

STATE OF THE MARKET REPORT FOR THE GENERAL MANUFACTURING SECTOR

VERSION 2 - OCT 2016



Brought to you by:

IMPACT STEEL



Insights on businesses serving the Australian
General Manufacturing Sector

INTRODUCTION

With our Steel Efficiency Review® we work with our customers to develop real solutions. We look closely at your production and processing lines, identify cost and time savings and recommend incremental changes which can translate into business improvements.

THE STEEL EFFICIENCY REVIEW® PROVIDES KEY RECOMMENDATIONS BASED ON THOSE WELL-KNOWN 7 AREAS OF WASTE:

> OVER PRODUCTION

> TIME IN WAITING

> TRANSPORTATION

> PROCESSING

> INVENTORY

> MOTION

> REWORK

WHO ARE WE?

Impact Steel provides a full range of material supply, logistics and management options to meet your individual needs.

We offer a comprehensive suite of steel and aluminium products and processing services, and our expertise covers every major industry sector: Building & Construction, Transport & Automotive, General Manufacturing, Mining, Oil & Gas.

IMPACT STEEL



IT'S FREE, AND WE DELIVER OUR REPORT IN 2 WEEKS.

There is no cost and no risk in undertaking a **Steel Efficiency Review®**. Our SER® Consultants simply offer you recommendations on how to improve your operation's efficiency and productivity.

We come back to you within two weeks with a short report, detailing our findings, recommendations and cost-saving solutions.



STATE OF THE MARKET - GENERAL MANUFACTURING SECTOR IN AUSTRALIA

Welcome to the Steel Efficiency Review® State of the Market report for businesses serving the General Manufacturing Sector in Australia. This report has been compiled from our unique and proprietary industry insight resource – The Steel Efficiency Review®.

1011 >>> REVIEWS



To date we've completed 1011 Steel Efficiency Review® visits nationally, with steel businesses both large and small. This has amounted to over 2526 hours developing real solutions to save them time, money and reduce risks.

From these SER® appointments we have isolated findings relevant to specific industry sectors and niche businesses within that sector to identify business improvement insights – those that can help you run your business more profitably.

We've also reviewed and summarised relevant industry research from IBISWorld Industry Reports to provide you with a more macro view on where the industry is heading and the Key Success Factors (KSFs) relevant to your business.

IN THIS STATE OF THE MARKET REPORT, WE FOCUS ON BUSINESSES SERVING THE GENERAL MANUFACTURING SECTOR IN AUSTRALIA.

This report provides you with a summary of the common challenges faced by businesses serving the General Manufacturing Sector. We also offer solutions to help you to build a more efficient and profitable business.

We hope this State of the Market report provides an opportunity for you to look closer at your business and review your operation.

You're also welcome to participate in our complimentary Steel Efficiency Review® as a 'fresh set of eyes' helping you to identify ways to turn steel into gold. If you have just participated we look forward to working with you to uncover the 'gold' in your business.

Regards

Craig Smith
Manager
Impact Steel

For more information, visit:

steefficiencyreview.com.au



KEY FINDINGS FROM CONDUCTING OUR STEEL EFFICIENCY REVIEW® ON 374 BUSINESSES SERVING THE GENERAL MANUFACTURING SECTOR

Based on the results of 374 Steel Efficiency Review® visits completed on steel businesses serving the General Manufacturing Sector in Australia, we have identified areas for improvement and waste reduction.

OVER PRODUCTION



of clients have opportunities to make savings in waste.

TIME IN WAITING



of clients have opportunities to reduce the time in waiting in their operations resulting in significant work in progress and time savings.

TRANSPORTATION



of clients have opportunities to improve productivity and reduce freight costs.

PROCESSING



of clients have opportunities to reduce excess waste amounting to greater production runs and savings in material cost.

INVENTORY



of clients have opportunities to reduce delays and excess stock stored to remove the time wasted managing inventory.

MOTION



of clients have opportunities to reduce motion problems and safety risk.

REWORK



of clients have opportunities to reduce the amount of rework resulting in significant savings in material cost.

3 KEY SUCCESS FACTORS

The 3 key success factors for these 374 steel businesses operating in the General Manufacturing sector nationwide are:



QUALITY ASSURANCE AND CERTIFICATION TO ENSURE PRODUCT IS FIT FOR PURPOSE



ABILITY TO SOURCE HIGH QUALITY RAW MATERIALS (SEMI-FINISHED)



BRAND AWARENESS TO CREATE NEW BUSINESS GROWTH OPPORTUNITIES

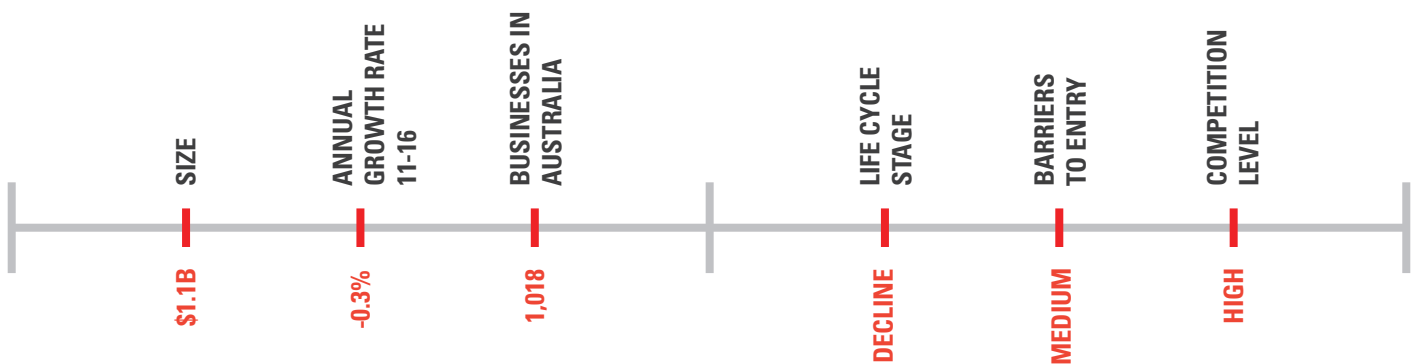


GENERAL MANUFACTURING IN AUSTRALIA

IBISWORLD DEEP DIVE

All industry information provided in this State of the Market Report has been referenced from IBISWorld Industry Report - Machine Tool and Parts Manufacturing in Australia - May 2016.

KEY STATISTICS & CHARACTERISTICS



INDUSTRY PERFORMANCE

Over the past five years, the Machine Tool and Parts Manufacturing industry's performance has been significantly affected by fluctuations in the value of the Australian dollar and the effects of the two-speed economy. Despite being boosted by rising activity in the Construction division and increased total capital expenditure in the economy, industry revenue has decreased as a result of declining demand from the Manufacturing division and increasing pressure from imports. Industry revenue is expected to fall at an annualised 0.3% over the five years through 2015-16, to reach \$1.1 billion.

Industry revenue is linked to demand in key downstream industries. Over the past five years, industry operators have been exposed to mixed demand for their products. Rising demand from the Construction division and increased capital expenditure on mining in the early stages of the period has driven revenue growth over this period. A large proportion of this activity has come from the industrialisation and population growth in emerging markets such as China, which has fuelled demand for mineral and energy resources.

The industry's performance is expected to improve over the next five years. Revenue is forecast to increase at an annualised 3.4% over the five years through 2020-21, to total \$1.3 billion. The projected depreciation of the Australian dollar in the early stages of the period will improve the competitiveness of exports and dampen pressures from imports. Higher expected demand from downstream markets and greater total capital expenditure from both the private and public sectors will also drive industry growth.



INDUSTRY PRIMARY ACTIVITIES

- » Component and Parts manufacturing
- » Die and metalworking hand or machine tool manufacturing
- » Drilling machinery manufacturing
- » Forging machinery manufacturing
- » Machine tool attachments or parts manufacturing
- » Welding or cutting equipment manufacturing

SOME POSITIVE TRENDS

Industry operators are expected to benefit from a general upturn in business confidence in the latter half of the 2015-16 period.

Capital expenditure by both the public and private sectors is forecast to increase, primarily due to the anticipated improvement in overall business conditions and the return of planned capital investment expenditure that was deferred or abandoned over the past five years.

These trends will likely see an increase in demand from the Construction and Manufacturing divisions.

An expected increase in mining activity will positively affect revenue over the next five years. The Mining division's growing output and continued export competitiveness will likely enhance its need for industry products.

IMPORTS LIKELY TO CONTINUE THEIR RISE

Industry profit margins have declined over the past five years and is estimated to account for 8.5% of revenue in 2015-16.

The industry has contended with strong and increasing import competition over the past five years.

Companies in low-cost manufacturing countries, particularly in South-East Asia, have lower labour and overhead costs compared with local players, which allows them to pass cost savings on to their customers.

As a result, domestic manufacturers have been forced to cut their prices to remain competitive. This trend has put pressure on the industry's profit margins over the past five years.

INDUSTRY PRODUCTS & SERVICES

- » Original Equipment Machinery
- » Machines, parts and equipment
- » Drills and cutting machine tools
- » Gas welding equipment
- » Metal dies, die sets and moulds
- » Woodworking and metalworking machinery

OVERALL RISK RATING

Overall risk rating in the General Manufacturing industry is forecast to be at a HIGH level over the outlook period.

The main risk factors are:

- » a higher level of revenue volatility implies greater industry risk;
- » the fact that the industry is in decline stage of its life cycle; and
- » high level of competition.

MAJOR PLAYERS IN GENERAL MANUFACTURING

The industry is mostly made up of a large number of small players that are generally contracted by metal and plastic manufacturing companies to produce specialised and customised dies.

Major companies include part manufacturers and fabricated metal manufacturers.



WHAT ABOUT COMPETITIVE ACTIVITY?



There is a medium level of barriers to entry and medium industry assistance. The cost of entry into the industry can be high when specialised products are being produced, but it is relatively easy to enter the lower end of the industry.

There is a low, but increasing level of exports and a high and increasing level of imports. The market for generic products is being increasingly penetrated by imports from countries with low labour costs.

The average risk score for all Australian industries is expected to be in the HIGH band.

The level of risk in the General Manufacturing industry will be higher than that of the Australian economy.



CONCLUSION

The key findings from conducting our Steel Efficiency Review® on businesses serving the General Manufacturing Sector, show the need for:

HIGH QUALITY PRODUCTS THAT HAVE PASSED THROUGH RIGOROUS CHECKS FOR ACCURACY, TOLERANCE AND GRADE.

When speaking to 374 steel businesses involved in General Manufacturing nationwide, we concluded that it comes down to 3 key success factors:

- **QUALITY ASSURANCE AND CERTIFICATION TO ENSURE PRODUCT IS FIT FOR PURPOSE**
- **ABILITY TO SOURCE HIGH QUALITY RAW MATERIALS (SEMI-FINISHED)**
- **BRAND AWARENESS TO CREATE NEW BUSINESS GROWTH OPPORTUNITIES**

The Steel Efficiency Review® has identified savings for these customers in Processing (75%) with key findings ranging from additional processing work involving third parties to additional processing work conducted by our operations, transportation (59%) with key findings ranging from freight support to improvements in scheduled freight; and inventory from freeing up warehouse space to labelling and packaging product with quality checking processes (62%).

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STEEL EFFICIENCY
REVIEW®



APPENDIX 1: KEY INTERNAL ISSUES

ISSUE

Major players in manufacturing are focusing increasingly on branded products to differentiate their products from those of competitors. The manufacture of a range of branded products provides a buffer against product specific downturns in demand.

QUESTIONS

How do you differentiate your products from competitors? What steps do you take to maintain or improve your competitive edge in the market? What potential markets can benefit from you developing a new product niche?

ISSUE

The ability to achieve a low-cost production status through economies of scale is a distinct advantage within this industry as it has many standardised products that are produced for a mass market.

QUESTIONS

Do your operations benefit from economies of scale? What opportunities are available to increase the scale of your business? What are the costs associated with growing the scale of your operations?

ISSUE

The ability to source reliable and cost-effective inputs provides reliability and cost-effectiveness in the wider market. Major players in manufacturing achieve this through acquisition and scale.

QUESTIONS

How has the availability of raw materials affected your cost structure? How vulnerable are you to shortages in your main input materials? What steps can you take to secure large amounts of high-grade input resources?

APPENDIX 2: KEY EXTERNAL IMPACTS

ISSUE

Changes in the technology of manufacturing, which favour substitute materials have an effect on demand for the industry's products.

QUESTIONS

How has competition affected your product and services portfolio? What strategies do you use to minimise competition?

ISSUE

An increase in the price of raw materials pushes up the cost of production for manufacturers, and these increases tend to be passed on to consumers in the form of higher prices, which pushes industry revenue up. Rising input prices can erode profitability if price rises can't be passed on in full.

QUESTIONS

How have raw material prices affected your revenue and profit margins? How did price fluctuations affect demand from your customers?

ISSUE

Trends in manufacturing have a direct effect on the demand for raw materials.

QUESTIONS

How did the fluctuations in manufacturing affect your profit margins? What can you do to protect yourself from external factors?



THE STEEL EFFICIENCY REVIEW® - TURNING STEEL INTO GOLD

CASE STUDY 01 > SHAMIC SHEETMETAL

“We need the best quality steel that’s very resilient to heat and meets stringent quality standards. We know we will always get that from Impact Steel.”

Luke Crosthwaite - General Manager, Shamic Sheetmetal

Shamic Sheetmetal is an Australian owned company that was founded in 1978. Specialised sheet metal manufacturers, Shamic Sheet Metal is best known for its very own brand of wood and gas heater – The Coonara.

“The Coonara is a really iconic Australian product,” explains General Manager, Luke Crosthwaite. “We do manufacture other heaters but the Coonara is certainly the most popular and most well known. As a company we certainly value that strong brand awareness for our agship product.”

Shamic Sheet Metal sells its heater range through a network of more than 200 dealers located around the country.

“We tend to make more sales in the cooler parts of Australia such as Victoria, NSW and Tasmania. Our focus at the moment is on producing a new heater that’s been specially designed for warmer climates where people still want a beautiful looking heater but don’t need the intensity of heat that the Coonara is known for.”

Aside from heaters, Shamic Sheet Metal’s other work involves contract manufacturing based around sheet metal.

“We do laser cutting, folding, welding and powder coating for a wide range of customers. Bringing as many processes as possible in-house gives us the ability to respond quickly to ever changing production demands. In particular we manufacture a lot of automotive aftermarket products, touch screen kiosk products, lighting products and train components.”

Luke says a commitment to automation has enabled Shamic Sheet Metal to achieve longevity in an extremely competitive manufacturing environment.

“Most other heater manufacturers import from China. To stay competitive here in Australia we’ve invested in automation over the life of the company, making us very efficient. We are what’s known as a ‘lights out’ operation where our machinery keeps working day and night.”

With the SER® process, Impact Steel consistently provide high quality products that are flat for Shamic’s machines. Luke appreciates Impact Steel’s commitment to the business. “We find the service from Impact Steel fantastic. They really understand our business – we’ve worked together for a long time.”

For more information visit www.shamic.com



THE STEEL EFFICIENCY REVIEW® - TURNING STEEL INTO GOLD

CASE STUDY 02 > WILLIAMS REFRIGERATION

“Impact Steel’s SER® process offered us some great ideas - we’ve picked up on some of these and they’ve made a difference for us.”

David Sherman - Manufacturing Manager, Williams Refrigeration

For more than 25 years, Williams Refrigeration has manufactured high quality refrigeration units for the Australian commercial industry. With a team of around 50 staff and a modern, well- equipped manufacturing facility in Victoria’s Dandenong South, the company specialises in designing and manufacturing specifically for Australian conditions and local market requirements.

Manufacturing Manager, David Sherman says the key to the Williams Refrigeration’s ongoing success is its capacity and commitment to customising products to suit client needs.

“In terms of local manufacturers, there are very few companies that do what we do. While we do face competition from imported products, we have created a niche for ourselves by manufacturing customised units,” says David.

Williams Refrigeration’s customers include pubs, clubs, hotels, schools, universities, restaurants, cafes, corporate venues and take away food outlets. David says many such commercial organisations require refrigeration units to suit unique space constraints or a particular design brief.

“We work with a lot of design architects and commercial kitchen builders and installers and they have specific requirements. It might be doors opening on the right instead of the left, or non-standard heights, or drawers instead of doors.”

No matter what the requirement, David says Williams Refrigeration can customise the product.

“On top of that, as a local manufacturer we can offer a level of product service and support unmatched by our competitors.”

Williams Refrigeration can custom build a refrigeration unit in just a few weeks and this fast turnaround time is a strong selling point.

“We couldn’t turn our products around so quickly without a reliable steel supplier, and that’s where Impact Steel comes in,” says David.

Williams Refrigeration has had a positive relationship with Impact Steel for many years. “We purchase galvanised steel and aluminium from Impact. We need a good quality substrate to start with, and that’s what Impact supplies. The doors of our units are punched out of aluminium, which then gets powder coated. If there are any flaws in the steel to begin with, these can potentially start to rust, especially in a humid kitchen environment where you have condensation, so it’s vital that the quality of the underlying material in our refrigeration units is first class.”

Williams Refrigeration recently participated in Impact Steel’s Steel Efficiency Review® program, which David says was very worthwhile.

“Basically, we sat down with Impact and went through the process that we use and walked them through our factory. They then came back to us with some recommendations as to how we could improve our processes and how they could assist us in fast- tracking orders and getting the best possible service out of them. They offered us some great ideas - we’ve picked up on some of these and they’ve made a difference for us.”

“We value the Impact Steel team’s expertise, and their products help us to continue thriving in a competitive environment.”

For more information visit www.williams-refrigeration.com.au



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