



MANUFACTURING 2021:

Three growing trends for the age of transformation

Prepare for action as a new manufacturing era lifts off.



A new era of opportunity with new priorities

As manufacturers collectively reimagine the future, some common points for action will help bring on success.

These are exciting times. There's a new paradigm emerging for Australian manufacturers for the post-pandemic future that's presenting an abundance of opportunities across the sector.

Due to the widespread rethink that's occurred on the flip side of the considerable challenges of 2020 and 2021, governments, consumers and manufacturers themselves have new priorities and are making plans.

In this report, we highlight three pivotal trends for manufacturers to consider if they want to make the most of this newly energised manufacturing era, kicking off with the recent upsurge in demand by consumers to buy Australian-made goods.

What many have suggested is 'just a fad' triggered by circumstances looks likely to endure, provided local manufacturers keep their emphasis on quality.

There's no ideal time for a pandemic, and COVID-19 has also coincided with a demographic shift that will prompt many manufacturing businesses to change hands in coming years.

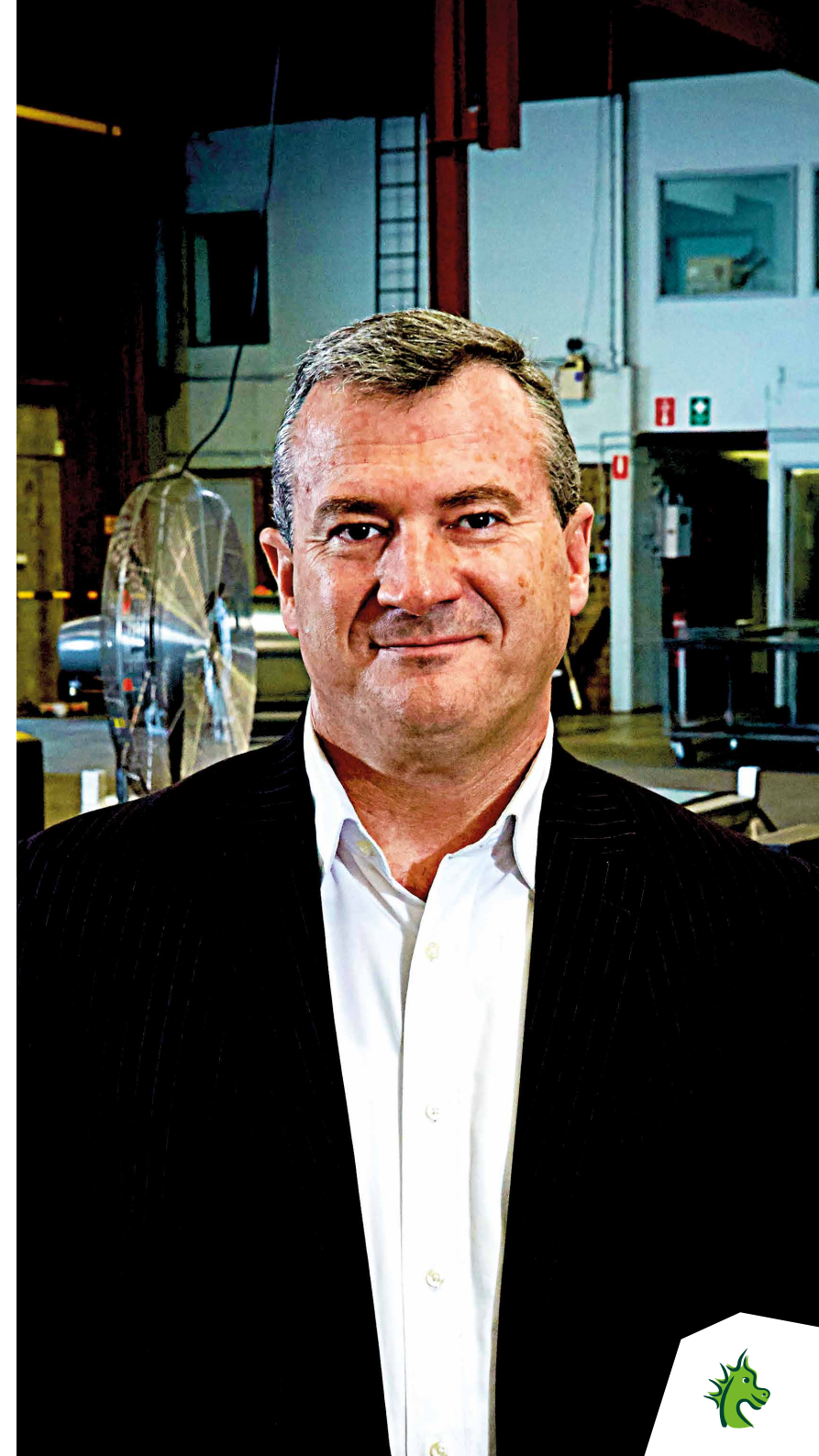
That puts succession planning on the front burner. As we explain in our report, you need to know your endgame.

Finally, one of the most commonly missed avenues of support for businesses is leveraging the multitude of grants and funding programs on offer. For those seeking to make changes, grow or scale-up their businesses, there are opportunities aplenty to explore right now.

At St.George, we're always ready to support and assist manufacturers, and there's never been a better time to invest. May this report provide you with food for thought to inspire ideas and action.

Don't hesitate to contact us. Our Manufacturing Specialist Bankers are ready to help you!

Matthew Kelly
Head of Manufacturing and Wholesale NSW, St.George Bank



Three pivotal trends define the post-pandemic future

Ample opportunities present to support Australian manufacturing's next phase of transformation.

The global pandemic has triggered the age of transformation for Australia's manufacturing industry. While economic conditions have never been tougher, the pressure of disrupted supply chains coupled with new market demands has created unprecedented opportunities.

The manufacturing industry employs some 860,000 Australians¹. Prior to the pandemic, it generated more than \$100 billion in value for the economy each year and more than \$50 billion in exports. As the industry continues to reimagine its future beyond COVID-19, three pivotal trends will help secure its performance and prosperity: harnessing renewed consumer preferences for Australian-made goods; planning for business succession; and tapping into government support via grants and funding.

Matthew Kelly, Head of Manufacturing and Wholesale NSW at St. George Bank, notes Australian manufacturers have shown resilience and adaptability in the face of unprecedented challenge. And many are now reaping the benefits.

"Cash flow has been strong for a number of manufacturers, and they are looking to expand their operations, or invest in industrial property," he says. "They're taking advantage of the government's instant asset write off, investing in equipment and bringing growth plans forward."

"The manufacturing sector is so critical for this country and it's now getting the attention it deserves."

Matthew Kelly, Head of Manufacturing and Wholesale NSW, St. George Bank

These opportunities coincide with the new national \$1.5 billion Modern Manufacturing Strategy, which is designed to boost manufacturing's resilience, competitiveness and ability to scale.

"I think Australian manufacturers have been underestimated for too long," says Kelly. "The manufacturing sector is so critical for this country, and it's now getting the attention it deserves."

1. *A Modern Manufacturing Strategy for Australia*, National Press Club, ACT, October 2020

AUSTRALIA'S 6 NATIONAL MANUFACTURING PRIORITIES

When launching the *Modern Manufacturing Strategy* in October 2020, Prime Minister Scott Morrison noted that the COVID-19 crisis had opened

"a new chapter for Australian manufacturing as a revitalised source of high-wage jobs, valuable exports and national income".

Part of the Government's JobMaker Plan to recover from COVID-19, the strategy focuses on six National Manufacturing Priorities with potential to deliver longterm transformational outcomes for the Australian economy:



1

Resources
Technology &
Critical Minerals
Processing



2

Food &
Beverage



3

Medical
products



4

Recycling &
Clean Energy



5

Defence



6

Space



The future looks local

Enduring success for Australian-made goods will be driven by quality, experts believe.

COVID-19 caused a switch in Australian consumer preferences. Concerns about health, quality and availability combined to bring the provenance of purchases into sharp focus, while a desire to support the domestic economy and create jobs during the crisis saw more consumers prioritise locally made goods.

Fad or ongoing favour?

Research from [Roy Morgan](#)² shows 93 per cent of Australians were more likely to buy products made in Australia in 2020 – up from 87 per cent the previous year.

A [Brand New World](#)³ study by Junkee Media also shows a growing preference for local goods, particularly among young Australians, with 55 per cent saying they were buying more local and Australian-made products since the pandemic. More than 45 per cent also say they've saved money as a result.

“By supporting the Australian-made push, consumers are helping to future-proof

2. [Preference for Australian-made goods rises in 2020; but plunges for Chinese-made goods](#), Roy Morgan, May 2021

3. [Brand New World](#), Junkee Media, August 2021

jobs in a critical industry,” says Kelly. “Manufacturing represents about seven per cent of employment.”

“By supporting the Australian-made push, consumers are helping to future-proof jobs in a critical Australian industry.”

Matthew Kelly, *Head of Manufacturing and Wholesale NSW, St.George Bank*

But will the renewed consumer focus on Australian-made goods be a passing fad or ongoing priority?

Jens Goennemann, Managing Director, Advanced Manufacturing Growth Centre, believes loyalty will only go so far. “If we think we can bet on a pandemic to boost manufacturing, we are ill-advised,” he says.

“Today, a customer may say they’ll continue to proudly support ‘Made in Australia’, but if the product doesn’t stand up in quality to what they can get from Singapore, Korea, Germany or the US, that loyalty will fade very quickly. People will pay for quality. Just being an Australian manufacturer is not good enough.” ▶



Three growing trends for the age of transformation

Trend #1

New links for supply chains

A [2021 report](#)⁴ from the Productivity Commission shows Australia imported 5,950 different product aggregates in 2016-17 with a combined value of \$272 billion. These imports came from 223 countries, but the majority by value were from the five largest suppliers — China, the US, Japan, Thailand and Germany.

However, global supply chains have been strained by restrictions on individual and commercial activities since the pandemic, as well as the significant shifts in patterns of demand. Many manufacturers have been forced to rethink their source of goods and services.

“Manufacturers struggled to get supply at the height of the pandemic and they’re still struggling to get it now,” says Kelly. “But this has led to a renewed focus on local suppliers, which has benefitted the broader industry.”

This reimagining of supply chains will be assisted by government programs, such as the Commonwealth’s [\\$107.2 million Supply Chain Resilience Initiative](#), which is part of the broader Modern Manufacturing Strategy. The scheme provides up to \$2 million to establish or scale a manufacturing capability to address

4. [Vulnerable Supply Chains, Productivity Commission Interim Report](#), March 2021.

“We know we can’t rely on global supply chains for these industries right now, and the funding will soon expand into other areas of manufacturing.”

Stephan Wagner, Regional Manager Western Sydney at AusIndustry

a supply chain weakness for a critical product or input identified in the Sovereign Manufacturing Capability Plan.

“The first tranche of this funding aims to address vulnerabilities in supply chains for medicines and agricultural production chemicals,” says Stephan Wagner, Regional Manager Western Sydney at AusIndustry. “We know we can’t rely on global supply chains for these industries right now, and the funding will soon expand into other areas of manufacturing.”

However, Goennemann stresses a global supply chain remains critical to Australian manufacturing success. “We should reduce our supply dependency on just a few countries, but we must continue to trade globally, because our wealth depends on it,” he says. “Let’s focus on the six National Manufacturing Priorities, deepen the supply chain locally where there’s a business case for it, and lower the supply risk in these six verticals.”

MADE IN AUSTRALIA

Almost 90% of Australians believe Australia should be producing more products locally following the COVID-19 pandemic.



Five key motivations for businesses to manufacture locally are:

- 1 Reducing Australia’s reliance on other countries **38%**
- 2 Creating jobs **26%**
- 3 Supporting Australian business and industry **26%**
- 4 Safeguarding vulnerable international supply chains **20%**
- 5 Strengthening Australia’s economy **16%**

SOURCE: [The impact of COVID-19 on purchasing decisions](#), Roy Morgan, 2021



Three growing trends for the age of transformation

Trend #1

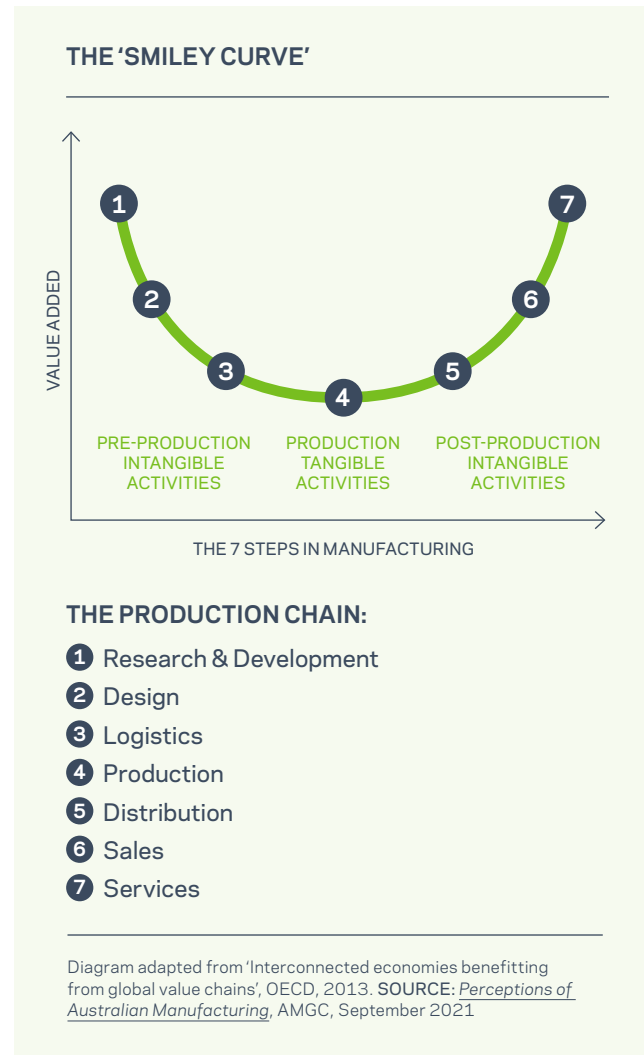
Focus on the 'smiley curve'

If manufacturers are to seize the moment, Goennemann says attention must shift beyond production to the entire manufacturing 'smiley curve'.

"The smiley curve is made up of the seven steps in manufacturing - research and development, design, logistics, production, distribution, sales and services," says Goennemann. "In Australia, we tend to think of manufacturing as assembling something, but this is only one part of the value chain. It's also the lowest value-adding part and the easiest to be disrupted or outsourced."

"So, if manufacturers are to make the most of this moment, they need to focus on where they compete on value, not cost, across the entire value chain, especially before and after production."

"Manufacturing is the most promising capability to turn a lucky country into a smart country," adds Goennemann. "But we need to be better, not cheaper, and we need to embrace technology. If we do this well, we can unleash the power of Australia's 47,000 manufacturing businesses."



PROMOTING YOUR PROVENANCE

The Australian Made, Australian Grown (AMAG) logo has represented local manufacturing credentials for 35 years. It is one of the most effective ways to leverage the current Australian-made movement.

The 'Australian made' certification refers to the production process rather than content of a product. The logo is currently used by more than 4,100 Australian businesses and licensees have exclusive access to various digital channels to market their goods to audiences seeking to buy Australian-made products.

"With consumers more actively looking to buy local goods and businesses seeking to diversify their supply chains and access more local sources, manufacturers with a strong online presence have been able to benefit," says Kelly. "But, on the whole, I think manufacturers need to get better at Australian-made branding. The flying kangaroo logo is instantly recognisable, but it isn't being used enough."

For manufacturers seeking to broaden their market, a \$5 million federal government grant aims to extend the logo's international reach by allowing the trademark to be registered and promoted in key export markets, such as the European Union, the United Kingdom and Canada.



99%
of Australians
recognise the logo



93%
of Australians
prefer Australian
products



92%
are confident that
products with the
logo are genuinely
Australian

SOURCE: *New research shows a surge of support for Australian-made*, Australian Made, May 2021



Next generation action plans

Planning your end game is now more important than ever.

Amid the widespread uncertainty of the pandemic, one thing is clear: tomorrow's success is contingent on the strategies implemented today.

With the majority of Australian business owners currently aged between 45 and 59 years, a substantial number of manufacturing businesses will soon change hands. Now is the time to explore new opportunities, invest in growth and plan for the end game.

Plotting your exit strategy

A recent [report from AMGC⁵](#) shows Australian manufacturers differ widely in how they plan for and implement change. Less than 12 per cent have a documented strategic plan, for instance, while 31 per cent have a plan in mind, but have not written it down.

"Succession planning should be part of the broader strategic plan, but many manufacturers are so busy working in their business they are not making time to work on their business," says John Spender,

5. *Advanced Manufacturing - Ten ways to succeed in Australian Manufacturing, Insights from Peers, the Public and AMGC, 2020*

Director, Business Advisory, at accounting and advisory firm William Buck.

"Even before COVID-19, manufacturers should have been reviewing their exit plan, ideally on an annual basis," adds Spender. "But COVID has brought the need for planning into sharper focus. One of the first questions I ask new clients is, 'What's your end game?'"

"COVID has brought the need for planning into sharper focus."

John Spender, Director, Business Advisory, William Buck

Preparing for sale

If the ultimate aim is a trade sale, Spender says the focus should be on maximising profits and having the right tax structure in place. "It normally takes businesses around three years to get their books in good order for a trade sale," he says.

"This requires driving good profits, creating efficiencies and easing up on discretionary spending.

"If the plan is to sell to an existing employee, you may want to pay more attention to other investments within the business that help set it up for the future." ▶



Keeping it in the family?

Approximately 70 per cent of all businesses in Australia are family-owned. And a recent report from KPMG⁶ shows less than 15 per cent of them have a documented transition plan for their senior leader.

Rebecca Hegarty, Principal/Director – Head of Commercial Advice at Coleman Greig Lawyers, says a formally documented transition plan provides clarity around an issue often clouded by emotion.

“A succession plan should be part of an overall business plan.”

Rebecca Hegarty, Principal/Director, Head of Commercial Advice, Coleman Greig Lawyers

“Succession planning can bring family conflict to the fore if it is not carefully managed,” she says. “Sometimes it’s hard to prise the baton out of somebody’s fingers. Siblings may disagree, or a child may want to forge their own identity and choose not to join the family business.”

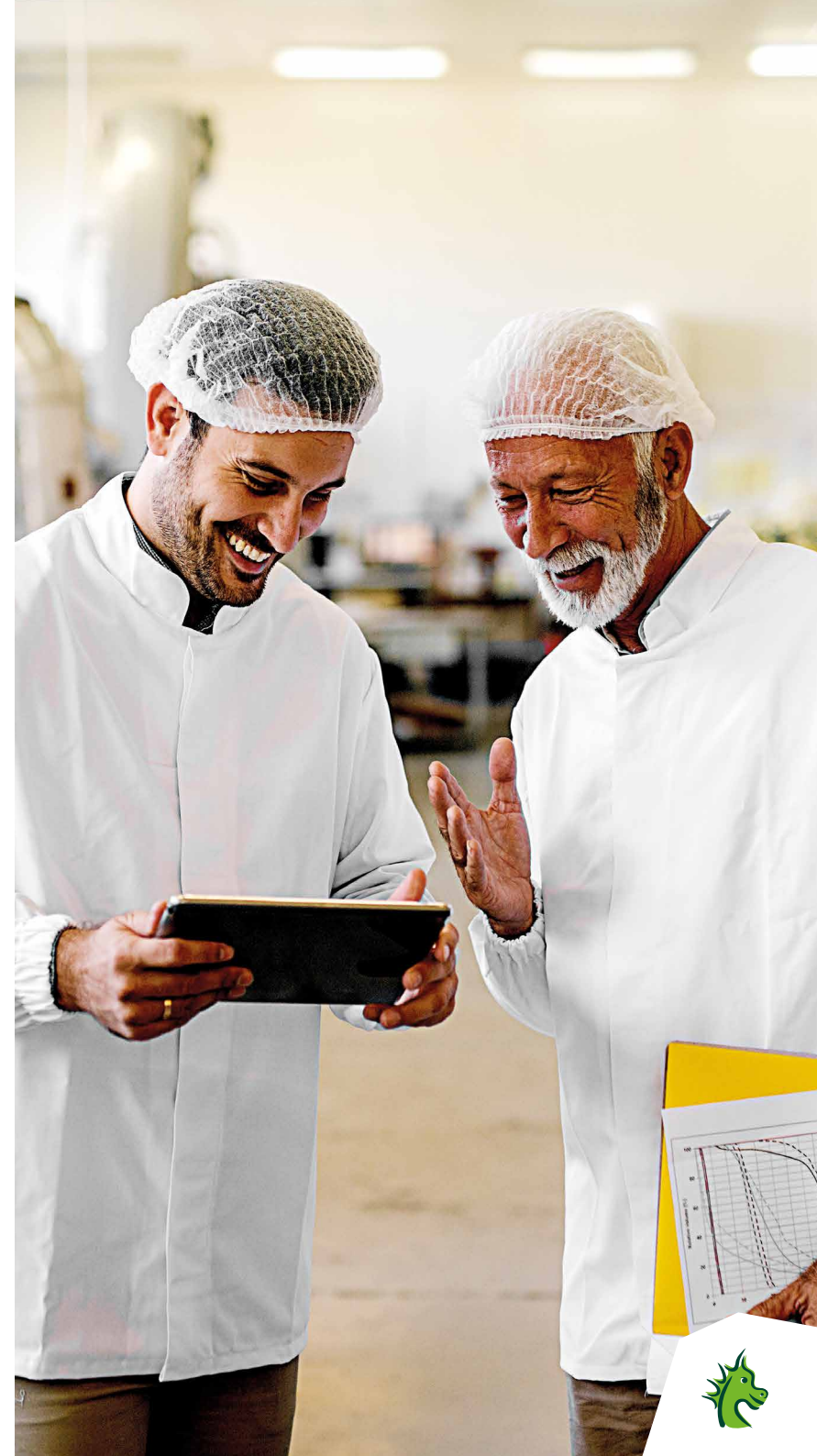
6. *Transition, diversity and entrepreneurship: How Australian family businesses are sparking next-generation success*, KPMG Australia and Adelaide Family Business Report, 2021

Hegarty says family business succession should start with a conversation and end with a documented transition plan that can change over time. The plan should include elements such as shareholder agreements, estate and tax planning, management structuring, governance and valuation.

“A succession plan should be part of an overall business plan,” says Hegarty. “As we come out of COVID, we’ll enter a recovery phase – what’s that going to look like for your business? Will you go back to that mode of focusing on the here and now, or focus on the future?”

➔ NEED TO KNOW MORE?

A large number of local manufacturing businesses are expected to change hands in the not-too-distant future, so if you’re looking for more detailed expert advice on how to plan your business succession head to our resources hub to download our Succession Planning fact sheet at stgeorge.com.au/manufacturing.



Funding for the future

Grants and programs abound to help manufacturers transform and grow.

Manufacturers play a critical role in Australia's economic success. But an innovative, tech-driven sector doesn't thrive in isolation. It requires support via government funding, strategic consultation and a vibrant research community to help fuel its growth. The good news? It's all within reach.

There are around 150 government grants and funding programs targeting Australian manufacturers. The Modern Manufacturing Strategy, for instance, includes the \$1.3 billion [Modern Manufacturing Initiative](#), which provides cofunding for large manufacturing projects with broad sectoral benefits across the six National Manufacturing Priorities.

At state level, governments provide funding support at various scales. NSW's [TechVouchers](#) program, for instance, offers grants of up to \$15,000 for SMEs to access technical research infrastructure and expertise, while its \$24 million NSW Small Business Innovation & Research program provides competitive grants to SMEs to develop and commercialise solutions for the state's government agencies.

"The NSW manufacturing sector is building and applying disruptive technologies as a critical element of entrepreneurship and innovation," says Jarrod Mander, Director - Clean Economy & Manufacturing, Investment NSW. "It requires grants and funding programs that accelerate, facilitate and enable turning ideas into commercial realities and encourage collaboration between researchers and the commercial sector."

Other sources of government support can also help fuel manufacturing success. The \$6.2 million [R&D Fund](#) is a single-round scheme, for example, that supports SMEs and scaleups to commercialise products that address the health, social or economic impacts of the pandemic.

While the Federal Government's ongoing AUD400 million per annum [Entrepreneurs' Programme](#) provides funding for startups, collaborative research and practical advice and mentorship from a team of expert facilitators, plus access to a range of co-funding. "A business would typically pay tens of thousands of dollars for a professional to provide this kind of value and assistance," says Wagner.



AHEAD OF THE COMPETITION?

Most government funding schemes are highly competitive. How can you maximise your chance of success? AusIndustry's Stephan Wagner suggests:

- 1 Start with a clear vision of how the grant funding will be spent, and [checking](#) all the items you wish to spend it on are eligible for the grant.
- 2 Be sure to prepare a convincing pitch backed by evidence. You need to demonstrate why the government and the taxpayer should give you this money as opposed to someone else.
- 3 As many grants are co-funded, expect to contribute your share of capital. Keep your financial records up-to-date and be clear in your application that you have access to the money required.

Funding guides are available to help SMEs apply for appropriate funding opportunities throughout the life of their business - from start-up through to medium-sized businesses at [business.gov.au](#)



Future gains in maximising opportunities, now

Smart operators are building greater strength and scaling up.

A crisis should not be wasted. Now is the time for manufacturers to harness new opportunities for change, embrace strategies for future success and tap into grants to support new growth.

“Manufacturing in this country’s never been stronger than it is right now. It’s a great time to invest for growth.”

Matthew Kelly, *Head of Manufacturing and Wholesale NSW, St. George Bank*

“We have 47,000 manufacturers in Australia, and 95 per cent employ less than 20 people,” says Goennemann.

“The bigger ones get all the attention, because they’re louder, not because they’re better.

“Many of the small and medium-sized manufacturing possess the ingenuity and they are highly capable. What they lack is scale.”

The challenges of COVID-19 can’t be underestimated, but silver linings have emerged for manufacturers who can seize the moment for transformation.

“Manufacturing in this country’s never been stronger than it is right now,” says Matthew Kelly. “It’s a great time to invest for growth.”



➔ READY FOR ACTION?

If you have any questions or would like to know more about the information contained in this report, please contact the author:



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