Manufacturing Momentum

Pathways to peak performance

CommBank Manufacturing Insights 2023

Contents

Foreword from CommBank Manufacturing

Welcome to our 2023 Manufacturing Insights Report, the latest instalment in our CommBank Foresight series examining the influential trends across Australia's manufacturing sector.

The Report is part of CommBank's commitment to support manufacturers by unearthing the drivers of operational and financial performance and the pathways to realising a brighter future.

While this edition arrives amid ongoing economic uncertainty, most manufacturers are optimistic about their near-term prospects. In fact, the vast majority are forecasting increased revenue and profit even after outperforming expectations in 2022.

However, rising operating costs, inflationary pressures and supply chain issues are persistent and are constraining cash flow for most manufacturers. This is driving a sharper focus on efficiency and creating capacity that can support higher production volumes.

This is one reason why investing in new technologies is the top strategic priority for the year ahead. Almost nine in ten manufacturers are set to lift their spending on digital solutions with an eye firmly on streamlining processes, strengthening customer experiences, and tackling supply chain issues.

An uplift in technology adoption also adds to cyber security risks, with the research revealing more to be done to safeguard businesses.

Sustainable manufacturing is also seen by almost nine in 10 manufacturers as an important part of their business strategy. Many see the potential to drive both a positive impact through sustainability initiatives and strengthen business outcomes from competitiveness to financial performance.

This is manifesting in a range of programs, from operational waste and carbon reduction, heightened diversity and inclusion activity and improved governance. It means environmental, social and governance issues are all in focus.

Interestingly, the manufacturers targeting growth in the year ahead tend to over-index in their adoption of emerging technologies and sustainability initiatives. It reiterates the direct links to adaptability, resilience, and performance.

At CommBank, we're seeing the impact of these operational, financial and market responses already flow through to our manufacturing clients' businesses. We hope that with deeper insights into the emerging trends and the strategies employed across the sector, manufacturers will be better equipped to navigate the challenges and opportunities ahead.

Maria Christina
National Manager Manufacturing & Wholesale
Commonwealth Bank of Australia

Want more insights for future facing businesses?

Visit CommBank Foresight

Key insights

Australian manufacturers are well acquainted with disruption and uncertainty. Despite the prospect of a slowdown in demand and amid rising costs, the vast majority are forecasting increased profit. History would suggest that's because they can innovate and adapt products and processes, and know where to direct investment to boost productivity and efficiencies. That's where a broad-based increase in technology budgets and adopting sustainable practices strongly support business outcomes.

1 Performance	2 Costs and supply chain	3 Technology	4 Sustainable manufacturing
92% express confidence in business conditions in the next 12 months	**75%** expect costs to increase in the next 12 months	**#1** Priority for the year ahead is investing in new technology	**78%** have a carbon emissions reduction target in place
74% expect profit to increase in the next 12 months	**90%** say supply chain issues are inhibiting capacity	**87%** plan to increase investment in technology	**78%** have a diversity and inclusion target in place
76% expect revenue to increase in the next 12 months	**86%** say supply chain issues have impacted cash flow	**68%** are seeking to drive efficiency gains through technology	**50%** plan to adopt sustainable procurement practices in supply chain
72% expect production to increase in the next 12 months	**60%** are addressing supply chain issues to reduce costs	**32%** are investing in manufacturing and process control	**39%** are already reducing operational waste

Performance drivers and outlook

Manufacturers see even brighter conditions ahead as they hone their strategic focus and investment plans.

Navigating disruption is in manufacturers' DNA

Well before the pandemic, manufacturers had proven they could deftly adapt to market fluctuations. The introduction of lean production in the 1950s pioneered the concepts of speed and responsiveness across the value chain that many other sectors have since adopted.

More recently, demand cycles that previously may have taken decades pulsed through the sector in just years. From broken supply chains and production shutdowns in the early days of the pandemic to surging demand fuelled by fiscal stimulus, the industry has been riding a wave of global and local economic change.

The potential for a slowing rate of demand is gathering momentum with early signs that consumer spending is tapering. At the same time, persistently rising costs, inflationary conditions and supply chain issues are putting pressure on manufacturers.

Yet this research shows that the sector remains largely unfazed, albeit realistic about the headwinds. Well into the current interest rate cycle, manufacturers appear to be more positive about the 12 months ahead than they were a year ago.

Far from ignoring the market realities, manufacturers have been astutely reinvesting in becoming better, stronger and more efficient businesses with more diverse workforces and sustainable practices. That is set to continue.

It means manufacturers can look beyond short-term volatility to the next economic cycle and beyond, with their confidence rooted in longer-term structural tailwinds and demonstrated agility and resilience.

Coordinated uplift in metrics

	Revenue	Profit	Production levels	Employee numbers	Capital expenditure	Operating costs	Prices
Next 12 months (net positive)	76%	74%	72%	66%	72%	75%	73%
Next 12 months (stay the same)	21%	21%	25%	29%	21%	20%	23%
Next 12 months (decrease)	3%	5%	3%	5%	7%	5%	4%
Past 12 months (net positive)	72%	70%	73%	62%	70%	76%	74%
Past 12 months net positive (2022 forecast)*	58%	52%	not asked	42%	47%	57%	not asked

* CommBank Manufacturing Insights Report 2022. https://www.commbank.com.au/content/dam/commbank-assets/business/industries/2022-03/manufacturing_thought_leadership_march-2022.pdf

Gearing up for high performance

Only 12 months ago, the Australian manufacturing sector was at a turning point. Manufacturers were emerging from the disruption of the pandemic, and the outlook for financial and operational performance was beginning to improve.

In the intervening year, manufacturers outpaced their own predictions by a significant margin. This included 72% of manufacturers reporting increased revenue and 70% experiencing a rise in profit, far more than anticipated 12 months ago.

These financial measures broadly tracked the outperformance in production levels and workforce growth as demand ramped up.

Operating costs also lifted beyond initial expectations. Just over three in four (76%) reported rising costs, compared to the 57% forecasting it 12 months ago*.

According to manufacturers, the financial and operational performance outlook is even brighter despite changing global economic conditions. The vast majority expect increasing revenue (76%) and profit (74%) in the year ahead amid higher production volumes for 72%. Two-thirds plan to increase employee numbers to keep pace.

These higher revenue expectations are more likely among certain manufacturers. For example, there is a tendency for larger manufacturers and those located in regional locations to have a more positive outlook. Across the States and Territories, Queensland-based manufacturers are the most bullish.

Persistent cost increases are also anticipated in the year ahead. Of the 75% expecting costs to rise, almost one in three foresee a significant uplift. To offset these pressures, many manufacturers are seeking alternative materials or suppliers and negotiating better terms. More efficiently rostering staff to manage overheads is also a top three response.

As we will see shortly, while the sectors' positive outlook may appear at odds with the ever-changing economic environment, manufacturers are uniquely placed to navigate the cycle and are prioritising initiatives that expressly support this objective.

“Manufacturers are uniquely placed to navigate the cycle and are prioritising initiatives that expressly support this objective”

* CommBank Manufacturing Insights Report 2022. https://www.commbank.com.au/content/dam/commbank-assets/business/industries/2022-03/manufacturing_thought_leadership_march-2022.pdf

Manufacturers are optimistic yet grounded

Having exceeded their own estimates and forecasting similar performance ahead, it's no surprise that 92% of manufacturers are at least quite confident in business conditions over the next 12 months. Of these, 40% are highly optimistic.

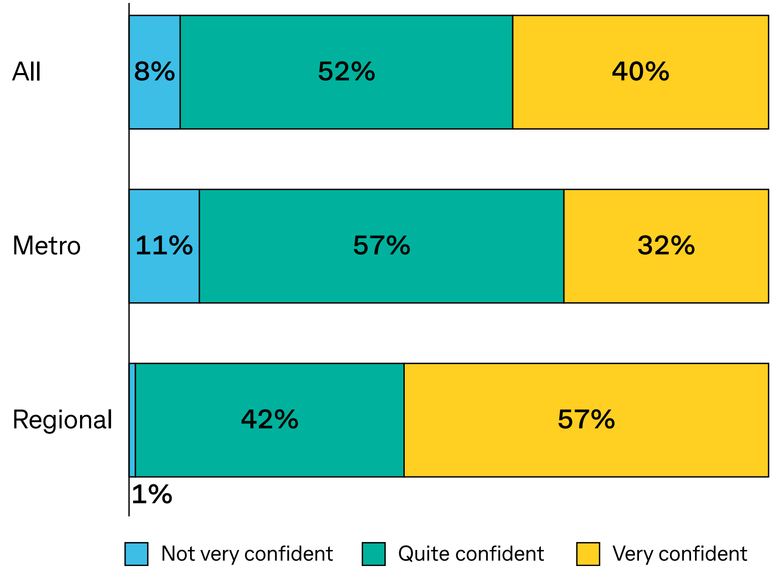
Manufacturers based in regional locations are far more confident than their metropolitan peers. Among regional manufacturers, 57% are very confident in the outlook, while just 32% of metropolitan decision-makers say the same. This aligns with revenue expectations that are higher in regional areas, on average (see table on page 33).

For most manufacturers (58%), this is translating to an overall growth focus over the next 12 months. However, compared to 2022, there are now more manufacturers aiming to maintain revenues. Given many outperformed their expectations last year, even maintaining can be seen as an aspirational goal.

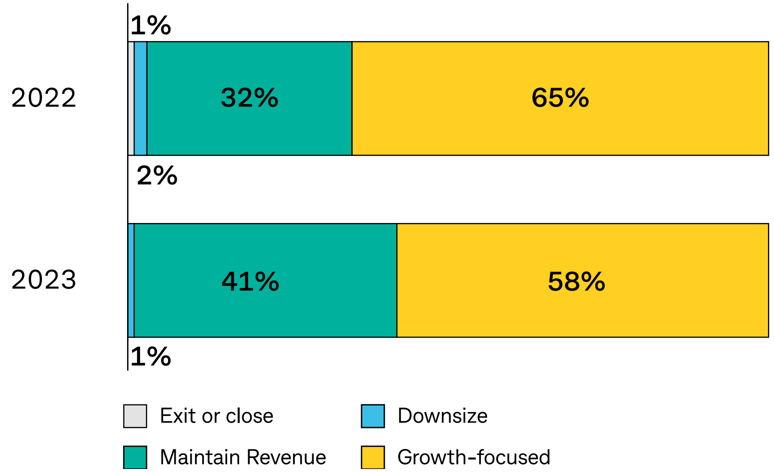
By sector and size, the growth orientation is also mixed. For example, the research suggests that most technology and clean energy manufacturers are intent on maintaining revenues (60%) with 36% saying they are growth-focused. For medical and healthcare manufacturers, that is more evenly balanced at 48% and 52%, respectively (see chart on page 35).

For the larger manufacturers, the proportion focused on maintaining revenues has jumped almost twofold the past 12 months, rising from 23% to 44% over that period.

Confidence in business conditions in next 12 months



Approach to business in next 12 months



The interplay between costs, supply chain and cash flow

For the majority of manufacturers targeting growth, and the many seeking to maintain their performance, there are a range of hurdles to overcome. These include rising costs, keeping up with rapidly evolving technology, navigating regulatory requirements, staying competitive in the marketplace, and navigating a tight labour market, among other challenges.

The three most common challenges centre on inflationary pressures and rising costs associated with suppliers (30%), overheads (30%) and transport and distribution (28%). That's followed closely by supply chain issues, a key challenge for one in four.

These issues are closely related and are converging to create a drag on capacity and growth. They are also prompting a range of strategic responses. For example, manufacturers are diversifying their supply chains and negotiating with suppliers to reduce costs.

At the same time, persistent supply chain issues are holding back capacity and necessitating investment in technology and increasing inventory levels. In turn, that's constraining liquidity, with many manufacturers increasing prices and extending finance facilities to better manage cash flow.

Arguably, these are perennial issues in a sector that has adapted well to fluctuating demand over time. The prevailing optimism among manufacturers suggests that they are highly confident in their ability to respond.

Rising costs

75%
expect an increase in operating costs in the next year, with a third forecasting significantly higher expenses in all categories, particularly energy and fuel. Regional manufacturers are more likely to expect rising costs.

Top responses

60% are taking supply-chain related actions

- **37%** are finding alternative materials or suppliers
- **33%** are negotiating better terms with suppliers
- **33%** are integrating more efficient staff rostering
- **29%** are reviewing and redesigning processes
- **29%** are increasing prices

Supply chain issues

92%
say supply chain issues are restricting their ability to operate at full capacity or realise growth. Regional manufacturers are twice as likely to say it's significantly impacting capacity (see table on page 34).

Top responses

98% are implementing at least one improvement

- **32%** are implementing technology to more effectively monitor supply chain
- **32%** are increasing levels of raw materials or inventory
- **30%** are increasing the number of suppliers
- **30%** are manufacturing or sourcing in Australia
- **29%** are integrating stricter supplier due diligence

Cash flow

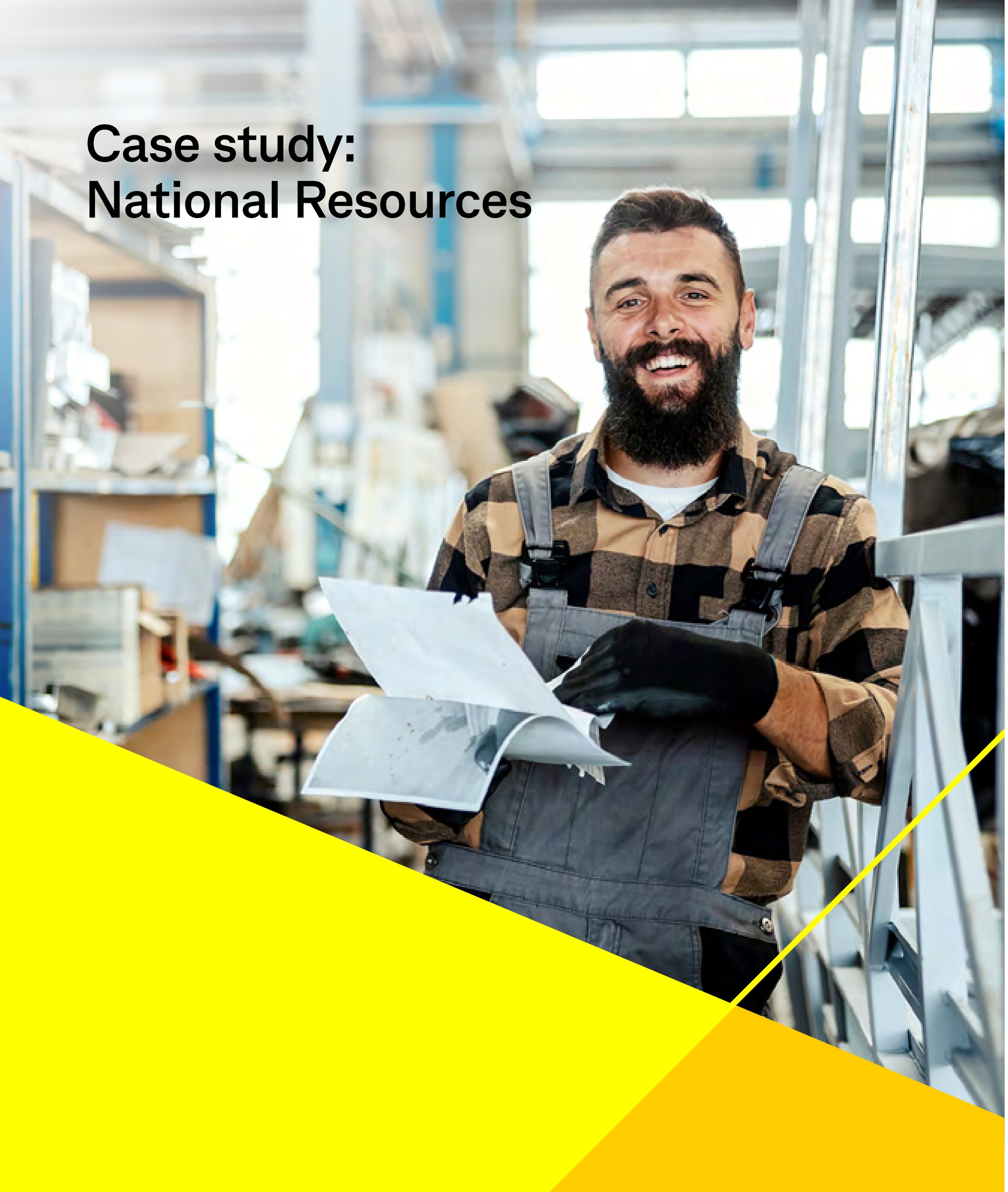
86%
say that supply chain issues have adversely affected cash flow, with just over two in five significantly impacted. Most say it's inhibiting capacity, the ability to fulfil orders and growth, particularly regional manufacturers.

Top responses

70% are increasing or extending financing

- **35%** increased prices
- **29%** increased use of asset finance and lending facilities when purchasing
- **26%** extended supplier payment terms
- **26%** are using or extending trade finance
- **25%** are holding less raw materials or inventory
- **25%** are using electronic payments to speed up settlement

Case study: National Resources



For 35 years, National Resources has specialised in sourcing and supplying diverse products to packaging, industrial, building, pharmaceutical and medical, and food businesses. Trading predominantly in rolled aluminium products and packaging materials, National Resources has an extensive supply chain, ensuring customers can access the right products when and where they need them.

National Resources' Managing Director, Leon Cox, explains that the business has experienced significant growth and maintains a positive outlook. He notes that demand is supported by ongoing infrastructure investment and that certain sectors, such as pharmaceuticals and animal health, continue to "boom along".

Leon says he isn't so much concerned about the broader economic environment but highlights the impact of supply chain disruption on demand. He says that in 2022, many panicked customers stockpiled goods, which created a drag on demand at the end of last year that should ease in the coming months.

Given National Resources' broad product range and complex network of suppliers and customers worldwide, Leon is particularly attuned to supply chain issues and managing any financial impact. For Leon, having liquidity in the business is crucial to smoothing out cash flows and sustaining growth.

Shifting terms of trade

Leon says that changing terms of trade with suppliers in 2022 necessitated a new approach to managing cash flows. For example, following a broad-based tightening of credit facilities among suppliers in China, National Resources went from paying for goods when they were shipped to being forced to send a 30% deposit when ordering.

"We'd be sending money to our suppliers in China 45 to 60 days before anything was shipped and tying up a significant amount in deposits," Leon says.

"Even outside the China credit crunch, we generally buy materials from overseas suppliers and pay when the goods are shipped. It's on the water for 30 days, and then we offer customers terms of trade locally. That means it can be between 90 and 150 days between paying for goods and being paid ourselves."

Cash flow is king

According to Leon, the business has a sophisticated cash flow forecasting system. Due to these issues with supply chain partners and lengthening cash conversion cycles, the system identified that the company was "below the line a few times," as Leon puts it.

"To manoeuvre through cash flow issues, you need to make amendments to how you do business, how you pay suppliers and give terms of trade to customers. Access to cash and credit is a vital part of that equation."

Leon says that the National Resources team considered ways to improve cash flow and that moving to a new financing model, secured against both debtors and stock, solved the businesses' problems.

"Knowing what's happening with your cash flow and working capital is fundamental to running a good business. I work closely with our finance team and partners to map cash flow, and we're installing new accounting and CRM software platforms to manage it through our ordering system."

"Now we can plug in when we pay and get paid and forecast not only cash flow but also near-term profit, which has been a huge bonus for us," Leon added.

NATIONAL RESOURCES

www.nationalresources.com.au

Efficiency, productivity and sustainability take centre stage

Manufacturers' priorities for the year ahead are laser-focused on the factors holding back growth, capacity, and margins. The top-rated strategy to support business objectives is investment in technology, a priority for 36%. Adapting processes to drive efficiency and productivity is second highest (34%), alongside improving data management (34%).

The pursuit of digitally driven efficiencies frequently arises throughout this research as manufacturers seek proven and new avenues to mitigate rising costs and stubborn supply chain issues.

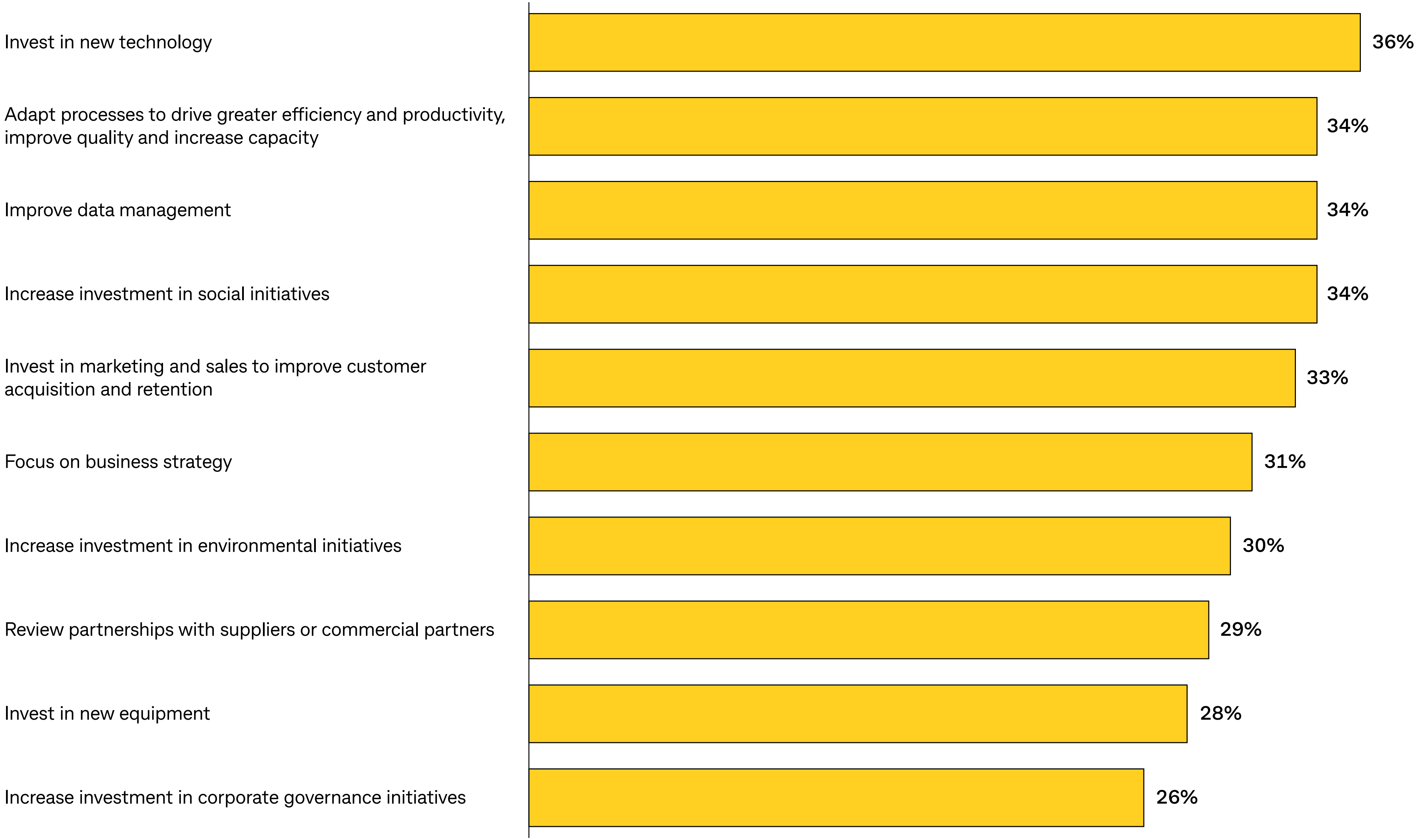
Sustainability initiatives also rank highly on manufacturers' agenda. Just over one in three (34%) are targeting investment in social initiatives, 30% are prioritising environment initiatives and 26% are increasing investment in corporate governance.

The moderately larger focus on programs designed to support strong cultural and workplace foundations is also partly attributable to long-running talent shortages across the industry.

Examining the priorities of growth-focused manufacturers compared to those seeking to maintain performance shows that they are more likely to invest in most areas.

This is particularly prevalent for investment in sales and marketing to improve customer acquisition and retention (38% vs 25%) and a focus on business strategy, including mergers and acquisitions and moving along the value chain (35% vs 25%).

Business priorities in next 12 months



Doubling down on digital

Manufacturers are again increasing technology investment as they strive for efficiency and productivity returns

Technology investment reaches new heights

The long-running digital transformation of manufacturing leapt forward in recent years. According to manufacturers in our research last year, 72% had accelerated their digital programs since the pandemic began.* Investment in technology has risen in lockstep, and that momentum is continuing apace.

When asked about technology investment last year, 67% said that they had increased budgets during the pandemic, and 74% were planning to lift investment in the year to date. That has stepped up again, with 87% of manufacturers expecting to increase technology investment in the next 12 months. Over the same short period, those significantly increasing investment has nearly tripled.

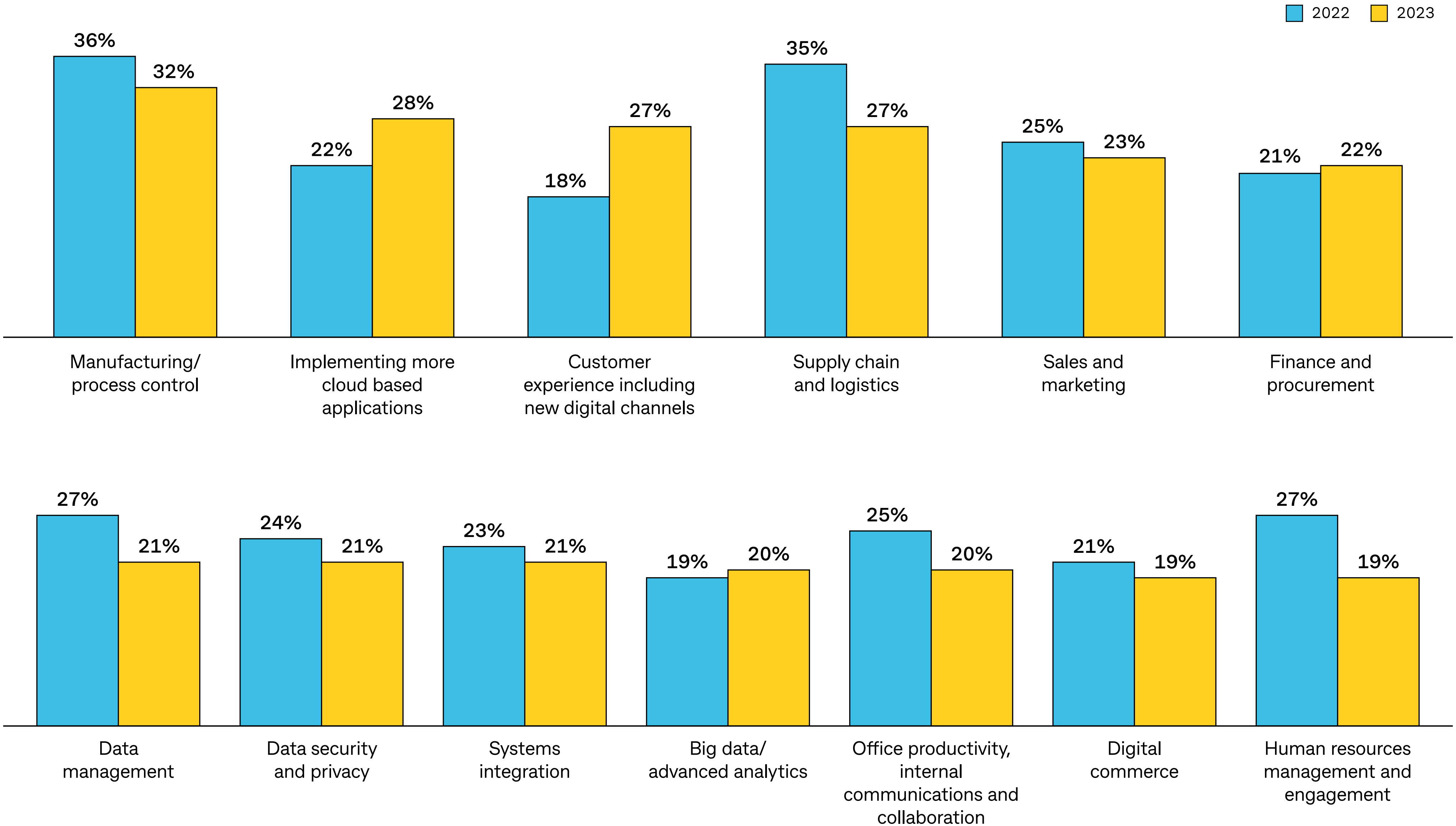
Across locations, manufacturers in regional locations are set to outspend their peers with 99% increasing investment (see table on page 34). Regional manufacturers are also the most likely to expect cost increases and constrained capacity due to supply chain challenges, suggesting that technology-driven efficiencies are a likely capital expenditure target.

This helps explain why process controls remain the top area for investment in the year ahead, albeit with a moderate year-on-year decline from 36% in 2022 to 32% this year. Cloud-based applications are one category that more manufacturers plan to invest in this year, providing opportunities to streamline operations and enhance efficiency, scalability, and collaboration.

Investment in customer experience, including new digital channels, has seen the most significant jump, with 27% of manufacturers committing to invest compared to 18% last year. This focus on migration to the cloud and customer experience brings the sector more in line with its downstream supply chain partners, such as retailers, that have invested in these areas for many years.

* CommBank Manufacturing Insights Report 2022. https://www.commbank.com.au/content/dam/commbank-assets/business/industries/2022-03/manufacturing_thought_leadership_march-2022.pdf

Investing and upgrading technologies and business processes in next 12 months



Embracing next-gen digital solutions

Manufacturing has long pioneered the adoption of new and innovative technologies and, manufacturers as already established, are seeking new ways to drive efficiencies. More than two in three say that efficiency gains are the anticipated outcomes of emerging technology implementation, followed by meeting corporate social responsibility objectives (40%) and improving customer utility (39%).

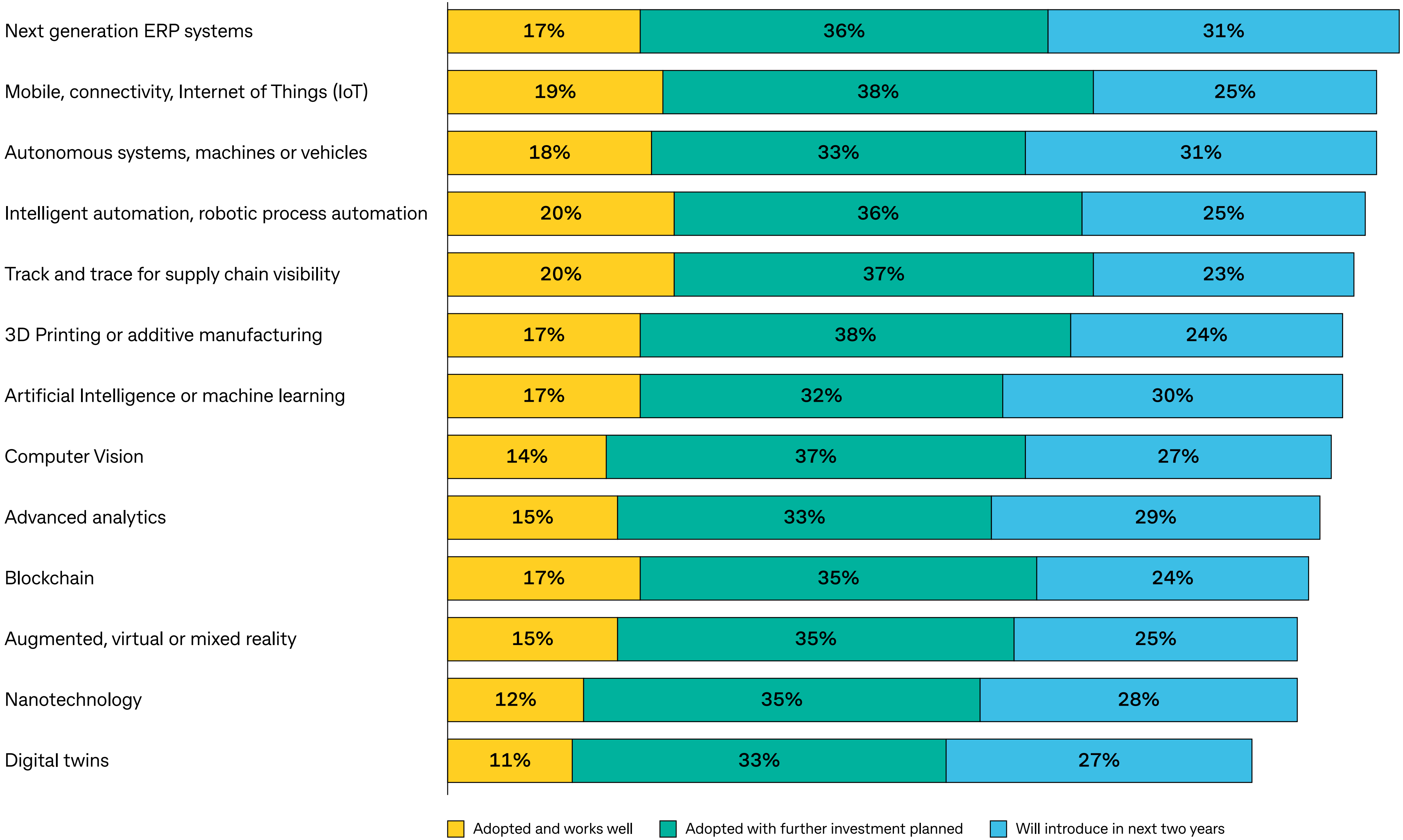
This supports the increasingly common adoption of a range of technologies. Track and trace systems that can monitor materials and custody across the supply chain are the most widely used alongside those relating to mobile, connectivity and the Internet of Things. In both cases, 57% of manufacturers already use these solutions.

Intelligent automation and robotic process automation follow as manufacturers seek to improve production processes, which has already been implemented by 56%.

The technologies manufacturers plan to introduce over the next two years reveal a sharp focus on better systems integration and productivity. The fastest growing are expected to be next-generation enterprise resource planning (ERP) systems (31%), autonomous systems and equipment (31%) and artificial intelligence (30%).

When adding those who plan to adopt, even cutting-edge technologies such as nanotechnology and digital twins are expected to be in use by a total of more than seven in ten manufacturers within two years.

Emerging technology adoption to enhance production processes



Case study: Actron Air

ActronAir started as a family business in 1984. Aside from conducting installations in its formative years, the company has focused solely on designing and building world-class air conditioning technology that thrives in the diverse Australian climate.

For ActronAir, paying particular attention to the efficiency, performance and reliability of its products and processes has led to frequent awards for its design innovation. According to its Chair, Robert Mundy and Chief Executive Officer, Brendan Simpson, technology is core to success and effectively scaling the business in pursuit of growth.

Technology drives product innovation

What ActronAir has developed in Australia is a unique business that relies on being fast and nimble to keep up with technology movements that drive product development. Globally, that relates to advancements in refrigerant gas and critical components in air conditioning units such as compressors, coils, and fans.

According to Brendan, ActronAir is constantly updating, evolving, and innovating its products. To ensure that it stays ahead of the curve, the company must develop new technology and incorporate it into its product design and manufacturing processes.

“There are probably four manufacturers left in Australia making refrigerator air conditioners that heat and cool based on refrigeration principles, so our competition comes largely from offshore,” he says. “You’ve also got a couple of other local companies that make evaporative cooling and gas heaters.”

The ActronAir product development team works out of its Innovation Hub at its Marsden Park headquarters. The state-of-the-art lab is one of the largest dedicated heating, ventilation and air conditioning R&D facilities in the Southern Hemisphere.

The facility has rooms where the ActronAir team can perform precise tests on its products, including split ducted, non-ducted, and multi-head systems. This gives the company high confidence in the accuracy of product performance claims.

Digital connectivity across the business

With efficiency and effective collaboration at the forefront, ActronAir has moved to digitise processes across its business. It is investing in its Enterprise Resource Planning (ERP) platform to support teams and the business' goals.

"It lays that foundation of communication across all departments because we're doing several things. We're designing, we're producing, we're distributing, we're marketing, we're performing all functions that require cross-functional collaboration and centralised management."

According to Brendan, having digital solutions that bring the business together is vital to the customer experience and the ability to scale up its operations. It also has a considerable impact on ActronAir's cost base.

"Optimising communication with our suppliers and manufacturing at a reasonable cost is essential to remain competitive. Technology is the basis of everything we do and keeps the company continually moving."

Brendan says several packages sit alongside its ERP, and the next step will be to consolidate some of those into one platform.

"We believe that the platform will assist us in consolidating our data and streamlining its extraction from our system, as opposed to having it spread across multiple sources," he says.

"The intention is to effectively incorporate new technology into our production process through improved communication and planning. As we continue moving away from manual processes, the platform becomes a crucial tool to increase production efficiency."

Looking further afield for digital skills

Brendan and Robert agree that ActronAir's development team plays one of the more crucial roles in ensuring the manufacturer is agile and innovative.

"We have a product development team that's very fast and agile. They design the products and get them out onto the floor quickly," says Robert. "It's a challenge trying to recruit those talented people because the air conditioning industry doesn't have the same footprint in Australia that it once did."

According to Brendan, ActronAir has hired many engineers from overseas due to the difficulty of securing the necessary expertise locally. This presents a challenge as the company must expand its search beyond domestic borders to obtain essential skills. Additionally, training someone up to the required level takes time.

Brendan emphasises that ActronAir, as an employer, must possess an open-mindedness and a growth mindset that is adaptable to change. That includes remaining open to new approaches and building problem-solving skills. He suggests that the company must be bold in maintaining its long-standing practices.

"That's often a challenge for us, but an even bigger opportunity if we get it right," Brendan says. "It starts with getting like-minded people in the business and having the collective drive to continually innovate and move our products, and the business, forward together."

ActronAir

AIRCONDITIONING DESIGNED FOR AUSTRALIA

www.actronair.com.au

Cyber security in focus

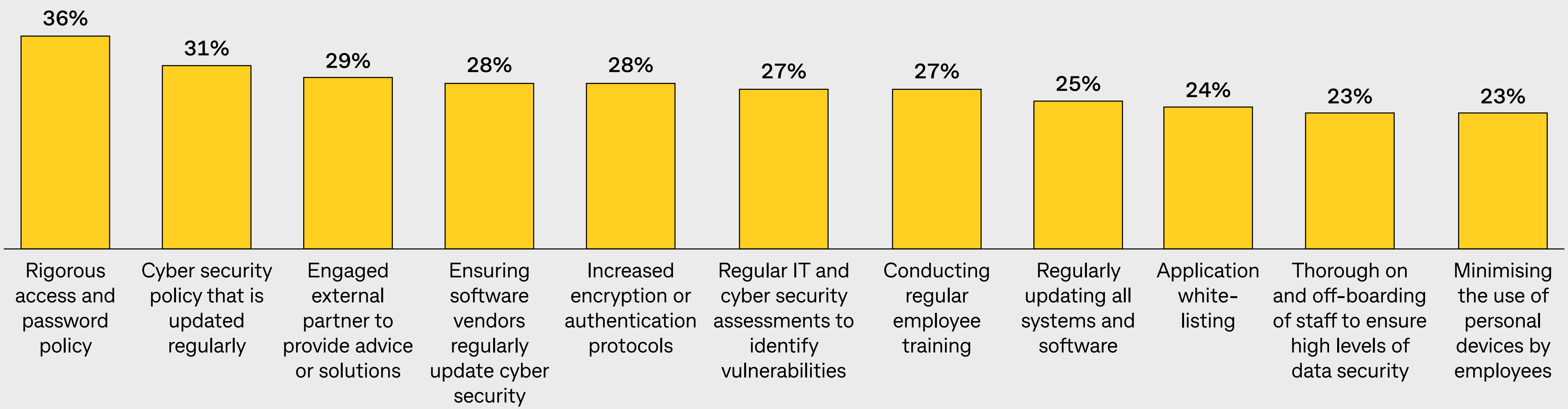
As manufacturers rapidly adapt to the shifting digital landscape, the need for cyber security vigilance cannot be overstated. Introducing advanced technologies, data-driven processes, and streamlined global supply chains adds exponentially to the cyber threat. Protecting intellectual property, customer data and trust and ensuring continuity of production relies on adequate safeguards.

However, with just 21% of manufacturers planning to invest in or upgrade cybersecurity processes in the year ahead, the research suggests there is room for improvement. Even more concerning is that less than a third of manufacturers are implementing basic cyber protocols in most areas.

The most widespread activity to shield manufacturers is the 36% of organisations that have implemented rigorous access and password policies. Just under one in three have a cyber security policy that is regularly updated, which is essential when malicious actors are constantly finding new ways to exploit vulnerabilities.

Fewer are engaging external parties for support or leaning on software vendors to initiate updates to cyber security settings. Closer to one in four conduct employee training or regular systems and software updates, often high on the recommended activity among cyber experts.

Initiatives to minimise the risk of cyber-attacks or breaches



Balancing value and impact

The strengthening business case for sustainable manufacturing is helping drive initiatives further forward.

The wide-ranging impact of sustainable practices

Sustainable manufacturing practices have come into sharper focus in recent years as manufacturers seek to improve competitiveness, compliance and meet stakeholder expectations and enhance their financial position. This is evidenced by the 88% of manufacturers that believe sustainable manufacturing is an important part of their business strategy, and of these, 36% consider it is essential.

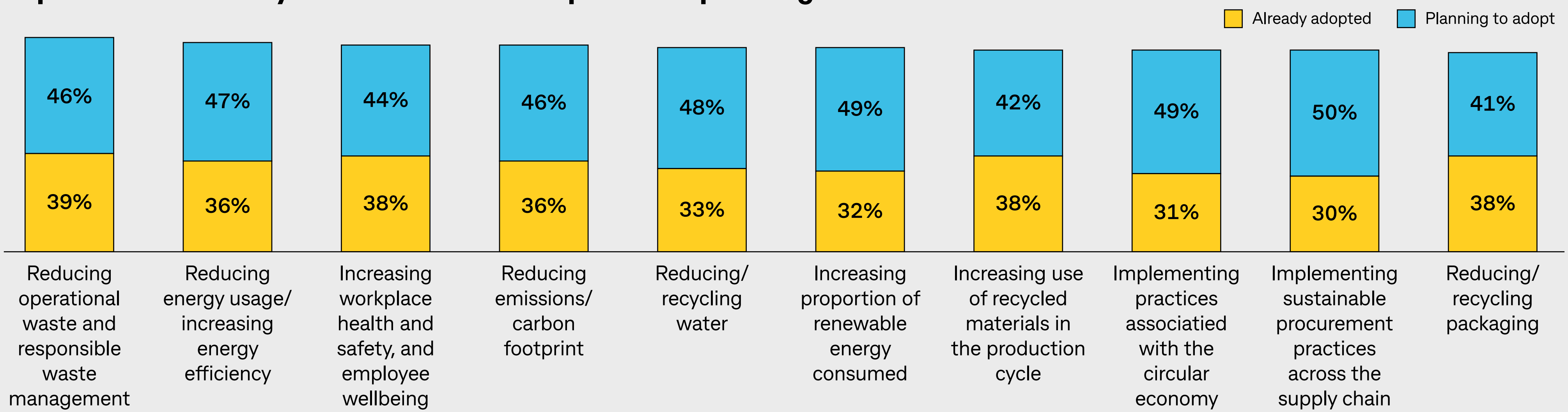
As a result, manufacturers are pursuing a range of sustainability initiatives, and while fewer than four in ten are already active, far more expect to follow. These initiatives address environmental, social and governance (ESG) issues, and often balance sustainability and business outcomes.

For example, reducing energy usage or increasing efficiency, which 36% have already adopted and 47% plan to adopt, drives both carbon and costs down. Focusing on employee wellbeing and workplace safety or creating a more diverse and inclusive environment can lead to a more productive workforce. Better processes and governance can reduce risk.

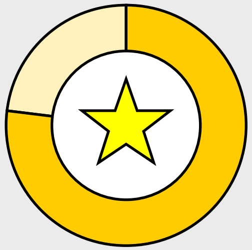
While progress is encouraging, the number of manufacturers advancing sustainability programs has moderated in the past year, even as the barriers to implementation have fallen. For example, 39% of manufacturers say a lack of funding and costs is a challenge, down from 48% in 2022*.

* CommBank Manufacturing Insights Report 2022. https://www.commbank.com.au/content/dam/commbank-assets/business/industries/2022-03/manufacturing_thought_leadership_march-2022.pdf

Top ten sustainability initiatives either adopted or in planning



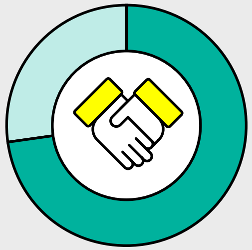
Targeting business outcomes through sustainability



77%

Improve competitive position

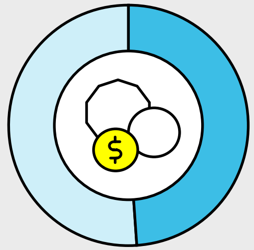
- Stronger brand reputation (33%)
- Increased productivity/efficiency (31%)
- Long-term business resilience (29%)



73%

Compliance and stakeholder engagement

- Adherence to compliance and regulations (32%)
- Meeting employee expectations (30%)
- Positive impact on planet/society (29%)
- Meeting customer/shareholder expectations (27%)



49%

Enhance financial position

- Increase revenue or profit (32%)
- Reduce costs (27%)

Zeroing in on waste reduction and decarbonisation

As we have just seen, many of the most widely adopted sustainable manufacturing initiatives can be broadly categorised as minimising waste and carbon emissions.

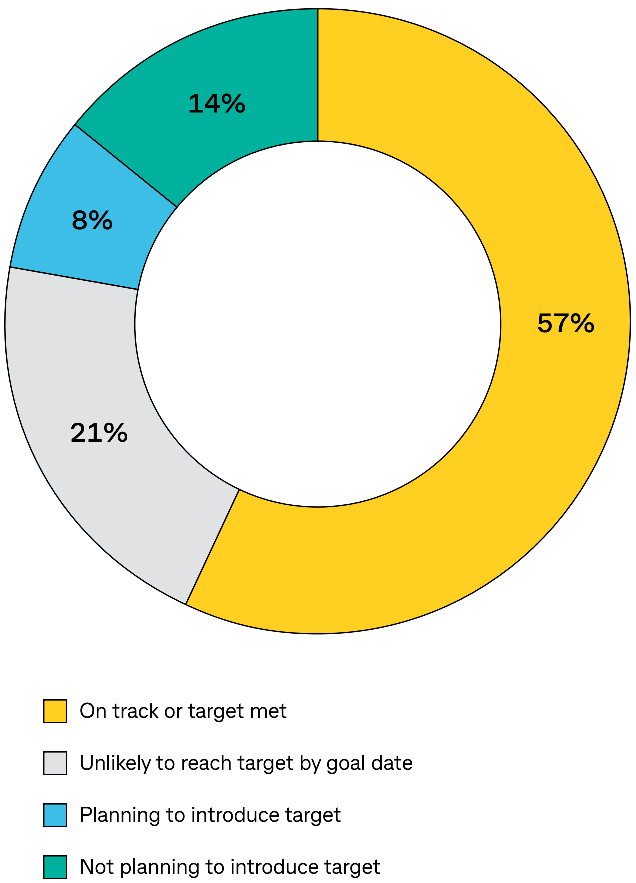
These greener practices can be seen across the production and delivery cycle. From using recycled materials in the production cycle and reducing water usage to operational waste management and recycled packaging, many manufacturers are advancing practices associated with the circular economy.

A more responsible approach to waste also helps bring emissions down, alongside initiatives directly designed to reduce manufacturers' carbon footprint.

In fact, 78% of manufacturers have an emissions reduction target, with 57% claiming they have already attained it or are on track. The remaining 21% admit they are unlikely to reach their emissions goal by the specified date.

Among manufacturers, 88% of those with more than $200 million in annual turnover have an emissions target, with 72% saying they are on track. For smaller manufacturers, that falls to 66% with a target and 39% on track.

Progress on emissions reduction targets



"We will continue to double down on improving our own sustainability whilst developing sustainable materials and solutions for use in the wider market. This is where our agility and innovation provide a key competitive advantage."

Kane Salisbury, CEO, Hallett Group

The diversity and inclusion advantage

Amid surging demand for many manufacturers, one of the persistent and widespread challenges is talent shortages. This remains a key challenge for one in five and even more among smaller and growth-focused manufacturers seeking to expand capacity.

A heightened focus on workplace culture to attract and retain people is also driving social sustainability initiatives. As established earlier in this report, increasing workplace health, safety, and employee wellbeing is the equal second most widely adopted activity. It is also why 48% of manufacturers plan to address and eliminate social issues in their organisation and supplier ecosystems.

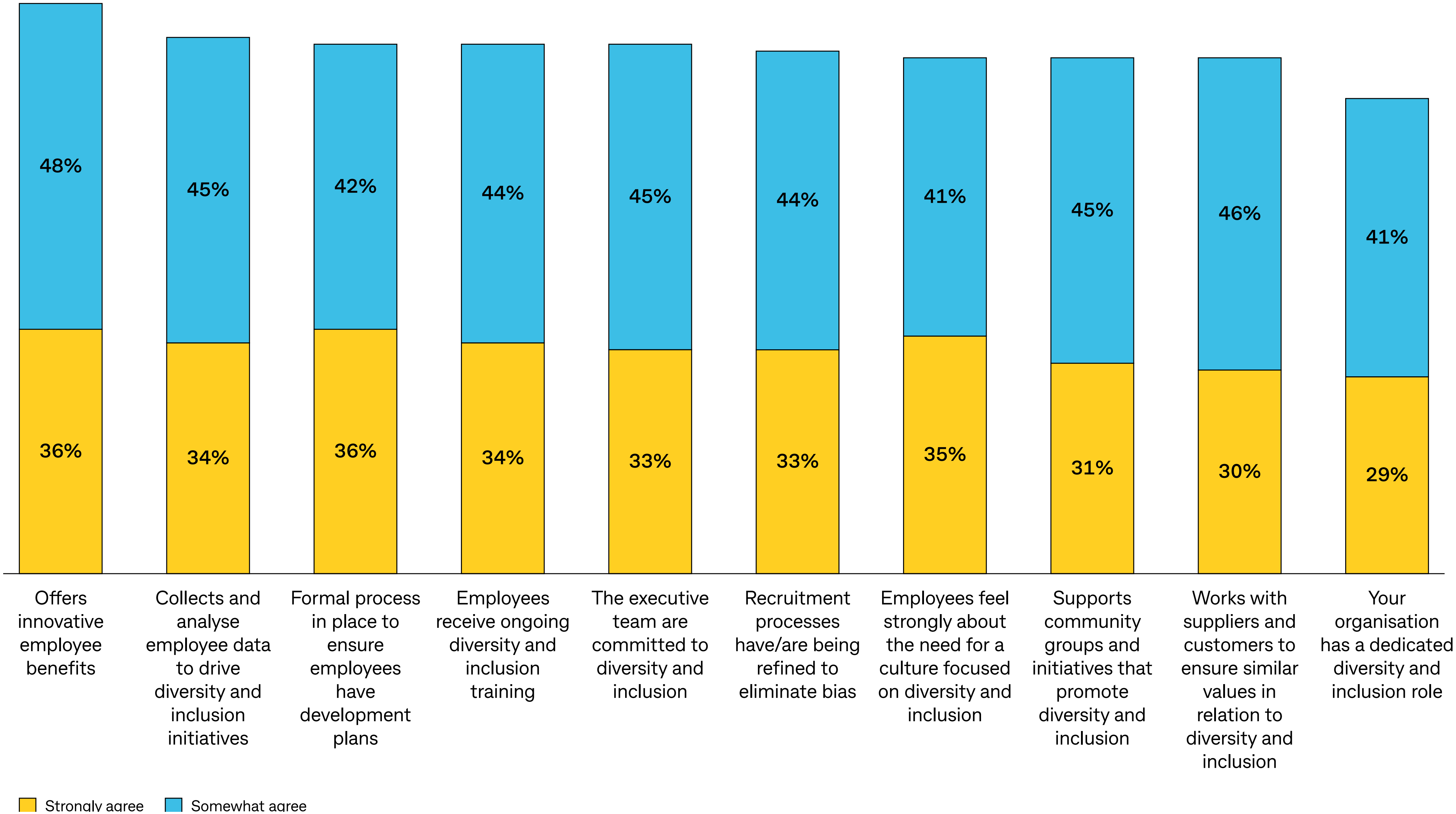
Increasing the diversity of the manufacturing workforce is also gathering pace, with the focus most likely to be on improving the balance and participation across genders, ethnic backgrounds, and ages.

In fact, most manufacturers now have established diversity targets (78%), with 53% already meeting or having reached their goal. More are planning to introduce targets (12%), while just one in ten have no intentions to do so. Regional manufacturers (see table on page 34) and those with more than $200 million annual turnover are the most likely to be on track to meet their diversity targets (both 66%).

This is supported by a range of underlying activities undertaken by manufacturers to advance diversity and inclusion in the workplace.
This includes offering specialised employee training, removing bias from interview processes, leadership commitment and dedicated diversity and inclusion roles.

There are also common challenges noted by manufacturers striving to meet their diversity goals, including a lack of candidates from underrepresented groups or willingness to enter the industry.

Manufacturers' activity related to diversity and inclusion



Good governance, greater impact

Strong processes and governance are vital to guiding sustainable manufacturing initiatives and mitigating risk across the organisation. It is therefore positive that the number of manufacturers citing a lack of overall strategy and governance frameworks as a barrier to sustainable manufacturing has fallen from 40% to 31% year on year.

This is evident when looking more closely at the initiatives planned for adoption. The fastest growing of all activities is expected to be the implementation of sustainable procurement practices across the supply chain, indicated by 50% of manufacturers. That's just one example of a broader focus on enhancing processes.

As we've established, one of the key business outcomes supported by sustainable initiatives is compliance and stakeholder engagement. With almost one-third of all manufacturers driven by adherence to regulatory responsibilities, it is clear governance has a crucial role to play. Growth-focused manufacturers best recognise these benefits.

Case study: Hallett Group

As an Australian-owned and operated business, Hallett Group has produced and supplied a range of leading products and services to the mining, building and construction sectors for the past 40 years.

To be a leading player in the industry, it is essential to be at the forefront of sustainability, says Kane Salisbury, CEO of Hallett Group. This is a core pillar of its business strategy, and Hallett Group has long committed to investing in sustainable practices and solutions.

The broader market and industry focus on sustainability creates abundant opportunities for those who are proactive, adaptable, and ahead of the curve, explains Kane. Hallett Group has embraced its role in driving better environmental, social and governance outcomes and capturing the business opportunities it provides.

Early mover advantage

Kane says that the sustainability initiatives Hallett Group is now delivering result from multi-year investment programs, with some in development for seven years. “Our early work in sustainability has positioned us as the best at what we do,” Kane notes.

“We will continue to double down on improving our own sustainability whilst developing sustainable materials and solutions for use in the wider market. This is where our agility and innovation provide a key competitive advantage.”

In 2022, for example, the company unveiled plans to establish a highly-automated manufacturing and blending capability to value-add and distribute multiple streams of industrial waste by-products generated in Australia. The process creates products that can replace cement, known to be one of the world’s largest sources of carbon emissions.

Further, by leveraging established renewable energy sources in this innovative manufacturing process, Hallett will produce possibly the lowest emission green cementitious materials anywhere in the world.

“South Australia has emerged as a leader in the nation’s renewable energy transformation,” Kane says. The momentum is only growing stronger as companies like Hallett Group continue collaborating on inter-connector projects with other regions and establishing hydrogen hubs to both support local heavy industry and potentially access export markets.

Kane says the company is also exploring new opportunities that sustainability leadership opens up. For instance, Hallett Group will have a significant footprint in the regional South Australian city of Port Augusta, producing green cement, and its ambitions don't stop there.

Setting the stage for a sustainable future

Kane says the company is determined to offer innovative solutions that support industries' transition towards a sustainable future. This includes pushing conventional concrete boundaries by exploring new ways to substitute virgin materials with alternative sources.

Examples include using recycled concrete aggregates and manufactured sand to capturing and reusing run-off water from its three million litre catchment facility at its flagship Dry Creek plant in South Australia. Hallett is also substituting industrial by-products for natural sand and then pushing the boundaries on using supplementary cementitious materials to replace more than 60% of the cement typically used in some high-spec projects.

"Hallett is truly leading the industry," Kane says. "We recognise that the global trend towards decarbonisation is gaining momentum, and it presents both disruptive challenges and opportunities. We are excited about the possibilities and are very active in leading, rather than following, the progress being made to lower carbon emissions across the industry." Changing culture for the better

Changing culture for the better

In addition to adopting practices that positively impact the natural environment, Kane says creating safe and healthy workplaces is also imperative. This is particularly vital amid talent shortages across the manufacturing sector.

To secure the people Hallett Group needs to capture growth opportunities, Kane believes the business must go beyond simply offering a job and wage. According to Kane, changing the perceptions of the industry and developing a supportive organisational culture can help attract a more diverse group of employees.

"We are establishing the Hallett Social Club, an employee-operated non-profit initiative," Kane says. "We are investing in our head office by setting up facilities such as a staffed canteen, gymnasium, health centre, and more, which we believe will become self-supporting and set us apart."

Kane says the goal is to create a central workplace destination that brings our diverse team together, promotes collaboration, and goes beyond traditional transactional relationships employers have with employees.

"Finding and retaining talent has become increasingly challenging, so we are committed to implementing new approaches to improve our industry and business." These efforts also ensure staff have the mental health assistance they need.

"We are deeply passionate about supporting a group called **Mates in Construction**, which focuses on suicide prevention and mental health services for the construction industry," Kane says. "As a business, we have experienced the impact of these issues first-hand."

Hallett Group remains a tier-one supporter of **Mates in Construction**, one of only two along with the State Government. Kane says that Hallett Group is more than happy providing financial support, explaining that, more importantly, it has a significant mutual benefit where the workforce's wellbeing is concerned.

HALLETT GROUP

www.hallett.com.au

Conclusion

Manufacturers emerged from the disruption of the pandemic in great shape, relying on their agility and resilience to support the recovery. The boom in demand that followed amid supply chain issues and talent shortages again tested, then proved, these innate characteristics.

From here, the positive financial performance outlook and broad optimism across the sector defy known challenges. Manufacturers are investing directly into areas they believe will ensure they are more efficient, productive, and sustainable beyond the current economic uncertainty.

Manufacturers' metrics

These data points reveal the experiences of manufacturers across locations and segments to help you benchmark strategies against those of your peers

Benchmarking dashboard (Location)

Revenue expectations for the next 12 months

	Average	Metro	Regional
Significant increase	26%	24%	31%
Slight increase	50%	49%	51%
About the same	21%	22%	18%
Decrease	3%	5%	0%

Operating cost expectations for the next 12 months

	Average	Metro	Regional
Significant increase	31%	29%	37%
Slight increase	44%	43%	45%
About the same	20%	21%	17%
Decrease	5%	7%	1%

Confidence in business conditions in next 12 months

	Average	Metro	Regional
Very confident	40%	32%	57%
Quite confident	52%	57%	42%
Not very confident	8%	11%	1%
Not at all confident	0%	0%	0%

Approach to business in next 12 months

	Average	Metro	Regional
Concentrate on growth	58%	57%	59%
Maintain current revenue	41%	41%	41%
Downsize	1%	2%	0%
Exit (close or sell the business)	0%	0%	0%

Technology investment expectations in next 12 months

	Average	Metro	Regional
Significantly increase	50%	41%	67%
Slightly increase	37%	40%	32%
No change	12%	17%	1%
Decrease	1%	2%	0%

Impact of supply chain on operating at capacity

	Average	Metro	Regional
Significantly	47%	34%	72%
Somewhat	43%	52%	26%
No	10%	14%	2%

Specific diversity targets in place

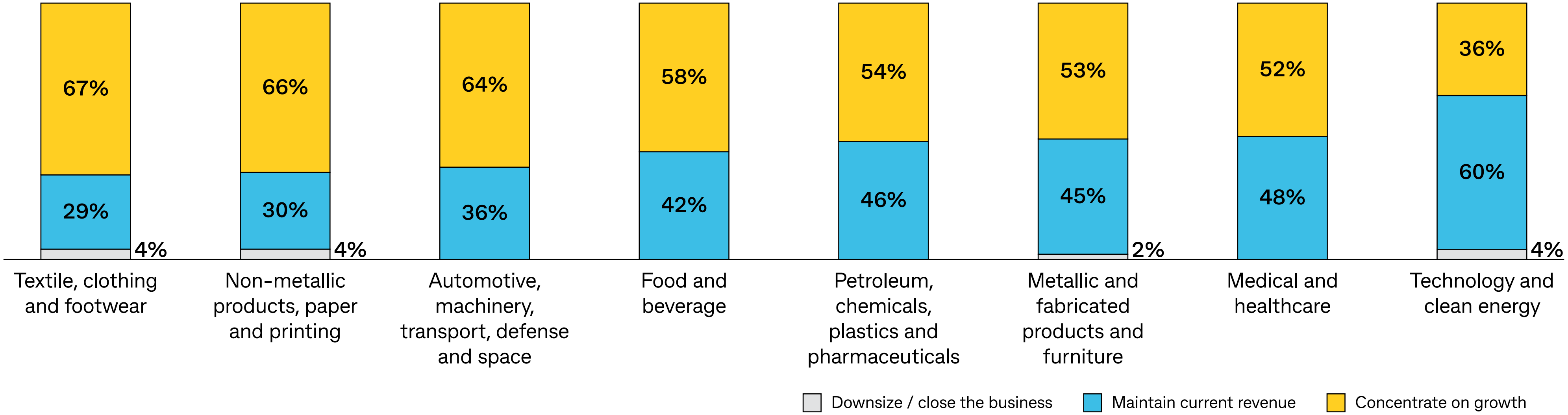
	Average	Metro	Regional
Yes, and meeting them or on track	53%	48%	66%
Yes, but unlikely to meet target by goal date	25%	30%	14%
No, but plan to introduce	12%	13%	9%
No, and no plans to introduce	10%	9%	11%

Emissions reduction target in place

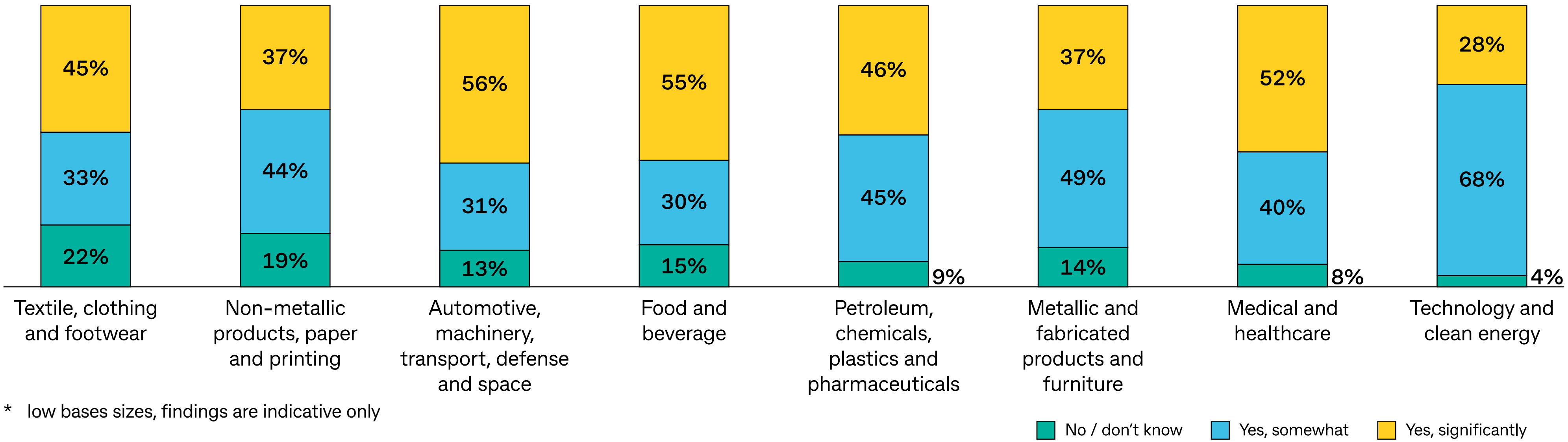
	Average	Metro	Regional
Yes, and meeting them or on track	57%	50%	70%
Yes, but unlikely to meet them	21%	25%	15%
No, but plan to introduce	14%	16%	10%
No, and no plans to introduce	8%	9%	5%

Benchmarking dashboard (Manufacturing segment*)

Approach to business over the next 12 months

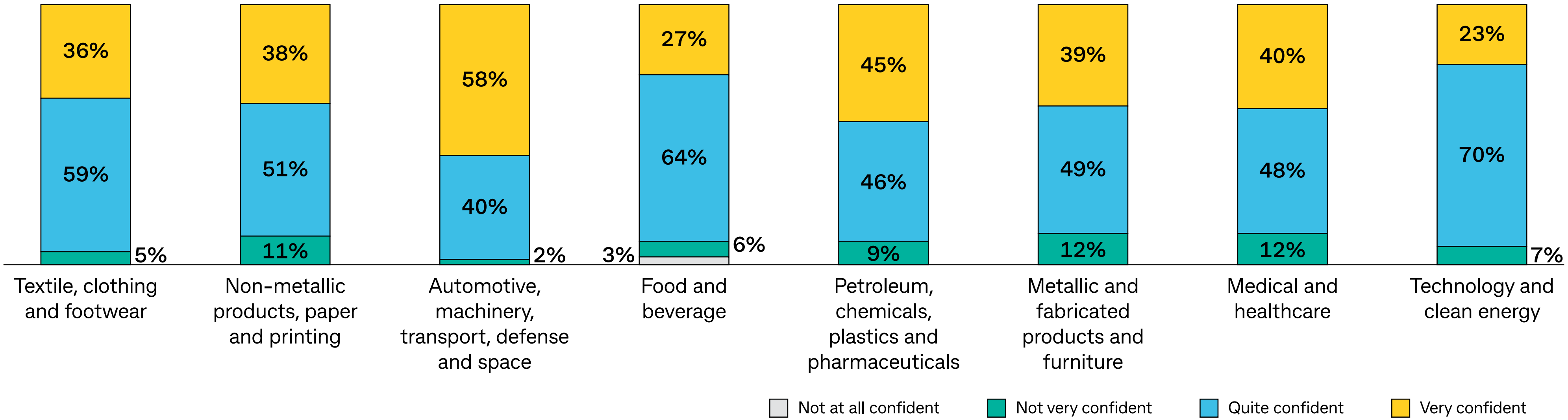


Cash flow cycle negatively impacted by supply chain issues

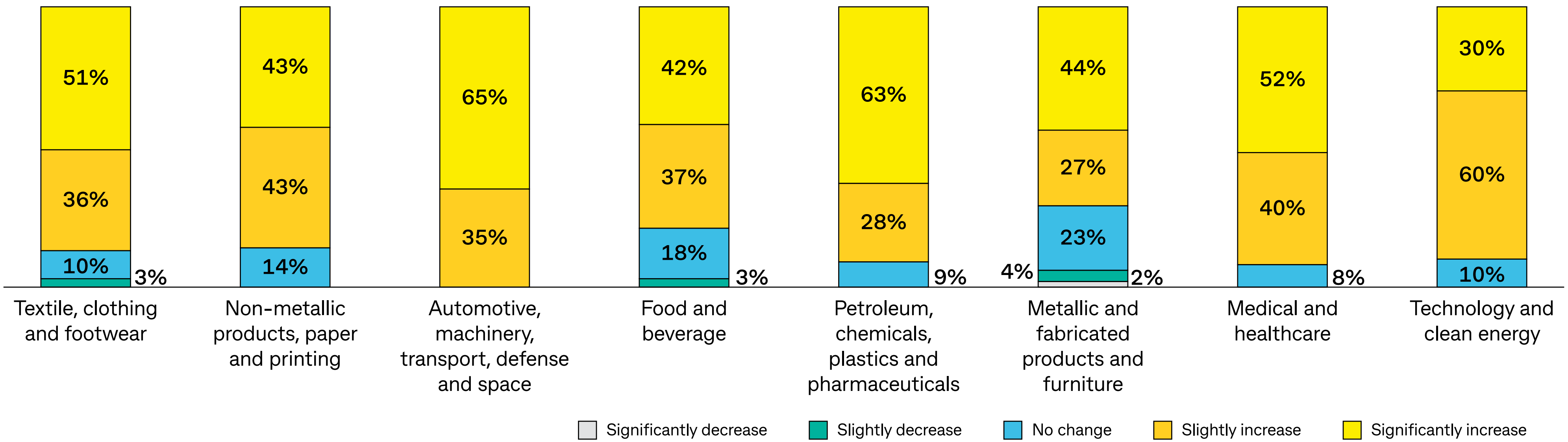


* low bases sizes, findings are indicative only

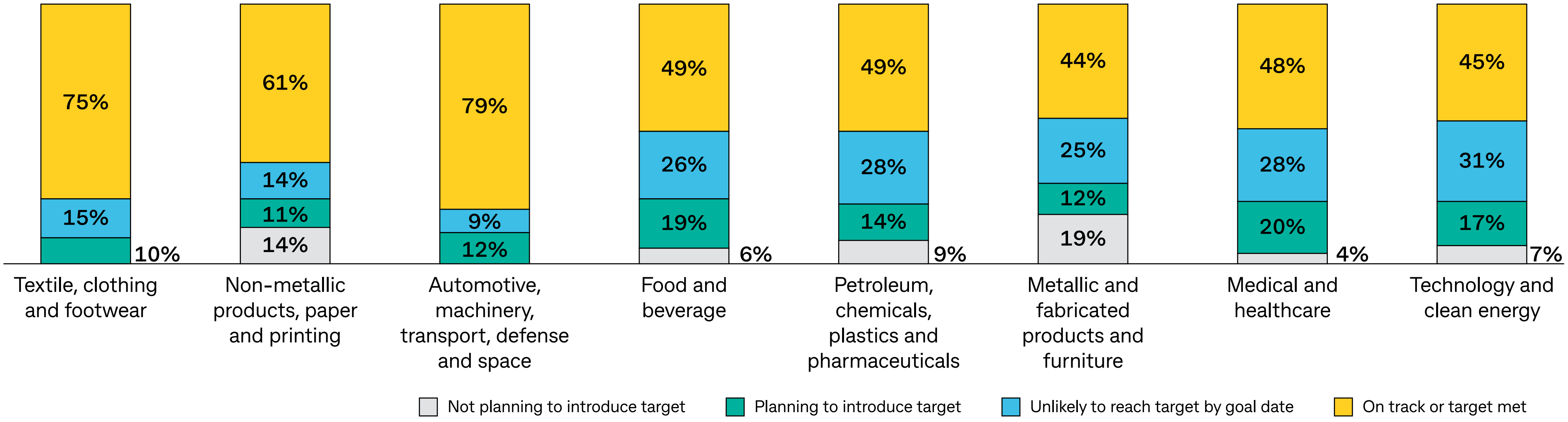
Confidence in business conditions in the next 12 months



Technology investment expectations in next 12 months



Emissions reduction target in place



About CommBank Manufacturing Insights

CommBank Manufacturing Insights is an exclusive, wide-ranging analysis of Australian manufacturers. This edition examines how manufacturers are navigating the industry's emerging challenges and opportunities with a focus on trends in business performance, inflation and supply chain management, digital transformation, and sustainable manufacturing.

The research is based on an online quantitative survey conducted by ACA Research on behalf of the Commonwealth Bank. The survey was in field during January 2023 and was completed by 300 key influencers or decision-makers from Australia's manufacturing industry, with the sample profile comprising the following:

Position: Manufacturing manager (35%), CEO, Owner, Partner or Director (30%), COO or operations Manager (17%), Divisional GM, Divisional Director or other Senior Management (14%), CFO or Financial Controller (4%)

Location: NSW/ACT (38%), VIC/TAS (25%), QLD (20%), SA/NT (7%), WA (10%). Metropolitan-based (68%) and Regional-based (32%)

Annual turnover: $5m-$20m (31%), $20m-$200m (35%), $200m+ (34%),

Product type: Metallic, fabricated products and furniture (16%), Petroleum, chemicals, plastics and pharmaceuticals (15%), Automotive, machinery, transport, defence, and space (14%), Textiles, clothing, and footwear (14%), Non-metallic, paper and printing (12%), Food and beverage (11%), Technology and clean energy (10%), Medical and healthcare (8%)

Learn more about how we support manufacturing businesses

Visit

www.commbank.com.au/manufacturing

insights@cba.com.au

Insights

For the latest business analysis, insights and news, visit

CommBank Foresight™

CommBank Business and Institutional