STEEL EFFICIENCY REVIEW®

STATE OF THE MARKET REPORT FOR THE TRANSPORT AND AUTOMOTIVE SECTOR

VERSION 2 - OCT 2016

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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?

We're owned and supported by the manufacturing and processing arms of **BlueScope Steel**. Our network comprising BlueScope Sheet Metal Supplies, BlueScope Plate Supplies and BlueScope Distribution 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.

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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 & 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

Gerald Cornelius
National Manager
BlueScope Flat Steel Products Division

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

29% of clients have opportunities to make savings in waste.

TIME IN WAITING

24% of clients have opportunities to reduce the time in waiting in their operations resulting in significant work in progress and time savings.

TRANSPORTATION

40% of clients have opportunities to improve productivity and reduce freight costs.

PROCESSING

75% of clients have opportunities to reduce excess waste amounting to greater production runs and savings in material cost.

INVENTORY

62% 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

15% of clients have opportunities to reduce motion problems and safety risk.

REWORK

40% 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

SIZE	ANNUAL GROWTH RATE 11-16	BUSINESSES IN AUSTRALIA	LIFE CYCLE STAGE	BARRIERS TO ENTRY	COMPETITION LEVEL
$3.8B	0.8%	1,242	DECLINE	MEDIUM	HIGH

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

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

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.

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

IMPORTS LIKELY TO CONTINUE THEIR RISE

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

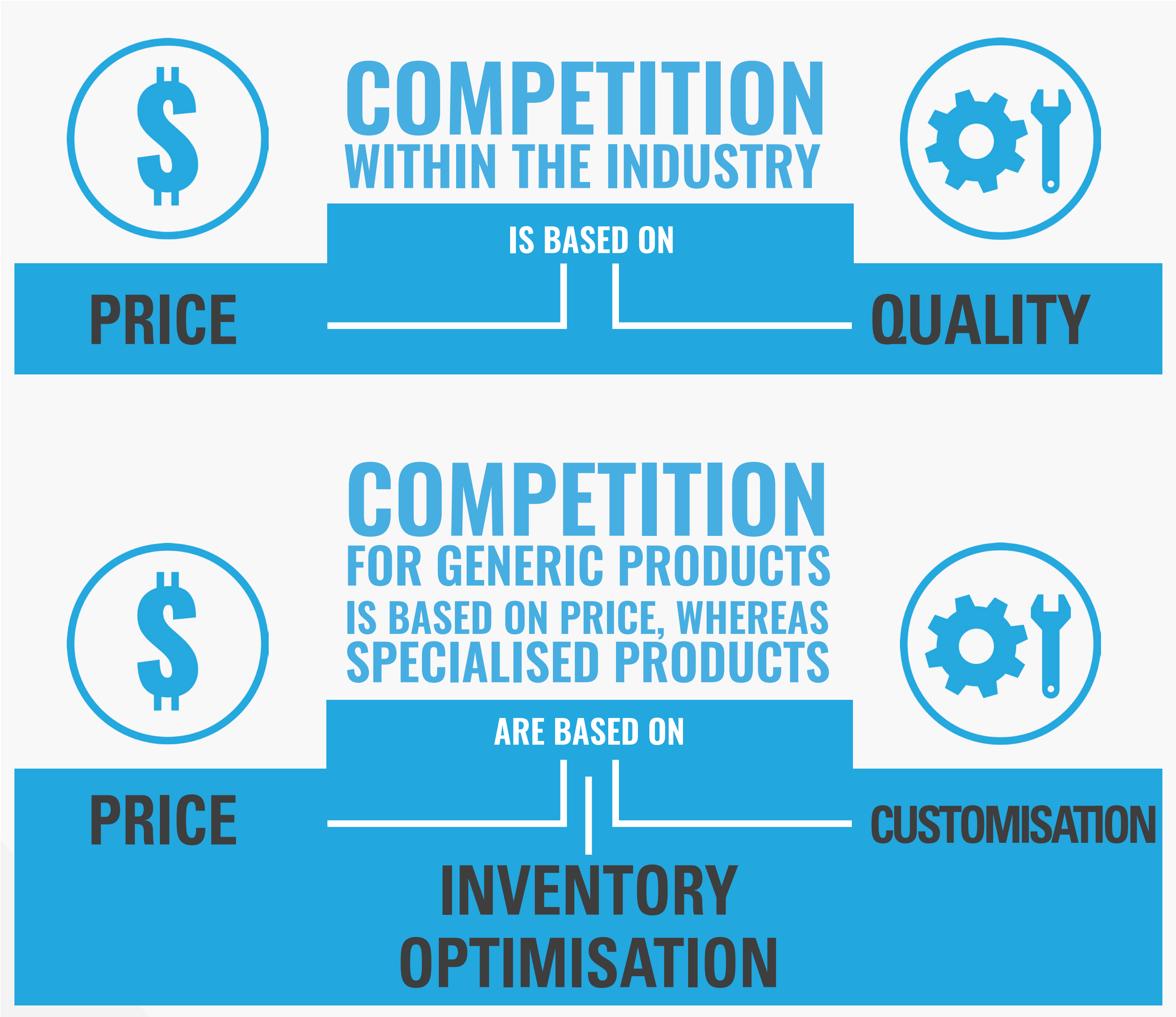
Annual division revenue is highly volatile due to movements in production, world prices for major commodities, export demand, and exchange rates. Over the five years through 2015-16, industry revenue is expected to decrease at a compound annual rate of 3.7%.

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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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?

CASE STUDY 01 > CUB CAMPERS

"By using COLORBOND® steel, we have cut wastage, streamlined our process and improved the camper product profiles by as much as 50% in some processes."

Shane Fagan - Cub Campers.

Way back in 1968 when Shane Fagan's father and grandfather bought CUB Campers, the company was just a small retail shop. Not long after, the new owners began manufacturing in Lakemba, in Sydney's inner-west.

Today, CUB Campers has grown into Australia's largest "Flip Top" camper trailer manufacturer, making about 20 different models of campers in a range of colours and configurations.

To be able to continually improve their processes and increase the already high quality of this iconic product, some production changes were necessary. Thanks to the technical support of the SER® team and the inherent quality of Australian-made COLORBOND® steel, these integral changes to the production process were easier to implement than first imagined.

"As of January 2014 with the help of BlueScope Sheet Metal Supplies, we discontinued using powder coated panels and introduced pre-painted COLORBOND® steel Night Sky®, Wind Spray® and Woodland Grey® colours and the results have so far been very impressive."

"We have found that due to our use of COLORBOND® steel, we now have a quicker manufacturing process cutting lead times down by five days. The end result is a much better quality of camper and a lower number of manufacturing rejects," said Shane.

" With the findings delivered by the SER® - by using COLORBOND® steel, we have cut wastage, streamlined our process and improved the camper product profiles by as much as 50% in some processes."

"In real terms", said Shane, "the switch to COLORBOND® steel has meant our quality has increased significantly – from where we once had 10-15% of rejects of the powder coated product, that figure is now down to about 1%."

"On top of that, we now get a perfect finish, quicker turn around and easier replacement of any material, while the customer gets much better aftermarket service, since the panels are a lot easier to replace and match."

"This has allowed us to reduce the overall cost of our manufacturing and reduce the double and triple handling of metal panels we had to put up with before."

"We are one of the few remaining Australian camper manufacturers left and we are very passionate about only using Australian-made materials, making the switch to COLORBOND® steel a positive step forward," said Shane.

For more information visit **www.cubcampers.com.au**

CASE STUDY 02 > KENNEDY TRAILERS

> **"BlueScope Distribution has been a integral part of the Kennedy Trailers story from the start which means we can focus on building the best trailers and rigs for our customers."**
>
> **Cory Kennedy - Kennedy Trailers**

In 1980 as his fledgling truck and trailer repair business outgrew his parents' driveway and garage, a young Garry Kennedy founded Kennedy Trailers in Bairnsdale, Victoria.

A key advantage Kennedy Trailers has over many other trailer manufacturers is their ability to undertake a complete design and build in-house.

"We start the build process by talking to our customers about their specific needs." explained Cory. "The functional specification we develop in those discussions then goes to our in-house design team. From those designs we then individually build each trailer, piece by piece, from the ground up."

Kennedy Trailers recently purchased a state of the art CNC plasma cutting machine to supplement their in-house manufacturing capability. "With our own machine we can design parts, cut and make any small adjustments quickly and easily with a minimum of impact to our production schedules," explained Cory.

Adding this capability to their already efficient manufacturing process means Kennedy Trailers can now build a complete two dolly (carriage), four bin side-tip trailer in two weeks.

Meeting the needs of the mining industry requires a rig that is not only extremely tough, impact and wear resistant but its structural weight needs to be minimised to maximise the payload while meeting a range of transport and safety legislations.

That means a special grade of steel is required."Not being able to satisfy their requirements with a BlueScope product, we used our international expertise and networks to identify and evaluate the perfect solution - utilising our Steel Efficiency Review®."

"BlueScope Distribution has been a integral part of the Kennedy Trailers story from the start. The service and expertise they've been able to provide over the years, means we can focus on building the best trailers and rigs for our customers," said Cory.

For more information visit **www.kennedytrailers.com.au**

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