2015 Global Manufacturing Outlook

An Australian perspective

In a post-mining boom period, Australia is looking to reposition itself through new pathways to economic growth. Investment in, and strategic restoration of, the lagging manufacturing sector is under way, amid political debate.

Looking to help Australian manufacturing remain competitive globally, government and non-government entities are keen to identify growth sub-sectors that can participate in the global supply chain. The sector is moving towards playing in the specialised and value-added business models, driven by innovation and R&D. There is support and funding for research and development of technological and product innovations through universities, researchers, industry bodies and businesses. Current ventures include the industry Growth Centres and the Innovative Manufacturing Cooperative Research Centre.

Australian manufacturers must also invest in information technologies across the supply chain, as well as data and analytics tools that can monitor customer preferences and profitability. The sector also needs an increase in worker productivity and leadership practices. Most importantly, businesses must implement all these actions on the export market, rather than a purely domestic focus.

A focus on 'smart specialisation' and new business models

Australian manufacturing sectors will need to transition into 'smart specialisation' segments, based on high-value and niche products and services for global and demand-driven value chains. The shift to smart specialisation, pushed by global industry structural changes, aims to move the sector away from low-cost, high-volume production to high-margin, low-volume models.

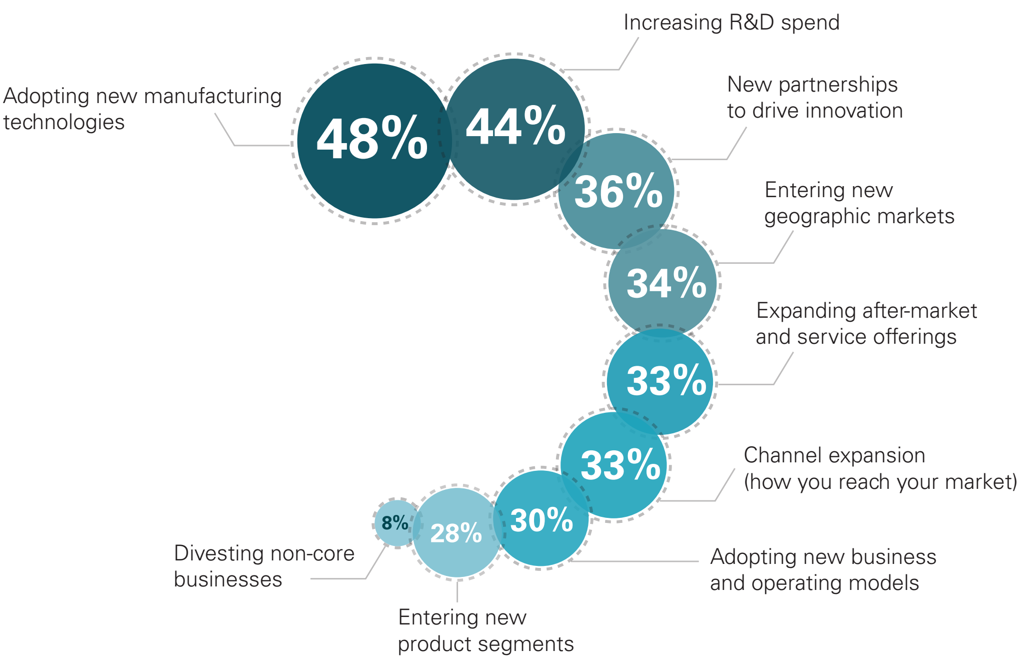
The shift will mean smaller, interdependent, niche production units across global value chains. These units are referred to as 'micro-multinationals', because they capture value through innovation and operate in geographical or virtual clusters that allow productivity efficiencies and critical mass gain.

According to Professor Roy Green, Dean of the UTS Business School, Australia boasts around 1,000 to 1,500 successful micromultinationals, but more are needed for the domestic sector to survive and compete against more advanced manufacturing nations; therefore, an export focus is key.

Looking for growth through innovation and R&D

Australia's high costs from currency, labour, energy, and transport have affected manufacturers' profitability, especially those still operating with low costs and high volume. Growth must be found in global supply and value chains and in innovative new products and technologies. This means investing in long-term research and development (R&D) programs, as opposed to one-off moves.

The 2015 Global Manufacturing Outlook (GMO) survey found that the top three areas of focus for organisations looking to drive growth and innovation were: adopting new manufacturing technologies; increasing their R&D spending; and developing new partnerships to drive innovation.

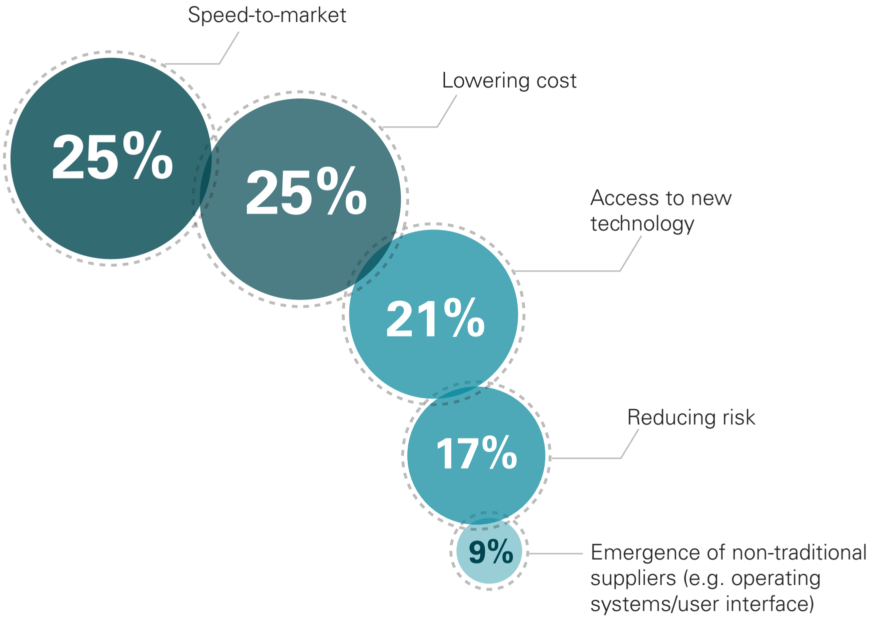


Note: Respondents selected top three options.
Source: Global Manufacturing Outlook Survey, 2015.

Australian manufacturers on path to sustainable growth have invested or are investing in long-term R&D programs. They collaborate and develop partnerships with government and industry research bodies, high-tech accelerators and universities. These efforts aim at commercialising ideas quickly and tapping into export markets.

Out of all the organisations surveyed, 78 percent agree that partnerships will characterise the future of innovation. As their main motivations for collaborating, they cited speed to market (25 percent), lower costs (25 percent), accessing new technology (21 percent) and reducing risk (17 percent).

On the whole, innovation must be supported by an appropriate government policy framework that enables collaboration, financial assistance and international marketing.



Note: Percentages may not add up to 100 percent due to rounding.
Source: Global Manufacturing Outlook Survey, 2015.

› Shift to value-added pricing

As Australian manufacturers look to shift into specialised and premium segments, higher prices for their products and services are necessary. Value-added pricing is important for margin improvement and long-term profitability of the sector.

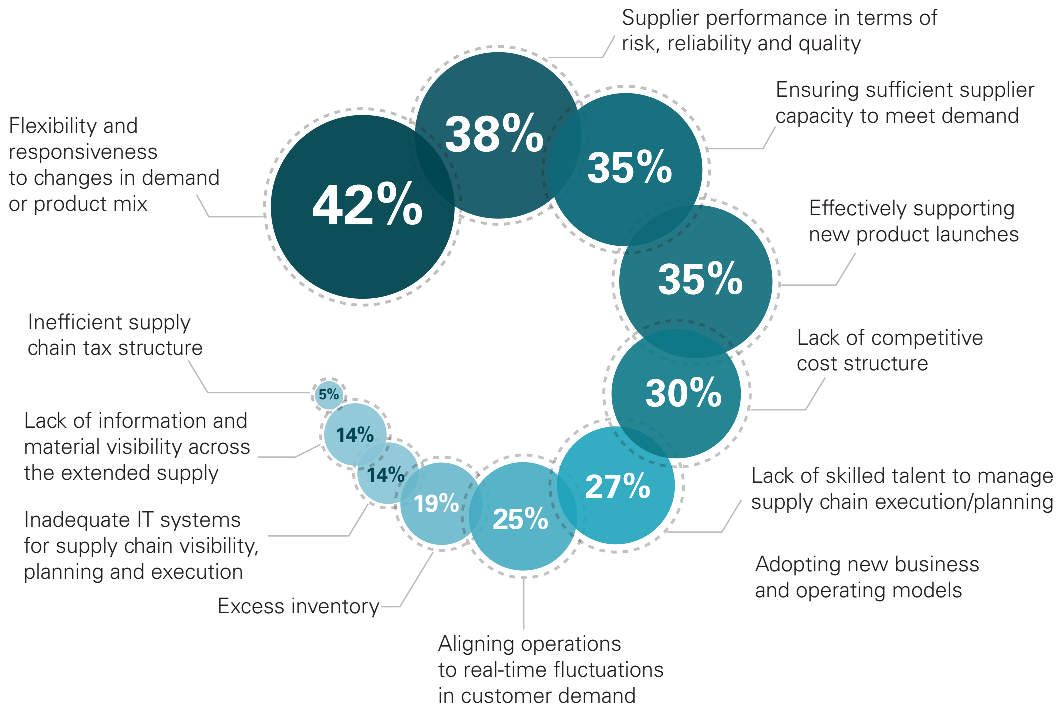
The latest KPMG pricing survey, soon to be released, has found that 70 percent of Australian organisations consider pricing should be a top priority for senior management. They believe a clearly articulated pricing strategy can result in a profit improvement of around 10 percent.

The organisations surveyed also see a need to move into value-added or premium pricing in the next two to three years, but acknowledge that change in this area has been slowed down, if not impeded, by discounting from competitors and imports in recent years. About 65 percent of the organisations surveyed were optimistic on raising prices, however only 40-70 percent are able to realise prices, while 16 percent don't see it happening ever.

Another hurdle to setting the right prices is the lack of clarity regarding who is responsible for pricing, offering discounts and setting margins. Organisations must determine if it's the role of management, finance, sales or marketing.

Using technology to maximise supply-chain efficiency and enhance decision-making processes

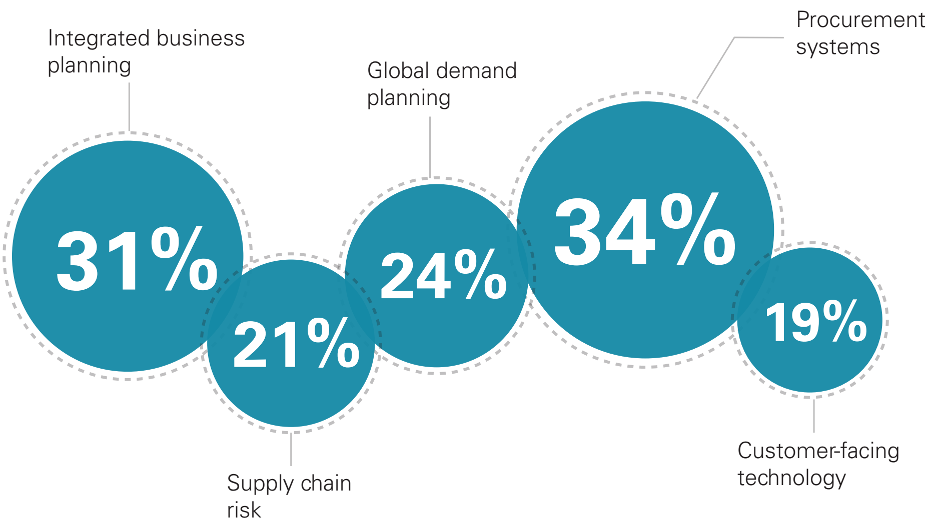
Australian manufacturers will need to integrate their supply chains to maximise efficiencies and generate cost savings. This is achievable by investing in information technologies that can allow them to identify potential disruptions and respond to them quickly. The GMO survey found that the main challenges facing organisations' supply chains were remaining flexible and responsive to changes in demand and product mix; supplier performance in terms of risk, reliability and quality; providing effective support of product launches; and ensuring sufficient supplier capacity to meet demand.



Note: Respondents selected top three options.
Source: Global Manufacturing Outlook Survey, 2015.

In previous years, Australian manufacturers have not focused as much on these concerns because of the lack of mature technology available and their investment into more critical business priorities. This situation is not exclusive to Australia, it also applies to other countries. However, the survey estimates that in the future, organisations will invest up to 20 percent in integrated business planning, supply chain risk, global demand management, procurement systems and customer-facing technology.

In addition, Australian manufacturers will need to use data and analytics tools to access competitive intelligence and, most importantly, get information to target more profitable customers and ensure price raises.



Source: Global Manufacturing Outlook Survey, 2015.

Working towards leadership and productivity

The Australian manufacturing sector faces workforce challenges. First, low-performance worker and management practices, as well as lack of industry leadership hurt productivity. Manufacturers must find ways to enforce high-performance practices.

Second, there is a shortage of new workers entering the sector that has created a skills deficit. Meanwhile workers aged 45 and over, with all their experience, are being displaced or made redundant, and their knowledge is not being applied to mentor younger talent. There is a lack of jobs in the sector and wages are not sustainable, due to manufacturing competition in emerging economies. The talent shortage is not exclusive to Australia but a global issue. The GMO found that the main strategies to address it are in investing in internal training and apprenticeship programs and creating a talent strategy.

Internal training and apprenticeship programs

Talent strategy

Six critical actions

To be successful over the next decade, Australian manufacturers will need to…

1. Enhance their customer focus to better understand current and future needs that can result in market opportunities.
2. Think more broadly on how they can participate in global value chains through the creation of value-added products or services.
3. Look to raise their prices for their premium and niche products.
4. Target and invest in innovation and long-term R&D.
5. Collaborate with government, businesses, high tech accelerators, researchers and universities to commercialise their ideas and seek export growth.
6. Implement high-performance management practices to boost internal productivity and better collaborate with the manufacturing workforce.

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