Automotive Manufacturing 2006

The Industry Perspective

SMMT's Fourth Annual Issues Survey

Introduction by Roger Putnam SMMT president

This is the fourth year in which the motor industry has published the results of its comprehensive issues survey, and the second time I have overseen the results as SMMT president.

The report has become an important snapshot of the automotive sector in the UK, giving us a clear picture of where we are today and where the industry will be moving tomorrow. Our members' views guide SMMT policy and communications and send a clear message to government about the areas in which it can support a successful future for Britain's largest manufacturing sector.

Perhaps the most important thing is that this is not an exercise in introspection, carried out in central London; the findings are based on responses from companies operating throughout the UK.

The trends that have emerged in four years are clear. Firstly the good news, included in part one of this year's report. There is far more cause for optimism in automotive manufacturing than you may have been led to believe. Of course there are problems, however the majority of businesses are looking forward to a prosperous future.

And in making that statement, we should remind ourselves that this report pools the views of some of the most senior people, CEOs and managing directors and of companies operating in all sectors of the industry. That includes companies in the component supply chain and aftermarket, as well, of course, as those involved in vehicle manufacture.

On to the challenges. Sections two and three look at skills and regulation. Success will only come if we continue to employ and train the best people and work to address the skills shortage, while over-regulation threatens to offset much of the work that has already been done to improve productivity.

Finally, in section four, we present our message for the government. Our challenges are your challenges. Support us and UK plc will reap the benefits in the long term.

We hope you find this year's report valuable. Please do send any comments to me at president@smmt.co.uk

Roger Putnam
SMMT president

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Background

Now in its fourth year, more than 100 people completed SMMT's issues survey. 86 per cent of those were either chief executives, chairmen or employees at director level within their company.

Thirty one per cent of respondents represented vehicle manufacturers. 16 per cent were car makers, 12 per cent represented commercial vehicle manufacturers and the other three per cent represent manufacturers of other types of vehicle.

Those representing component manufacturing made up 35 per cent of responses while the aftermarket's voice was provided by 19 per cent of respondents. Other companies in the sector comprised the final 15 per cent of survey findings.

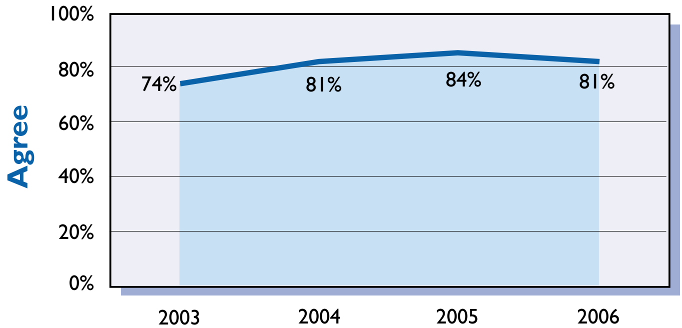
The report pooled views from companies based across the UK. The most significant concentrations were in the South East (17 per cent), West Midlands (16 per cent) and Wales (10 per cent) with 'multiple locations' for their company reported by 12 per cent of respondents.

Survey responses were collated over a four week period in September / October 2006 with a final cut-off date for returns of Friday 27 October.

Many questions have not changed in the four years in which the survey has been undertaken, however some have been fine-tuned or introduced within the past couple of years. Wherever consistent, the report endeavours to include comparisons with previous years' findings.

Section One
The Business Environment

One of the most consistent trends that has emerged in four years reporting is optimism for medium-term growth. The vast majority of companies feel that growth prospects are good for their business in the next five years.

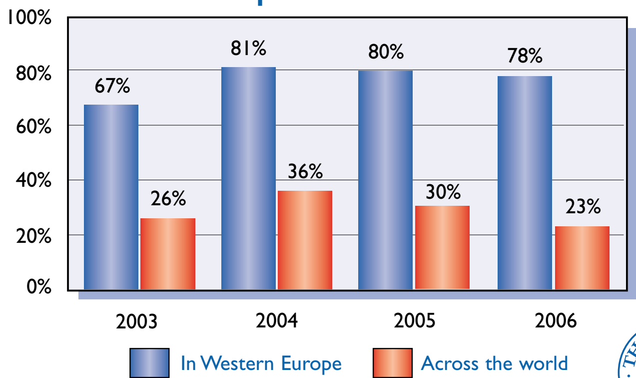


Unsurprisingly in this global industry, UK companies say that the best growth prospects lie in increasing penetration of international markets. 85 per cent of respondents in 2006 agreed with this statement, compared to 75 per cent four years ago. As we'll see in section four, many feel government needs to do more to support prospects abroad.

It is on international markets that anxieties of UK-based manufacturers become clear.

On competitiveness, there is a clear divide between Europe and the rest of the globe. When asked to rate their business against competitors in western Europe, most respondents feel confident in their company's competitiveness. However, this changes dramatically when using a global measure.

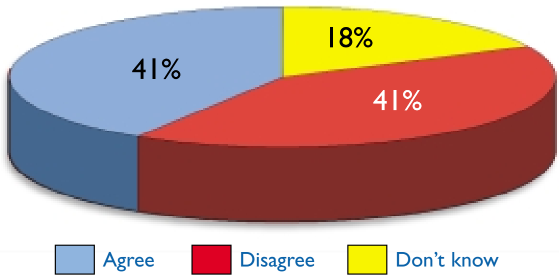
Our business is competitive compared with our direct competitors who are based



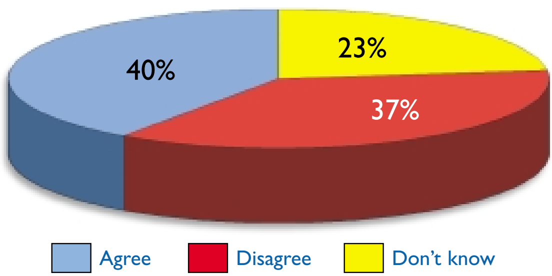
These responses reflect an industry which recognises its position within a global market, with one eye on the threat posed by Asia-Pacific production. This becomes even clearer when looking at the business environment in the UK over the next five years and comparing it with major European economies, the US and Asia Pacific.

While there is some ambivalence about how the UK will fare compared to Europe and the US, there is an almost unanimous belief that the business environment in the UK will not fare as well as the Asia Pacific region in the coming years.

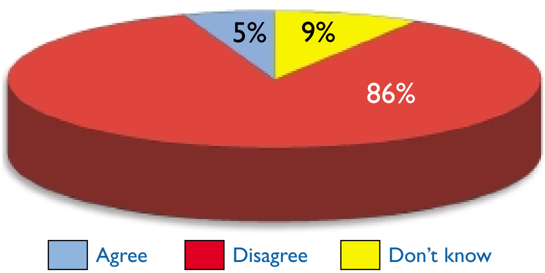
In the next five years, the business environment in the UK will improve compared with - major European economies



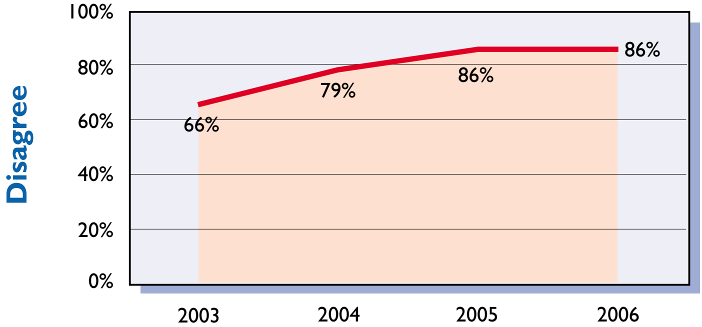
In the next five years, the business environment in the UK will improve compared with - the US



In the next five years, the business environment in the UK will improve compared with - Asia Pacific



UK business environment will improve compared to Asia Pacific

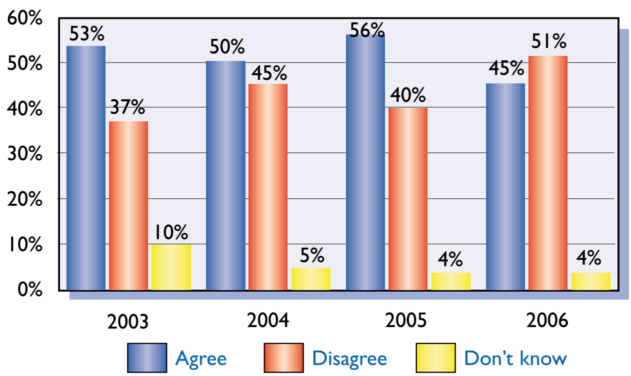


Despite improvements reported in SMMT's seventh annual sustainability report, only 48 per cent of respondents felt the industry is improving productivity. Perhaps this is not surprising when good news coming from the automotive sector tends to be drowned in the clamour for a bad news angle.

SMMT should also be mindful that most respondents were pessimistic about production growth in their sector of the automotive industry in the next five years, as opposed to their own company prospects. 38 per cent agreed that production would grow and 57 per cent disagreed, an almost exact turnaround from a year ago when figures were 58 per cent and 38 per cent respectively.

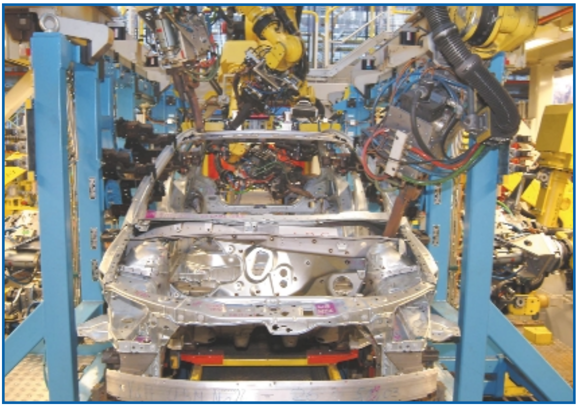
However, there is cause for optimism. Fewer respondents than in recent years agree that there is an imperative to move production to low-cost markets to remain competitive.

To become more competitive, UK companies must move manufacturing to low-cost markets



Finally, the survey asked if UK-based companies must source more products from abroad to remain competitive. Over the years, other than a blip in 2004, responses have remained consistent. Around seven in 10 agree they must.

2003	**–**	**71 per cent**
2004	**–**	**58 per cent**
2005	**–**	**77 per cent**
2006	**–**	**75 per cent**



Section Two
Skills and education

A highly skilled workforce, lean production processes and a sympathetic business environment are the three lynchpins that will drive the auto sector to a successful future.

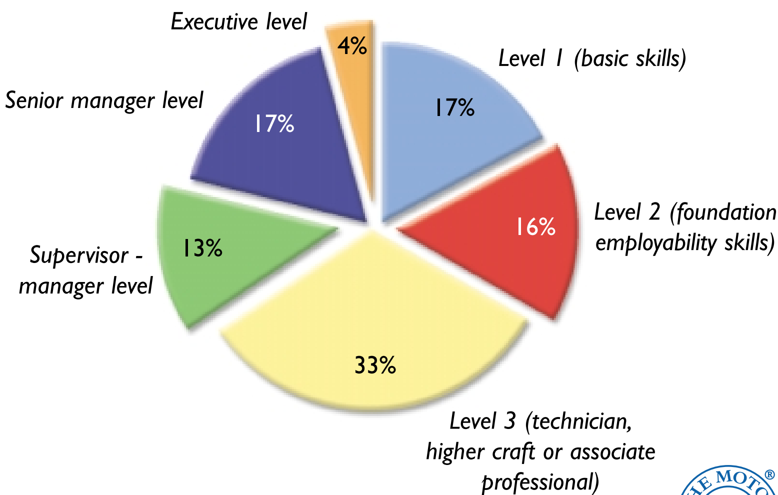
Skills have long been an issue for automotive manufacturing. For whatever reason, be it poor industry image or inadequate self-promotion, the motor industry has struggled to sell itself as an aspirational employer. Yet the career opportunities are clear and varied, as noted by nearly seven in 10 survey respondents this year.

Previous surveys have reported a skills shortage, particularly in level 3 skills. Recently, the Automotive Academy and Sector Skills Councils have worked to address the gap between the skills needed by business, and those held by the workforce.

The launch of the National Skills Academy for Manufacturing, based on the successful 'hub and spoke' approach adopted by the Automotive Academy, should help continue work to deliver skilled people to meet real industry needs.

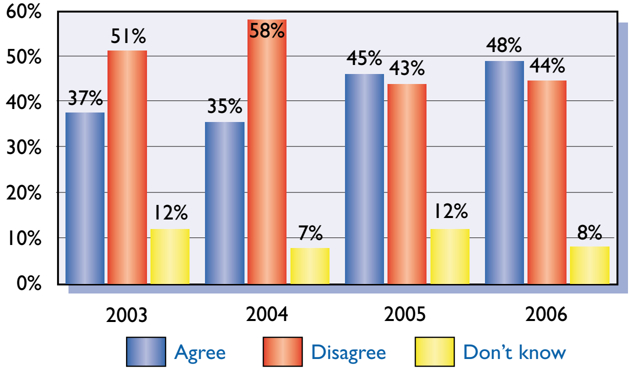
Encouragingly, 49 per cent of survey respondents said finding suitably skilled employees is not a problem; that's an improvement on the 33 per cent in 2005. However, for those who do find it difficult, level 3 skilled employees remain the most elusive.

At what skills level do you find recruiting the most difficult?



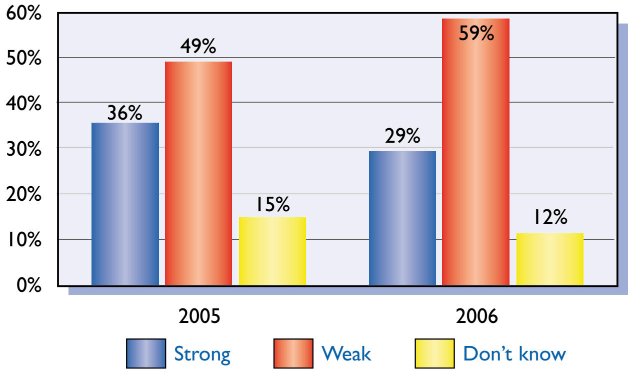
Nearly half of those surveyed felt their workforce was likely to grow in size in the next five years; a significant rise from the first survey back in 2003.

Our workforce will grow in size in the next five years

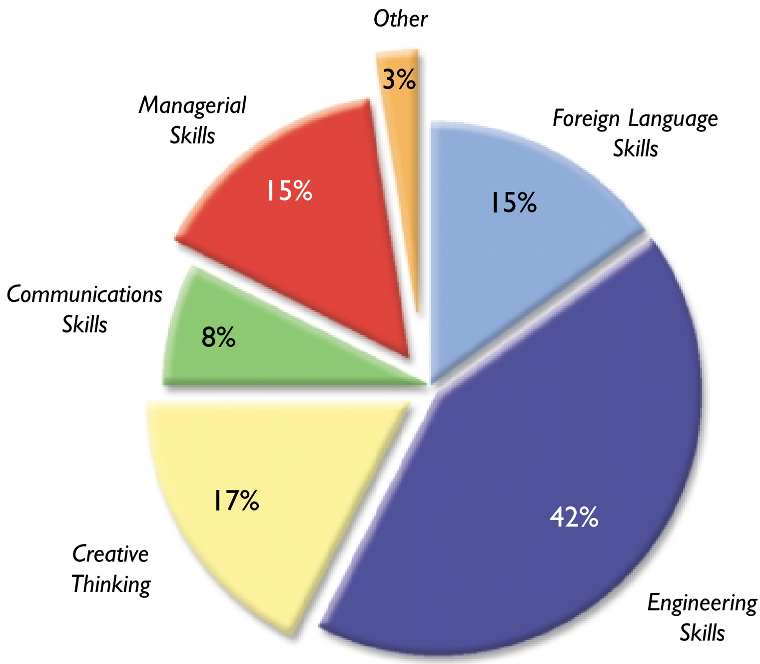


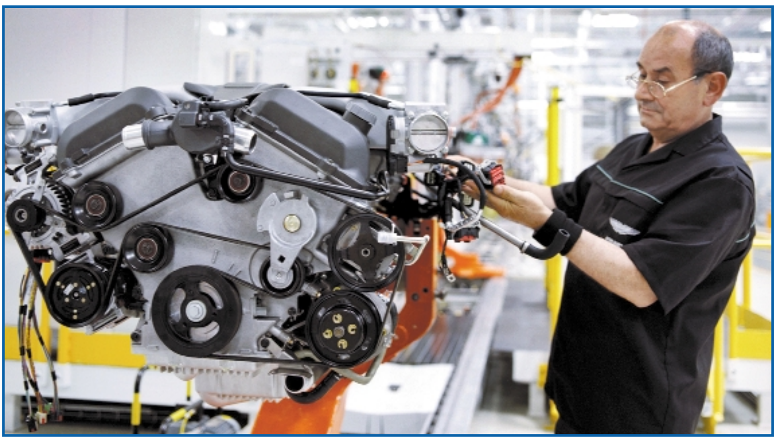
However, despite the very real progress made by the Automotive Academy and long-established Industry Forum training in delivering skills and productivity improvements, there is a strong feeling that the industry has some way to go to improve the overall quality of recruitment and training. This is a message that individual companies and the industry as a whole needs to consider carefully.

To what extent do you believe the industry is improving the quality of recruitment & training



Finally, the following have been identified by respondents as areas which should be priorities in addressing skills development within the UK automotive sector. Understandably, given the level 3 skills issue and nature of the sector, engineering skills top the priority list.





Section Three
The regulatory burden

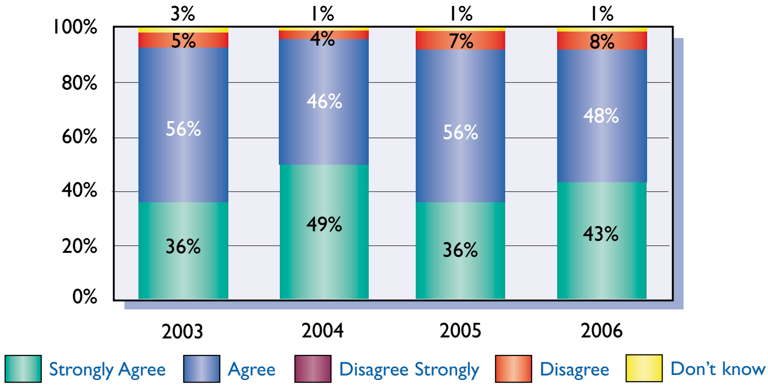
The automotive industry is one of the most regulated sectors, with sometimes inconsistent and conflicting rules. The cumulative costs of juggling a bundle of rules and red tape can be considerable.

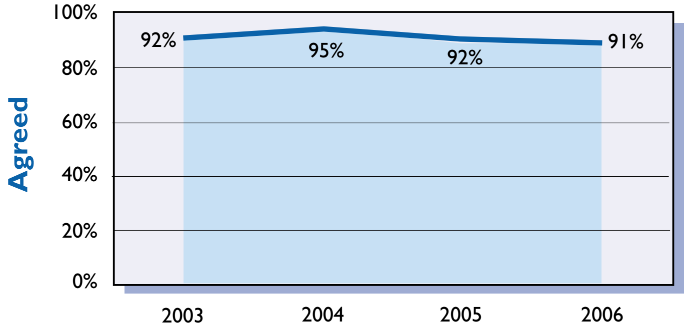
Before last year's report was published, the European Commission's high level CARS 21 team issued recommendations on how to streamline the regulatory burden, ensuring the competitiveness of European automotive manufacturing within the context of safety and environmental policy objectives, including proper impact assessments for new laws.

However, despite this work, the survey continues to reveal regulation and red tape weighing heavily on the minds of senior industry executives.

Legislation has significantly increased the costs on our business in the last five years, so said 89 per cent of respondents in 2006. More importantly, the vast majority of respondents see no respite in an avalanche of new rules and the impact these will have on costs in the five years ahead.

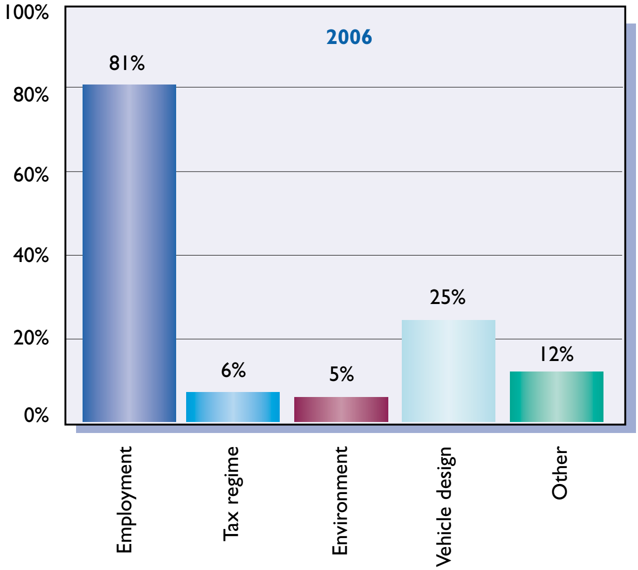
Legislation is likely to increase costs significantly in our business in the next five years





We should bear in mind that the following responses were collated before publication of Sir Nicholas Stern's report on the economics of climate change and leaks in the press about further green taxation. So, while we should learn from the very real concern shown by 81 per cent of respondents about the burden of employment legislation, we should be cautious to read too much into the low response for environment taxation.

Please indicate the type of legislation that may impact on your business

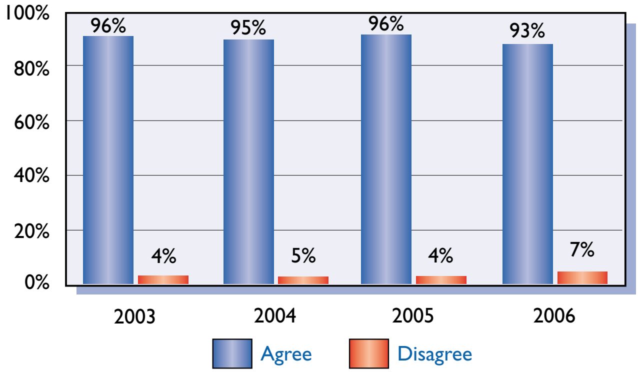


Note: Multiple responses possible

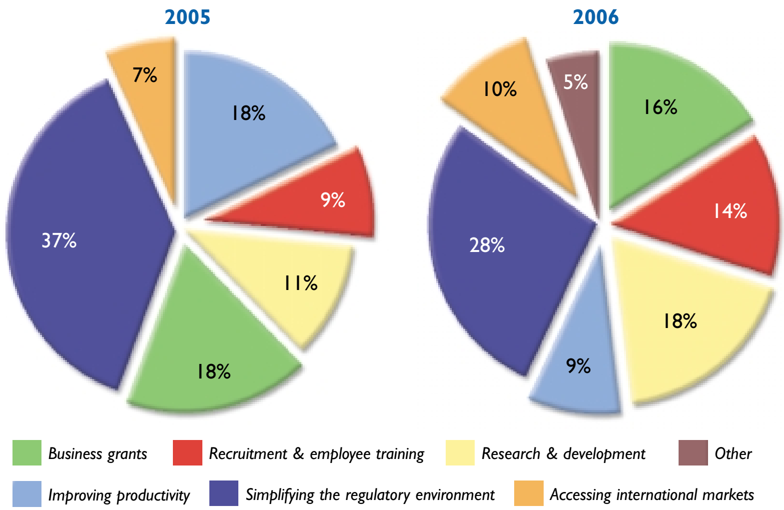
Section Four
Support for a successful future

Government has made it clear that it recognises the importance of the manufacturing sector – and the automotive sector within it – to the economy. Nevertheless, since the survey began, respondents have questioned this rhetoric.

Government is not as committed as it should be to maintaining manufacturing as a fundamental part of the UK's economy



There will always be those who believe the government can do more, so perhaps it is pertinent to consider the priority areas in which support is sought. This question has been asked for the last two years, so we present these results side by side.



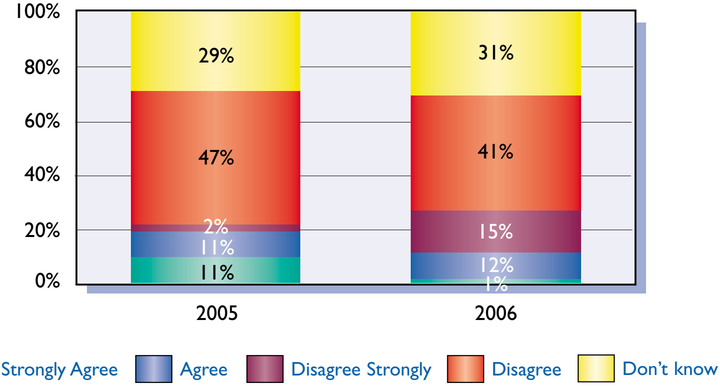
What is interesting about these results is the main area for focus. Identified in the third section of this report, simplifying the regulatory environment is the most important area in which the industry feels the government can help. It's a familiar theme.

Other notable areas include support for recruitment and employee training, something that the national skills academy may help develop as a theme, and greater support for research and development. R&D is an area which companies see as an increasingly important activity, and an area where more respondents feel the quality of work is improving – 38 per cent in 2005, 47 per cent in 2006.

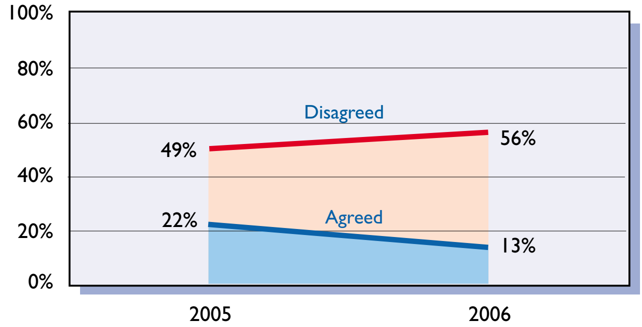
Accessing international markets is also rising up the agenda in terms of government support, as the opportunities from emerging markets in eastern Europe and Asia become clear to UK-based companies.

Sadly, this is not reflected in responses to questions about whether government support for international business has actually improved. While nearly a third of respondents felt unable to answer, 56 per cent said it had not improved compared to 49 per cent a year earlier. Just 13 per cent said it had improved, down from 22 per cent in 2005.

The Government's support for international business development has improved

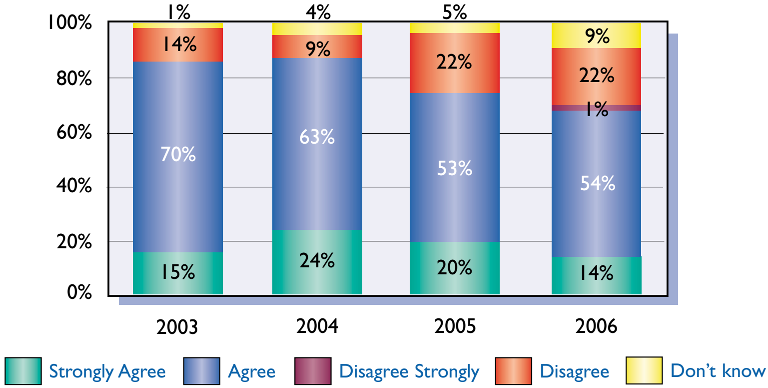


Percentage of respondents who agreed & disagreed



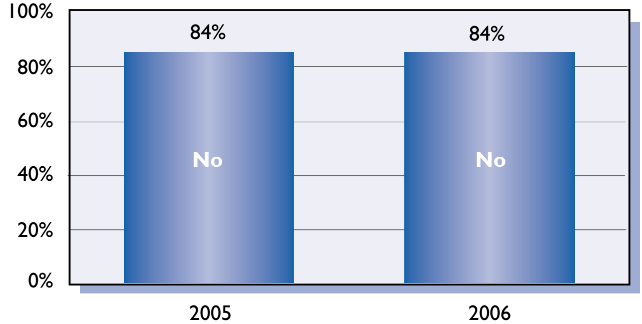
Unsurprisingly, the majority of responses show frustration at the transport infrastructure in the UK and the effect it has on competitiveness.

The state of the transport infrastructure in the UK makes it increasingly difficult for UK companies to remain competitive



Those surveyed were also still gloomy about any improvements in the next five years.

Will the transport infrastructure in the UK improve significantly in the next five years?



SMMT would like to express thanks to all those who took time to complete the fourth annual issues survey.

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