



## Public Submission to the Productivity Commission Review of the Automotive Manufacturing Industry

27 November 2013

### Background on myself and TXM

I have spent my entire 25 year career in the Australian Manufacturing industry. For the first 16 years of that I worked as an Operations Manager and General Manager for large Australian and Global public companies in the chemicals, automotive coatings, plastics, printing and packaging industries.. In 2004, I established a Manufacturing Consulting business, TXM. We are now Australia's leading Lean Manufacturing consultants, having worked with over 100 Manufacturers across Australia, most of whom are small and medium sized companies. We are one of the leading tailored advisory service providers to Enterprise Connect and as well are working or have worked with some of Australia's leading large manufacturing businesses.

My company, TXM ,also has a consulting business in China and I have visited and worked with dozens of manufacturing companies large and small across China in industries as diverse as food manufacturing, electronics, clothing manufacturing and automotive components. I therefore believe that I am qualified to provide an independent comment on the industry.. I am not aligned to any industry group or lobby group and do not have a commercial interest or objective in providing this submission except a desire to contribute an informed view to the debate on manufacturing.

### The Automotive Industry

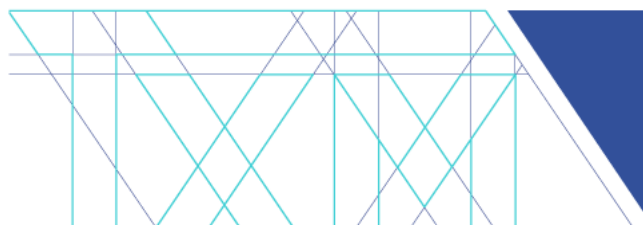
The industry currently under discussion is passenger vehicle manufacturing. This industry falls within ANZIC class 231, which employs around 50,000 as at June 2011<sup>1</sup>. It is important to consider that a significant number of people in this ANZIC class are not involved in the manufacturing of passenger vehicles (ie. Holden, Ford etc.) and instead work in enterprises manufacturing trucks, trailers, buses, caravans and other recreational vehicles, It is important to make this distinction as the market dynamics and competitive situation facing these latter industry segments are very different to those facing passenger vehicle manufacturing. Based on this, the generally discussed figure of around 40,000 people being employed in the Automotive (read Passenger vehicle) supply chain is probably approximately correct and represents around 5% of the total employment in Australian manufacturing. Although exact figures are hard to maintain I estimate that passenger vehicle manufacturing currently receives around 90% of the total direct government assistance to manufacturing.

As I am sure many submissions will explain, the Australian passenger vehicle manufacturing industry is currently well below world scale and is making substantial business losses.. A decision not to further increase support to the Automotive Industry is likely to lead to the progressive closure of that industry. A likely sequence of events would see Holden cease assembly, and then cease engine manufacture. This would leave a number of component manufacturers unable to survive and they would close. The contraction of the local component sector will then make it difficult for Toyota to operate in Australia

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<sup>1</sup> ABS "Australian Industry 2011-2012, Table 1 – Manufacturing Industry by ANZIC Class

TOTAL EXCELLENCE MANUFACTURING



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and their manufacturing operations would most likely close as well. It is possible that this sequence of events might occur quite quickly (over one or two years as model runs are completed).

The commission would be well aware that the underlying drivers for the poor financial performance of the local vehicle manufacturers is due to two key factors:

- Changing consumer preferences (or rather a fragmentation of consumer preferences) meaning that local sales of Australian made vehicles have fallen significantly in the past decade, even though overall passenger vehicle sales have increased.
- Falling export sales due to a lack of competitiveness due to the small scale of local operations, Australia's distance from key markets and our very high wages.

These are not factors that can be changed or reversed and, given that the local passenger vehicle assembly companies are already making losses, the closure of the assembly plants is inevitable, regardless of government policy.

Given this inevitability, policy should be focused on reinforcing and growing the manufacturing industry sectors that can compete. Funding currently provided to passenger vehicle manufacturing should be progressively redirected. Preference for this redirected investment should be given to sectors which use similar skills to the Automotive industry, are located in similar geographic locations and which are identified as having long term growth potential. Key sectors where I believe Australia can compete and grow our manufacturing base include

- Machinery and Equipment manufacturing including (but not limited to)
  - Medical device manufacturing
  - Machine tool manufacturing
  - Boat and ship building
  - Mining equipment manufacturing
  - Agricultural equipment manufacturing.

Other forms of transport equipment manufacturing including (but not limited to)

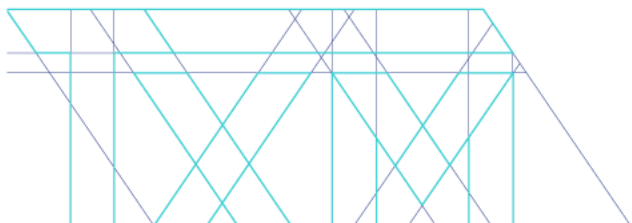
- Heavy truck and trailer manufacturing.
- Caravan and recreational vehicle manufacturing.
- Other manufacturing including manufacture of leisure goods and elite sporting goods.

Investment should also be made in developing the competitiveness of sectors that supply the above industries, particularly fabricated metal products.

For these key sectors, consideration should be given to Productivity Commission Reviews to determine the potential and specific needs of these industries.

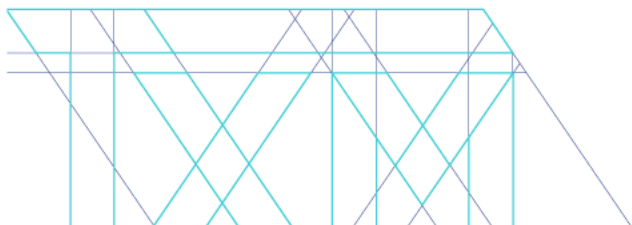
### **Policy Suggestions to Grow Manufacturing**

The funds redirected from the Automotive industry should be focused on a number of business growth drivers that have been identified in a number of reports and study including:



- Innovation – Reintroduction of the Commercial Ready product development funding grant program with preference given to projects with existing innovators (rather than startups) in the target industries and geographic areas. Innovation funding should be focused on funding projects within enterprises directly rather than providing further funding to government research bodies, CRCs and other organisations. It is product and service innovation, not research that will drive the rapid growth in manufacturing required.
- Accessing overseas markets and distribution networks –Many businesses with export potential opt to limit their risk and growth by staying local. Policy should aim to increase export skills and reduce the barriers to entry that manufacturers face when entering export markets. The Export Market Development Grant Program is an excellent example of a program that achieves. Other incentives are needed such as free access to Austrade advice. New exporters should be able to apply for up to 100 hours of free market research and market liaison assistance from Austrade officers.
- Developing management skills within manufacturing businesses. Two decades after the Karpin Report, the management of most Australian owned businesses I see is still weak compared to their foreign counterparts. There is a lack of professional training in management ranks and knowledge of key manufacturing techniques such as lean manufacturing is still emerging. In my experience the Enterprise Connect Manufacturing Centres have been very effective in addressing these gaps. Their core services of business reviews and tailored advisory services need to be continued and potentially enhanced. Second stage, Continuous Improvement program funding (for companies who have successfully implemented the recommendations of their first business review) should be made more accessible. For target companies in the sectors and locations above, and with a turnover of \$10 million or more, larger grants should be made available. These companies should be able to apply for grants up to a total of \$100,000 on a dollar for dollar basis with no more than \$50,000 of the grant to be spent on a single provider (to encourage companies to embark on more than one improvement initiative. The upper threshold on company for Enterprise Connect Funding should be removed to enable larger companies with manufacturing operations in the target industries and locations to access the funding. Funding for this initiative could be redirected from the Automotive ASEA program.
- Encouraging Investment in New Capital. Consideration needs to be given to using some of the Automotive funding to provide accelerated depreciation on new plant and equipment (NOT company vehicles or office equipment) for manufacturing businesses. In addition direct capital grants along the lines of the Victorian Investing in Manufacturing Technology program could be considered nationally. These direct capital grants could be funded by redirecting the funding currently provided or envisaged for capital and tooling for passenger vehicle assembly companies.

Beyond these ideas I take it as read that the government will be working on measures to reduce the costs of doing business in Australia such as reforming (or re-reforming) industrial relations, reducing energy prices, reducing taxes (especially payroll tax) and reducing regulatory red tape. These will benefit the whole economy, but especially manufacturing.



In my career and my business I have benefitted from the challenges and learnings to be provided by the Passenger Vehicle Manufacturing Industry. The loss of his industry will be a serious loss to Australia. In addition the potential loss of a large proportion of the 40,000 jobs involved in the industry will be a tragedy for those workers and their communities. However this outcome is now inevitable and government's responsibility is to prepare alternative opportunities to in some ways soften the inevitable blow. Manufacturing as a whole has a strong future if we are able to focus on our strengths, innovate, and deliver high value high technology products for global markets. We already achieve this in many industries and so the focus should be on growing the industries that already do compete rather than trying to prevent the inevitable decline of an industry that unfortunately can no longer compete.

If required I am prepared to visit the inquiry to discuss this submission in person.

Regards

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Managing Director  
TXM Lean Solutions

