Gearing up for growth

Manufacturing Insights 2024

Contents

Foreword from CommBank

Welcome to the latest edition of the *Manufacturing Insights Report*, designed to examine emerging trends reshaping the dynamics of manufacturing, wholesale trade and transport distribution. This builds on our previous *Manufacturing Insights series*, now providing visibility of market drivers and responses across the supply chain from production to customer delivery.

It has been developed to help decision-makers benchmark performance metrics and support forward planning as part of our ongoing commitment to provide data-led market intelligence.

The report arrives at a time when we know manufacturers and distributors have again had to draw on their resilience. The research confirms that in the past 12 months, rising operating costs, changing customer expectations and labour shortages have tested many.

Even so, the research shows that most businesses have at least moderately increased production volumes and continued investing in 2023, ensuring operations remained agile, efficient, and productive. Capacity utilisation rates as a proxy for productivity also remain healthy.

That has created a strong foundation as many businesses again target steady growth in output and revenue in the year ahead. It is one reason why cautious optimism is evident across the industry.

While multiple hurdles remain that can constrain capacity and responsiveness, most businesses are undeterred. For many, that's because the strategies they need to navigate top challenges are already underway.

This includes plans to streamline the supply chain, invest in modernising operations, reskill the workforce and adopt sustainable practices. These also all have an overlapping goal to support higher productivity and build an edge in a competitive marketplace.

The report delves into the top challenges and tactics as businesses adapt to customer needs and seek new ways to optimise their operations and workforce. As you advance your strategies for the year ahead, we hope this report provides valuable insight into how your peers and supply chain partners plan to get ahead.

Maria Christina
National Manager Manufacturing & Wholesale
Commonwealth Bank of Australia

Want more insights for future facing businesses?

Visit CommBank Foresight

About CommBank Manufacturing and Supply Chain Insights

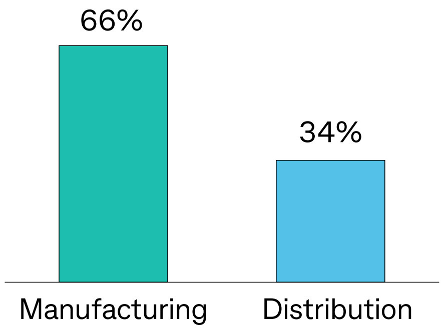
This edition examines businesses' performance and outlook and pathways to adapt to changing economic, customer and productivity drivers. It focuses on technology investment and sustainable manufacturing and their operational impact.

The report is based on a survey of 464 respondents that, for the first time, combines decision-makers from both manufacturers and distributors to evaluate trends across the supply chain. Fifth Quadrant conducted the online quantitative survey on behalf of the Commonwealth Bank between late January and the end of February 2024.

The sample was selected to ensure the results are nationally representative. All statistics and references to manufacturers and distributors in this report are based on the responses to the survey unless otherwise stated.

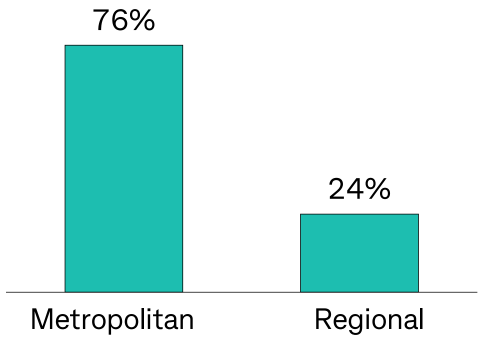
Respondent profile

Business type

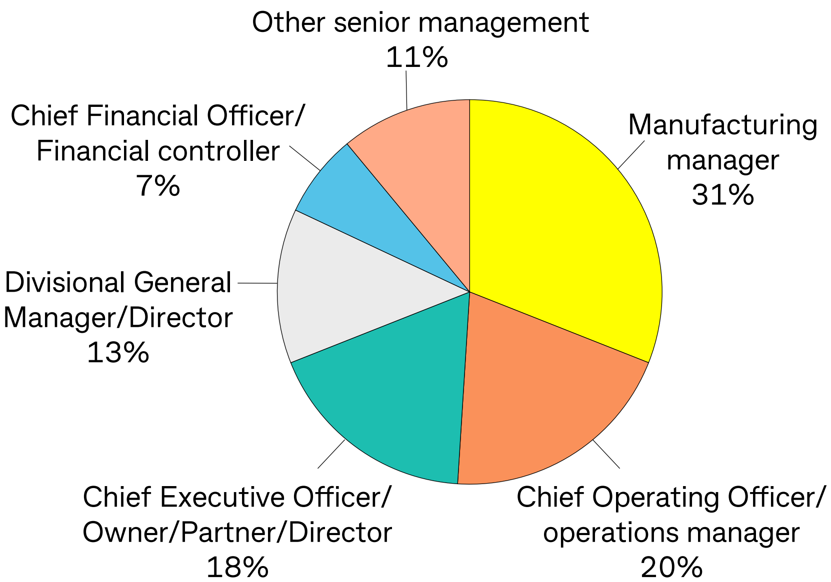


Annual turnover

Location

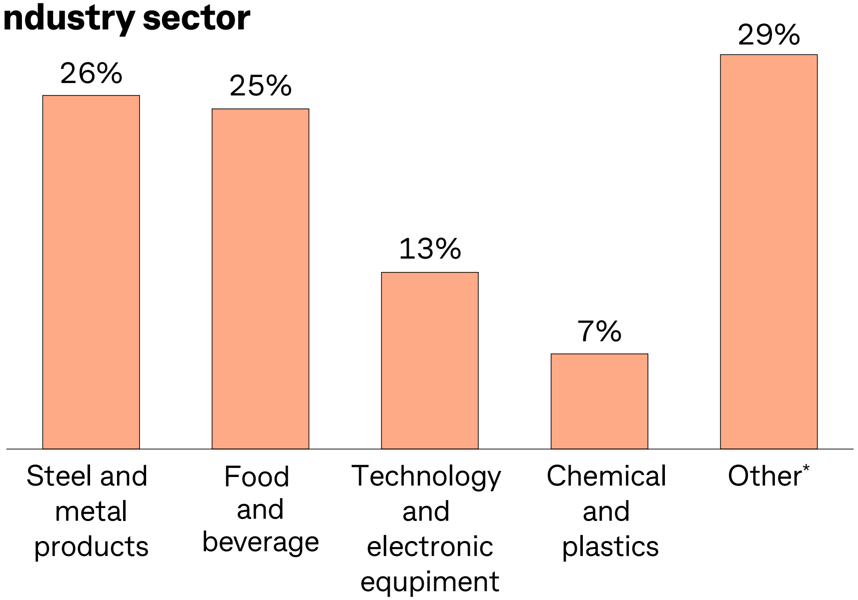


Business role



Refer to table 1 for data on page 26.

Industry sector



*Other consisting of Furniture (6%), Transport Equipment (5%), Non- Metallic products (5%), Textiles, Leather, Clothing & Footwear (5%), Medical & Healthcare Equipment (3%), Wood, Pulp & Paper (2%), Other (3%)

Key insights

Top-rated market drivers

Ongoing cost pressures

71%

expect fixed or variable costs to rise in 2024, with energy costs, inflation and interest rates expected to have the most industry impact.

Keeping pace with customer needs

62%

of businesses say they have observed changing customer demand around pricing, order frequency or spend.

Labour and skills in short supply

56%

of businesses say that either labour skill level or availability are the top productivity inhibitors.

Business strategies

Increasing output

61%

are targeting higher production levels in 2024, with the industry-wide average capacity utilisation rate currently 84.1%.

Boosting productivity

71%

of manufacturers are focusing on productivity to adapt to changing customer needs and preferences.

Enhancing supply chains

56%

are prioritising capital expenditure to drive supply chain efficiencies above other factors.

Modernising operations

40%

are prioritising capital expenditure for new or upgraded systems, software, plant, equipment or vehicles above other factors.

Investing in technology

81%

are lifting technology investment in 2024 with improved productivity the top business goal.

Digital reskilling for staff

77%

are undertaking internal or external training initiatives to prepare staff for technology adoption.

Driving sustainability

81%

have implemented at least some sustainability initiatives, with efficiencies the top business goal.

Preparing for regulatory change

82%

have some awareness of incoming mandatory climate related financial disclosure.

Performance drivers and outlook

With moderate growth plans in place and strategies to navigate persistent challenges, most manufacturers and businesses are optimistic.

Targeting steady growth through the economic cycle

2023 was another year in which Australian manufacturers and distributors called on their resilience. Just as global supply chain bottlenecks eased, inflation emerged. Coupled with economic uncertainty, it pushed up operating costs and led to fluctuating downstream demand.

Even against this backdrop, manufacturers and distributors sought to build capacity and output, with many increasing capital expenditure (55%) to support higher production volumes (60%) and revenue (65%). Fewer could expand their teams amid labour shortages (45%), particularly in regional areas.

Most manufacturers and distributors raised their prices (71%) to offset rising costs. However, with profit rising for fewer businesses (63%) and most only seeing slight increases, price increases were not enough to maintain margins in every case.

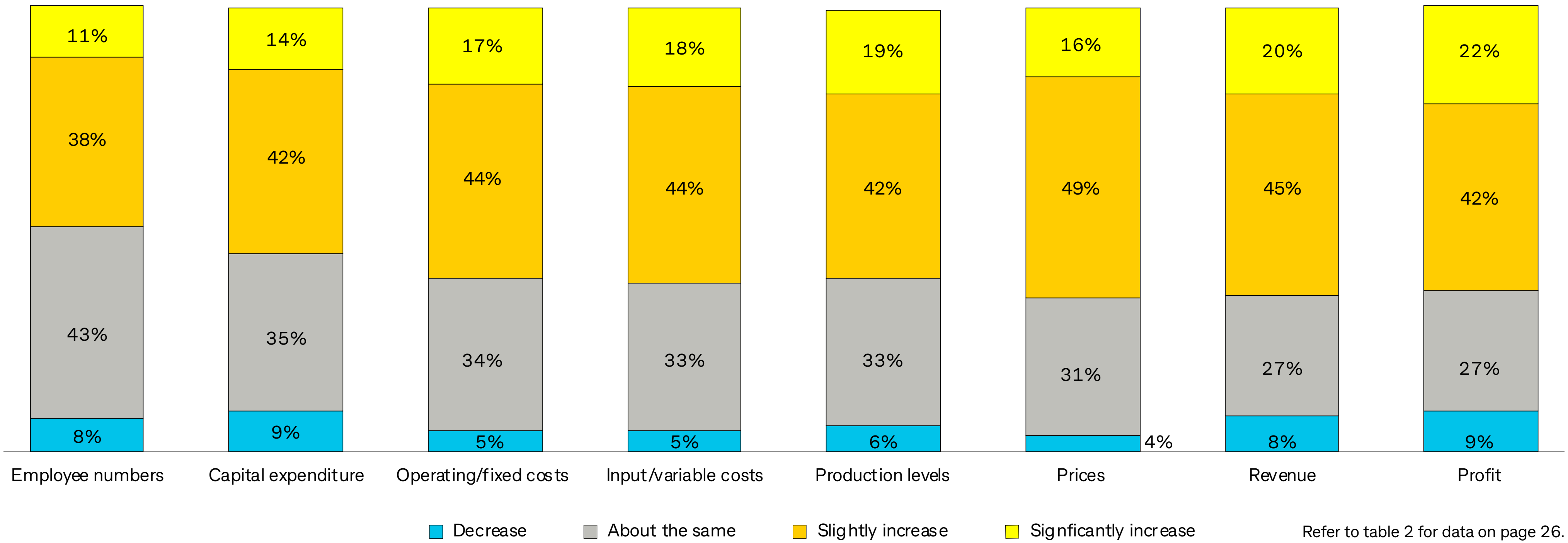
Looking ahead, this operational and financial performance is expected to continue. Most businesses are again targeting higher production, revenue, and profit as shown in Figure 1. Comparing 2023 with expectations for 2024 reveals a marginal drop in the number of businesses anticipating cost and price increases. This might suggest early signs of hope that inflation may normalise.

This incremental growth outlook is reflected by tempered optimism across the industry, with 83% of manufacturers and distributors expressing confidence in business conditions over the next year. Of these, one in four are very confident. However, nearly one in five (17%) are not optimistic.

Sentiment also varies between business types, locations and sizes. Manufacturers are more confident than distributors, while businesses with a higher turnover, those in regional Australia, and operators in the steel and metal and technology sectors are the most optimistic.

Figure 1: Operational and financial performance indicators

	Employee numbers	Capital expenditure	Operating/ fixed costs	Input/ variable costs	Production levels	Prices	Revenue	Profit
Increased in 2023 (net)	45%	55%	66%	66%	60%	71%	65%	63%
Expected to rise in 2024 (net)	49%	56%	61%	62%	61%	65%	65%	64%
2023 increases vs 2024 expectations	**+4%** ↑	**+1%** ↑	**-5%** ↓	**-4%** ↓	**+1%** ↑	**-6%** ↓	**0%**	**+1%** ↑



Refer to table 2 for data on page 26.

Navigating multi-dimensional issues and imperatives

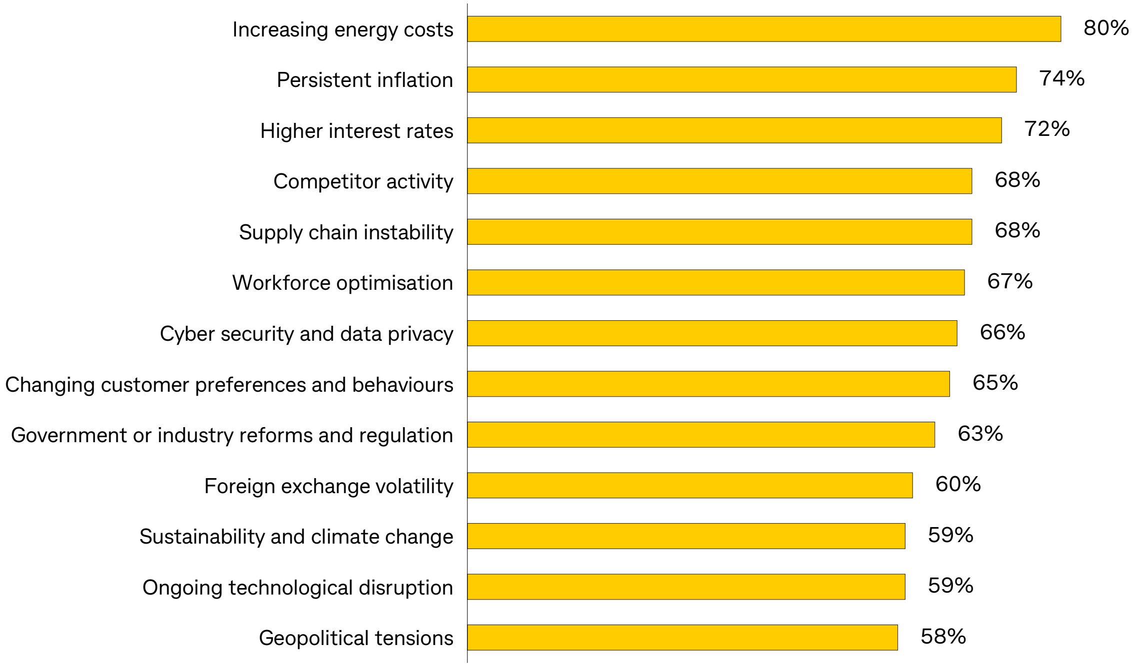
As many manufacturers and distributors strive for higher output volumes in the year ahead, a range of factors are expected to impact their financial and operational capacity. Chief among them are increasing energy expenses, particularly among manufacturers, and inflation and interest rate settings that can place upward pressure on costs, as Figure 2 shows.

Around two in three manufacturers and distributors expect competitor activity, ongoing supply chain disruption and changing customer needs to have an impact. For businesses, these factors bring pricing, product quality and responsiveness into greater focus.

Reflecting a tight labour market and skills shortages, continued efforts to optimise the workforce are anticipated to remain a feature in 2024.

Most businesses also foreshadow the impact of issues related to sustainability, ongoing digital transformation imperatives, and geopolitical tensions. While relatively fewer believe these issues will be impactful, that may be because initiatives to adapt to these shifts are already well underway.

Figure 2:
Issues expected to have a moderate or high impact on manufacturers and distributors in 2024



Refer to table 3 for data on page 26.

Navigating multi-dimensional issues and imperatives (cont.)

Many manufacturers and distributors are mounting their response to common issues, which coalesce around three major categories. That is, addressing elevated operating costs, adapting to customer-led change and clearing productivity hurdles.

There are also common themes that traverse these categories. For example, outdated systems can make inventory and supply chain management more challenging, reducing responsiveness to customer demand and potentially adding to costs.

This is prompting a range of initiatives designed to optimise operations and remain competitive while increasing productivity and supply chain resilience. As we explore later in the report, investment in technology and sustainability initiatives is expected to continue playing a significant role in pursuing these objectives.

Cost and inflation pressures	Changing customer behaviours	Productivity and capacity inhibitors
Top issues Rising energy costs, persistent inflation and higher interest rates	**Top issues** Demand for lower pricing, fast and flexible delivery expectations, changes in order frequency and spend	**Top issues** Labour and skills availability and outdated or ineffective equipment and operating systems
Top responses Improving cost controls, optimising systems and processes, driving effiiciencies	**Top responses** Increasing product quality and innovation, streamlining supply chain, reviewing pricing	**Top responses** Reskilling staff, upgrading equipment and technology, reviewing production KPIs

Enablers

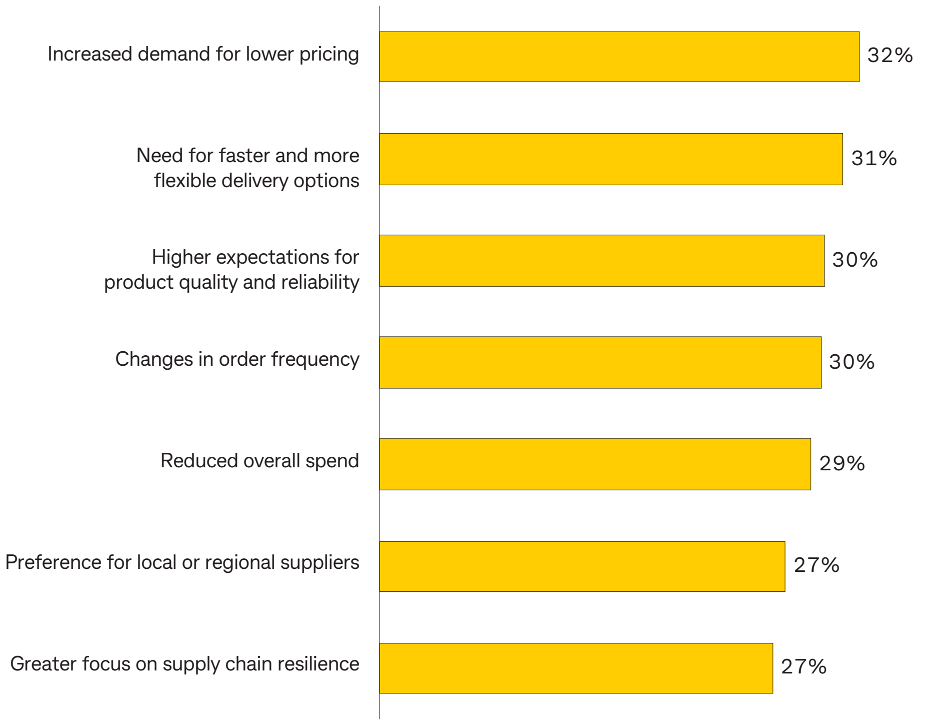
Technology and emerging digital tools | Sustainable practices and initiatives

Adapting to customer-led change

The changing preferences of downstream customers are influencing manufacturers' and distributors' strategic outlook. For example, the importance of remaining competitive and reviewing pricing can be linked to observed shifts in customer demand, highlighted in Figure 4.

This includes expectations for lower prices, which 32% of businesses report. A similar number have seen changes to order frequency (30%) and reduced customer spend (29%).

Figure 4: Shifts in customer behaviour and preferences

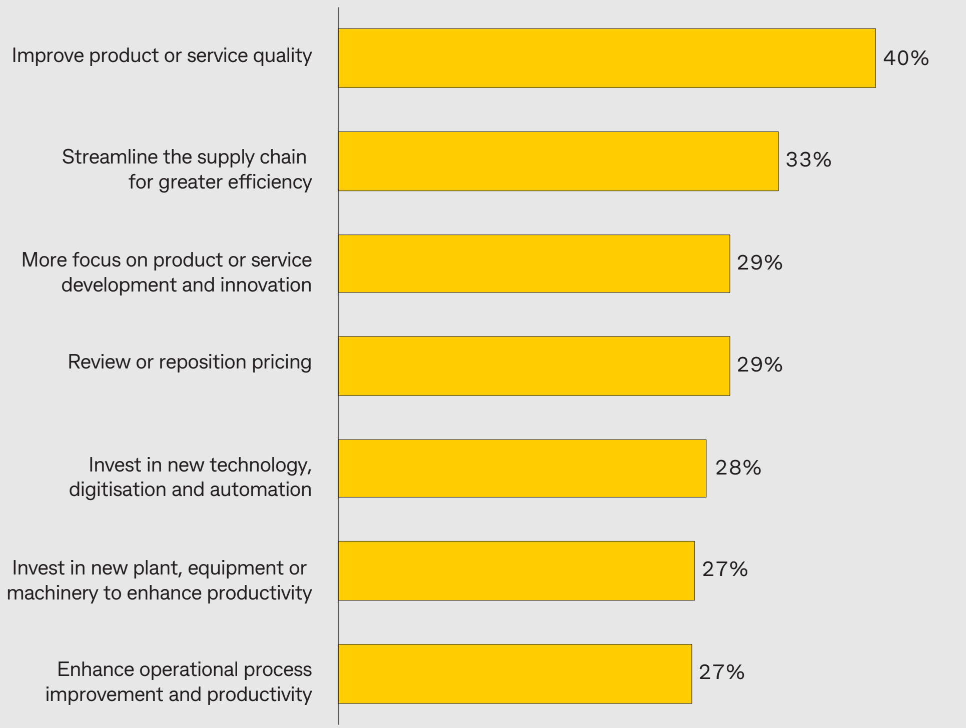


Refer to table 4 for data on page 26.

Businesses also saw customers' focus on supply chain responsiveness increase, particularly the need for faster and more flexible delivery options and a preference for local suppliers. Many also experienced heightened expectations for product quality and reliability.

Over the next 12 months, manufacturers and distributors are planning proactive responses to these customer-led changes, as seen in Figure 5. The top areas of focus include improving product and service quality and innovation, optimising the supply chain, and investing in new equipment to drive efficiencies and productivity.

Figure 5: Planned priorities to adapt to customer needs



Refer to table 5 for data on page 26.

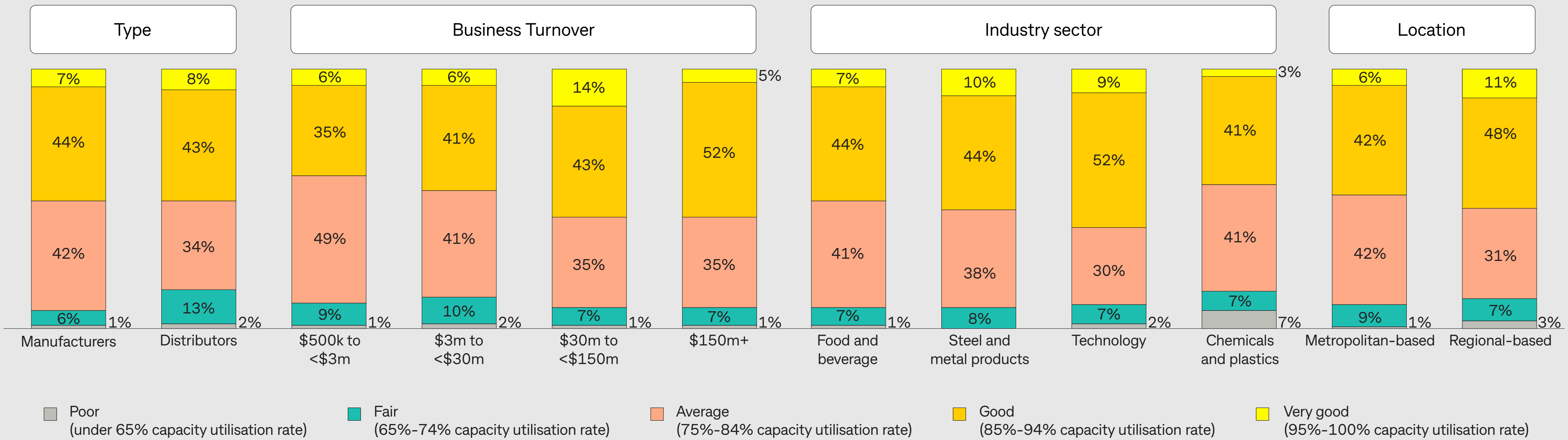
Setting a baseline for future productivity gains

Many manufacturers and distributors see productivity gains underpinning a range of strategic initiatives. After all, if production rates and distribution volumes can rise efficiently, it can help businesses better compete and preserve margins as they target higher output.

Before examining what businesses believe is holding back productivity, and their improvement plans, measuring capacity utilisation rates (CUR) to track progress against total potential economic output provides a baseline. Across all manufacturers and distributors, more than half say their CUR is 85% or above. Of these 8% are achieving a very good CUR of more than 95%. While the same proportion of both manufacturers and distributors report a CUR of over 85%, distributors are twice as likely to have a CUR below 74%.

As shown in Figure 6, the CUR varies across business sizes, sectors, and locations, and the impact of seasonal and cyclical factors on moment-in-time utilisation rates cannot be discounted. However, smaller manufacturers and distributors tend to have a lower CUR, which increases as turnover grows. Those in the technology and steel and metals sector, as well as regionally based businesses, also have relatively higher CURs.

Figure 6: Productivity by capacity utilisation rate



Refer to table 6 for data on page 27.

Productivity detractors and enablers

With most manufacturers reporting healthy capacity utilisation rates, attention turns to maintaining and growing output. When asked which factors currently drag on productivity, labour and skills shortages stand out, a challenge for 39% and 43% of manufacturers and distributors, respectively.

As highlighted in Figure 7, outdated equipment and technology and ineffective operating systems were nominated as productivity inhibitors by over one in four.

To support productivity in 2024, businesses are prioritising capital budgets for supply chain (56%), technology and software (47%), operating systems (46%) and equipment and vehicles (40%). Capital expenditure on labour is also earmarked by 37%.

This is expected to support a range of productivity-enhancing initiatives. The most common is reskilling staff to bridge the talent gap, as Figure 7 shows. This is followed by the tighter use of inventory management systems, the review of production KPIs, and close collaboration with supply chain partners.

Figure 7: Productivity barriers and tactics to improve

Top productivity barriers

1. **41%** labour skill level
2. **36%** labour availability
3. **29%** outdated plant and equipment
4. **28%** ineffective operating systems
5. **27%** outdate technology and software
6. **27%** quick changes to customer orders

Top tactics to improve productivity

1. **43%** reskilling staff
2. **39%** tighter inventory management system
3. **34%** reviewing production KPIs
4. **34%** closer collaboration with suppliers
5. **34%** digital technology adoption and related reskilling
6. **33%** replacing plant, equipment or vehicles

Case study: Manuko

The idea for Manuko was first conceived when its founder, Matt Hardie, saw an opportunity to fill a gap in the market for healthy and organic food. By 2012, he had turned a passion for health and wellbeing into a start-up enterprise making and selling organic food products from his apartment in Melbourne.

Today, Manuko manufactures premium organic products and cacao treats from its factory in Torquay. Throughout the journey, Matt has been unwavering in his vision of making extraordinary products that deliver moments of joy while fostering a healthier life and a more sustainable world.

From his first delivery and farmers market appearance to securing a maiden stockist, Matt grew the business incrementally and steadily. Experimentation was important to find the best product-market fit, extended to testing different production methods, from contract manufacturing to using commercial kitchens.

As the business grew its wholesale customer base of cafes and other stockists, it had to scale up its operations to meet demand. This included investing in new equipment, expanding capacity and warehouse space and improving processes to drive efficiencies.

Automating processes to build capacity

Matt says that Manuko strives to stay ahead of demand and meet customers' expectations for fast delivery. This relies on operational efficiency and having stock on hand to ship orders quickly.

To achieve this, Matt says the team always looks at where the bottlenecks are in Manuko's production process and operations. "In the beginning, there were bottlenecks everywhere," Matt says. "But as we have sought to increase and maximise output, it justified investment in new equipment to level up efficiencies and team productivity."

For Manuko, this included simple steps like moving from handwashing dishes to a commercial dishwasher. In its production line, the business also acquired far larger food processors and replaced labour-intensive hand-dipping and cutting of chocolate with specialised machines.

Matt points out that the shift from manual processes extends beyond manufacturing to sales and marketing. "Our ordering and sales process was previously manual, with emails, checking bank accounts, and then shipping orders, but that wasn't scalable."

"We changed our system and began using a platform, Ordermentum, which streamlined our wholesale ordering process. It has automated steps like payments, which has saved us time in the delivery cycle."

Manuko has also begun using generative AI tools to support new product development, helping with legal questions and production plans. Matt says that while tools like ChatGPT and Canva don't replace food technologists, lawyers, or graphic designers, they can be very helpful in providing ideas that the team can build on.

Blending impact and efficiencies

Matt notes that the business's ability to increase capacity relies on more than process efficiencies. He believes that organisational culture plays a significant role in supporting the team's productivity, including a focus on wellbeing and work-life balance.

According to Matt, employing Manuko's philosophy that business is a force for good also has dual benefits. "We're not just creating a great product for customers; we're also looking at the supply chain and our other business activities to make a positive impact on the environment and the future."

"We source certified organic ingredients for our products and support sustainable agriculture." This approach was informed by his earlier years growing up on a biodynamic dairy farm in Victoria, acquainting Matt with the sustainable agricultural practices he would carry through to Manuko.

"From an efficiency and impact standpoint, we seek to minimise food waste to zero and reuse the cardboard packing we receive from suppliers as cushioning in the boxes we ship to our wholesale customers," Matt says.

"For example, in our production, we will get rough or underweight pieces of cacao products that don't quite meet the grade for our café customers. We created a 'rough cuts' box that is 25% cheaper for customers, which is good for waste, more affordable for customers, and provides a unique and saleable product."

"Alongside many others, these initiatives have a positive impact and are smart business practices. When you're minimising waste, you are also cutting costs, and it's clean and healthy for people and the planet," Matt concludes.

manuko.com.au

Enabling business outcomes

Investment in emerging technologies and sustainability have shared drivers as businesses seek new ways to optimise operations and impact.

Technology investment reaches new heights

Enhanced productivity and financial performance are the key outcomes businesses are seeking through emerging technology. Many manufacturers and distributors are also striving to improve the experiences of the workforce and customers with digital tools.

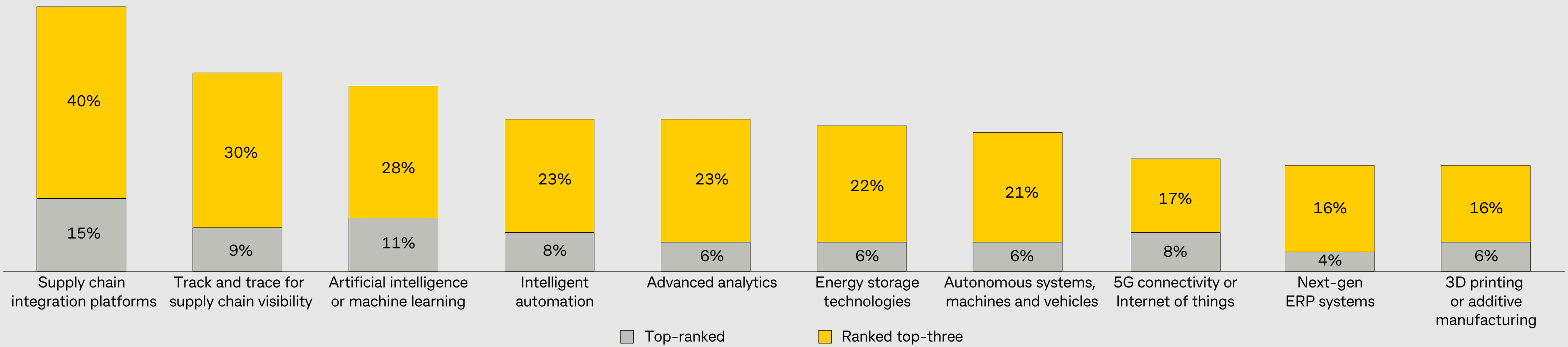
Despite cost pressures and technical skills shortages, 81% of manufacturers and distributors are planning to increase technology investment in 2024. This includes 56% expecting to moderately increase budgets, and 25% anticipate a significant uplift.

While intentions to increase technology investment are consistent between manufacturers and distributors, they tend to be higher for regional businesses (83%), those in the steel and metals (90%) and food and beverage (87%) sectors, as well as businesses with more than $150 million in turnover (90%).

In terms of organisational readiness, the majority of businesses agree that they are proactive and informed about emerging technologies, can effectively integrate, and have dedicated budgets to draw on. However, the cost and time to retrain people and the pace of change can be challenging, and having the expertise and funding or cash flow are common constraints to adoption.

Among the technologies both manufacturers and distributors believe will impact the industry most, those relating to supply chain optimisation and artificial intelligence are the highest rated. As shown in Figure 7, automation and advanced analytics also feature in the top five.

Figure 8: Technologies that will have the most impact in three to five years



Refer to table 7 for data on page 27.

Artificial intelligence in focus

Artificial intelligence (AI) has long been a feature of operational controls and logistics management for manufacturers and distributors. However, new and varied applications are emerging amid new advances in AI technologies.

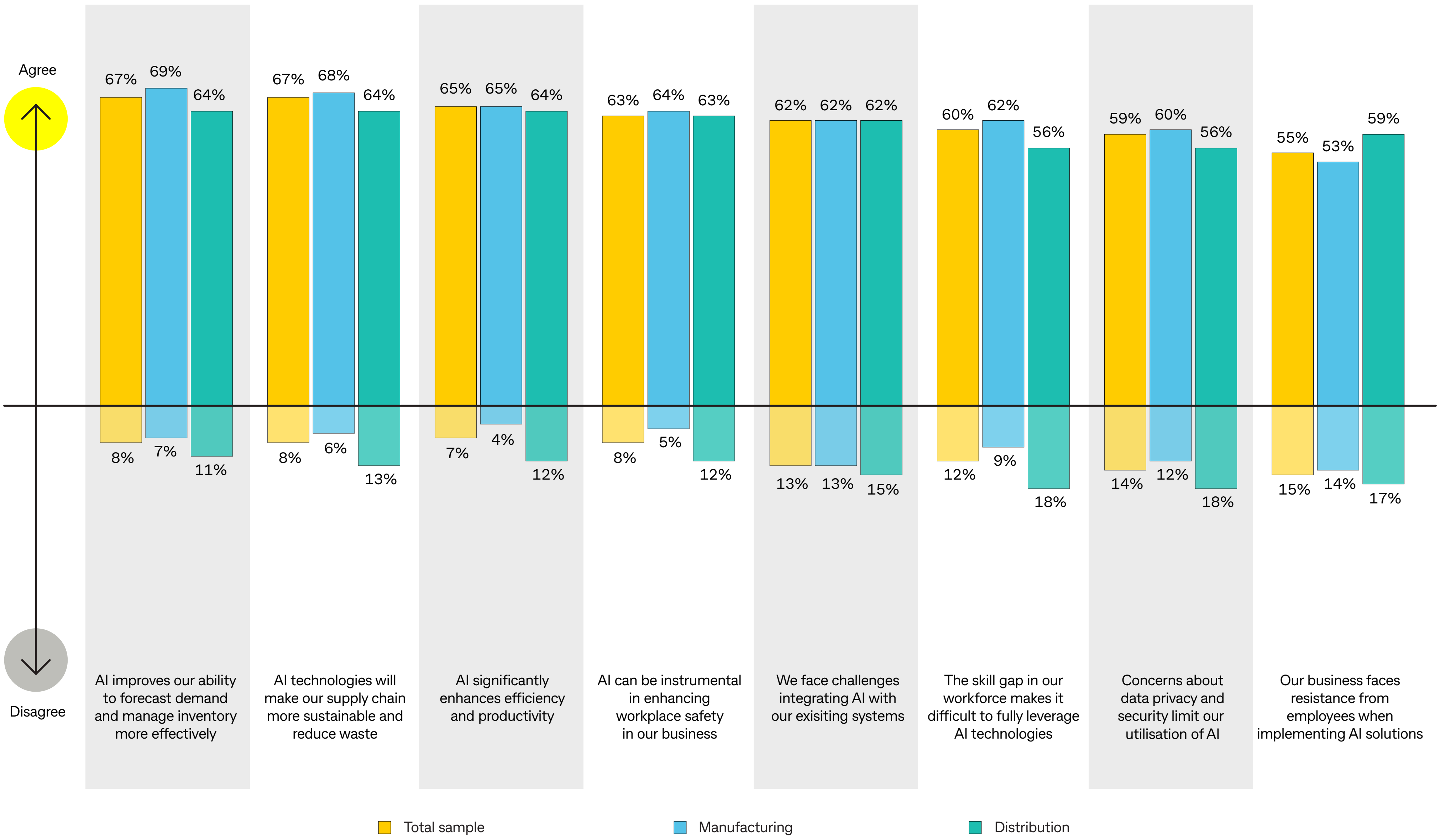
The potential benefits are widely recognised by businesses. Figure 9 shows that two in three agree AI improves demand forecasting and inventory management and streamlines the supply chain while reducing waste. It follows that a similar number see the positive impact on efficiencies and productivity, and in addition, can support a safer workplace.

These benefits are more likely to be acknowledged by larger businesses that can be further along the adoption and digital maturity curve.

Alongside the benefits, there are concerns about maximising the adoption of AI and change management considerations. Challenges integrating AI into existing systems and skills gaps that make it difficult to harness are reported among around 6 in 10 businesses.

Most also agree that limitations in usage stem from data privacy and security and resistance to change among employees. While most larger businesses face the same issues, they are less likely than their smaller counterparts to encounter them on average.

Figure 9: Viewpoints on the opportunities and challenges of artificial intelligence



Maximising digital adoption and readiness

To ensure that the return on investment in technology is maximised, manufacturers and distributors are taking a range of measures. As Figure 10 outlines, these are focused on people, funding and safeguarding against cyber threats.

Given that a lack of expertise is the top-rated barrier to technology adoption, businesses seek to train their teams and recruit specialised skills. Most are preparing staff for technology adoption through internal training, and over a third are turning to technical and educational providers and government support programs for reskilling.

Cash reserves are the most popular method of funding ongoing digital adoption, followed by equipment finance leasing. Around a third are also leveraging partnerships and accessing research and development grants and other subsidies.

As digital adoption rises, so does the risk of cyber security threats, with almost one in four manufacturers and distributors having experienced a breach in the past two years. This climbs to nearly half of larger manufacturers and distributors (44%).

The most common vulnerabilities are employees being targeted by phishing attacks (39%), while growing data pools, inadequate training, and failure to update systems and hardware are other contributors to vulnerability.

Many businesses are taking steps to reduce the risk of cyber attacks and breaches. These include updating systems, raising vigilance through training, improving passwords, and encrypting data. However, most are not implementing even the more basic safeguards.

Figure 10:
Tactics to increase digital readiness

Preparing people

1. **56%** Internal training
2. **45%** Recruit specialised skills
3. **38%** Partner with technical or education providers
4. **34%** Access government support for reskilling

Funding investment

1. **41%** Cash
2. **38%** Equipment financing
3. **35%** Partnerships with technology firms
4. **32%** Government grants
5. **30%** Capital provided by equity partners
6. **27%** Debt finance

Cyber protection

1. **38%** Ensuring software and hardware is updated
2. **30%** Training and tools to spot phishing
3. **30%** Complex passwords and multi-factor access
4. **30%** Encrypting sensitive data
5. **30%** Policies and tools to secure devices

Case Study: Vitality

In recent years, Vitality Brands ('Vitality') has evolved its business and market footprint. The producer and wholesaler behind leading personal care brands, Cancer Council, Epzen and Tribe, has been busy expanding its portfolio and global reach.

Vitality's Managing Director, Richard Meyrick, says that the business is focused on enhancing its existing brands, customer loyalty and product range in Australia and New Zealand, following the recent acquisition of skincare brand, Essano.

Vitality is also growing its export markets through distributors and relationships with wholesale customers in North and Southeast Asia, along with targeted growth on top of its skincare footprint in the large US market through the launch of sunscreen and bodycare. These growth strategies are designed to keep Vitality's financial performance on a sustained upward trajectory. In the 21 years since it first launched, the business has averaged an annual revenue growth rate of 15%.

Richard says that striking a balance between delivering quality and value-for-money for consumers, as well as its "trusted and well respected" brands, have protected Vitality against drop-offs in customer demand as the economic environment changes. Instead, Richard points to continued and compounding growth.

Drivers of continued product innovation

While Vitality's wholesale customers include large national retail stockists, Richard says the business is “always looking at consumer preferences to understand their wants and needs”.

For Vitality, this involves conducting consumer research and analysing retail data to stay ahead of consumer trends. According to Richard, this has allowed the business to pinpoint changing consumer expectations and use it to inform “constant R&D and product innovation”.

One example is in the suncare segment, where Richard says that “just sun protection” isn’t enough, and people are now looking for multiple benefits and attributes from products they put on their skin. He goes on to say that consumers are now more interested in what’s in the product, seeking quality, safe ingredients.

This has led to a focus on developing products that fit the criteria of savvy consumers and those seeking products that reflect their personal values. Richard says the “social impact of a brand on society and communities” has become a more prominent part of the buying decision.

The multiplier effect of sustainability

Ensuring that social purpose and sustainable practices are embedded within the products and operations of the business has been part of Vitality’s DNA from day one, explains Richard. “We strive for a well-rounded approach to addressing environmental, social, and governance (ESG) issues and have clear ESG goals in place.”

“For our business, that translates in practical terms to reducing energy and water usage, ethical sourcing, governance, human rights imperatives and giving back to the community. We’ve given back about $23 million to very worthwhile causes on our journey so far.”

Beyond strengthening consumers’ trust in Vitality’s brands, Richard says that the business’s ESG initiatives also help attract and retain staff. “When people come to work, they want to have pride in their employer and the workplace.”

“If you have an aligned workforce that is well-educated in our social impact, it helps with productivity because they have a commitment and a passion for what the business is trying to do. If you add a good culture where people are respected and smile and have fun, that tends to be a workplace that’s learning, adapting, and growing.”

Cultivating a responsive supply chain

Beyond product innovation and meeting consumer needs, Richard sees the combination of relationships and digital tools as crucial to better serve wholesale customers. Increasingly, this relies on having a responsive and resilient supply chain and forecasting inventory needs.

“Supply chains are all about planning,” Richard says. “The digital tools we use continue to evolve, and we add features that allow us to look further into the future and plan more accurately. If the pandemic taught us anything, it’s that we must consider the longer term to cope with potential supply chain disruptions.”

Richard says that some of the larger retailers Vitality supplies to have gone from holding weeks’ worth of stock to days. “The rest falls back to you to ensure you can deliver to demand when customers need it.”

“At the end of the day, it’s fast-moving consumer goods, so you must be able to move quickly. We’re not a huge business compared to other global players; we’re nimble and able to innovate at pace,” Richard concluded.

vitality™

vitalitybrands.com

Jointly advancing sustainability and business outcomes

Across manufacturers and distributors, most businesses are consistently progressing in their sustainability journeys. Almost two in three have implemented some sustainability initiatives, and a further 17% are advancing multiple. Just 15% are in the initial stages, and 4% yet to have begun.

Businesses are striving for benefits from investment in sustainability that can make a positive impact and deliver business outcomes. Operational efficiencies (51%), reduced costs (48%) and a competitive advantage (41%) are the top three goals.

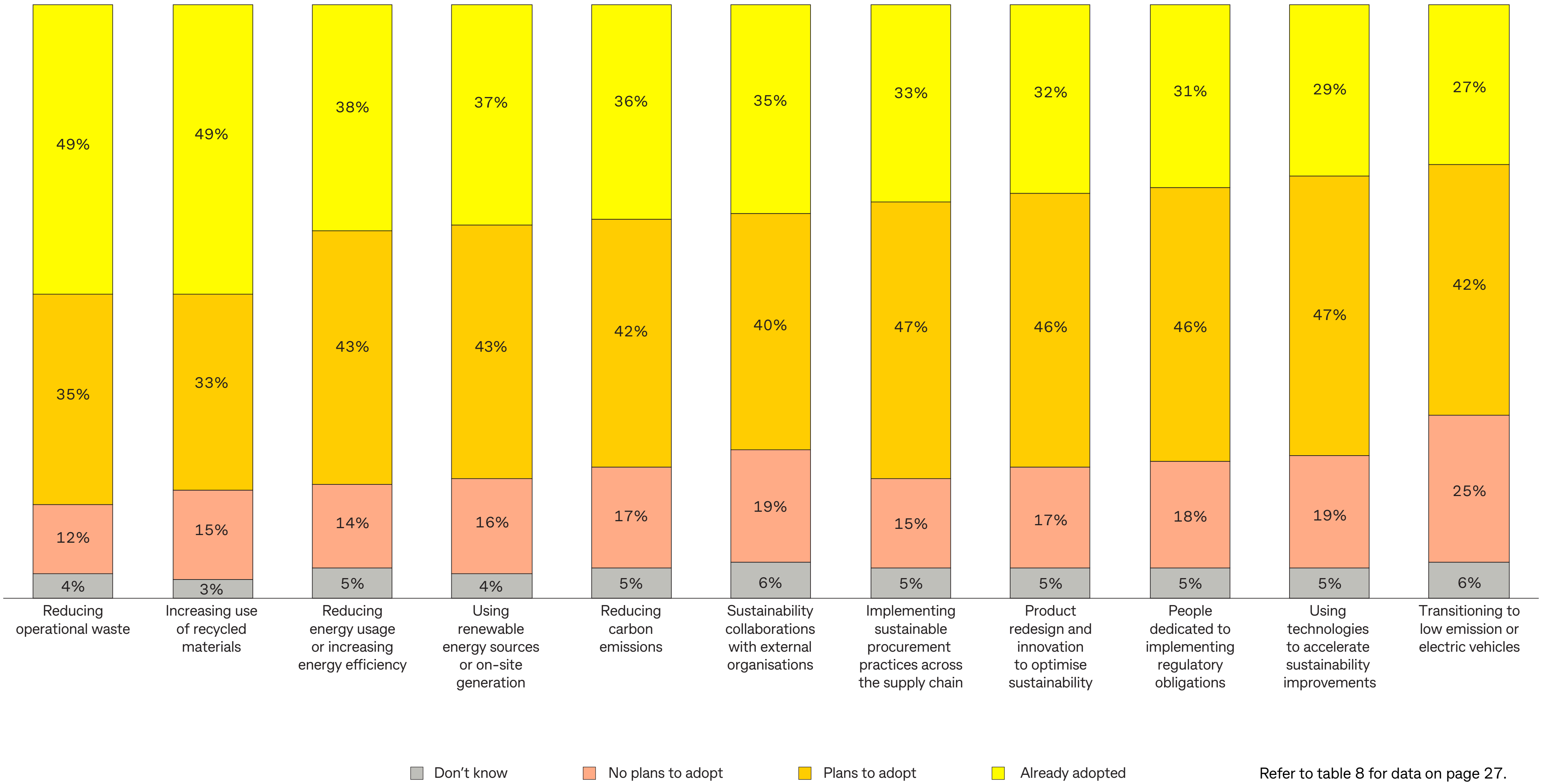
As seen in Figure 11, the most popular initiatives businesses are already taking forward include reducing operational waste, recycling and energy efficiencies.

Using renewable energy sources or on-site generation was the next highest, with the research showing that, on average, 33% of business's energy usage is supplied by renewables. By location, 41% of the energy mix for regional manufacturers, and 30% for metropolitan businesses, comes from renewables.

Looking at intentions to adopt certain initiatives reveals that the fastest-growing sustainability practices are expected to be procurement policies and deploying technology to fast-track improvements.

Many manufacturers and distributors also encounter barriers to delivering sustainability initiatives. The top-rated are financial constraints (34%), with cash being the most regularly used funding method. Businesses also suggest that supply chain complexity (31%) and competing priorities, operational disruption, and lack of expertise (all 28%) are limiting progress.

Figure 11: Current and planned adoption of sustainability initiatives



Refer to table 8 for data on page 27.

Preparing for sustainability reporting imperatives

Alongside efficiencies and the ability to compete, 38% of manufacturers and distributors say their sustainability initiatives are designed to support regulatory compliance as a primary outcome.

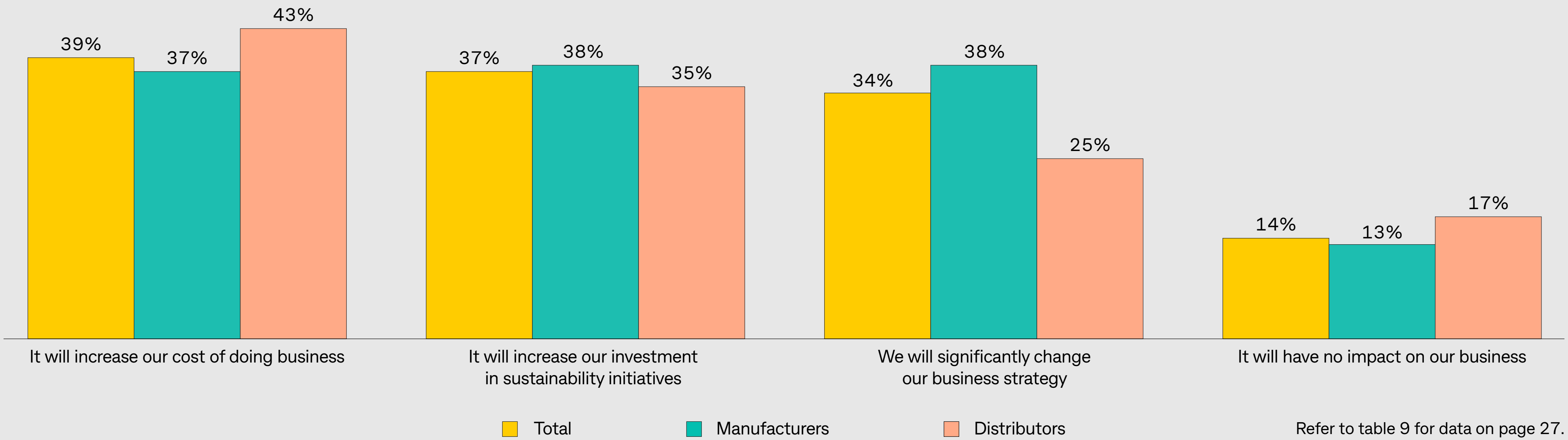
Regulatory obligations have come to the fore as the Australian Government joins other global jurisdictions in making climate-related financial disclosures mandatory, recently introducing the legislation into parliament. In a three-stage roll-out of the mandatory reporting regime, larger entities must report first from 2025, progressively extending to medium-sized firms from 2027.

The research shows that across manufacturers and distributors, 82% have some awareness of the incoming reporting requirements. Of these, just over one in four have a good understanding (26%).

Casting ahead, 37% believe that it will increase investment in environmental, social and governance initiatives that, as established earlier, hold potential operational benefits.

In addition, around one-third of businesses expect the new regime to significantly change their business strategy, with positive implications for product development and innovation, and market positioning.

Figure 12: Potential impact of mandatory climate-related financial reporting



Refer to table 9 for data on page 27.

Data Tables

1. Respondent profile

Business type	
Manufacturing	66%
Distribution	34%

Annual turnover	
$500k to <$3m	20%
$3m to <$30m	27%
$30m to <$150m	26%
$150m+	27%

Location	
Metropolitan	76%
Regional	24%

Business role	
Manufacturing manager	31%
Chief operating officer/operations manager	20%
Chief Executive Officer/Owner/Partner/Director	18%
Divisional General Manager/Director	13%
Chief Financial Officer/Financial controller	7%
Other senior management	11%

Industry sector	
Steel and metal products	26%
Food and beverage	25%
Technology and electronic equipment	13%
Chemical and plastics	7%
Other*	29%

2. Operational and financial performance indicators

	Employee numbers	Capital expenditure	Operating/ fixed costs	Input/ variable costs	Production levels	Prices	Revenue	Profit
Decrease	8%	9%	5%	5%	6%	4%	8%	9%
About the same	43%	35%	34%	33%	33%	31%	27%	27%
Slightly increase	38%	42%	44%	44%	42%	49%	45%	42%
Significantly increase	11%	14%	17%	18%	19%	16%	20%	22%

3. Issues expected to have a moderate or high impact on manufacturers and distributors in 2024

Geopolitical tensions	58%
Ongoing technological disruption	59%
Sustainability and climate change	59%
Foreign exchange volatility	60%
Government or industry reforms and regulation	63%
Changing customer preferences and behaviours	65%
Cyber security and data privacy	66%
Workforce optimisation	67%
Supply chain instability	68%
Competitor activity	68%
Higher interest rates	72%
Persistent inflation	74%
Increasing energy costs	80%

4. Shifts in customer behaviour and preferences

Greater focus on supply chain resilience	27%
Preference for local or regional suppliers	27%
Reduced overall spend	29%
Changes in order frequency	30%
Higher expectations for product quality and reliability	30%
Need for faster and more flexible delivery options	31%
Increased demand for lower pricing	32%

5. Planned priorities to adapt to customer needs

Enhance operational process improvement and productivity	27%
Invest in new plant, equipment or machinery to enhance productivity	27%
Invest in new technology, digitisation and automation	28%
Review or reposition pricing	29%
More focus on product or service development and innovation	29%
Streamline the supply chain for greater efficiency	33%
Improve product or service quality	40%

6. Productivity by capacity utilisation rate

	Manufacturers	Distributors	$500k to <$3m	$3m to <$30m	$30m to <$150m	$150m+	Food and beverage	Steel and metal products	Technology	Chemicals and plastics	Metropolitan-based	Regional-based
Poor (under 65% capacity utilisation rate)	1%	2%	1%	2%	1%	1%	1%	0%	2%	7%	1%	3%
Fair (65%-74% capacity utilisation rate)	6%	13%	9%	10%	7%	7%	7%	8%	7%	7%	9%	7%
Average (75%-84% capacity utilisation rate)	42%	34%	49%	41%	35%	35%	41%	38%	30%	41%	42%	31%
Good (85%-94% capacity utilisation rate)	44%	43%	35%	41%	43%	52%	44%	44%	52%	41%	42%	48%
Very good (95%-100% capacity utilisation rate)	7%	8%	6%	6%	14%	5%	7%	10%	9%	3%	6%	11%

7. Technologies that will have the most impact in three to five years

	Top-ranked	Ranked top-three
Supply chain integration platforms	15%	40%
Track and trace for supply chain visibility	9%	30%
Artificial intelligence or machine learning	11%	28%
Intelligent automation	8%	23%
Advanced analytics	6%	23%
Energy storage technologies	6%	22%
Autonomous systems, machines and vehicles	6%	21%
5G connectivity or Internet of things	8%	17%
Next-gen ERP systems	4%	16%
3D printing or additive manufacturing	6%	16%

8. Current and planned adoption of sustainability initiatives

	Don't know	No plans to adopt	Plans to adopt	Already adopted
Reducing operational waste	4%	12%	35%	49%
Increasing use of recycled materials	3%	15%	33%	49%
Reducing energy usage or increasing energy efficiency	5%	14%	43%	38%
Using renewable energy sources or on-site generation	4%	16%	43%	37%
Reducing carbon emissions	5%	17%	42%	36%
Sustainability collaborations with external organisations	6%	19%	40%	35%
Implementing sustainable procurement practices across the supply chain	5%	15%	47%	33%
Product redesign and innovation to optimise sustainability	5%	17%	46%	32%
People dedicated to implementing regulatory obligations	5%	18%	46%	31%
Using technologies to accelerate sustainability improvements	5%	19%	47%	29%
Transitioning to low emission or electric vehicles	6%	25%	42%	27%

9. Potential impact of mandatory climate-related financial reporting

	Total	Manufacturers	Distributors
It will increase our cost of doing business	39%	37%	43%
It will increase our investment in sustainability initiatives	37%	38%	35%
We will significantly change our business strategy	34%	38%	25%
It will have no impact on our business	14%	13%	17%

In summary

Most manufacturers and distributors are striving to at least moderately increase production volumes and revenue growth in the year ahead while managing margins. If realised, this will extend the uplift in output and performance last year.

However, achieving this relies on navigating cost pressures and optimising productivity in step with demand. Amid a skills and labour shortage, manufacturers and distributors are doubling down on investment that can modernise the skills, systems and equipment required to deliver a competitive edge.

Learn more about how we support manufacturing businesses

Visit

commbank.com.au/manufacturing

insights@cba.com.au

Insights

For the latest business analysis, insights and news, visit

CommBank Foresight™

CommBank Business and Institutional

Things you should know:

The CommBank Manufacturing Insights research is based on a survey of 464 manufacturers and distributors across Australia conducted in February 2024. The research examines current and future financial and operational performance drivers to support decision-makers as they develop their growth strategies. The survey was undertaken by Fifth Quadrant on behalf of the Commonwealth Bank and the analysis was undertaken by Fifth Quadrant and the Commonwealth Bank.

The report has been published for general information purposes only. As this information has been prepared without considering your objectives, financial situation or needs, you should, before acting on this information, consider its appropriateness to your circumstances, if necessary, seek professional advice. The Bank believes that the information in the report is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in the report. Any projections and forecasts are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. The report refers to data sourced from an online survey of 464 manufacturers and distribution businesses. The survey was undertaken by Fifth Quadrant on behalf of the Commonwealth Bank. All analysis and views of future market conditions are solely those of the Commonwealth Bank.