THE AUSTRALIAN

SE Business

HD **Parts-makers building cause for optimism**

BY DAMON KITNEY
WC 1,461 words
PD 16 August 2014
SN The Australian
SC AUSTLN
ED Australian3
PG 29
LA English

LP

EXCLUSIVE Innovation and diversification are key, say local companies

Mark Albert is living proof that there will be life in the automotive manufacturing sector after the departure of the big carmakers from Australia.

TD

Operating from a nondescript warehouse backing on to a train line in sleepy Melbourne suburbia, Albert's private company MtM Group is not only surviving — it is thriving.

Founded by his father Max Albert in 1965 as "Melbourne Tooling Co", MtM's South Oakleigh headquarters does both manufacturing and component design for automotive and non-automotive customers.

For three decades Ford, Holden and Toyota have used a variety of MtM products including windscreen washer nozzles, doorhandles, automatic gearshifts and steering columns in their vehicles.

But for the past 17 years the company has also been selling direct component exports to China, South Africa, South America, India, Thailand and the Middle East.

Its first big contract in 1997, five years after Japanese carmaker Nissan quit the Australian market, was exporting doorchecks to Cadillac in North America.

The deal has led to further work with Saturn and Chevrolet Malibu. "Next year over 50 per cent of our sales will be exported to 12 different countries,'' Albert says.

"We worked out a long time ago that we needed to take our destiny into our own hands.'' But the change took time. And Albert is blunt about the challenges facing suppliers who deal directly with the big automakers, or those in the $4 billion aftermarket in the lead-up to the exit of Ford in 2016 and Toyota and General Motors in 2017.

"It is a mindset. To now ask the supplier industry to go out and seek new markets is very unusual for them, which is why a lot of them won't survive.'' And that's why specialist advisers to the auto sector like Grant Thornton Australia's Mark Phillips are spreading the word across automotive manufacturing that now is not the time to panic.

Phillips recently hosted a half-day forum at Grant Thornton's Melbourne offices themed "the new automotive manufacturers balance sheet".

It included presentations from specialised demolition and site reclamation firm Guilfoyles, global traders in plant and equipment Wickman Group, real estate agents CBRE and RMIT University on the topic of advanced manufacturing technologies.

Among the 80-strong crowd were executives of Toyota and Ford as well as representatives of companies across the auto aftermarket. They heard about strategies to deal with the looming closures, including how firms can best manage supply chains, deal with financiers, balance sheet liabilities and how to unlock the value of plant and equipment.

“One of the car companies, Toyota, have told us they want us as a collective to talk to all of their suppliers. The message is not doom and gloom. It is transition,’’ Phillips says.

There are more than 62 car brands **sold** in Australia, double the number in North America.

“There is a golden opportunity here. It is really unique. We have companies in Australia that are manufacturing parts for three car companies, and that doesn’t happen very much around the world.

“Usually it is a facility manufacturing parts for one or two customers, not multiple customers. If our guys get it right on the low volume, there is no reason why they can’t be manufacturing parts for other brands.

“We have this opportunity to become short-run specialists on parts and accessories. We have more car brands here than anywhere in the world. There will be at least half a dozen companies that will embrace those opportunities.’’ Companies like component manufacturer Futuris and engineering **company** Parish are successfully making the transition, as are others in the auto aftermarket, which represents 36 per cent of all automotive manufacturing in Australia.

Diver Consolidated Industries chief executive Jim Griffin, a long-term supplier to Holden, described it as a “terrible day for Australia’’ last December when the GM-owned Australian icon **company** revealed it would close in 2017.

But Diver has been successfully reducing its dependency on local vehicle production for many years. For instance, the **company** now supplies Resmed in Sydney with evaporator tubs for their sleep apnea machines.

Mackay Consolidated Industries, a manufacturer and designer of engineered rubber and rubber bonded products, is now exporting to Indonesia, New Zealand, the US, Britain, Singapore, Thailand, and the Middle East.

In April another local **firm**, Harrop Engineering, struck a distribution deal with US **firm** Lingenfelter Performance Engineering, which supplies aftermarket components for the world’s most sought-after sports cars.

Grant Thornton partner Cameron Bacon said the key to survival for those caught in the storm was to diversify. “It is about having a wider portfolio of parts and accessories that they can offer. Instead of having just one or two they might have five or six,’’ he says.

“You have a fixed level of costs. By putting more parts and accessories through the same distribution channel, there is an opportunity to increase your profitability. You are also diversifying.’’ Companies are also being more innovative in **transactions**.

Phillips says some deals in the auto space are being struck on multiples of gross margin rather than the traditional measure of profits to ensure consolidation deals can get done. He says one recent deal in South Australia was done on this basis.

“If you have an overhead already, you don’t need to bring another overhead into the business. You just bring the gross margin into the business. Make it a multiple of gross margin rather than profits. It is a way of using surplus overhead because the capacity is already there,’’ he says.

One issue companies in the space need to be wary of is changes made in the federal budget to the Fair Entitlement Guarantee Scheme that apply from January 1 next year.

The changes, which have not yet been made law, proposed by the government will see redundancy entitlements capped at 16 weeks per employee for companies that go into liquidation.

Matt Byrnes, Grant Thornton’s national industry leader for manufacturing and its **lead** partner for distressed supplier services to the automotive industry, said the change could send shockwaves through the sector.

He claims it could see many auto parts manufacturers unable to transition to other markets bring forward their decision to close down and go into liquidation before January 1 in order to maximise the safety net available to their employees.

“I have an example at the moment, a live one, 140 employees all finish on June 30. A lot of them are owed 100 weeks of redundancy. If the changes come in January, that will be capped at 16 weeks.

“What we are seeing is people digesting what it means. We have not seen a lot of activity triggered yet, but I think in the next six months we might ... This is off balance sheet stuff — when they look at their balance sheet, it isn’t on there. For some companies it could be a sudden $10m hit.” The Nasdaq-listed global solutions provider Liquidity Services, which offers one of the leading online marketplaces for surplus assets, has forward-flow contracts with Ford, GM and a number of firms at different levels of the Australian automotive supply chain.

Its London-based consultant, Silas Berry, says the big car companies are sympathetic with the plight of the local suppliers.

“I think they (car companies) are largely conducting themselves compassionately,’’ he says.

“One major car **company** said to us that there is a really vibrant aftermarkets business — we don’t want to see all of that disappearing. They are trying very hard to get the message out to the aftermarket to not give up.’’ Liquidity Services, Grant Thornton and the London-based Wickman **Group** recently announced a strategic partnership to advise on surplus asset disposition for those gearing up for changes in the Australian auto industry.

It is providing component producers with greater opportunity to consider diversification by maximising the value of their equipment and providing liquidity to **purchase** the right equipment for their future requirements.

Wickman has a global presence in the machinery trade market and manages accounts that require asset-disposal support.

“We are committed long-term to providing solutions to all those businesses that may face difficulties and change,’’ says Wickman director Owen Coin.

The key message, Phillips says, is that now is not the time for those in the auto manufacturing supply chain to race for the exits.

“They are being bombarded with mixed messages right now. Three years is a lot of time in an orderly process,’’ he says.“But unfortunately people are putting messages out there that they have to react suddenly now. They don’t need to panic.’’

CO frdmo : Ford Motor Company

IN i351 : Motor Vehicles | i35101 : Passenger Cars | iaut : Automotive

NS ccat : Corporate/Industrial News

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB News Ltd.

AN Document AUSTLN0020140817ea8g00002

