

# Manufacturing in South Australia from the EDB's point of view

27 February 2014

(20 mins)

Thank you for that kind introduction.

I have been invited to talk to you today on the topic of Manufacturing in South Australia from the Economic Development Board's point of view.

Firstly I want to acknowledge the contribution to my thinking about this subject from Economic Development Board member and South Australian resident, Professor Göran Roos. We as a board, and the state as a whole, are fortunate to have his internationally respected manufacturing expertise "playing for our team".

Secondly, I am cognisant of the particular political focus that manufacturing has at this moment, both at the state and federal level. The EDB is an "apolitical" body and my comments today are to be treated as such and not to be seen pushing any particular agenda other than its own.

## About the EDB

The Economic Development Board was established back in 2002 so we have been "in business" now for 12 years.

The Board is currently made up of 12 private citizens, and 2 senior public servants. My fellow Board members and I comprise a key independent advisory body to the State Government on economic development issues for South Australia.

In plain speak the objective of the EDB is to make South Australia a magnet for people and capital in order to increase opportunities and prosperity for all the people of

the State and do it in an inclusive and sustainable fashion that maintains the livability and environment that we all treasure.

This is achieved through the advice we provide to the Premier, the Cabinet, the Government agencies and the Leaders of the Opposition.

### Initial Comments

I want to begin today by saying that we have all heard it said that “Australia must be a country that manufacture things”. While we would all “in principle” agree on this statement, I would say that we need to continue the sentence. We need to say “Australia must be a country that manufactures things **that people want to buy**”.

This seemingly simple additional text is packed with implied content. Let’s unpack some of this content.

At one level, it implies a clear understanding of the value that manufactured products provide the end user. It implies an understanding of the end user’s capacity to pay for the products. It implies an understanding on what the end users requires in terms of quality, quantity, delivery timeframes, payment terms etc. The list goes on.

On another level we could say “**that people want to buy today**”, but what about tomorrow? Tastes change, technology changes, competition changes, personnel changes, local and international government policies change. Manufacturing firms need not only to be agile enough to react to change, but be able to look ahead, and in some rare cases be the instigators of the change themselves.

These are not easy tasks. Manufacturing is not for the feint hearted. It requires a deep understanding of its key markets, which today by necessity must be global solutions to complex problems, a disciplined management team and a loyal and

appropriately skilled workforce to leverage inputs and assets both profitably and sustainably.

No wonder manufacturing is the biggest spender of applied research and innovation and the key driver of productivity improvements, both with spillover effects into the rest of the economy.

It makes up the biggest share of world trade and hence is critical for export earnings. It is the largest driver of high value services, so is critical for the high end of the service economy. Each manufacturing job generates on average between 2 and 5 jobs in the rest of the economy.

The importance of manufacturing has been realised by all advanced economies, if not before, then after, the global financial crisis.

It is not a coincidence that the countries that have recovered best from the global financial crises are all based around high value added export oriented manufacturing. It is also interesting to see that in the US, Manufacturing in States like Ohio and Michigan is growing again.

It's also true to say that once lost it is incredibly difficult to rebuild a manufacturing sector.

In short, a healthy manufacturing sector is a must for any advanced economy with ambitions to maintain economic and social wellbeing.

I don't think I need to convince anyone here of these points, but I think it does on occasion help to remind ourselves of these facts.

## Manufacturing in South Australia

So, what of Manufacturing in a South Australian context?

In particular, to look at some of the issues South Australian manufacturers face being domiciled in a small economy.

South Australia has its fair share of endowments. We have latent and leveraged mineral, oil and gas reserves both inland and off our coast. We have a long history and great strength in grain, wine, fisheries & aquaculture, livestock, horticulture and forestry and the science and technology associated with these sectors. We have also been very attractive to defence based industries and have strategically chosen to invest in defence specific infrastructure.

More broadly, we have well established institutions and a culture that supports business. We have low levels of corruption, an independent judiciary, a well organised banking system, and a framework for protecting intellectual property.

We also have a high quality secondary and tertiary education system and a stable and, on the whole, well behaved society.

We are however, a small regional economy, both in the context of Australia, but also globally with a high cost standard of living.

For manufacturing to be successful in our State we must build on our economy's strengths and be best of class in the way we approach manufacturing. This requires excellence in a number of areas:

Economically viable manufacturing requires a high degree of automation and optimizes the use of technology in its business processes;

There needs to be a very clear line of sight to the ever changing aspects of the market – Successful manufacturing companies look outward, not at their navels and are able to evolve their

product offerings to meet the ever changing needs of the market. Companies in the automotive supply chain have in that regard had a “sheltered” market and those that will evolve successfully into other markets will have to build these skill sets very quickly.

Successful manufacturing companies have a culture of innovation that underpins all aspects of their business processes, systems; and

Successful manufacturing companies willingly invest in skill development of their people so that they are able to evolve and innovate.

Leadership that has a global perspective, a sense of urgency and disciplined governance processes.

A willingness to invest and have ready access to capital.

With the end of auto manufacturing, apart from the obvious loss of manufacturing jobs, we are also losing truly global, highly competitive, management training organisations in Australia. This is a challenge that needs to be considered and addressed.

A fact that we can't ignore, in relation to manufacturing, is that a small economy does not have the opportunity of a large economy to spontaneously generate the optimal response to change and, left to its own devices, a small economy as a whole will decline unless there is outside intervention from foreign direct investment or government intervention as two examples.

The role of government in a small economy is by necessity and justifiably more interventionist. For example the use of government procurement to support local manufacturing especially in its evolutionary phases is important. The creation

of infrastructure to support clusters, such as we are doing at Tonsley, is another example of appropriate government intervention. The reduction of government red tape and the speed of planning and other approvals are tools that governments can use to support the evolution to high value manufacturing.

### The EDB's role

In South Australia, the EDB operates at a high strategic level for the state. Its role is not to duplicate work being undertaken by Government agencies such as DMITRE, PIRSA and DFEEST.

The EDB has had and continues to have a number of initiatives that directly or indirectly affect the South Australian manufacturing sector.

The two historical initiatives that still are delivering results for South Australia are the PACE Program and the Defence SA.

The PACE (Plan for Accelerating Exploration) Program was designed to promote South Australia as a premier destination for mineral and energy investment. PACE has been recognised worldwide as one of the most innovative government mineral resources initiatives that has contributed to the identification of many new mineral deposits in South Australia. This has spawned a number of mining support businesses many of whom have a manufacturing element

Defence SA is Australia's only state-based agency for all defence-related matters. Defence SA leads that state's defence industry efforts, offering focused and responsive service to the defence industry to drive this sectors growth in South Australia. The skill sets required for defence and advanced manufacturing are very complementary.

The two current EDB initiatives are:

Invest in South Australia which involves a team of corporate and commercial investment experts and is charged with attracting investment to South Australia; and

The Value Chain mapping and analysis initiative a program managed by an EDB sub-committee led by Goran Roos. Value chain maps and their analysis can identify gaps that can be exploited, identify information asymmetries that can be corrected and identify pathways to assist individual companies and clusters to move from their current position on their own value chains if they have the appetite to seize this opportunity.

You may also be aware that the State Government recently charged the EDB with establishing a new Jobs Acceleration Fund, as a response to Holden's announcement, to assist businesses to invest in new economic activity that creates jobs in South Australia.

The Jobs Acceleration Fund is still in development, but it is intended to be a fund, run by a commercial board external to government, which will provide debt to eligible companies in order to accelerate their plans for growth with a subsequent increase in employment. Most of these will be manufacturing businesses. It is intended to accelerate job creation above what would come from normal economic growth.

The EDB will also provide advice on establishing a Centre for Innovation and Commercialisation, which is to be investigated.

### Manufacturing into the Future

The above are all either happening now or in the near future, but what about further down the track? What should we be focusing on as a State?

On the individual firm level there is a continual need to encourage better innovation and management competence, especially in a high operating cost environment.

In a low operating cost environment, the basis for success is normally to successfully compete on price i.e. to have the lowest total cost.

In a high operating cost environment, the basis for success is normally to compete on superior value for money. This means an emphasis on effectiveness balanced with an emphasis on efficiency. Effectiveness about delivering what the customer values; efficiency is about delivering this value at the lowest possible cost.

This emphasis on effectiveness leads to a focus on innovation and on productivity defined as doing smarter things in smarter ways. The emphasis on efficiency, which means ensuring as short a lead-time as possible from idea to product and as rapid a cost reduction as possible for the new innovation once it is put into production.

Haighs Chocolates, CODAN and Seeley International are examples of local manufacturing companies have developed their own IP and their offerings are based on value rather than simply price.

Pushing and reinforcing the message to manufacturing management teams to see the value in improving their understanding of their own value chains and where they sit and to consider moving up them is also something that needs to be maintained into the future.

### In conclusion

I would like to conclude by saying that the current “crisis” facing our State with the closure of the Australian manufacturing operations of General Motors, Ford and Toyota,



need not be viewed only as a negative. Certainly this will result in upheaval and disruption, but it does provide a sharp focal point on which we can collectively make decisions about our future. I don't wish to appear "glib", but let's use this crisis we have been presented with.

Despite the bad news of recent time, it remains my strong belief that manufacturing in this State is evolving, not dying.

It is argued that average labour costs in China are increasing by 20% per year and that the net cost to manufacture in China and the USA will converge around 2015. If we focus on moving up the value chain in what we manufacture and improve efficiency through automation, innovation and employee well being we can be a significant manufacturing player in areas such as diverse as medical devices, electronics, high value consumer goods and so on.

But we must be honest about our strengths and our weaknesses. Goran Roos observes that Australians are amongst the world's best "reactive" problem solvers, but observes that we are rather poor at asking and determining the "really important questions" that will reveal solutions for the future. In Göran's experience Australians have almost the worst culture in the world of sharing for mutual gain/benefit that he has seen. This is a tough message but one we must digest.

From a manufacturing perspective here in South Australia, this is the best of times and this is the worst of times. Which it will be will depend on the choices we make as a State.

I will leave these thoughts with you and thank you very much for this opportunity to speak with you today.