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The Challenges faced by Australian Manufacturing Business Owners

A Manufacturship Research Briefing presented by Bede Boyle, Chairman, Manufacturship at
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The challenges of manufacturing in Australia continue to change dramatically and seemingly faster and faster. Business owners and leaders face critical challenges to survive, grow and thrive into the future which is looking more complex and uncertain.

Top 10 Challenges for Manufacturing Business Owners and Leaders

This briefing highlights the findings of Manufacturship 2015-2016 Research with +200 manufacturing business owners and leaders across diverse sectors including aerospace & defence industries, automotive, biomedical, building and construction systems, food, materials handling and mining technologies. The process was based on questionnaires and in-depth conversations with clients and attendees at Manufacturship CEO Forums on 'what really works' in addressing the identified critical challenges.

Our research highlights that although the ranking may differ in different sectors the top 5 challenges are consistently in the top 5.

1. Cost Competitiveness

Australian manufacturing industry operates in an increasingly competitive global market as evidenced by the announced withdrawal of GM, Ford and Toyota from vehicle manufacture in Australia.

In the late 1900s productivity gains were achieved by business process reengineering primarily in headcount reductions. However, in the early 2000s new competitors from low cost countries emerged and cost savings from headcount reductions were overtaken by the increasing speed and productivity of these new market entrants and their ability to produce the same products at a much cheaper price. In the post GFC environment these factors have accelerated forcing the need to achieve further cost reductions back to the top of the CEO agenda.

But there is a new layer of complexity that is making implementing cost reduction more difficult than before. Heavy resistance is being encountered from both inside and outside the business enterprise. Internally, managers responsible for implementing cost reduction are reporting that too much has already been cut. The pressure is also applied externally from customers expecting Value for Money to continuously improve. Trading reduced services for lower prices is no longer an option.

The big agenda item is replacing the cost of input materials, work in progress and product inventories with 'end to end' data across supply chains underpinning enhanced production and supply chain management.

It is absolutely critical to have no exposure to Warranty Claims from quality failures which can destroy the business. There is a graveyard of manufactures who 'saved cents' and destroyed their brand and business by quality failures fracturing the technical integrity of their products. Aggressive cost cutting within the globalization of automotive supply chains has resulted in safety failures and in costly vehicle recalls by GM, Ford, Toyota and VW.

2. Increasing the Rate of Revenue Growth

Cost and Revenue are the drivers of Business Profitability
Increasing the Rate of Revenue Growth in an increasingly volatile market is achieved by Managerial Effectiveness in rapidly aligning Operations and Innovation with an outward focus on Niche Market Opportunities.

The highly competitive global manufacturing environment has resulted in a relentless cost / price squeeze for many firms. As a result many firms have become inwards looking with a myopic focus on cost reductions. However, in reality profitable growth is paramount to ensuring business success. This requires an outward looking customer-centric firm with a willingness to adopt new ideas and methods [called innovation] to secure and retain customers to drive revenue and profitable growth.

3. Improve Cash Flow [equal 2nd in research]

If 1 & 2 are about Profit, Cash Flow is about Survival of the Business. Business owners consistently tell us they are concerned on a day to day basis about the amount of cash they have in the bank above their liabilities.

Manufacturing is generally identified as a comparatively risky business sector by banks. Business owners cannot afford to default on Loan Payment Covenants with banks due to problems with cash flow or risk foreclosure by the bank.

Cash Flow Management is actually about increasing speed from order to invoicing the customer and cash in bank, and is achieved by compressing Time from Order to Delivery with100% Delivery in Full on Time [DIFOT].

4. Building Managerial Talent

Is about developing the ability to Manage Complexity and Ambiguity.

An increasing number of organisations are operating in a multi-national, multi-locational environment. Quite apart from the inherent complexity, managers have to balance the demands of simultaneously driving cost out of the business, whilst simultaneously increasing service and value to customers to enhance revenue growth.

Successful Australian manufacturers now focus more on upstream activities including design, development and innovation rather than manufacture which has been their historical focus. The imperative for Australian manufactures is therefore to focus on design, development and innovation to deliver superior quality and reliability backed up by excellent service and support. In effect manufacturers will need to become customer-centric if they are to survive and thrive.

5. Attracting and Retaining Skilled Labour

There is a demonstrated causal link between workplace culture and productivity.

Firstly, think about removing your HR department [which is a cost centre – not a profit centre] and make attracting and retaining skilled and experienced labour a Management Responsibility. This is a proven transformational cultural change to become the employer of choice with a highly productive workplace culture.

6. Better Managing Material Costs

Leveraging Australia's Free Trade Agreements [FTAs] to achieve low cost country sourcing from China and ASEAN countries who are our closest trading partners.

The China Australia FTA [ChAFTA] was signed on 17 June 2015 and covers 23% of Australia's total trade. ChAFTA provides opportunities for Australian manufactures to source low cost materials and manufactured components from China which can be integrated into Products for Australian and ASEAN markets.

Australia's closest trading partners are members of the ASEAN Economic community of 10 Asian nations including Malaysia, Singapore, Indonesia, Philippines, Thailand, Brunei, Lao PDR, Myanmar, Cambodia, and Vietnam. ASEAN is expected by ANZ to replace China during the next 10 years as the world's manufacturing hub and ANZ expects it to become the fifth largest economy in the world by the end of the decade.

7. Rapidly Boosting Profits

Elevating Enterprise Value and Return to Shareholders is the purpose of business enterprises. This requires Strategic Actions to Strengthen Capability to Improve Return on Investment and position the firm to seize Opportunities for Strategic Growth.

Quality Failure is the Elephant in the Room that was identified when manufactures are struggling to boost profits. The Elephant comprises:

- Waste and Rework within the Factory – Significant 'but very skilfully' hidden Costs
- Product Failures, Recalls and Warranty Costs – High Cost and damaged Reputation
- Failure to achieve Delivery in Full on Time – Loss of Market Share and Revenue.

Strategic Quality and Productivity Improvement reflects an obsession that involves an entire enterprise in driving Quality and Productivity Improvements continually in all processes to deliver Value for Money.

Strategic Quality is an enterprise-wide obsession with Quality that builds a reputation for *Getting it Right First Time* which can be a powerful competitive advantage in an increasingly discerning market.

Strategic Productivity measures the efficient use of resources. It matters because doing things more efficiently is what drives profitable growth for manufactures by creating competitive advantage.

- Labor Productivity measures the output of workers per hour worked
- Capital Productivity measures the "bang for buck" output per dollar invested
- Total Factor Productivity, sometimes called multifactor productivity, combines the two.

8. Increasing Market Volatility

Australian Manufactures will encounter increasing volatility over the next decades, compounded by imports from low cost countries in Asia. Business owners' talk about the imperative to reduce product development cycle times from concept to market

The Australian resources infrastructure investment boom was in response to strong Asia demand for Australian iron ore and coal, and cushioned the Australian economy and manufacturers to the 2008-2009 Global Financial Crisis. However, Dramatic falls in coal and iron ore prices in 2012 resulted in the downturn in construction investment in mine, rail and port infrastructure.

Increasing Market Volatility requires developing Strategic Agility to capture Market Opportunities by continually revisiting the question to make the fundamental decision – What Business are we really in? This requires granular market intelligence and continuing discussion with customers.

9. Financing Business Expansion and
10. Funding Strategic Growth & Acquisitions

For most manufactures this is really about making the business attractive to Banks, Equity Investors and Joint Ventures by consistently achieving Profit Targets and delivering Superior ROI.

However, the ability to fund business expansions, strategic growth and acquisitions from retained earnings is a true differentiator of successful manufactures who continue to go from strength to strength.

About Manufacturship

Manufacturship was founded by Jason Furness to assist business owners and leaders Create Enterprise Value in Manufacturing by consistently delivering Superior Returns on Investment by simultaneously ramping up revenue and driving down costs.

Jason was Manufacturing Manager with GM Holden, National Manufacturing Manager with Smorgan Steel Group and General Manager of Electrolux Orange Plant where he rapidly boosted Return on Sales despite the GFC. He is co-author with Michael McLean of *Manufacturing Money* – how CEOs rapidly boost profits in manufacturing.

Bede Boyle is Chairman Manufacturship Group. Bede has been engaged as a Strategic Advisor to some of Australia's largest corporations including AGL Energy, BHP, BlueScope Steel, Genesee Wyoming Inc., GVK Hancock Coal, Leighton Contractors, SMEC Australia and India. He was Chairman of Bywater McLean a leading strategic and productivity consultancy to clients including ADI-Thales, Department of Defence, Fluor Australia, GM Holden, Rio Tinto and QANTAS, through to successful sale to Axon plc.

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