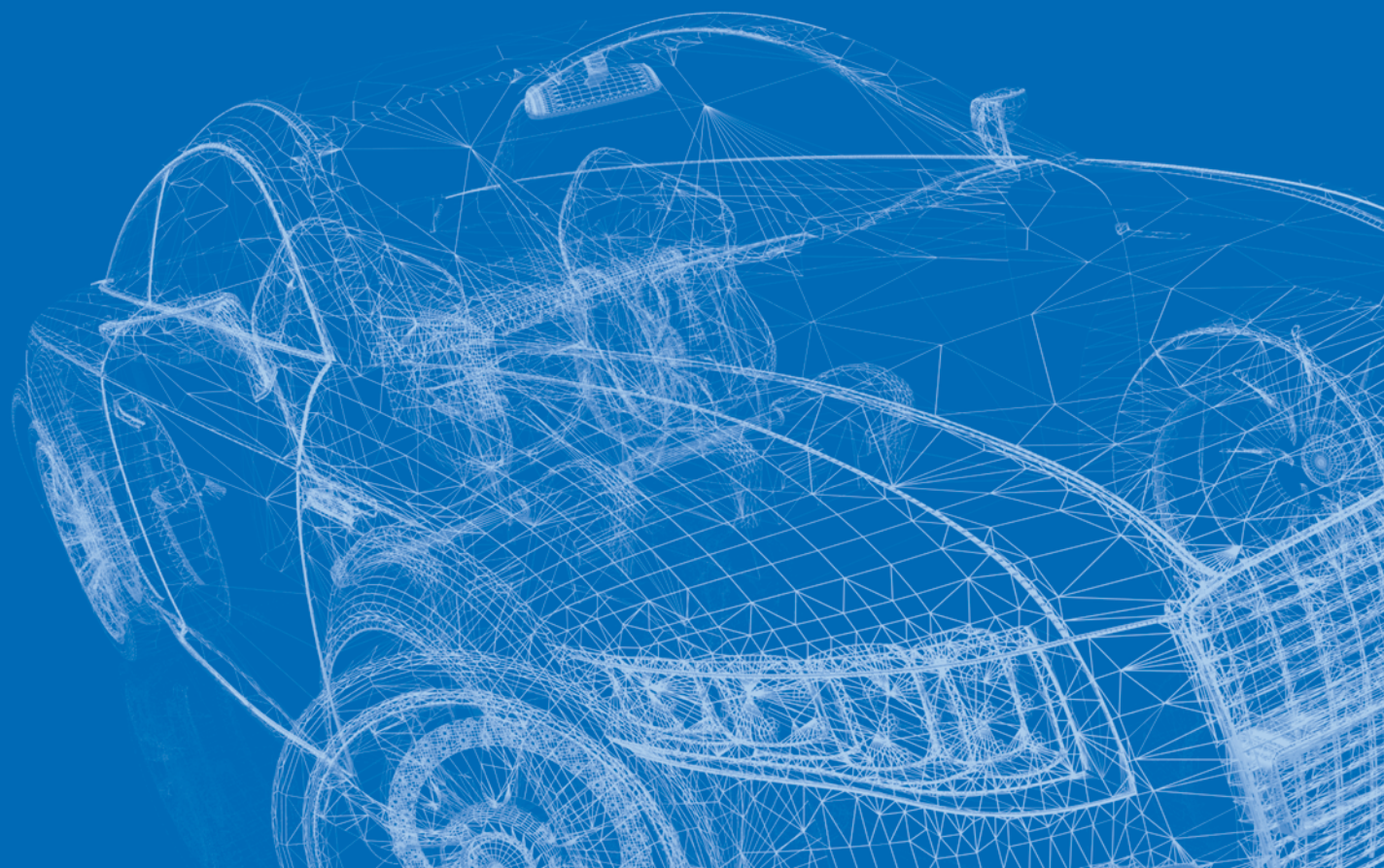


The Automotive Industry and its Component Suppliers

Driving Austria's Economy



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The Automotive Industry and its Component Suppliers

Driving Austria's Economy

The content of this brochure is based on the study “The Automotive Industry and its Component Suppliers as a Driving Force behind Austria's Economy,” conducted by the Institute for Industrial Research (IWI) and led by Herwig W. Schneider.

This current study shows the impressive entrepreneurial dedication of the Austrian automotive industry and its component suppliers in overcoming past challenges. As the future becomes increasingly uncertain, Austria's companies are optimally prepared to continue performing their tasks and to follow their proven path of quality, innovation competence, flexibility and cost efficiency.

However, business conditions in the country must be optimized in order to ensure the continued success of the industry. Policymakers and social partners are therefore called upon to actively create the conditions Austria needs to remain a globally competitive industrial location and to take a solution-oriented approach to new challenges:

- Increasing the flexibility of regulations regarding working hours and forms of remuneration has become a key competitive factor and increasingly plays a decisive role in companies' success. Unfortunately progress in this area has been slower than required by the rapid pace of change on the market.
- Dealing with the lack of suitably qualified workers is a key issue. Despite the industry's dedication to vocational training and further education, there is no quick fix to the problem. Measures must be implemented in the entire education system to boost the industry's image and to focus more on technology.

- The level of R&D spending as a percentage of GDP in Austria must be dynamically increased through more support for application-oriented funding and through accompanying tax incentives, in particular to promote investments. This support is essential, especially in times of extremely uncertain sales markets.
- Rising energy costs and excessive environmental requirements are a handicap for companies located in Austria. Lawmakers must avoid adopting overly stringent environmental policies in international comparison so as to prevent domestic companies from migrating to countries with more lax requirements.

We must do all in our power to provide the best possible framework for industrial entrepreneurship in Austria. In this way, the highly innovative automotive industry and its component suppliers will have the conditions needed to continue to successfully participate in global markets and expand their market share. If this is done, I am confident that the industry will continue along its successful path even in difficult times.



Wolfgang Welser

Head of the Industry Division of the
Austrian Federal Economic Chamber (WKO)



A Success Story “Made in Austria” with Numerous Challenges along the Way



The development of the Austrian automotive industry and its component suppliers is one of the most impressive stories of economic success of the past decades. Through innovative product ideas, engineering expertise and the fulfillment of the highest quality standards, the companies in this industry have continuously strengthened their position on the global market. Between 1995 and 2006, the production value of the automotive industry and its component suppliers rose by 160 percent – more than double that of the entire manufacturing industry or the service industry. With value creation also increasing by roughly 90 percent in the same period, automotive and component supply companies grew much more rapidly on average than companies in the manufacturing or service industries.

The global automotive and component supply industry has faced major challenges for years. According to the current study, 88 percent of domestic companies have implemented notable product or process innovations in the last five years, and around 45 percent have undergone major restructuring processes. However, the

challenges are growing. As manufacturers are performing fewer and fewer individual steps of the overall manufacturing process, suppliers have to take on more responsibility for production and development and thus also bear higher financial risks. At the same time, competitive pressure from companies in low-cost countries and cost pressure from automotive manufacturers are constantly growing. There are growing expectations for the automotive and component supply industry to shorten the innovation cycles and to react more flexibly to the demands placed upon it.

In order to support companies in overcoming these challenges, the WKO along with its Industry Division, various industry trade associations and the WKO's Austrian Association of External Economic Relations (AWO) founded the Federation of the Austrian Automotive Industry and its Component Suppliers. The aim of the Federation is to support and enhance the strengths of the Austrian automotive industry and its component suppliers shown in the study.

A handwritten signature in blue ink, consisting of a series of vertical, slightly wavy lines that form the letters of the name.

Dietmar Schäfer

iSi Automotive GmbH

President of the Federation of the Austrian

Automotive Industry and its Component Suppliers

The Automotive Industry and its Component Suppliers – A Dynamic Industry in Flux

The business environment in which the Austrian automotive industry and its component suppliers operate is constantly undergoing significant changes. In order to survive, the industry must – and until now has – successfully overcome an array of challenges including the rising cost and competitive pressure that is coming from the original equipment manufacturers' aggressive price policies and also from new market participants from India, China and Eastern Europe. At the same time, the industry faces permanent innovation pressure as available development time decreases, product complexity and variant diversity increase, and quality and productivity requirements become more and more stringent.

The automotive industry and its component suppliers counter this with innovative new product ideas, flexibility, development expertise and compliance with high quality standards. So that these companies can continue to be successful in the face of international competition, it is necessary to ensure essential framework conditions for Austria as a business location. Local factors such as vocational training and further education as well as the availability of well-trained employees are important for the entire industry. In addition, transport infrastructure, a secure and high-quality energy supply, flexibility in working hours and remuneration, and a pragmatic approach to environmental policy also have a major influence on the growth prospects for Austrian companies in this industry.



One of Austria's Top Industries

With annual sales of EUR 17 billion, the conglomerate of companies from the automotive industry and its component suppliers ranks second in terms of economic output in comparison to the other companies primarily served by the trade associations in the Industry Division – behind the machinery and metalware industries and ahead of the electrical and electronics industries and the chemical industry. With EUR 15.63 billion in production output, the industry is also clearly positioned at the forefront in Austria.

Roughly 65,000 employment relationships in automotive and component supply companies in Austria are directly related to automotive tasks. This makes the industry one of the top domestic industry groups in terms of employment. In addition, the demand for employees has grown by an average of 3 percent each year. Domestic automotive and component supply companies generate EUR 4.01 billion in gross value added, which also places them in the top bracket.

AUTOMOTIVE AND COMPONENT SUPPLY COMPANIES IN AUSTRIA 2005/2006

Annual sales:	EUR 17 billion
Annual growth rate:	12.34%
Production value:	EUR 15.63 billion
Gross value added:	EUR 4.01 billion
Employees:	65,000 employment relationships
Annual demand for new employees:	3%
Staff costs:	EUR 2.34 billion
Gross investment:	EUR 1.04 billion

A Flexible Key Industry for Other Industries

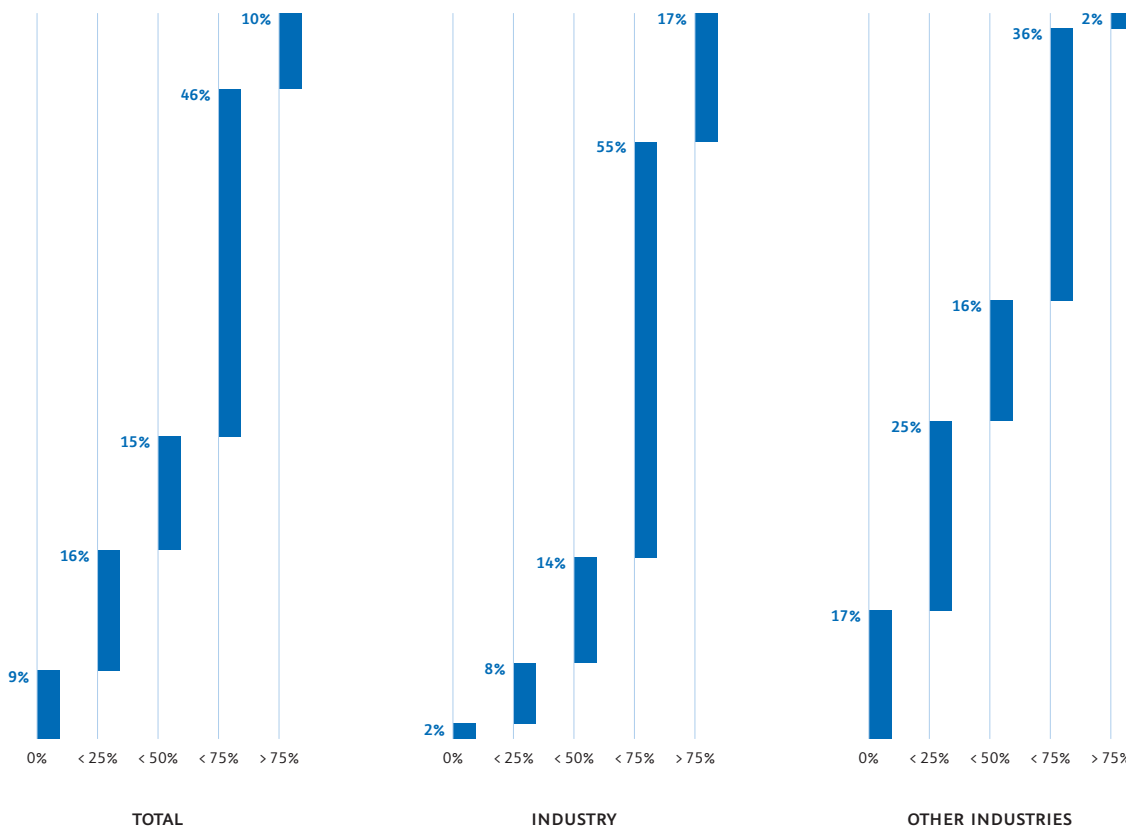
Approximately a third of the automotive and component supply companies (34 percent) are active only in the automotive industry. However, the number of companies in the industry that are also active in other industries has increased significantly over the last five years.

TYPICAL CHARACTERISTICS OF THE AUTOMOTIVE INDUSTRY AND ITS COMPONENT SUPPLIERS

- Heterogeneous corporate structures
- Numerous medium-sized and large companies
- High export ratio
- Restructuring processes
- Two thirds of companies are also active outside the automotive industry
- Important stimulus for other industries
- Driven by innovation
- Well-equipped for technological trends on international markets

EXPORT RATIO

Note: 4% not applicable



Innovation and Education as the Cornerstones of Competitive Strength

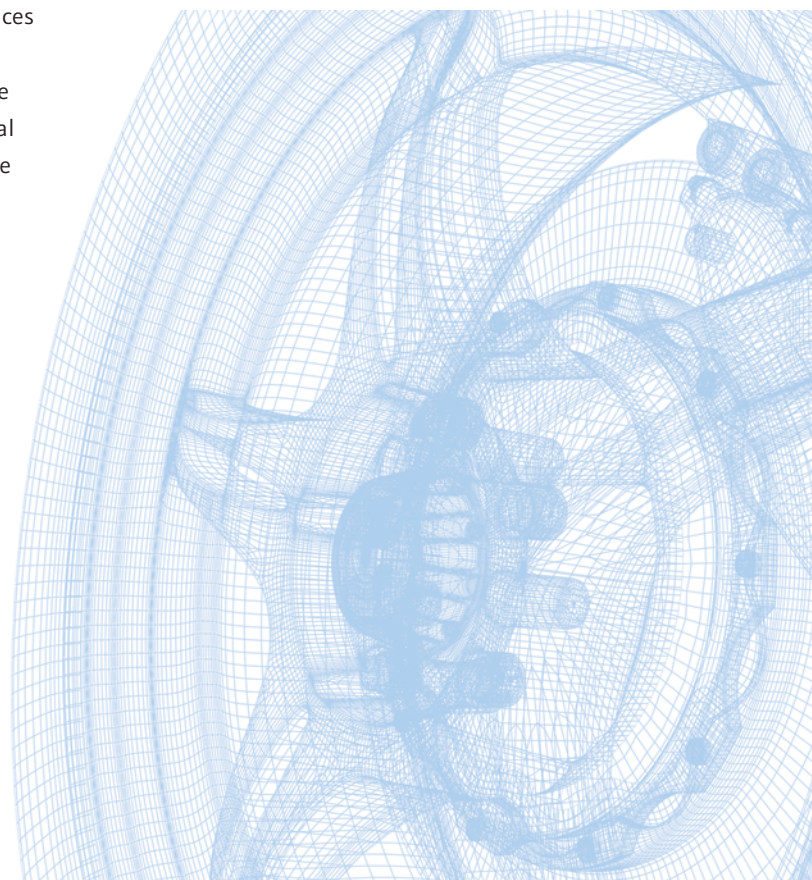
Particularly in the automotive and component supply industry, innovation is the most important factor in increasing companies' competitive strength, productivity and growth potential.

The main focus and stimulus for 60 percent of all innovations is still electronics, where the focus is shifting from individual applications to system applications that combine multiple components. In this way, new functionalities are often created through the intelligent combination of existing components and modules. Nearly all of the primary aspects of automobiles will improve as manufacturers strive to make motor vehicles more environmentally compatible: fuel efficiency (by up to 30 percent), emissions, active and passive safety, network capabilities and information, vehicle dynamics and performance, comfort, flexibility and space accompanied by an improved cost-benefit ratio for buyers.

88 percent of the companies in the industry have shown a high level of innovation and have put notably improved products or services on the market or have introduced improved processes over the last five years. Automotive suppliers occupy a central role in the national and international innovation system: Because

of the highly technological nature of the industry, every EUR 100 that automotive and component supply companies invest in R&D generates approximately further EUR 32 in R&D investment in upstream industries.

Vocational training, further education and highly qualified employees are among the industry's main concerns. One of the areas with the greatest potential for improvement is secondary education, both in general subjects as well as soft skills and language skills, particularly English. For staff with a post-secondary degree in engineering or the natural sciences, there is the need for more practical skills and better management qualifications. In vocational training and further education, the industry would like to see improvements in the fields of technology and production, foreign languages and computer skills.



A broad customer base is one of the most important success factors for the automotive industry and its component suppliers. More than half of these companies have over ten relevant national or international customers. This clearly highlights the low level of dependence enjoyed by these companies, a factor that allows them to better deal with price pressure from customers.

Besides a broad customer base, core buyers outside the country also make these companies largely independent. For around two thirds of companies, their core automotive buyers are located over 250 kilometers away. Around two thirds of companies perform their services completely independently, and the other third with partner companies.

Furthermore, these companies see themselves as optimally equipped for technological trends on international markets. However, global market trends – in particular the geographical shift of business activities away from the current core “Western” markets – are expected to have negative effects on these companies’ own business activities.

ADVANTAGES OF THE AUSTRIAN AUTOMOTIVE INDUSTRY AND ITS COMPONENT SUPPLIERS

- High level of manufacturing expertise
- High product quality
- Position in niche markets
- Proven record of high performance and reliability

Thanks to its strengths, the Austrian automotive industry and its component suppliers are still enjoying considerable success even as it faces increasing price pressure from its customers and increasing cost pressure in the procurement of energy and raw materials. Some companies are even able to set the prices for their goods and services themselves.

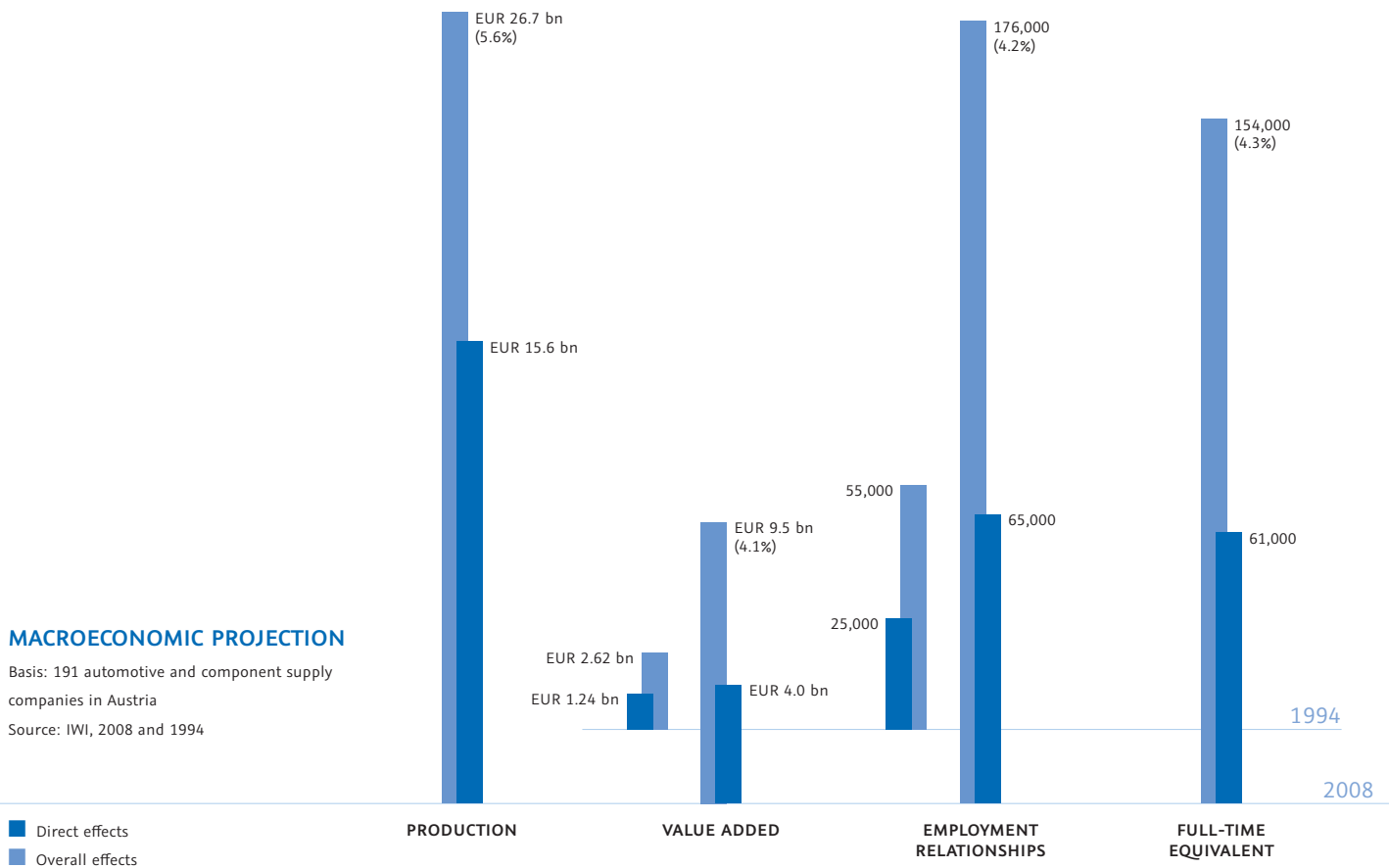
Economic Effects

In macroeconomic terms, the automotive and component supply companies in Austria generate a production value of up to EUR 26.72 billion (5.64 percent of Austria's total production value). The companies directly generate EUR 15.63 billion in production output or production value. The total of these companies' macroeconomic value added is EUR 9.49 billion (4.08 percent of Austria's gross value added). Up to 176,000 jobs in total in Austria are dependent on the continued success of these companies.

MACROECONOMIC PROJECTION

Basis: 191 automotive and component supply companies in Austria

Source: IWI, 2008 and 1994



- Direct effects
- Overall effects

Opportunities versus Challenges

The automotive industry and its component suppliers in Austria are aware of their technological strengths and are well positioned internationally. To counter the global trend towards shifting business activities to lower-cost regions, these companies focus on their expertise and technological capabilities, which stem first of all from their employees. For this reason, securing an adequate supply of technical specialists is one of the industry's most important concerns. Vocational training and further education as well as flexible working hours take high priority.

More focus is also being placed on environmental protection and safety. Because of this, the industry is increasingly being confronted with new standards (some mandatory), legislation and special customer demands. Companies have already recognized these key trends and are taking proactive measures, including providing their employees with the needed qualifications through further training.

There is a great deal of potential in geographically shifting business activities away from the current core "Western" markets – also for combating the rising prices of raw and input materials.

In any case, the domestic automotive suppliers are viewing the trend towards low-cost cars and the ongoing consolidation processes in the automotive industry as a challenge as well as an opportunity.



The Federation of the Austrian Automotive Industry and its Component Suppliers – Securing the Future Together

The aim of the Federation of the Austrian Automotive Industry and its Component Suppliers is to further improve the image and the public perception of Austrian automotive and component supply companies, in order to provide a basis for optimizing the industrial policy framework. In this way, we hope to contribute to boosting competitive strength, growth and employment.

Through the Federation of the Austrian Automotive Industry and its Component Suppliers, it is possible to offer the automotive and component supply companies represented in the WKO specialist advice and representation, which benefits Austria's entire automotive industry and its component suppliers. Under the umbrella of the WKO Industry Division's coordination role, the Federation takes into account the industrial policy issues that are particularly important to the automotive suppliers as identified by the legally appointed representative bodies and ensures that these are brought forward in relevant negotiations and lobbying efforts and accounted for adequately in the Division's overall strategy. The Federation therefore represents the highly important automotive industry and its component suppliers in coordination with industrial trade associations belonging to the WKO. As a service organization, it offers automotive and supply companies relevant and targeted

support. Its activities complement those of the automotive and component supply industry's regional cluster organizations, and it collaborates in partnerships with them.

The Federation of the Austrian Automotive Industry and its Component Suppliers is backed by the WKO, represented by the Industry Division, and the AWO as well as five industry trade associations whose members include automotive and component supply companies: the Association of the Austrian Machinery and Metalware Industries, the Association of the Chemical Industry, the Association of the Austrian Electrical and Electronics Industries, the Association of the Austrian Textile Industry and the Association of the Austrian Foundry Industry. As WKO members, all automotive and component supply companies automatically benefit from this cross-industry initiative within the chamber structure.

The Federation of the Austrian Automotive Industry and its Component Suppliers receives guidance from an advisory board of industry representatives with practical experience and a representative of the AWO. By bringing in practical knowledge and topics that are of importance and current interest for all companies, the advisory board helps to steer the activities of the Federation of the Austrian Automotive Industry and its Component Suppliers.



The Focus of the Activities of the Federation of the Austrian Automotive Industry and its Component Suppliers

The Federation of the Austrian Automotive Industry and its Component Suppliers helps companies to succeed by offering a broad range of specialized and target-group-oriented services. Some of the focuses of the Federation's activities have already been evaluated by the advisory board and the management and have been given priority in implementation:

- Improving the image of the entire automotive industry and its component suppliers in order to improve the public's perception of them.
- Based on this, also initiatives to support the creation of specific careers for the industry and corresponding vocational training programs, from the training of apprentices to technicians and certified engineers in the automotive industry.
- In collaboration with the AWO, fact finding and economic missions are carried out for the automotive and component supply industry in promising markets as part of an internationalization offensive (supported by the Federal Ministry of Economics, Family and Youth).
- The presentation of Austrian automotive and component supply companies at international automotive trade shows in the AWO's group stands.

In its function as a service organization, the Federation of the Austrian Automotive Industry and its Component Suppliers focuses its activities on the needs of companies. This will be even more successful as Austrian automotive and component supply companies increasingly communicate within the network and give more precise information about how the Federation of the Austrian Automotive Industry and its Component Suppliers can provide the best possible support. The Federation of the Austrian Automotive Industry and its Component Suppliers sees its main task as responding to the concerns of companies.



**AUSTRIAN FEDERAL ECONOMIC
CHAMBER – FEDERATION OF THE
AUSTRIAN AUTOMOTIVE INDUSTRY
AND ITS COMPONENT SUPPLIERS**

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