

RESPONSE TO THE
QUEENSLAND PRODUCTIVITY COMMISSION

MANUFACTURING IN QUEENSLAND

ISSUES PAPER



Australian Automotive Aftermarket Association
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FOR FURTHER INFORMATION

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WHO WE ARE

The Australian Automotive Aftermarket Association (AAAA) is the national industry association representing manufacturers, distributors, wholesalers, importers and retailers of automotive parts and accessories, tools and equipment, and providers of vehicle service and repair, and modification services in Australia.

2,250



Member companies represented by the association in all categories of the Australian automotive aftermarket

Members include major national and multi-national corporations as well as a large number of independent small and medium size businesses

\$1b



AAAA member companies export over \$1 billion worth of Australian-manufactured product each year



The parts and maintenance sector is a large and critical component of Australia's \$200 billion automotive industry

40k



AAAA member companies employ more than 40,000 people



Member companies are located in metropolitan, regional and rural Australia

AAAA MEMBERS MANUFACTURE, DISTRIBUTE AND FIT MOTOR VEHICLE COMPONENTS THAT:

Are replaced regularly throughout the life of the vehicle because of normal wear and tear – e.g. oil, filters, tyres, wiper blades, spark plugs, bulbs, batteries and brake pads.

1

Last the life of the vehicle or are replaced irregularly during the life of the vehicle, usually as the result of a crash or a major mechanical failure – e.g. seats, instrument panels, engines, and transmission.

2

Are manufactured and distributed to service and maintain or enhance the appearance and performance of vehicles, including accessories, safety, comfort, appearance, entertainment and information, functional performance, body components, tools and equipment, mechanical, lubricants, additives and chemicals.

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FOREWORD



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Stuart Charity
 Executive Director

The Australian Automotive Aftermarket Association welcomes the opportunity to provide a response to the Queensland Productivity Commission, and commend the Queensland Government for referring this issue to the Commission.

The Issues Paper is wide-ranging and appears to cover many of the issues that are pertinent to the future of manufacturing in the 21st century.

This inquiry comes at a critical time for Australia's manufacturing industry. The automotive aftermarket is about to receive a large injection of new blood as some of our country's most experienced and respected automotive brains search for new challenges.

Australia's automotive industry has skilled workers, good infrastructure and sophisticated design, engineering and production technologies. These attributes have enabled our manufacturers to establish an international reputation as suppliers of high quality products. That's why as an industry, the automotive aftermarket is primed for a period of growth and innovation.

We also know that Queensland's strong aftermarket parts and accessories sector can further expand and provide new jobs. Whilst local passenger motor vehicle manufacturing will cease in 2017, Australia's aftermarket will still need to manufacture replacement parts and service vehicles.

Our feedback is concerned with the issues of export, innovation and product development. Whilst there is general agreement regarding the importance of each of these in developing and sustaining a viable manufacturing industry, there are a wide variety of industry policy approaches undertaken by state and federal governments.

Our view is that government can play a very important role in export growth, supporting innovation and product development by engaging in programs that are designed to develop and enhance collaboration.

There is little doubt that with the appropriate policy settings, our already talented aftermarket industry can grow and provide us with the opportunity to cement our reputation as world leaders in automotive excellence, innovation and quality.

Stuart Charity
 Executive Director
 Australian Automotive Aftermarket Association

COLLABORATION

The Queensland automotive aftermarket sector makes a significant contribution to the economy and to manufacturing exports. The aftermarket segment continues to show strong year-on-year growth while in contrast the original equipment (OE) segment is in decline.

Automotive aftermarket manufacturing represents 36% of all automotive manufacturing in Australia - that is \$5.2 billion per annum. Moreover, the aftermarket-manufacturing sector alone employs 21,000 people directly and exports of Australian manufactured product are increasing. Queensland has over 600 companies engaged in parts manufacturing with 7,500 employees.

If the full growth potential of the aftermarket segment is realised, it can absorb some of the excess capacity, skills and knowledge that become available as the ongoing decline of the Australian domestic passenger vehicle sector plays out.

In the face of strong import penetration, our industry's response has been to move up the value chain from service parts to high-value specialty products with a technological advantage, such as 4WD, high performance and motorsport components. These products are purchased on innovation, performance and features rather than on price. This competition has created a Queensland automotive aftermarket segment that has the right pre-conditions to be globally competitive. These businesses have been successful because they have made significant investment in research and development and capital equipment, and have a strong export focus.

Our Queensland manufacturers are producing and exporting world-class automotive components, some of which we illustrated as case studies in our submission to the Productivity Commission Inquiry. The Productivity Commission noted (Chapter 2.6 Finding 3.5) that our sector has achieved year-on-year growth of 3 per cent 2004 to 2012, and that many firms are operating at healthy levels of profitability.

Collaboration is the key to developing new products and expanding into new markets and this can rarely be achieved by a stand-alone commercial entity. Governments and Industry Associations working together are the best method of bringing clusters of manufacturers together to pursue opportunities.

Two initiatives for facilitating collaboration in Queensland's growing automotive and transport equipment manufacturing sectors are:

- Supporting export market development collaboration that leads to collaborative approaches to enter new markets: shared logistics, distribution, and in-market representation.
- Supporting collaborative product development.

There are two key programs that we would like to promote: **Collaborative Trade Fairs and Missions, and the Australian Automotive Innovation Lab (AutoLab).**

EXPORT SUPPORT: TRADE FAIRS AND MISSIONS

Trade fairs and missions are a good example of program design that encourages and enhances economic benefits from facilitating collaboration.

We regularly facilitate small groups of companies to travel internationally to jointly explore these markets. We have focussed predominantly on Victorian companies because under a previous state government program, collaboration with industry associations encouraged us to deliver trade fairs and missions programs.

Specifically, industry associations were invited to apply for funding and to auspice the activity. This delivery required the auspice body to:

- Recruit 6-8 companies that complied with set criteria for the particular mission. Qualifying companies received a grant of \$4,000.
- Determine the schedule of the specific in-country visit program and the associated spin off visits. For example, a mission to a trade fair in one country may include an option for companies to augment the fair with a visit to a neighbouring region or market.
- Conduct all of the logistics including booking exhibition space, arranging the stand building and graphics, booking venues for meetings with buyers, organising networking events, consolidating freight and booking accommodation.
- Provide a full report on the mission accounting for the export orders and the tangible measurable outcomes.

Industry associations received an auspice fee for the management and administration of the program. This money was used to offset direct costs involved in sending a staff member to manage the program in-market and to cover (in part) the direct overhead cost in delivering the project.

This was a genuine partnership. It leveraged our skill in recruiting companies and our vast experience organising and hosting trade fairs and commercial missions. Our manufacturers and exporters are globally competitive and internationally focused, and they need our collective assistance to fully maximise export opportunities.

OPTIMAL PROGRAM DESIGN

Introducing a similar trade fairs and mission program is an inexpensive way to promote Queensland manufacturing to the world, and provides a good return on investment. Such a program could see companies exhibit together under a Queensland brand at international automotive trade shows, and could provide for promotion of Queensland-made products and brands that are not exhibiting at that show.

In our view, the features of an optimal trade fairs and missions programs include:

- An auspice fee (circa \$10k - \$12k) for the industry association to offset the direct costs of delivering the project;
- Funding for small in-market business matching/networking events (circa \$4k);
- Funding for publicising the export success of these events and recognising the Queensland Government's role in supporting manufacturers (circa \$4k);
- Participation of 6-8 companies per mission, supported with a grant to offset travel costs.

INNOVATION AND PRODUCT DEVELOPMENT

A real vision for the future of the Queensland automotive manufacturing industry is to build upon what we do well.

Whilst passenger motor vehicle and most original equipment manufacturing will cease in 2017, employment growth, new investment and expansion into new export markets is occurring in some specific segments. Original equipment producers are diversifying into other sectors such as mining and defence, and aftermarket manufacturers are expanding into new export markets. The aftermarket segment continues to show strong year-on-year growth.

The Australian aftermarket has earned an enviable reputation internationally as a supplier of innovative automotive products, and our manufacturers and exporters are well known for their flexibility and their ability to supply high quality product, often in niche volumes, in a timely and consistent manner. Our sector can not only match it with the best in the world, but also has enormous potential for future growth in established export markets as well as emerging markets in Asia.

Supporting automotive aftermarket manufacturers to continue to innovate is one way in which government can support employment and investment growth. The AAAA, together with a consortium of automotive component manufacturers and the Queensland Government, have commissioned a feasibility study into the concept of an Automotive Innovation Lab (AutoLab) based on the SEMA Garage – a highly successful industry funded-facility based in California, USA. It gives automotive aftermarket product manufacturers access to newly released, and yet to be released, vehicle models and special high-tech tools and equipment required to bring a product concept to market.

The AutoLab would give the aftermarket sector a chance to ensure that new products can be successfully integrated with the latest and emerging vehicle technologies and comply with relevant vehicle and product standards. With access to vehicles that are not yet on Australian roads, new aftermarket accessories and performance modifications could be designed for each new vehicle making sure that as soon as a new model lands in Australia, the aftermarket is ready to supply consumers with quality products.

Many of Australia's globally recognised producers of vehicle frontal protection, suspension components, roof racks, tow bars, side steps, performance parts and other aftermarket products currently send their engineers overseas to access new models so they can design new products. An AutoLab would put high-selling overseas models in our backyard where Australian companies could study them and develop new products. This would also expand the range of vehicles for which Australian companies could make products.



If proven viable, the AutoLab will offer automotive aftermarket businesses access to high technology tools and equipment required to take products from concept through to market. It would greatly reduce costs and product development lead-time. An AutoLab will support the design of new safety and performance solutions for car owners in Australia and expand opportunities in the sector's export markets.

The AutoLab would not be a standard research facility - it would be a real-world product design hub. To increase local sales and export market opportunities, Australian automotive manufacturers must have access to new vehicles and the latest test equipment to ensure products meet regulatory and design compliance for vehicles manufactured overseas.

The mix of urban and rural roads in Australia require special purpose modifications to vehicles to ensure that they are fit for purpose in terms of safety and performance. This is especially true for vehicles carrying heavy loads and/or towing, as well as vehicle modifications required for defence, mining, rescue and emergency services applications. These sectors would also benefit from the AutoLab.

AAAA has engaged Grant Thornton Australia, a business consultancy with extensive automotive industry experience to deliver the feasibility study. The study is funded one third by a Queensland Government grant, one third by the AAAA and one third by industry. Almost thirty companies have made a financial contribution to the feasibility study, indicating there is considerable interest in and demand for a facility such as the AutoLab.

The AutoLab is an ideal platform to encourage local companies to collaborate on research and development, and the manufacture of innovative automotive products. If the feasibility study proves the business case and an AutoLab is established, our manufacturers will have greater opportunity to design, develop, manufacture and distribute high quality products that meet both local and international regulations and specifications. We welcome the Queensland Government's support for the concept.

RECOMMENDATIONS

1. We would request that the Queensland Government implement a Trade Fairs and Missions program that supports clusters of sector specific missions to investigate new markets and collaborate activities to enter these new markets
2. We recommend that the Queensland Productivity Commission note the excellent track record of support for collaboration in product development as evidenced by the Government support of the feasibility study for the establishment of the Australian AutoLab.



