

# Future state: Australian manufacturing and smart specialisation



On June 2, KPMG hosted a panel discussion on the future of manufacturing in Australia. A panel of distinguished academics, business leaders, and KPMG specialists, shared their insights on the trends shaping the sector; the future of supply chain and human capital; innovations in research and development (R&D); and the implications of a move towards value-based pricing.

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## Facilitator:

**Malcolm Ramsay** National Sector Leader, Industrial Manufacturing

## Speakers:

**Prof. Roy Green** Professor and Dean of the UTS Business School

**Paul Howes** KPMG Partner, Advisory

**Innes Willox** Chief Executive, AiGroup

**Dr. Bill Petreski** KPMG Director, Innovation and Technology Strategy

**Ronan Gilhawley** KPMG Partner, Head of Strategy Group

## ➤ Growth comes in small, specialised packages

Now that the mining boom is over, Australia is looking to reposition itself with new pathways to economic growth. Investment in, and strategic restoration of, the lagging manufacturing sector is under way, amid political debate.

Government and non-government entities are keen to identify growth sub-sectors that can participate in the global supply chain. There is support and funding for R&D of technological innovations, through universities, researchers, industry bodies and businesses. Current ventures include the industry Growth Centres and the Innovative Manufacturing Cooperative Research Centre (IMCRC).

Whilst the dollar has come off its recent highs, many industry obstacles still exist. These obstacles contributed to the shutdown of the car assembly segment and led to the establishment of a Prime Minister's Taskforce in 2011. High energy costs and lack of labour flexibility remain critical issues to date. Success means overcoming obstacles to growth such as a lack of scale, the need to find suitable taxation rates, and potential changes to agreements with unions, along with other workforce issues. This necessitates an increase in employee and sector productivity, as well as more defined and engaged leadership practices, in order to activate confidence in the sector, which has probably not been seen for a while.

## ➤ The future of manufacturing in Australia

Around the world, structural changes are taking place in the manufacturing sector and Australia will have to adapt to keep up. To be a part of this movement, Australian manufacturing companies need to transform by moving up the value chain, reinventing product offerings and business models, implementing technological innovation and systems integration, and establishing high-performance management teams to boost productivity and nurture talent. Accomplishing all of this will allow Australian manufacturing to remain competitive, not just domestically but globally, to secure economic growth for years to come.

'Smart specialisation' is helping the world set the pace. This transformation of the global manufacturing landscape has resulted in the shift from larger, vertically integrated organisations to smaller, interdependent, niche production units across global value chains, says UTS Business

School Dean Roy Green. These units are referred to as 'micromultinationals', because they capture value through innovative technology and design, as well as operating in geographical or virtual clusters that allow them to maximise their productivity.

Some Australian manufacturers have already been adapting successfully to these changes, and there are 1,000 to 1,500 Australian micromultinationals, however many more are needed to build a sustainable industry. They are spread across high value segments such as media, defense electronics, medical devices, renewables and precision engineering. Notable examples include New South Wales based microphone manufacturer RØDE Microphones, and Victoria based automotive and aerospace component manufacturer Marand Precision Engineering.

## ➤ Impacts on supply chain and human capital

There are several advantages to this highly segmented approach. The development of specialised products and services, for specific and demand-driven global supply chains, can help companies create jobs and ride out currency fluctuations. It can also allow a more efficient use of human capital, and an increase in wage flexibility.

These advantages are particularly beneficial, given the workforce challenges the sector faces. For many companies, finding the best use of labour is not a straightforward task. A shortage of new workers entering the sector has created a skill deficit. The proportion of students taking up university degrees relating to science,

technology and mathematics remains small, comments Innes Willox, AiGroup CEO.

Furthermore, there is still a need to capture the expertise of the workforce aged 45 and over, to leverage their expertise in a leadership and mentoring capacity. In many organisations, management has not been proactive in addressing these problems, meaning there have not been effective systems in place to incentivise and attract younger talent and leverage the experience of older workers.

## ► How specialisation shapes innovation and research and development

The specialisation of segments is underpinned by innovation and R&D. Innovation can be technological, or in new product development or business models. It can even be a change in leadership. The most successful manufacturing company transformations have been based on well-planned and long-term R&D programs, as opposed to one-offs or sporadic moves.

Through technology, high-volume, tight supply chains are giving way to high-value, low-volume models that

manufacture premium products, in an effort to gain productivity efficiencies and export growth. As a result, a cultural shift has emerged, in which companies are labelling and viewing themselves as high-tech, not purely manufacturing or physical product players, said Dr. Bill Petreski, KPMG Director of Innovation and Technology Strategy. Most importantly, they are partnering with high-tech accelerators and other businesses to commercialise their ideas quickly.

## ► The shift to value-orientated pricing

The latest KPMG Pricing Survey on Australian companies, soon to be released, has found that there is a clear disconnect between organisations self-perception of their pricing practices vs market reality. 74 percent of organisations agree that pricing pressures in the Australian market have increased over the past two years with companies using price as their competitive lever to fend off competition. This has led to an increase in price wars with 57 percent of companies agreeing a price war exists in their market. Additionally price realisation is an issue, with organisations only able to realise 55 percent of their intended price increase. However organisations do recognise the impact improved pricing effectiveness can have on margins, with many businesses operating in the manufacturing,

industrial and business service sectors intending to shift to value or premium pricing over the next two or three years, moving away from the traditional cost-plus and competitive market pricing models in place today, says Ronan Gilhawley, KPMG Partner and Head of Strategy Group.

Another hurdle in setting the right prices is determining who in the organisation should be responsible for setting margins and offering discounts – management, finance, sales or marketing. Lastly, many businesses struggle to access intelligence in this area. They may lack the tools and data necessary to get information they need to target more profitable customers and ensure price rises are executed in a more targeted and informed way.

## ► Closing remarks

Growth in manufacturing, and in the larger economy, is based on innovation that allows participation in high-value global chains, new business models and a boost in performance and leadership practices. Government

collaboration with universities, industry bodies and policymakers is necessary to achieve this. If we don't put innovative ideas into practice, we'll face systems failure – not market failure – once again.

## ► Where to from here?

The panelists agreed the Australian government and manufacturing industry need to focus on concrete actions to address the issues raised. Future KPMG Manufacturing Executive Forums will focus on particular issues, and how companies and market participants can make a difference.

In the spirit of this action-oriented agenda, KPMG has issued a Global Manufacturing Outlook Survey and the Australian perspective is attached to provide further insight into key opportunities for the sector over the next two years.



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For further information on this event or the discussion topics and to explore opportunities for your company, please contact:

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