

Industry pulse

Challenges and outlook
for manufacturing



A moment of opportunity...

With widespread consensus that a revitalised manufacturing sector is essential for a balanced and successful UK economy, the challenge now is how best to achieve this?

There are a number of initiatives designed to support UK manufacturing – but it could be argued that a lack of true focus means we are not fully realising UK manufacturing strengths.

Current advantages such as a flexible workforce, low interest rates and world class capabilities in design and advanced manufacturing solutions make this a moment of opportunity for the country. It is an opportunity for growth that we cannot afford to miss, but it is one that requires a joined-up strategy to bring the sector together and move forwards in a common direction. This is important now more than ever especially in a time when confidence is being held back by international headwinds that could make exporting our way to recovery more challenging.

To find out what the UK's manufacturing and process industry thinks about the economy, the sector's future, its role in the global marketplace and what it needs for future growth, Siemens Industry UK has undertaken research among companies of all sizes across the sector.

Telephone interviews were conducted among 527 UK senior decision makers from across a range of industrial sectors including food and beverage, automotive, chemical, pharmaceutical, oil and gas and water and wastewater.

The research analysed the views of production directors, senior managers, finance directors and board-level management. Their opinions have been collated under the following key headings:

- **Economic confidence**
- **Evolution of the sector & Government support**
- **Innovation & investment**
- **Route to growth – what does the sector need?**

The results provide a valuable insight into the current issues facing UK manufacturers, their perceptions of the sector and, importantly, what is needed if manufacturing is to support the return of growth across the wider UK economy.

We hope you find this report of interest.

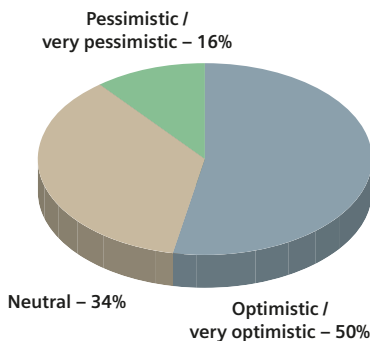
Siemens Industry UK

Economic confidence

Key statistics

- Encouragingly, half of the respondents (50%) said they are 'optimistic' or 'very optimistic' about their business performance during the next 12 months, while just 16% expressed 'pessimism'
- More than a third (38%) 'lacked confidence' to invest during the downturn
- Financial directors are the most upbeat, while production directors are slightly less confident
- Manufacturers are split on the risk of a significant double dip recession, with the Midlands region the most concerned.

How do you feel about the next twelve months in relation to the performance of your business?



Optimism

It is encouraging that the majority of respondents feel optimistic about the year ahead. In terms of industries, those operating in the oil and gas market had the most positive outlook - while companies in the water and wastewater industry were the least confident about the next 12 months.

Interestingly, the findings revealed that small manufacturers are the most positive, with more than three quarters (77%) of manufacturers employing up to ten staff saying they are optimistic about their business' performance during the next 12 months. This compares with 51% of companies with over 500 staff. Regionally, the North West appears to be most confident (60%), with the Midlands the least optimistic (39%).

Concerns of a double-dip recession

Despite this optimism, almost half of respondents (48%) are concerned about a significant double-dip recession. This is an issue that has divided the sector, as the remaining 52% do not share this worry. From a regional standpoint the Midlands expressed most concern (59%), echoing the low level of optimism felt in the region.

Investment confidence

While 62% were confident to invest all of their available capital budgets during the downturn, a significant (38%) of UK manufacturers lacked the confidence to do so.

For these manufacturers, 72% say it has led to a business critical need to invest. This need was most keenly felt by board-level respondents, followed closely by production directors and is most pronounced in the water and wastewater sector, while automotive businesses do not feel the same level of urgency to invest.

Regionally the North West highlighted the need for long term investment, with 77% citing that there was a business critical need to invest. This figure is even higher in the Midlands at 91%.

For those who did continue to invest during the downturn, there was little consensus on the priority areas:

- Building infrastructure – 31%
- New IT/technology – 25%
- Marketing – 21%
- New product development/R&D – 21%
- Plant and equipment – 21%
- Energy- saving measures – 18%

Evolution of the sector & Government support

Key statistics

- Nearly half (46%) of manufacturers say that initiatives such as 'Make it in Great Britain' have boosted morale and confidence in their company - but 42% have not yet seen a positive effect
- Support for Government initiatives is most pronounced at board director level, with firms in the food and beverage sector and larger sized companies based in the North West most upbeat about such measures
- The majority of manufacturers say that only with sustained and focused support from the top level of Government can the UK manufacturing sector continue to grow and be a vital part of the UK economy

Government initiatives to revitalise the sector are making an impression, but to a lesser degree among small businesses, with just 27% valuing their impact.



Government Support

The sector is clearly divided on the impact of Government initiatives. While the majority of respondents welcomed such measures, their impact has been less keenly felt by a significant 42%. Automotive companies and firms located in Northern Ireland were the least supportive of such measures, saying they had not seen any impact to date. Interestingly, it appears that Government initiatives are being more readily recognised by larger-sized companies and not so far impacting upon the SME sector, yet it is smaller-sized firms that express the highest levels of optimism for the next twelve months.

Within sectors, food and beverage manufacturers are the most receptive to Government support for manufacturing – perhaps as a result of traditional levels of underinvestment? The automotive sector on the other hand – seen today as a successful model – has continued to focus upon export-led strategies and own company initiatives to drive its current upturn.

Importantly, more than half (51%) of UK manufacturers believe that only with sustained and focused support from the top level of government can the UK manufacturing sector continue to grow and be a vital and more valued part of the UK economy.

Innovation and investment

- More than half (59%) of UK manufacturers say they have continued to invest at the same level as previous years during the last 12 months
- Nearly half (41%) plan to increase investment in their business in the year ahead, while 51% have no plans to invest further. This view was stronger among finance directors than production directors
- UK manufacturers believe automated systems will be critical to the future success of the sector

Demand – home or away?

At a time when focus has been on the delivery of an export-led manufacturing recovery, UK manufacturers highlighted the continued importance of the home market in terms of volume demand. Overwhelmingly (69%) firms across all sectors cited domestic demand as crucial to business levels – a view expressed most strongly by food and beverage producers, water and waste water and the pharmaceutical sectors. However, pharmaceutical manufacturers also saw the strongest levels of overseas demand compared to the other sectors questioned. The key message is that the home market remains robust for many.

Investment plans – next 12 months

When it comes to the investment levels of manufacturers over the last 12 months, the majority (59%) say that it has been about the same as previous years. Whereas, more than a quarter (28%) said it has been lower than previous years and less than one in ten (9%) said it has been higher. Only 4% of manufacturers have made no investment at all.

Among those looking to invest, companies in the food and beverage and oil and gas sectors are leading the way. The North West comes out top for planned investment – perhaps in light of the lack of recent investment – while Northern Ireland is less inclined to invest in the coming year.

Nearly half of UK manufacturers (41%) plan to increase investment in their business in the year ahead





Investments decisions – next 12 months

In terms of where they plan to make that investment, again the sectors differ. Priority focus areas were wide-ranging.

It is revealing that despite the requirement for investment levels to increase to fund improvements in production efficiencies, the food and beverage sector is twice as likely to increase marketing spend over the coming year as invest in plant and equipment. This sentiment is reversed within the automotive sector – an industry known for realising the benefits plant and equipment investment can bring. This is also supported by the actions of the oil and gas sector.

Global manufacturing innovation

UK manufacturers were asked which countries they feel are leading the way in manufacturing innovation. The top three identified were:

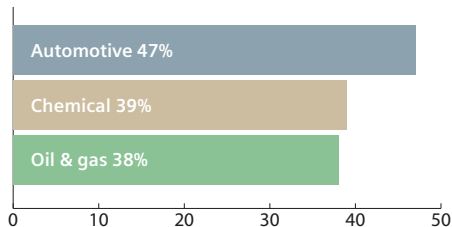
- China (40%)
- India (32%)
- UK (31%)

Smaller firms were even more optimistic, ranking the UK top for manufacturing innovation globally. Interestingly, whilst rating themselves in the top three, more than half (51%) of UK manufacturers do not think the UK is as advanced as it could be in industrial automation and clear challenges need to be overcome to substantiate the top three ranking for world leading manufacturing innovation.

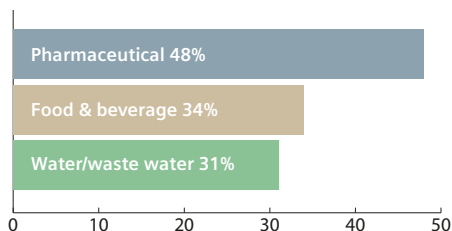
Of the sectors, 65% of those in the water and wastewater industry do not think the UK is as advanced as it could be in industrial automation, supported by 52% of chemical manufacturers and 52% of food and beverage manufacturers. This belief is also most strongly held by large-sized companies with upwards of 500 employees - again emphasising the requirement to do more to raise the bar when it comes to UK manufacturing realising the true benefit of industrial technology.

Where will you most likely focus investment in the year ahead?

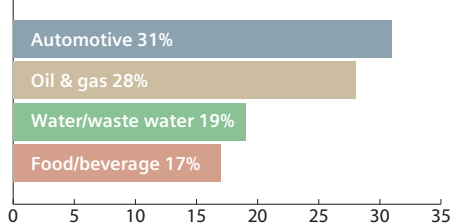
New IT infrastructure & software



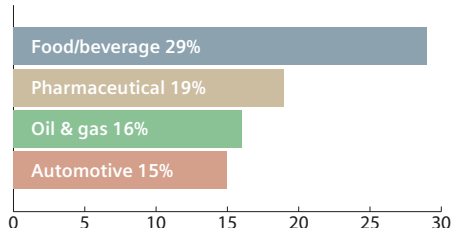
New product development / R&D



Infrastructure, plant & equipment



Marketing



Route to growth – what does the sector need?

The respondents were divided on identifying the main barriers to growth, citing a broad range of equally important issues which included supply chain shortages, plant capacity, energy costs, labour costs, skills shortages, a lack of Government support and competition from emerging markets.

Interestingly, access to external finance did not score as highly as other areas, which is perhaps surprising given the current challenging economic conditions.

There was limited consensus on the main priorities for supporting growth amongst manufacturers. Following close analysis of the feedback, three themes emerged. They were the need for improvements to production efficiencies, focus on workforce

training, the retention of skilled staff and the need for strong and effective management.

It's clear that UK manufacturers believe that the implementation of industrial technology – and automation systems in particular – will be a critical success factor in enabling higher output and increased efficiencies across the board.

Interestingly, access to external finance did not score as highly as other areas as a barrier to growth.



Time to look to the future

This report paints a picture of divided opinions in the sector and reveals a lack of consensus on key issues such as the economic climate, investment appetite and overall government support for the sector.

A successful UK manufacturing industry of the future will be one that undergoes a fundamental shift towards high value, advanced manufacturing solutions.

This is where our opportunity lies, but it will require the level of investment in industrial technology already witnessed in key industries such as aerospace and automotive. The wider sector must now follow this lead.

The findings of this report reveal an urgent need to unite the sector, play to UK manufacturing strengths and deliver a growth strategy based on investment, innovation and a flexible and highly skilled workforce. This report highlights very differing views amongst manufacturers on how to achieve these priorities which shows a need for more support on key areas. Nonetheless, the fact that confidence is erring on the optimistic side is encouraging and should be nurtured to ensure a vibrant and growing manufacturing sector for the future.

It is clear that improvements to production efficiencies, workforce training, and effective management strategies lie at the heart of what most manufacturers feel the sector needs to move forward. If the sector does this at the same time as increasing levels of innovation and investment, then there is no reason to think the UK can't forge a new path 'to successfully making things', strengthening our competitiveness on the global stage.

Siemens Industry UK is committed to working with fellow manufacturers of all sizes to tackle the challenges ahead. It's good to see that campaigns such as Make it in Great Britain are making a difference for a significant proportion of manufacturers and I really believe this kind of support can be transformational, not only in increasing morale, but also impacting on the bottom line. However, to do so, they need the weight of industry behind them, so we can move toward the UK exporting its way into a solid recovery.

Juergen Maier, Siemens Industry UK

