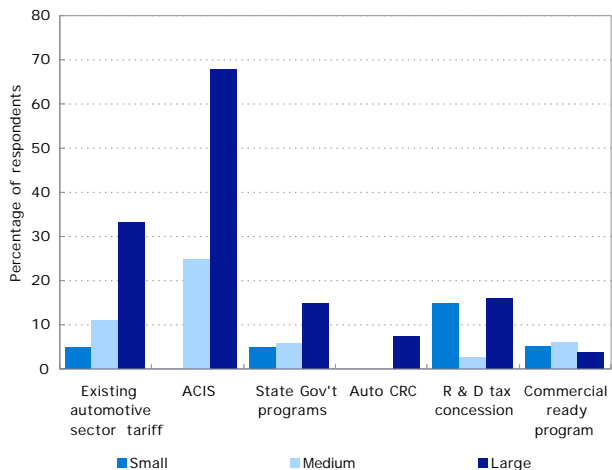


Chart 72: Respondents seeing significant effectiveness in government programs/policies by size



CEOs were asked for their views on the effectiveness of a range of government policies/programs designed to assist the automotive component manufacturing sector.

Overall finding

- Overall, ACIS was seen by respondents as the most effective government policy affecting automotive component makers. 33% of respondents see the scheme as significant that is, effective to a large/very large degree.
- Though ACIS appears to be seen as effective by only a relatively small proportion of firms, the data needs to be assessed on a tier basis to get an accurate view of CEO's perceptions of its effectiveness. Tier 1 firms are much more likely to use ACIS than Tier 2 firms.
- Around 17% of respondents believe that the existing automotive sector tariff is significantly effective.

Policy views by tier

- ACIS is viewed as effective to either a large or very large degree by 71% of Tier 1 firms, while the current tariff is seen in a similar light by 36% of Tier 1 firms. Other programs are seen as beneficial by only a relatively small proportion of respondents.
- Tier 2 firms generally see only limited benefit flowing from the government policies canvassed in this survey.

Policy views by size

- The survey results analysed on the basis of firm size tell a similar story to those based on tier.
- Large firms see the greatest benefit in terms of all public policy approaches canvassed in this survey.
- ACIS is seen as effective to a large or very large degree by 68% of large firms, while the existing tariff regime is seen in a similar light by 33% of large firms.
- In common with the result for Tier 2 firms, small firms appear to see little benefit from current government policy approaches.

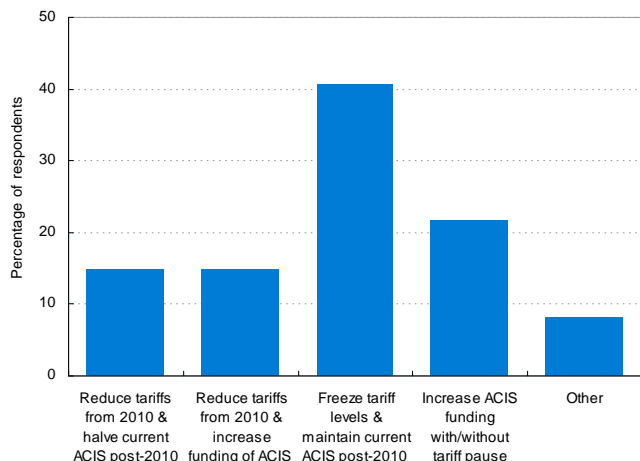
How might ACIS be improved?

- Survey respondents were asked how ACIS might be improved. Responses were limited but included a number of recurrent themes, ACIS could be improved by:
 - Improving the administration and compliance and audit aspects of the scheme.
 - Increasing funding for the scheme and increasing the 5% sales threshold.
 - Improving assistance for smaller manufacturers.
 - Allowing claims for among other things, plant and equipment investment, human resource and management development.
 - Allowing access to the scheme to aftermarket manufacturers.
 - Giving incentives for eco-friendly investment.
 - Covering all engineering/manufacturing activity.

Preferred options for industry assistance

'Freezing' tariff levels post-2010 and maintaining ACIS unchanged rather than halving funding post-2010 is the most favoured mode of industry assistance

Chart 73: Preferred options for Government assistance



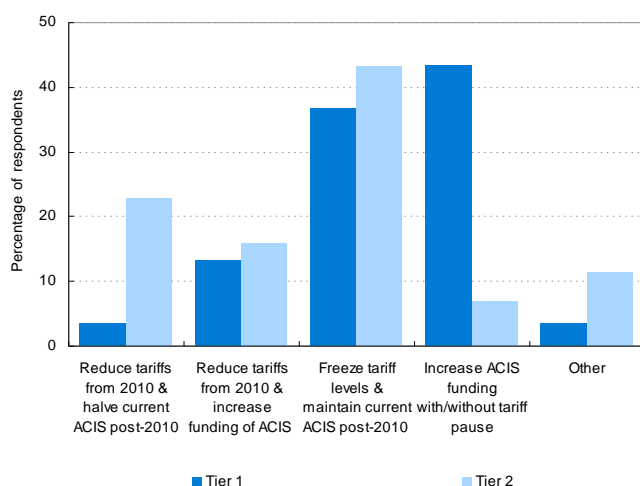
In light of the review of Australia's Automotive Industry announced on 14 February 2008 by the Minister for Innovation, Industry, Science and Research, Senator Kim Carr, CEOs were asked to select a preferred policy option.

The options were: to continue the planned reduction in industry tariffs from 2010 and halve current ACIS funding post-2010; continue the planned reduction in tariffs and increase funding for ACIS; 'freeze' tariffs and maintain current ACIS funding unchanged post-2010; and enhance ACIS irrespective of changes in tariffs.

Overall finding

- 'Freezing' tariff levels post-2010 and the current ACIS funding maintained post-2010 is the most favoured policy option amongst firms in Australia's components sector. 40.5% of CEOs cited this as their preferred option.
- 21.6% of CEOs said they favoured an enhanced ACIS, with or without a pause in tariffs.
- 14.9% of CEOs indicated they favoured the planned reductions of tariffs from 2010 and halving current ACIS post-2010. The same proportion favoured reducing tariffs post-2010 and enhancing ACIS.

Chart 74: Preferred options for Government assistance by tier

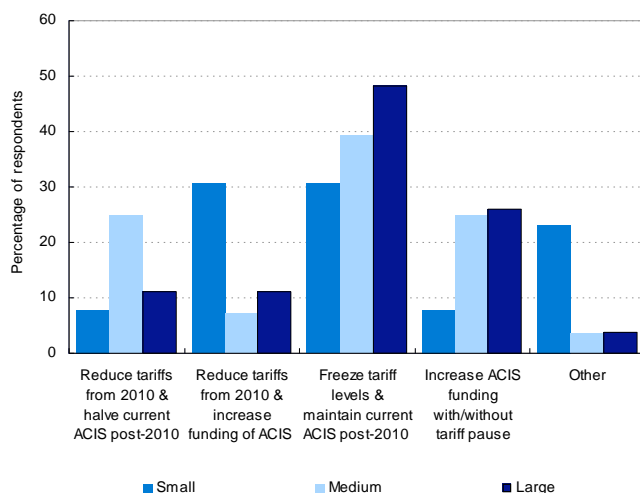


- Other favoured options for government assistance were a review of the Strategic Investment Program (SIP) scheme; measures to offset the strong Australian currency; and other forms of taxation relief.

Preferred options for government assistance by tier

- An enhanced ACIS with or without a tariff pause is the preferred mode of government assistance for Tier 1 firms. 43.3% cited this as their preferred option.
- Only 6.8% of Tier 2 firms favour this option, but a number of these firms are ineligible for ACIS.
- 36.7% of Tier 1 firms favour 'freezing' tariff levels post-2010 and current ACIS maintained post-2010.
- 'Freezing' tariff levels post-2010 and current ACIS maintained post-2010 was significantly the most favoured option for government assistance amongst Tier 2 firms (43.1%).

Chart 75: Preferred options for Government assistance by size



- Considerably more Tier 2 firms (22.7%) favour the planned reduction in industry tariffs from 2010 and halving current ACIS funding post-2010 than do Tier 1 firms (3.3%).

Preferred options for government assistance by size

- 48.1% of large firms surveyed saw 'freezing' tariff levels post-2010 and current ACIS maintained post-2010 as their preferred policy option. Medium-sized firms (39.3%) also preferred this option.
- 'Freezing' tariff levels post-2010 and maintaining current ACIS post-2010, and reducing tariffs post-2010 and enhancing ACIS were the equal favourite options for government assistance of 30.8% of small firms.
- Enhanced ACIS with or without tariff pause is more favoured amongst large (25.9%) and medium-sized firms (25.0%), than for small firms (7.7%) - a number of whom are likely to be ineligible for ACIS funding.

Involvement in the Auto Cooperative Research Centre (CRC) program

Almost one third of Tier 1 firms have had an involvement in the Government's AutoCRC program

Chart 76: Involvement in AutoCRC by tier

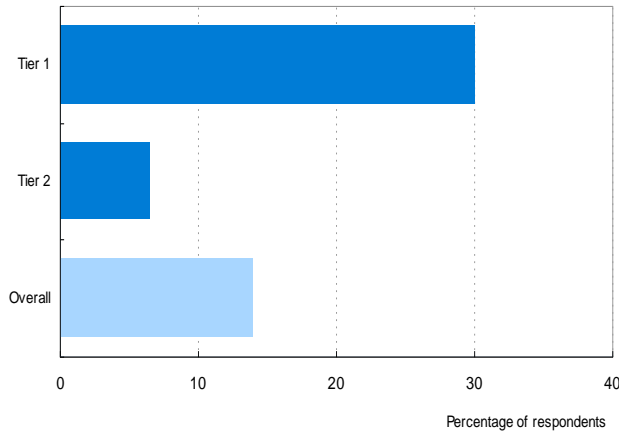
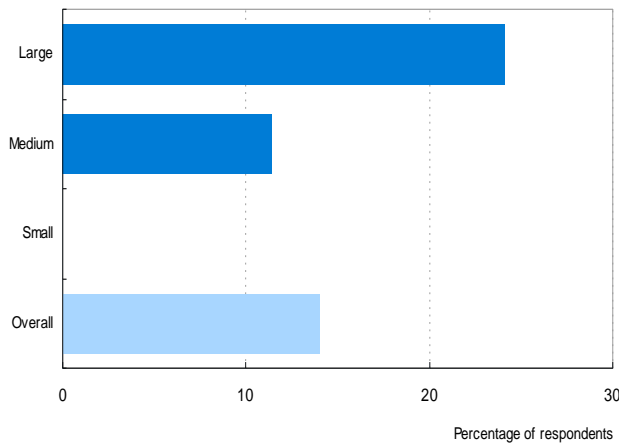


Chart 77: Involvement in AutoCRC by size



The Australian Government's Co-operative Research Centre (CRC) Program aims to maximise the benefits from Australian research efforts by bringing together researchers from universities, CSIRO and other government laboratories, and private industry or public sector agencies.

The Cooperative Research Centre for Advanced Automotive Technology (AutoCRC program) aims to enhance the viability and sustainability of the Australian automotive industry by:

- Reducing concept-to-product cycle times;
- Improving manufacturing flexibility and efficiency;
- Incorporating new material systems to meet the challenges of weight reduction, increased safety and enhanced functionality;
- Improving air quality and reducing consumption of fossil fuels; and
- Producing safer, crashworthy vehicles and intelligent products and systems for increased comfort and performance with minimum driver distraction.

Involvement in AutoCRC by tier

- While the AutoCRC is composed of eight leading vehicle and component manufacturers, two state governments and 10 research institutions, it has been able to engage around 30% of Tier 1 companies, a significantly greater proportion than for Tier 2 firms (6.5%).
- The greater involvement of Tier 1 firms likely reflects the fact that the AutoCRC program is more focused on improvements in the sector's end products than those lower down the supply chain. The AutoCRC has recently moved to address this disparity by looking to involve Tier 2 and smaller component manufacturers in its programs and services, particularly through its involvement in the Automotive Supplier Excellence Program (ASEA).
- It is also likely to reflect the fact that Tier 1 firms are generally larger in size than Tier 2 firms.

Involvement in AutoCRC by size

- Almost one quarter of the large firms surveyed (24.1%) indicated they had been involved in the Australian Government's AutoCRC program.
- Just over one in every 10 medium-sized automotive components firms confirmed some type of involvement in the program.
- None of the small companies responding to the CEO Survey indicated they had been involved in AutoCRC.
- While AutoCRC encourages the involvement of small and medium enterprises, the considerable contributions required to participate in the program makes involvement a more likely prospect for larger firms in the industry.

References

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Australian Industry Group (2007) *Environmental Sustainability and Industry - Road to a sustainable future*

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