

STATE OF THE MARKET REPORT FOR THE TRANSPORT AND AUTOMOTIVE SECTOR

VERSION 2 - OCT 2016



Brought to you by:

IMPACT STEEL



Insights on businesses serving the Australian
Transport and Automotive 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

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.

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



STATE OF THE MARKET - TRANSPORT & AUTOMOTIVE SECTOR IN AUSTRALIA

Welcome to the Steel Efficiency Review® State of the Market report for businesses serving the Transport and Automotive 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 TRANSPORT AND AUTOMOTIVE SECTOR IN AUSTRALIA.

This report provides you with a summary of the common challenges faced by businesses serving the Transport and Automotive 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:

steelefficiencyreview.com.au



KEY FINDINGS FROM CONDUCTING OUR STEEL EFFICIENCY REVIEW® ON 232 BUSINESSES SERVING THE TRANSPORT AND AUTOMOTIVE SECTOR

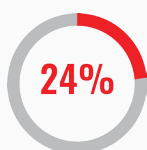
Based on the results of 232 Steel Efficiency Review® visits completed on steel businesses serving the Transport and Automotive Sector in Australia, we have identified areas for improvement and waste reduction.

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. This provides benefits to Cash Flow and Working Capital.

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 232 steel businesses operating in the Transport and Automotive sector nationwide are:



FEED MATERIAL OPTIMISATION TO REDUCE WASTE IN PRODUCTION



WAREHOUSE LAYOUT RE-THINK TO ELIMINATE BOTTLENECKS AND ALLOW QUICK FLOW OF PRODUCT



QUALITY ASSURANCE AND CERTIFICATION TO ENSURE PRODUCT IS FIT FOR PURPOSE, REDUCING EXPOSURE AND RISK



TRANSPORT IN AUSTRALIA

IBISWORLD DEEP DIVE

All industry information provided in this State of the Market Report has been referenced from IBISWorld Industry Report - Motor vehicle body and trailer manufacturing in Australia - April 2016.

KEY STATISTICS & CHARACTERISTICS



INDUSTRY PERFORMANCE

The Transport and Automotive industry has benefited from largely positive business confidence over the past five years. The economic downturn at the start of the period has provided a platform from which the industry has grown. More stable financial conditions since the start of the five-year period have also enabled businesses and consumers to more comfortably invest in vehicles, with demand flowing upstream in the supply chain.

These factors have also generated greater demand for road freight transport, which has further benefited the industry. However, with the exit of the major motor vehicle manufacturers edging closer and the scaling back of their production, industry revenue is projected to fall 3.7% in 2015-16 to \$3.8 billion.

Industry revenue is projected to decline significantly over the next five years as the local passenger vehicle manufacturing market dissipates.

The exit of Toyota, GM Holden and Ford from local manufacturing operations over the period will sap demand for motor vehicle body manufacturers, and the industry as a whole. Despite anticipated steady growth in demand from road freight transport and the ageing population boosting the number of retirees taking up the RV lifestyle, industry revenue is forecast to decline at an annualised 10.0% over the five years through 2020- 21, to total \$2.2 billion.



INDUSTRY PRIMARY ACTIVITIES

- » Car, truck, bus and boat body manufacturing
- » Boat trailer manufacturing
- » Caravan manufacturing
- » Horse float manufacturing
- » Motor vehicle conversion
- » Stock crate manufacturing
- » Trailer manufacturing

SOME POSITIVE TRENDS

Overall, industry revenue is forecast to rise at an annualised 0.8% over the five years through 2015-16, to reach \$3.8 billion.

Revenue is forecast to decline by 3.7% in the current year, as the major motor vehicle manufacturers continue to scale back production ahead of their anticipated exit from local manufacturing.

IMPORTS LIKELY TO CONTINUE THEIR RISE

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

Annual division revenue is highly volatile due to movements in production, world prices for major commodities, export demand, and exchange rates. Over the five years through 2015-16, industry revenue is expected to decrease at a compound annual rate of 3.7%.

INDUSTRY PRODUCTS & SERVICES

- » Truck, bus, car bodies and parts
- » Boat bodies and marine products
- » Caravans and campervans
- » Motorhomes
- » Motor vehicle bodies and trailers
- » Tent and camper trailers

OVERALL RISK RATING

Overall risk rating in the Transport and Automotive 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 TRANSPORT AND AUTOMOTIVE

The industry has a low level of concentration, with the top four players accounting for approximately 20.0% of industry revenue.

In the RV segment, Jayco Corporation commands a large share of the market, while Fleetwood Corporation is also a major player in the RV segment. Large-scale motor vehicle manufacturers such as Toyota, GM Holden and Ford often produce vehicle bodies in-house, making them dominant players in the vehicle body segment, but this segment is declining with the impending exit of these 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 medium 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 Transport and Automotive industry will be higher than that of the Australian economy.



CONCLUSION

The key findings from conducting our Steel Efficiency Review® on steel businesses serving the Transport and Automotive Sector, show the need for:

OPERATIONAL SUPPORT TO ALLOW FOR THE EFFICIENT FLOW OF PRODUCT AND THE IMPORTANCE OF PRODUCT QUALITY AND CERTIFICATION TO REDUCE BUSINESS RISK.

When speaking to 232 steel businesses involved in Transport and Automotive nationwide, we concluded that it comes down to 3 key success factors:

- **FEED MATERIAL OPTIMISATION TO REDUCE WASTE IN PRODUCTION**
- **WAREHOUSE LAYOUT RE-THINK TO ELIMINATE BOTTLENECKS AND ALLOW QUICK FLOW OF PRODUCT**
- **QUALITY ASSURANCE AND CERTIFICATION TO ENSURE PRODUCT IS FIT FOR PURPOSE, REDUCING EXPOSURE AND RISK**

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 (40%) 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 Transport are focusing increasingly on quality to differentiate their products from those of competitors. The manufacture of quality products provides a buffer against overseas competitors.

QUESTIONS

How do you differentiate your products from competitors? What steps do you take to maintain or improve your competitive edge in the transport 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 transport achieve this through scale of operations and reach.

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 transport and automotive 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 and these increases tend to be passed on to end-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 transport and automotive manufacturing have a direct effect on the demand for raw materials.

QUESTIONS

How did the fluctuations in your industry 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 > HILTON MANUFACTURING

“At times we can be hard work because of the nature of our business and the short lead times we sometimes face, but nothing is too difficult for the team at Impact Steel.”

Todd Hartley - Managing Director, Hilton Manufacturing

When Hilton Manufacturing opened its doors in 1976, its first major client was International Harvester (now Iveco Trucks), a business located just across the road in Hilton Street, Dandenong.

The relationship helped kick start the fledgling sheet metal fabrication company, and Hilton Manufacturing has continued to thrive despite the many economic and business challenges of the last four decades.

“In its earlier days, our business was mostly known as a truck parts manufacturer,” says managing director, Todd Hartley, who is the son of Hilton Manufacturing’s original founders, Tom and Margo.

“In 1989 when the recession hit, we realised we needed to diversify our business. We thought about what baby boomers were likely to be doing in the years ahead and decided to focus on the caravanning/leisure industry and also the health industry.”

The strategy paid off and Hilton Manufacturing not only survived the recession, but has grown to a company with more than 230 staff and factories in Brisbane as well as Melbourne.

“Having a number of different markets has helped us build and sustain our business, because we aren’t reliant on a single industry in the event that tough times hit.”

“During the credit crunch of 2008 we also diversified, this time targeting bus and rail industries in anticipation of increased government spending on infrastructure.”

Again, it was a successful approach. Today, Hilton Manufacturing supplies an incredibly varied range of products to clients in Australia, New Zealand and Japan.

“We are particularly known for the 16,000-plus fuel tanks we manufacture each year, but in reality, we can and do manufacture anything from a \$1 bracket to a \$14,000 scrap waste bin to a 9 metre bus chassis. We’re one of the more diverse sheet metal manufacturers in the country,” says Todd.

Hilton Manufacturing has been purchasing sheet metal from Impact Steel for around 25 years.

“Impact Steel has a family feel about it and they are very focused on customer service. Nothing is too much trouble and they always bend over backwards for us.”

With their SER® process and the solutions recommended, nothing is too difficult for the team at Impact Steel.

“They’re definitely our preferred supplier for aluminium, steel and zincalume. Fortunately for us they stock a full sheet metal product range, which makes life a lot easier for us.”

For more information visit www.hiltonmanufacturing.com.au



THE STEEL EFFICIENCY REVIEW® - TURNING STEEL INTO GOLD

CASE STUDY 02 > ELSUM ENGINEERING

“We’ve had a very healthy relationship with Impact Steel for more than 15 years. We rely on Impact Steel in terms of quality, as well as their delivery, which is always very fast.”

Brett Mackieson - General Manager, Elsum Engineering

A simple goal underpins Elsum Engineering’s success: to deliver high quality products as quickly and efficiently as possible. The business, which employs around 60 staff and fulfils up to 300 customer orders per day, began as a simple sheet metal machining shop some 35 years ago.

General Manager, Brett Mackieson, says the company’s growth reflects an unwavering commitment to manufacturing excellence. “A lot of businesses talk about making productivity improvements but at Elsum Engineering we believe in rolling our sleeves up and actually doing it,” says Brett.

One of Elsum’s key capabilities is in meeting the needs of the heavy vehicles industry and the company is a major supplier for Kenworth Trucks.

“We produce panelling, chassis components, brackets, spacers, axels – basically any aftermarket metal part they need. We have an engineering database of about 16,000 different components that we could be called upon to produce at any time.”

To fulfil the requirements of Kenworth and their parent company, PACCAR, Elsum’s products must consistently be of the highest standard. “We invest aggressively in high end technology and equipment to support our manufacturing and to ensure we can produce products that fit and meet exact specifications. This approach explains our longevity in a very competitive market.”

“In terms of delivery performance, we sometimes see lead times of as little as four hours. In fact we run the plant from 7.00am through to midnight most days so that we can prioritise short lead-time orders.

We have an advanced ERP system that digitally connects all the different production centres in the plant and ensures we waste no time in meeting product orders.

“We also aim for fewer than 50 faulty parts per million, so we have set the bar very high in terms of quality.”

Brett says Elsum Engineering relies on Impact Steel to provide the raw materials they need to do the job right.

“We’ve had a very healthy relationship with Impact Steel for more than 15 years. One of the things we like is that they source their steel from mills all over the world – this helps us to obtain the right raw materials to create end-products that meet our clients’ stringent quality standards.”

With the SER® process, Impact Steel has been able to provide the quality, as well as the on time delivery and the operation support required to help Elsum Engineering with all their challenges.

For more information visit www.elsumeng.com.au



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(03) 9293 5177

www.impactsteel.com.au