



British Manufacturing: survival or growth?

SMMT Issues Survey



Views of the Automotive Manufacturing Industry

Background:

The UK has a long history of profitable automotive manufacturing dating back to the 19th century but in recent years some observers have assumed that the industry is no longer of significance to the British economy, due to rising level of vehicles and components manufactured outside the UK. The emergence of globalisation, e-commerce and overseas centres of low-cost manufacturing have further increased the pressure on the sector.

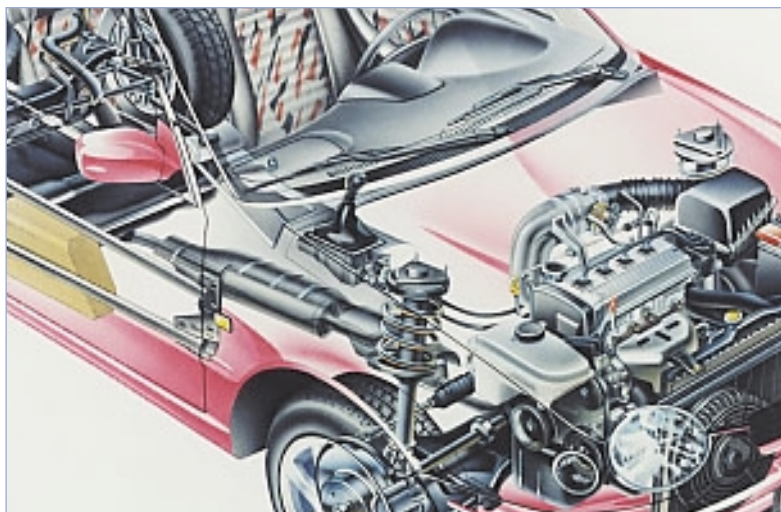
However, action by the manufacturing companies including a focus on competitiveness, investment in people, processes and proactive management have led to many companies experiencing a renaissance and real growth has been achieved.

In order to take a sounding of what businesses really think of the climate for manufacturing today, SMMT conducted a survey amongst its members designed as a sample of opinion rather than representing the view of the entire industry.

The results in this report include companies from a range of different sectors and of different sizes reflecting a wide range of interests. Similarly, the quotations included represent individual views of some of the leading executives in the industry and do not necessarily represent the collective view of the industry.

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Key findings:

The 80 businesses whose views are represented in this report employ 100,000 people within the UK. The results reflect the views of manufacturers of cars, commercial vehicles, engines, components and aftermarket businesses. Nearly half of these companies employ more than 500 people and a third of them between 50-250 people.

- They are positive about the future of their individual businesses and are planning to invest in their business in the next 12 months
- They believe they are more competitive than their European counterparts
- They recognise that Research and Development (R&D) and new product development are key to their future
- They do not believe the industry as a whole will grow
- They are concerned about the burden of legislation, with the greatest concern over employment and environmental legislation
- They are concerned about Trade Union militancy at a time when the majority of companies do not see their own workforce growing
- They are concerned about the declining transport infrastructure in the UK
- They have adopted progressive working practices, but many firms have problems recruiting suitably skilled employees
- They recognise the need to act now and counter the impact of globalisation, which is generally seen as a threat
- They believe that Asia Pacific poses a particular threat

Over 95% of the businesses surveyed believe that the Government should do more to support the manufacturing sector.

In summary:

Far from just surviving, most companies are positive about their future. The automotive industry is showing behaviour associated with success: inward investment, commitment to innovation and employee development.

However, collectively, the industry does not believe it will grow. It continues to operate in a highly competitive market and faces increasing pressure from low-cost manufacturing bases. Survival is by no means guaranteed, and the industry would like to see a more holistic approach from government when developing and introducing legislation, particularly from Brussels.



Growth prospects:

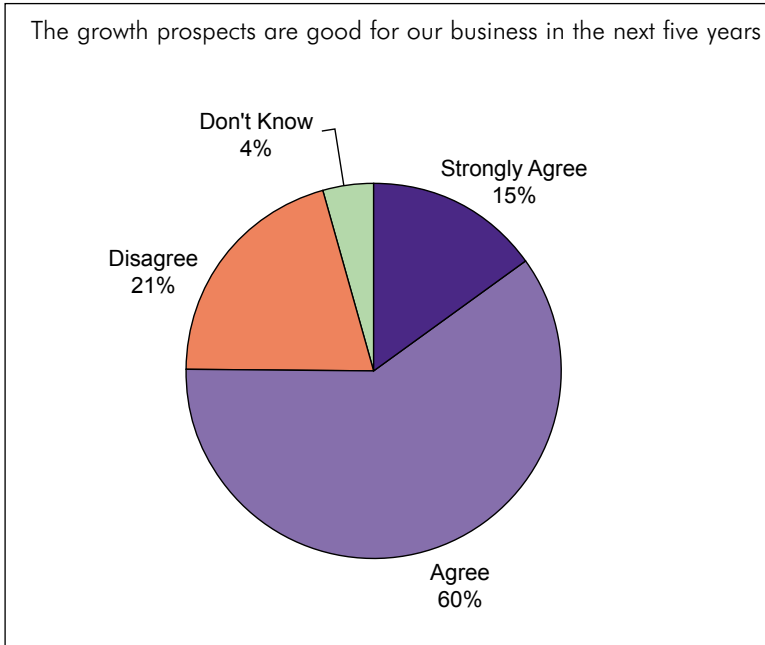
There is a positive view of growth prospects at an individual company level but a negative view at an industry-wide level:

- Automotive businesses are positive about their own future: 66% of the surveyed companies believe the prospects are good in the next year, rising to 75% over a five year view
- However, more believe that production in their sector will stagnate or decline (50%) than believe it will grow (41%) in the next five years
- The components manufacturers surveyed were particularly bearish. Only 30% believe it will grow in the next five years

This apparently inconsistent result is explained by the fact that some sectors of the industry will grow, but in others there will be a decline:



A Surprisingly Positive Outlook



"I suspect that this reflects answers from businesses which are pan-European with portable capacity, and are unlikely to grow in the UK. UK companies without that portability are now seeing the benefit of a weaker pound, stronger Euro and feeling positive about their future."

"Some companies will grow linked to their new product programmes, but if you are trying to link component and vehicle manufacturers, this will depend upon you being a supplier for the new model and its growth."

"There will still be a substantial amount of component manufacturing in this country subject to it being a reasonable place to continue investing."

"People are often seduced by forecast numbers ... If you add up all the forecasts by the car manufacturers, the numbers exceed the demand."

Approaches to competitiveness:

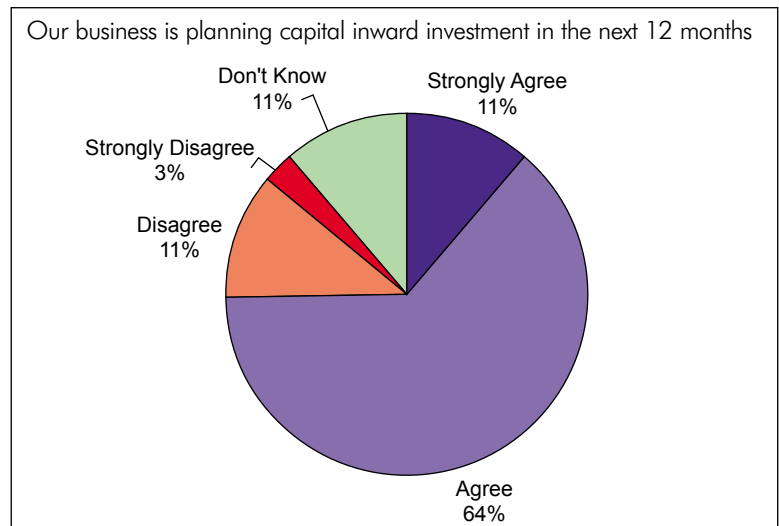
The survey revealed a positive view when comparing individual companies' competitiveness with their European counterparts, but less so against the rest of the world:

- Two thirds of businesses (70%) are bullish about their competitiveness compared with Western Europe while only a quarter (27%) believe they are competitive compared with the rest of the world
- Over half of businesses (65%) believe this competitiveness compared with the rest of Europe is partly a response to a strong pound

Another positive response is that companies recognise the need to innovate and to invest in their businesses and people – and that investment will be in the UK:

- The automotive sector believes R & D is fundamentally important to its business (93%) and the majority of businesses (75%) intend to invest in their UK business in the next 12 months
- The automotive sector strongly supports employee training and education (96%) and greater flexibility in working practices for employees (66%)

Inward Investment

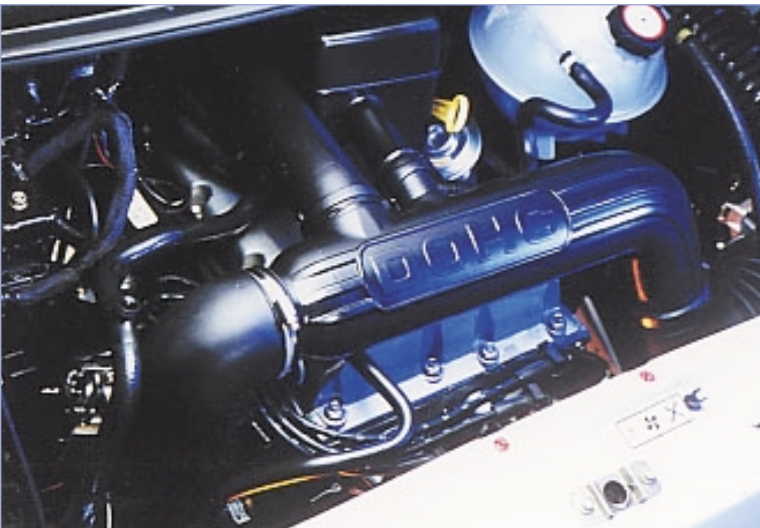


"If we are going to compete in Europe and the rest of the world, we need to attract product innovation, in its widest sense, into the UK. At the moment it tends to drift overseas, or go to where a company's Head Office is. We need clearer tax breaks."

"We need to answer the question 'why isn't it more attractive in the UK?' We need clear measures to reduce cost of R&D in the UK."

"We need to ensure that the skills and expertise taught in academia are those which are actually needed – we need more expertise and it is moving too slowly."

"We don't want huge subsidies. Let us get on with the things we are good at - making ourselves more competitive, whilst government focuses on the things it's responsible for such as infrastructure, education and training."

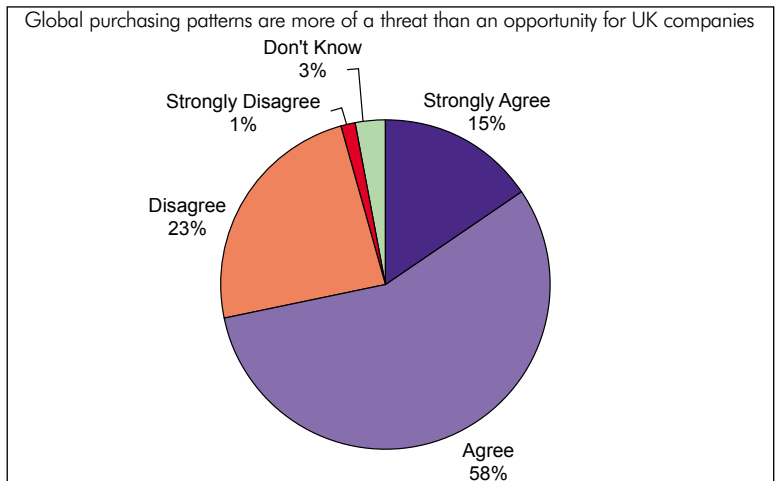


The impact of globalisation:

- The automotive sector sees global purchasing patterns as more of a threat than an opportunity for UK companies (75%)
- The majority of businesses believe that to become more competitive, UK companies must source more products from abroad (74%) and must move manufacturing to low-cost markets (57%)
- The majority of businesses believe that technology has increased their capability for global purchasing (81%). The majority of these companies also believe that technology has enhanced their capability to supply customers globally (63%). This view on supply is held most strongly by car manufacturers (86%) and less strongly by components manufacturers (60%)
- The majority of businesses believe that the best growth prospects for their business lie in increasing penetration of traditional international markets (75%) and in developing new products (95%)

The impact of globalisation issue was sponsored by Droege & Comp, the international management consultancy. In the New Year, SMMT supported by Droege & Comp will be undertaking further research into this issue looking at the strategies for growth for UK manufacturers

Globalisation - the Threat



"This is a timing issue. Short to medium term companies can partner with overseas firms to exploit opportunities. If they don't they'll be wiped out. Longer term, consumers in markets such as India and China will want goods from Western markets. So companies need a balanced approach with sales and distribution networks to service both markets. It takes vision, patience and commitment to invest."

"Worldwide sourcing is now an opportunity, with logistics and costs becoming much more straightforward. International selling is a much more difficult task in which to be successful. There is a very much higher cost and it takes longer term. It will favour the larger companies who can compete for the longer term and invest."

"If we are going to encourage UK manufacturing to form partnerships we need to broker special relationships. It is very difficult, but if we identified that a dozen or so firms wanted to target a location, and we asked a DTI Minister to travel there to help broker an arrangement, they simply would not do it, unless it suited their agenda."

"You've got to cheat to win. You've got to pick winners and then make sure that you distort the market to make sure you survive. Talk to the French or Italians about it! I don't think we've paid any tax on profits in Italy for years because we get tax relief if we re-invest. In the UK we just don't have the same approach – we're quite happy to accept uniform mediocrity, which is unfortunate."

DROEGE & COMP.

INTERNATIONAL MANAGEMENT CONSULTANTS

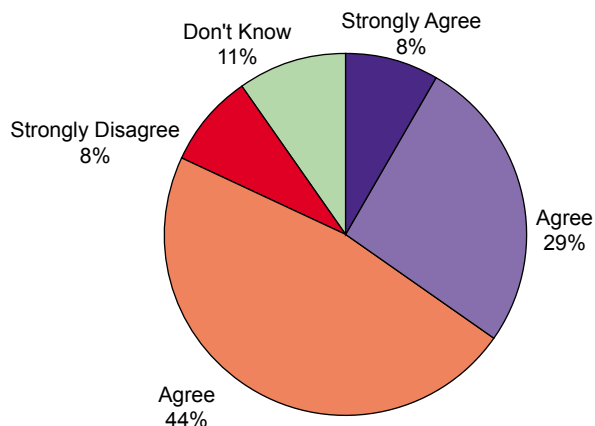
Employment in the sector:

Half of the companies surveyed say they are unable to recruit suitably skilled employees. Industry and government's response has been the Automotive Academy and the dedicated Sector Skills Council:

- Less than half of businesses (38% / 40% respectively) believe their workforce will increase in the next year/five years
- Over half of all businesses (54%) are unable to recruit appropriately skilled employees
- Businesses find Level 3 (technician, higher craft or associate professional) and supervisors/managers are the most difficult levels to recruit
- About half of those who had an opinion believe that low unemployment has been helpful to their business (43%) and about half (48%) believe the opposite. There is a divide between those supplying consumers and those supplying the industry. 77% of car manufacturers believed their companies had benefited while only 20% of components manufacturers believed their companies had benefited

No growth in employment

Our workforce involved in the UK automotive sector will grow in size in the next five years



The interviewees were clear as to the nature of the problem:

"The quality and training of engineering in other countries is superior. The base case is that UK is at a disadvantage. There was a lack of investment and we are reaping the results of a 15 to 20 year problem."

"The Automotive Academy is only the start. It needs to go right back into senior and junior schools. The automotive industry must be seen as a good industry to get into. It will take focus."

"We simply do not have the language skills. Engineers [in UK] are not good at languages. If we address that issue, we will improve our chances."

"We have a working population of 20 million in this country and our average IQ is the same as everywhere else – it's simply that they're not orientated towards the motor industry."

The Academy needs time to make a real impact:

"The Academy will start to make a real difference four to five years from now."

"This is a long-term commitment. It won't make any difference in five years. It will take five to 10 years to start to make a difference"

Business environment:

The UK's economy was seen as holding up well against Europe in the short term, but not against Asia Pacific or the US:

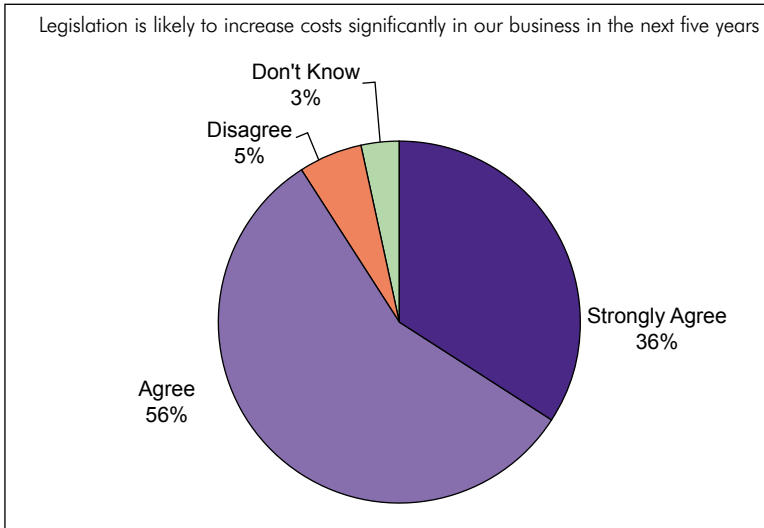
- Most businesses (54%) believe the UK economy will out perform Europe over a year but only 35% believe the UK economy will out perform Europe over a five year period
- Most businesses believe the UK economy will under perform compared with Asia Pacific over both a year (66%) and a five year (65%) period
- Less than a third (29%) expect the UK economy to out perform the US economy over one year and only 22% over five years
- The majority of businesses (79%) believe they have benefited from low interest rates
- Over half of businesses (57%) are concerned that Trade Union militancy will increase and that the industrial relations scene in the UK will become more confrontational over the next five years

Legislation:

Respondents to the survey were very focused on what government could be, should be, or wasn't doing to assist the sector. This could be a result of either direct dealing with government, or from lack of awareness of opportunities open to the industry:

- The majority of businesses (92%) believe legislation will have a negative impact on their business, with employment, environment and tax legislation being seen as having the greatest impact

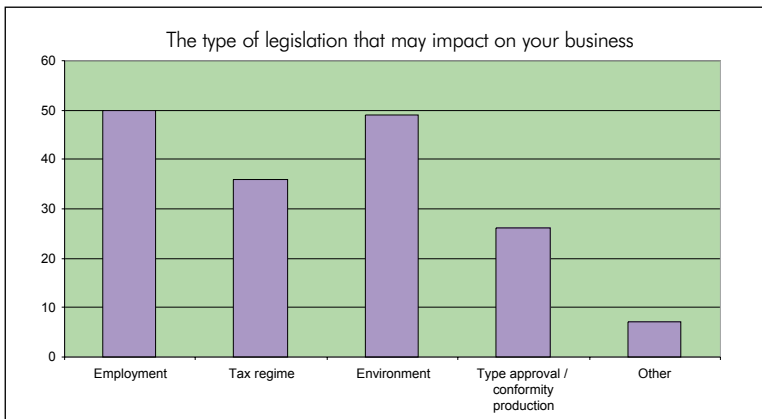
The Burden of Legislation



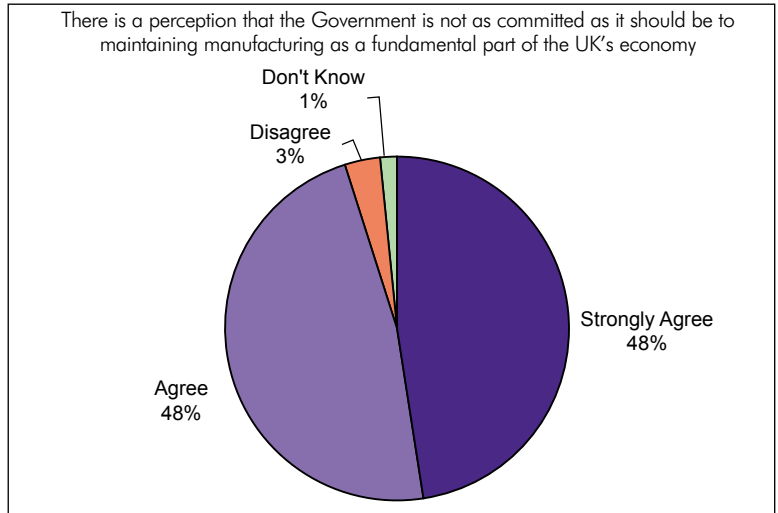
"They (government) appear keen simply to implement EU legislation, while other countries tend to interpret legislation to suit their needs."

"The whole taxation regime is not supportive."

"The reality is that more and more legislation is being introduced into the UK without the government understanding the need to stand back and stop this avalanche coming at us."



Commitment to manufacturing in doubt



The majority of surveyed companies doubt the Government's commitment to the manufacturing sector in the UK:

- 96% of the companies believe that Government is not as committed as it should be to maintaining manufacturing as a fundamental part of the UK's economy

The consensus from the interviews is that, although there is a dialogue in place, it does not necessarily translate into action:

"Government's attitude to manufacturing is out of focus."

"Government is not anti-automotive, but it is not exactly pro-manufacturing."

"If you tackle a Minister individually, they will no doubt wax lyrical about commitment to the industry. However, they are not doing enough publicly."

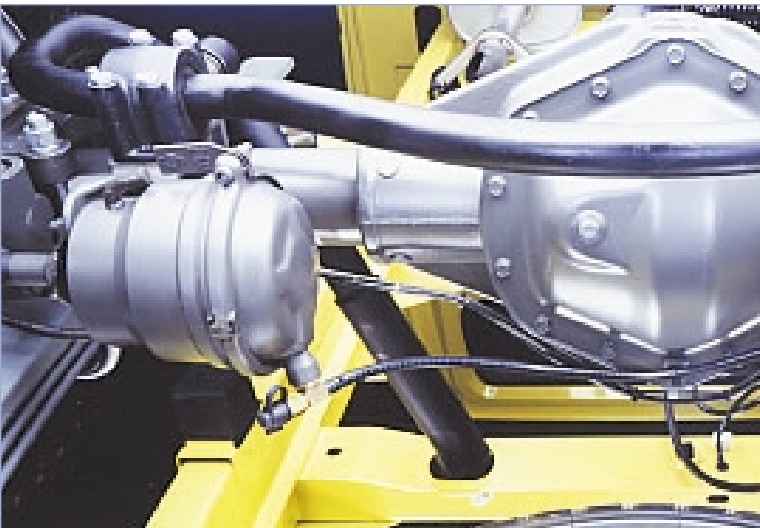
"There are no magic wands . That's part of the political dilemma – they all want an initiative that will transform the world in six months and the world does not work like that."

"In Germany, for instance, the Chancellor goes to the launch of a new model – not just the motor show. Tony Blair would not turn up for a new model launch."

However, government has been recognised for delivering certain key benefits for the country:

"The question fails to recognise the work that has been done at a macro level. The government has done a great deal to create economic stability, for consumer spending and for the low rate of borrowing."

"What does work is consistent strategy. The fact that the Bank of England sets interest rates has created a conviction in the minds of business leaders that inflation is going to remain under control and be predictable. That means you can make decisions with more certainty than the past."



Transport infrastructure:

In addressing the specific challenges and opportunities for automotive manufacturing a recurring theme emerged – the transport system in the UK:

- The majority of businesses (84%) believe that the state of the transport infrastructure in the UK makes it increasingly difficult for UK companies to remain competitive

This was reinforced in the interviews:

"Government does not have a transport policy."

"We seem to have policies trying to move the population onto public transport. We do not have a clear transport policy or road building strategy."

"It is crazy that we can't put things on a train in the UK and send them through the tunnel to Belgium because the trucks are different sizes."

"Terribly simple. We need to invest in rail and road, and neither have received the funding despite the levels of taxation applied to the industries."

"At the moment UK plc is heavily disadvantaged because of the complexity of importing and exporting into and out of this country due to the high costs of transferring goods across the channel, and our poor transport infrastructure in this country."

"The bottom line is that the government must invest more money on roads, which I think they have earmarked resources for. However, as an industry, they are completely incompetent at turning money into roads. It takes us three times as long to build a road as it does in Korea, and 10 times as long to build an airport as it does in Hong Kong. These are things we should be ashamed of."

Interviews were undertaken with key industry leaders, in order to expand some of the issues highlighted by the survey:

- *Allan Amey, LDV*
- *Mike Baunton, Perkins Engines*
- *Richard Clowes, GKN*
- *Tod Evans, Peugeot Citroën*
- *John Neill, Unipart*
- *Jim O'Donnell, BMW*

