

THE AUTOMOTIVE CLUSTER STYRIA

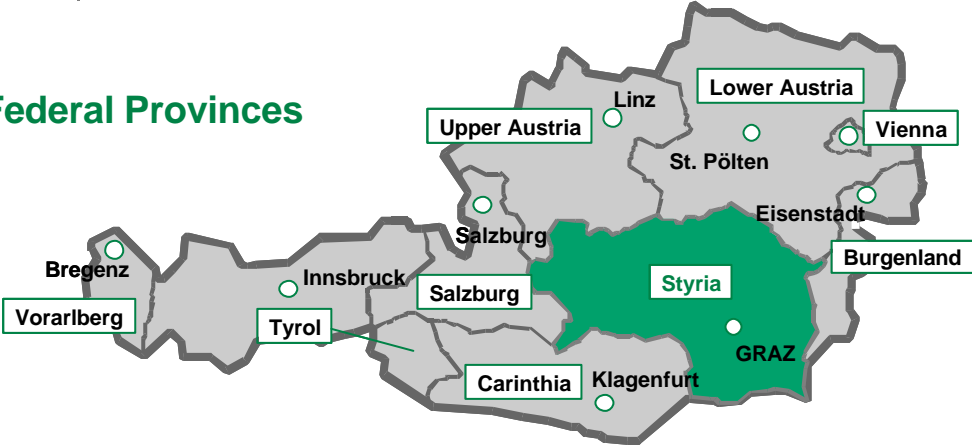
Industry Description: Automotive industry comprising the complete value chain with particular proficiency in the areas of metal working and metals processing, plastics, electronics and engineering services. Core competencies in the development and production of complete vehicles with all-wheel drive technology. Development expertise for new combustion engines and power transmission.

Geographic Delimitation: The ACStyria encompasses the whole Steiermark region and has three regional centers: 1.) Graz and surrounding area, 2.) East Styria and 3.) Upper Styria. It also has a cooperative integration of networking initiatives with neighboring states in Austria and also with Slovenia and Hungary and cooperation agreements with leading production locations including Stuttgart, Turin, Birmingham, Cardiff, Munich and European cooperation within the guidelines of diverse EC programs.



Austria -
The Heart of
Europe

Austria's Federal Provinces



Strength of the cluster itself: Leading companies such as Magna Steyr have been operating in the vehicle construction industry for more than 100 years. They have local skills and expertise that have been developed over time both in the industrial and university sectors.

Importance of the cluster: It is very important economically and with about 30,000 highly-qualified employees working in the cluster, the automotive industry is one of the most important export sectors for Austria.

The automotive sector is one of the most dynamic industrial sectors in Styria. In the Styrian region, development, engineering and production are closely intertwined with each other in a unique way.

Brief history prior to the cluster initiative: Essentially only two leading companies (Magna Steyr and AVL List) were fixed in the consciousness of the population. It was only after some analysis by Styrian companies, that the diversity and complexity of the existing industry-related external suppliers became obvious. Prior to the start of the cluster initiative, the image of the vehicle supply industry was not as good as it could have been and therefore it was difficult to win over the best forces and energies to this industrial sector. The only Chrysler location in Europe had to be more deeply anchored in the region by constructing a competent network of suppliers.

Also very complex supplier logistics from the USA were cost-optimized due to the development of endogenous potential.

OBJECTIVES






The most important objective in the first phase was the securing of the Styrian location as an independent car production location.

In the second phase, the aim was to improve the international competitiveness of the parties involved in the cluster.

Goals and Tasks

Goal: Securing Styria's position as an automobile manufacturing location and strengthening its international competitiveness

Tasks: Development and implementation of an organisational instrument that can be used by all partners in the automobile cluster essentially via joint projects with the following focuses





-  Information and communication
-  Cooperation
-  Qualification
-  Marketing, PR
-  Internationalisation

Processing: Cross-provincial initiative by companies and institutions in the automotive sector and with participation from science and economic policy; self-supportive after three years

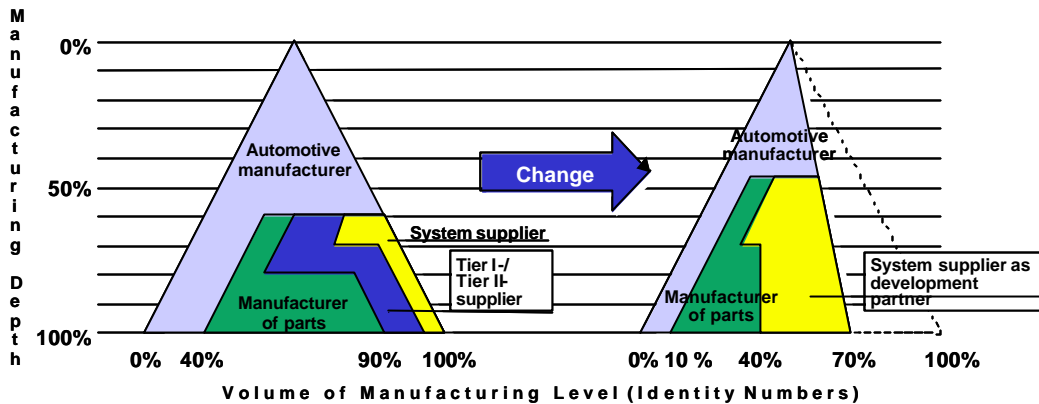
Initial Situation

The economy, and in particular the automotive sector had to respond to the globalization of markets, increasing competitive pressure and the calling into question of production locations.

Trends on the automobile market

-  The dynamics on the sale markets and high competitive and cost pressure causes production to be shifted from Europe, USA and Japan into the new buyer markets (transplants).
-  This is not without consequences on the ancillary industry in Austria and Styria.
-  Together with all the partners involved, an attempt must be made at renewal of the value-added chain, a new orientation for the sales strategy and structural changes in the supply relationship.
-  Regionally stable structures must be created to respond to global market tendencies.

Structure of Suppliers and Manufacturing Depth Changes



Change: The Pyramide is waning and so is the Manufacturing Depth

- Manufacturers are concentrating on core services
- System supplier increases services depth
- Standardisation covering several manufacturers
- Manufacturer of parts takes over manufacturing tasks from system supplier
- Manufacturer reduces manufacturing depth
- Specialists among parts manufacturers continue to supply to manufacturer
- System supplier becomes development partner

In the Styrian region, the automotive industry is very important economically. The core sector is production but research and development are also strongly represented.

As a result of the investigations that have been carried out including:

- ! Initial opinion-gathering project entitled "Vehicle-Cluster" (Styria Economic Development and the Industrial Associations of Styria, Trigon)
- ! Technology/Political Plan (Joanneum Research)
- ! Steiermark Economic Model (IWI-Industrial Science Institute)

the Styria Economic Development Company Limited (subsequently to be referred to as SFG) planned to implement a package of measures designed to form an automotive sector-related cluster.

This intended purpose was to pro-actively accelerate the circulation of communication and information and the cooperative agreements between the Styrian vehicle supplier companies, the leading companies and the existing research institutes.

These terms of reference were to be used as a model for the Styrian region and should also be used as an example for further cluster developments in other industry sectors.

The main part of the promotion/support was not finance-related. Priority support was to be given to the provision of network services such as information and communication platforms and also relevant further education and training programs.

The leading companies integrated into the network include AVL, Eurostar, Chrysler, SFT AG and also small and medium-sized vehicle suppliers and research and development facilities.

The international orientation of the cluster was to be guaranteed, and practical interfaces were envisaged to include leading companies in other Austrian states.

Feasibility Study

Leading companies and representatives of interested companies and research institutes were questioned about the approaches and methods to be used to establish a cooperative framework within the automotive economic sector in the Styrian region.

First of all the project team drew up a list of “possible approaches for cluster development“, which was then assessed with a weighting by those interested.

The most important approaches and methods from the point of view of small and medium sized enterprises (SMEs) and the research institutes were the following:

	Weighting [*]
1. Creation of a catalog of the cluster company	1,29
2. Possibility for information exchange with the leading companies.	1,53
3. Establishment of an ideas and communication platform for management.	1,58
4. Joint setting up of usable infrastructures.	1,71
5. Creation of a list of cooperation proposals.	1,74
6. Establishment of an ideas and communication platform for technical people.	1,74
7. PR campaign specifically oriented to the requirements of the cluster.	1,76
8. Joint learning programs for customers and suppliers. (Set-up learning organizations)	1,81
9. Formation of R&D communities internal to the cluster.	1,85
10. Holding of a cooperation/project budget.	1,94
11. Periodic cluster information.	2,00
12. Reciprocal company visits.	2,00
13. Workshops and technical presentations.	2,00

* The weighting is the average value from the following ratings: 1 = important, 2 = quite important, 3 = quite unimportant, 4 = unimportant.

The average values showed that great importance was ascribed to the reciprocal *exchange of information and experience* and to *joint learning programs*.

These requirements were also recognized by large companies. However, by definition, other points were important for AVL, EUROSTAR and SFT including:

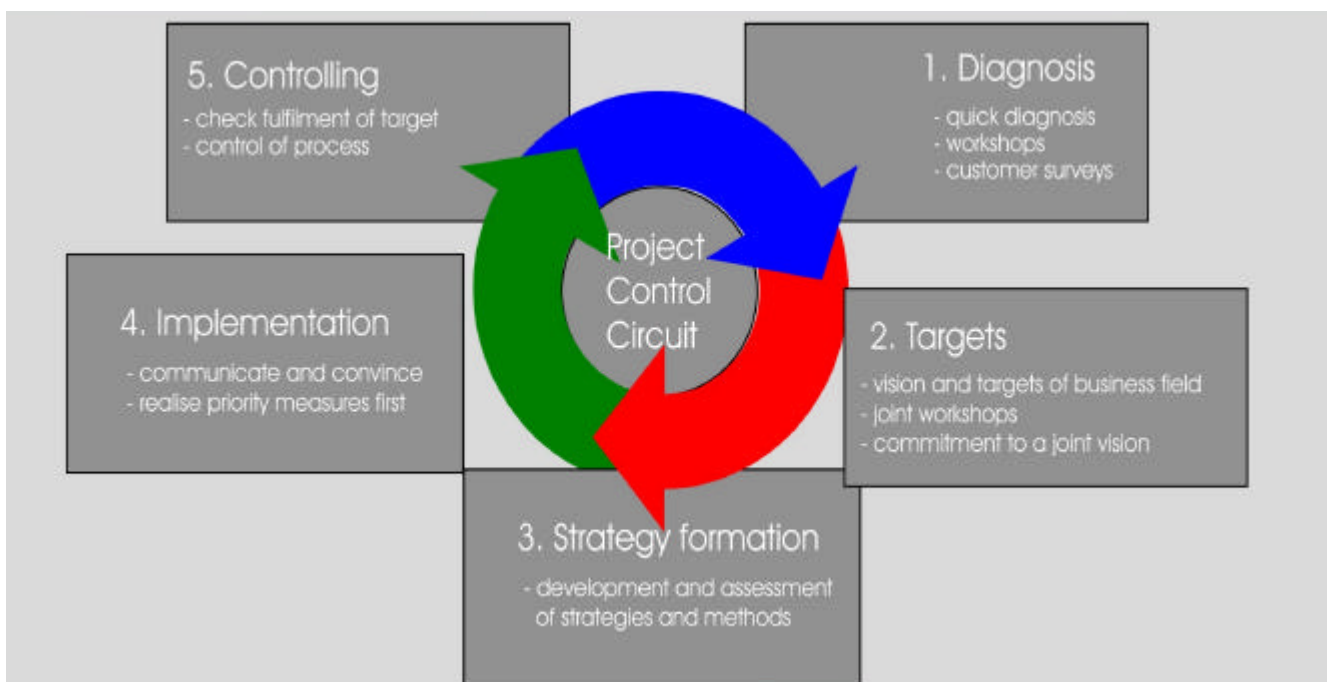
- ! The *creation of a vision*: How would the profiling as a vehicle region appear? What products/technologies should we be concentrating on in order to achieve a critical mass?
- ! *Analysis of the interdependence of suppliers*. Where is the potential in the Austrian supply industry?
- ! Set up of unit designed to provide assistance to potential new companies (suppliers).
- ! Reduce the gaps in the training of technical people. Promote team-building and speed up language learning. Pursue the establishment of a technical college specifically for automotive technology.
- ! Improvement of the basic conditions (lobbying) regarding work permits for foreign employees, improvement of the offer to English speaking schools and kindergardens.

Based on the approaches stated and on examples from abroad, the following four core tasks for the development of the automobile cluster have been established:

- (1) Information and communication including information technology.
- (2) Forms of cooperation: Collect ideas for cooperation, actively perceive cooperative possibilities and also define cooperation projects.
- (3) Inter-Company-Learning. These include many possibilities ranging from technical presentations, experience exchanges, to the formation of "Supplier-Associations".
- (4) PR and lobbying to communicate the significance of the cluster as a leading economic sector.

The cluster formation process had run through several development phases:

1. Development of a strategy including the drawing up of a mission, vision, procedure, organization models, securing of long-term stable financing models, integration of professional know-how carriers, broad commitment of all political groups and representatives of interests.
2. Analysis of the actual situation: identification and ascertainment of all protagonists in Styria with automotive relevance. Ascertainment of detailed data regarding ownership, position in the value creation chain, product service programs, certification standards, size classification, purchase markets, customer relationships, association to an industry etc.; imaging of all data in the corresponding database.
3. **Dialogue:** Presentation of the results in the individual working groups with companies and scientific institutes with strength/weaknesses analyses and chance/risk assessments. The results of the dialog had a continuous influence on the strategy formation process.
4. Structure of the organization: creation of an organization instrument in which the economic, education, training and policies segments are closely integrated.
5. Projects: training, marketing and PR, co-operation, information internationalization, research and development, organization infrastructure, market data survey, closing of gaps in the value creation chain by targeted location of companies, development of competence centers, support of the foundation of companies and spin-offs, improvement of the image, technology and knowledge transfer, initiation of co-operation from science and industry.



Project control circuit

The project control circuit shown reflects the basic approach which was applied for the processing of the tasks within ACStyria. From the basis of the elementary target of strengthening the automobile location of Styria, partial targets were developed from a diagnosis of the actual situation, strategies developed and measures realized. These were checked as regards their achievement of the targets and, if necessary, adjusted.

Project controlling

The content controlling in the ACStyria overall project was made by:

- ! current maintenance and monthly reviews of a time schedule and activity plan, in which, among others, responsibility, treatment, supplements and project status for each project subject is stated.
- ! keeping and updating of project status lists, in which target, processing, activities and the respective status is stated according to the project process development
- ! a 14 day jour fixe deadline of the project performance with the purposes of exchange of opinion and information as regards e.g. deadlines, fields of problems, alignment and evaluation of project drawings and applications, first clarification of events or PR measures etc.

PROCESS ISSUES

A cross-party think tank decided to deal more intensively with cluster formation processes. The Steirische Wirtschaftsförderungsgesellschaft (SFG) [Economic promotion association of Styria] was responsible for the initiative in co-operation with industrial association in the start-up phase and took over the necessary development work, financing and project management four years ago. One of the targets at that time after four years was to have created a sustaining organization platform which was to be further organized and financed by their partners themselves.

Aims

Initial phase:

- co-ordination of project structuring
- definition of the project task plan with its resources

Information and Communication:

- joint development and realization of an information and communication platform for the cluster concept structurally as well as technically

Co-operations:

- setting up, coaching and further development of a co-operation exchange
- exchange of information with model operations co-operation possibilities
- determination of starting points for co-operations

Inter-company learning club „A“:

- project-accompanying information of the company in the automobile cluster and spreading of result
- organization and moderation of mutual visits jointly with SFG with the aid of regional educational establishments
- organize exchange of experience

Cluster-specific PR work:

- co-ordination of deadlines in co-operation with the SFG and the other parties involved
- taking over of press support and public relation word. The co-ordination of the co-operation with PR agencies

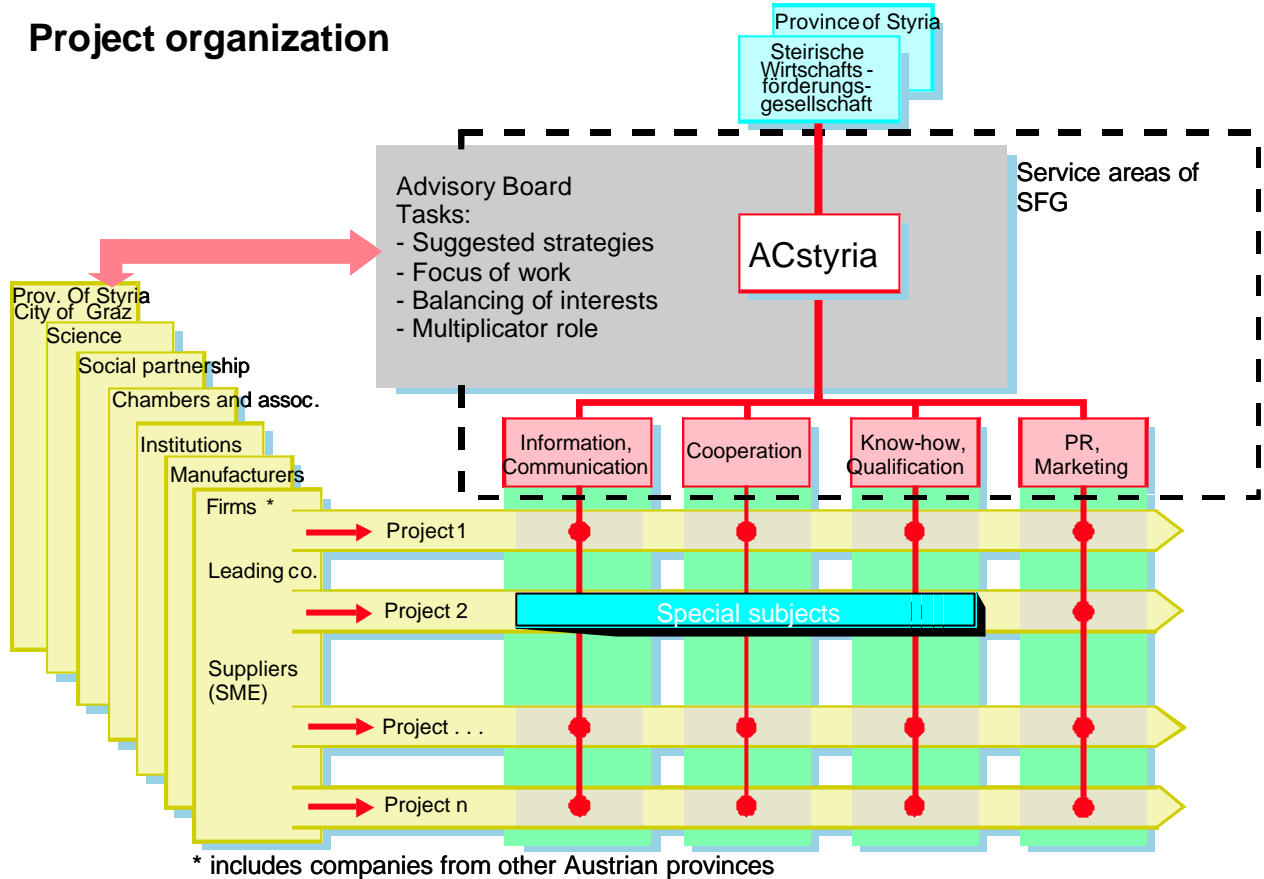
Project process

- project support
- project control
(capacities, deadlines, costs)
- hotline support for inquiries of cluster companies, co-operation partners, interested persons and customers
- support services SFG
- organization and process support at meetings of the project advisory board

Self-support of the ACstyria:

- creation of the organizational structures for a stable self-support of ACstyria,
- familiarization of the parties involved with the requirements for the implementation
- introduction of a continuous transfer process to a new responsible body

Project organization



For process control, an advisory board has been set up.

According to the economically and politically comprehensively defined target of the automobile cluster of Styria, members with contact to the public from the economic policy, finance policy, employee and employer representatives and science on the one side, and members with operative automotive relationships such as automobile manufacturers, guiding operations, small and medium sized companies as well as automotive polytechnic universities were sent to the advisory board. Thus a competent input in strategic and operative questions was secured for ACStyria and, at the same time, a high-quality support and increased effectiveness of publicity was secured.

The guiding and advising function of the advisory board was, among others:

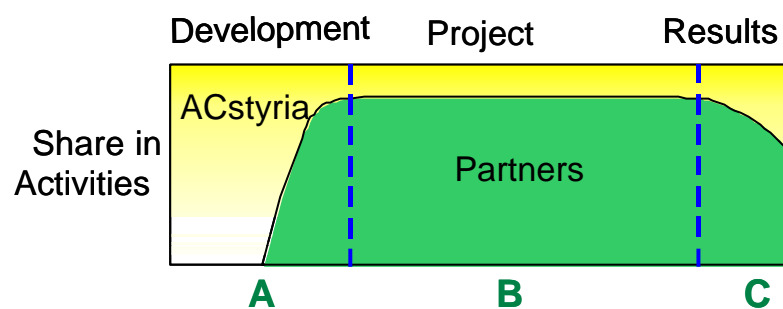
- strategy of the cluster development
- textual support for focusing on priority and realization measures
- balancing of interests (regional, supraregional, party, non-partisan)
- taking over of multiplier factors in the own and foreign environment
- spreading of ideas and results
- subject and project-related co-operation

- promotion of contact between parties involved

Projects

The principle of the automobile cluster, to provide a „help for self-help“ for medium-sized and small companies, should be achieved by the initiation and support of the corresponding co-operation projects. The following figures show the rudimentary main processing phases of the implementation of co-operation project.

Vision: **Cooperations that benefit each partner**



Flow phases:

Phase A	Look for and evaluate cooperation approaches
Phase B	Implement cooperation projects
Phase C	Circulation of results

Phase A: Searching of co-operation approaches and evaluation of activities

- sounding out of self-initiated subject approaches introduced by ACstyria
- sounding out of outside-initiated subjects i.e. introduced by companies or universities
- first qualified evaluation and recommendation by ACstyria
- search for adequately committed co-operation partners

Phase B: Implementing of co-operation projects with the respective activities

- definition and specification of projects
- calculation of the extent and the costs
- sounding out of supportability of the project
- setting up of co-operation contract within the partners
- application for subsidies
- release
- retail planning
- implementation of the co-operation project

Phase C: Spreading of the results with documentation and presentation

As early as in the initial phase of ACstyria, the information and activity requirements for companies in Styria were ascertained for certain subjects. On the basis of the results, then specific subjects were dealt with. In addition, current subject from the automotive environment were always determined by the SFG and presented in the cluster, mostly in workshops. These project subjects were described as self-initiated.

The influential protagonists are guiding operations, politics and the Wirtschaftsförderungsgesellschaft which acts as a trustee for the interests of the authorities. A clear commitment of the Styrian state government and a high personal commitment of the responsible economic state councilor, Herbert Paiarl, is important as it enables stable framework conditions, also on a political level.

Delimitation of membership

The interest in the automotive industry and/or ancillary industry is a criterion for the participation in ACStyria. In ACStyria, all companies which are in the area of the automotive value creation chain are welcomed. This means that all companies, from the raw material producer to the OEM – with all horizontally and vertically producing and servicing companies settled between – all can contribute to the functioning of the automobile clusters. Geographic restrictions do not exist, as each company has to decide itself whether a partnership with ACStyria makes any sense or not. Through the payment of an annual fee, the companies must decide their cost benefit analysis themselves and decide on the continuation or withdrawal from the cluster. The success of the company depends on the cluster management as well as on the degree of activities of the participating companies: If the services offered are attractive for the companies and/or how much do the companies participate in the cluster? The assessment of the attractiveness of a cluster is closely connected to the answer to these questions. Competing companies are not excluded in ACStyria, the same applies to completely inexperienced companies which want to enter the world of the automotive ancillary industry through the autocluster.

Resources and organization

The ACStyria Autocluster GmbH which was established by six different companies and institutes with the purpose of managing ACStyria has acted as a nerve center of ACStyria since autumn 1999.

In the initial phase in Autumn 1999 until the middle of 2000 two honorary interim general managers and a full-time secretary were employed. In 2000, a full-time general manager was employed who, in addition, to the above-mentioned secretary employed a project manager. The necessary office space (approx. 50 m²) was rented in an industrial technology park and thus the infrastructure prepared. The main task of the general manager was reaching an economic, financial independence of the GmbH. This aim could be easily achieved by the well-targeted acquisition of new cluster partners (in the first year). Each cluster partner has to pay an annual contribution (depending on the turnover in the automotive business) and so financial independence was secured. This operative budget is, of course, not sufficient, to implement significant projects. However, this will not be the task of the company. The role of ACStyria GmbH is to initiate projects, to motivate projects and to rouse the preparedness to jointly realize projects. With the implementation of projects, existing support means and – instruments (EC conform) are used. The active integration of cluster partners in planned projects is of importance, for, in the end, all projects should be of benefit to individual or several companies in the cluster. ACStyria Autocluster GmbH is a service company which adjusts its activities and this quotation portfolio on the market.

To achieve this, often the co-operation with other clusters is necessary and important: for example there are co-operations with other local cluster initiated from the automotive sector (joint attention of international supplier exhibitions are given only as an example).

Facilitators

The functioning of the clusters depends very much on the commitment of the acting persons. The representative of the owner as well as the general manager must fully support the cluster idea and represent it outwards. In the meantime, six persons are employed with ACStyria Autocluster GmbH, with two being involved in the development of an automotive training platform, which has to achieve a self-financing level of 100 % in two years. For the practical functioning of the cluster, the automotive experience of the general manager and the project manager must not be under-estimated because, from their previous work, they know the pressure from suffering on the companies very well and, for this reason, are able to compile the range of services of ACStyria GmbH accordingly. Due to their experience they are recognized and respected by the representatives of the companies, in the end they also speak „their language“.

Performance

Successful effects of the cluster initiative can be recognized in the most different areas: An increase in the image of the entire sector resulted. It is desirable to get employment in the automotive sector and the best applications from universities and colleges work in the automotive branch. A large number of new jobs have been created in the automotive sector in Styria in the last six years. If in 1996 approx. 20000 persons worked in the ancillary industry, in 2002 there were already more than 30.000 highly qualified employees who had a job.

Most of the targets which were set in 1996 were fulfilled, if not even exceeded. These were, for example, securing of the location as an automobile manufacturer, but also the self-support and self-financing of the cluster organization. The competitiveness of the cluster companies was internationally considerably improved, the large number of certificates (QS 9000, VDA 6.x, ISO/TS 16949 etc.) which the ACStyria partners have achieved within a few years are also an indicator for this. Not to forget the successful settlement of internationally active suppliers, which not only created hundreds of new jobs but closed the automotive value-creation chain and gave Styria the position of an „automotive complete supplier“.

Some factors of success which contributed to the positive effects of the cluster are certainly confidence (to the cluster management) and the willingness to open communication. Only if everybody is prepared to contribute something to an idea (and opens himself), a joint project can be successfully implemented. Sometimes it takes longer than expected from the start, but, nevertheless, joint targets can be reached which are unimaginable for the individual.

A government agenda:

Already since 1996, cluster formation is an important part of the Styrian economic and structure policy. Specific comprehensive support programs were developed to support cluster development processes. This involves the following segments:

- motivation and promotion of the foundation of companies
- motivation and promotion of R&D projects
- science and Technology transfer
- establishment and operation of impulse centers

- establishment of R&D competence centers
- internationalization
- promotion of endogen development of companies
- well-targeted establishment of companies

The total performance – on the economic level - is measured by regular studies of institutes such as the Joanneum Research, Industriewissenschaftliches Institut, WIFO etc.

In addition to the automobile clusters, cluster projects in the wood, lifescience, materials and telecommunciations area are developed in Styria.

Commitment:

Through the well-aimed development of a self-supporting public – private- partnership organizational unit (Gesellschaft m.b.H.) in which the companies hold a majority of the shares, the lasting effect of the cluster development process is secured.

Shareholders:

SFG 28,67% (Public)

AVL List GmbH 14,27 % (private)

Krenhof GmbH 14,27% (private)

MAGNA Steyr AG & CoKG 14,27% (private)

Siepe AG 14,27% (Private)

TCM International GmbH 14,27% (private)

The financing of the company is mainly effected by membership fees of the cluster partners as well as through strategic sponsors (banks and energy sector).