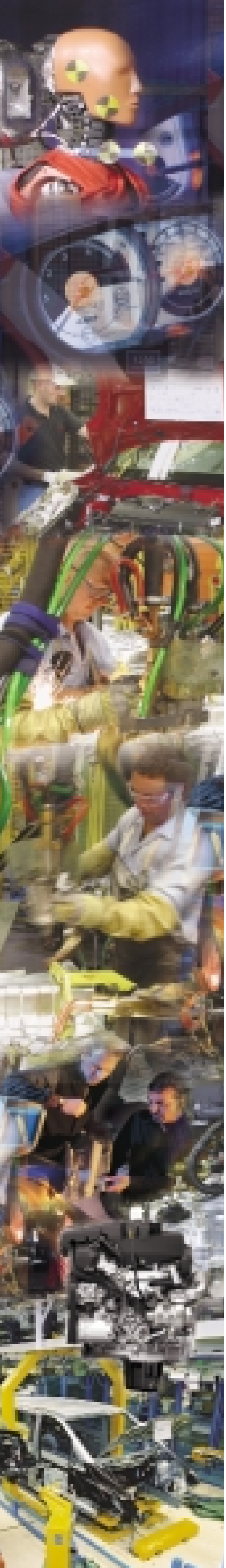
Automotive Manufacturing

The Industry Perspective

Second Annual SMMT Issues Survey

November 2004

Research by MORI. Supported by Pinsents



Background

Automotive manufacturing has a proud history and a bright future.

In the past, statements like this might have been dismissed as motor industry spin. However, this is a view increasingly shared by those outside the industry, by government and other industry sectors, analysts and commentators. In its recent report *The UK Automotive Industry in 2004* the Commons Trade and Industry Select Committee endorsed the industry's credentials by saying:

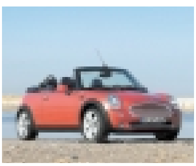
The UK retains a successful automotive industry, with most of the largest vehicle manufacturers having some sort of presence here. The UK also has an established reputation for specialist engineering and design.

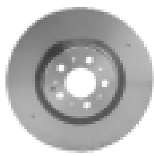
There is much for which the industry can be proud, but the road ahead is full of challenging terrain. The skills shortage, the need for R&D support, the cost burden of legislation and threats to UK suppliers from competition in emerging markets; these are all areas where concerns are regularly voiced.

This is why it is important to understand the views of those on the ground, to determine the areas where improvements can be made to guarantee growth in automotive manufacturing and of course, to highlight areas where concerns remain and even grow.

Publication of *Automotive Manufacturing – the Industry Perspective,* supported by automotive law specialists Pinsents, addresses that need. Who better to spotlight trends and provide direction for the future than senior executives from within the industry with their finger on the pulse?

The results included in this report come from a wide range of companies operating in different sectors and of different sizes, reflecting the diversity of manufacturing in the motor industry. The views of 80 senior business people representing car, commercial vehicle, component and engine manufacturing and companies operating in the aftermarket are included in this year's report.



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Key findings

Responses to this year's survey reinforce many findings from last year's report. Interesting trends are beginning to emerge. There are areas for optimism and signs that the industry is moving forward but equally areas where serious concerns remain.

- Growth is expected by most companies in the next five years. 81% of those surveyed say that prospects are good compared to 78% last year. 72% see best growth prospects in greater penetration of international markets.
- Nearly two thirds, or 65% of responses, indicate that it is hard to recruit appropriately skilled employees. Level 3 staff recruitment is a concern for 28% while 31% believe the industry focus should be on employing those with appropriate engineering skills.
- 83% of companies are committed to more support for employer training and education while The Automotive Academy is now recognised by 81% of respondents.
- Research and development is an increasingly important activity for our business in future, say 84%.
- 95% agree that the burden of legislation will add significant costs to their business in the next five years.
- Transport infrastructure makes it difficult for UK companies to remain competitive according to 86% of responses, little change to the 84% reporting the same concern in 2003.
- An appeal to the government for more commitment to manufacturing comes from 95% of respondents to the survey.

Company growth

At individual company level the view from respondents in terms of growth is more positive than last year. For the sector as a whole, the survey continues to reflect a more cautious approach. However, optimism appears to be increasing.

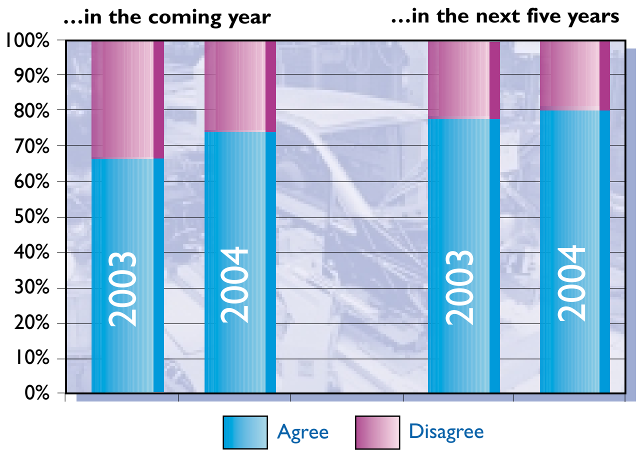
- Companies seem to be positive when it comes to future prospects for their business. In the coming year 74% of those surveyed see growth, rising to 81% over five years. These figures compare to last year's survey results of 67% and 78% respectively.
- Caution is still the approach when it comes to a sector-wide forecast. Nevertheless, prospects for five year growth within different sectors of automotive manufacturing are seen in a more positive light than last year, up from 39% to 47%.
- In terms of the business environment, 62% believe the UK's position will improve compared to other major European countries. This contrasts with just 40% when compared to the US and just 10% when weighed against companies in the Asia Pacific region.

Nearly all those surveyed - 97% - believe that the best growth prospects lie in the development of new products while 72% focus on international markets as a growth opportunity.

Company Growth

Businesses are more positive about their future than they were a year ago

The growth prospects are good for our business...



Employment and training

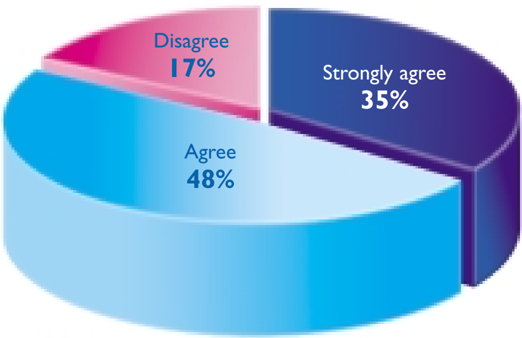
While the industry promises varied career opportunities, according to the survey it needs to do more to attract top quality applicants and to improve the quality of training. The skills shortage, particularly of employees at level 3 skills (technicians, higher craft or associate professional), remains one of the industry's most important challenges.

- Responses revealed some ambivalence about the quality of training and recruitment currently on offer. In total 31% suggested it is good, 33% said average and 32% poor.
- For 31% of respondents, engineering skills are seen as the priority for recruitment and training in the sector.
- 61% believe the industry offers varied career opportunities but businesses still struggle to employ level 3 skilled workers. Perhaps surprisingly just 40% feel the industry has a reputation as an exciting area to work.
- The recently created Automotive Academy is growing in stature and awareness within the industry. Four out of five surveyed recognised it. In addition, 81% of respondents confirmed more support for employer training and education as part of their companies' future plans.

Employment & Training

Businesses are keen to up-skill their employees

Our company increasingly aims to support employee training and education



People and R&D

The UK is a nation of innovators and the motor industry's reputation for creativity in design and technology is enviable. Support for R&D has long been recognised by those working in the industry as vital in channelling the huge potential of the workforce into tangible global success.

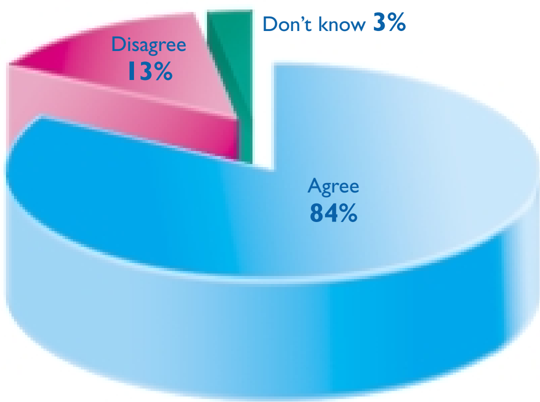
- Half of those surveyed claim that UK companies need to employ more creative people to become more competitive.
- However, when asked to rate the creativity of employees already working in vehicle and components manufacturing, just 8% said the standard is poor; encouragingly 67% said the current standard is good.
- Research and development will become an increasingly important focus for their company activity, according to 84% of those surveyed.

Initiatives like the SMMT-managed Foresight Vehicle programme are already helping to channel funds available to those technology projects that offer the greatest opportunities for global success.
www.foresightvehicle.org.uk

People and R&D

The industry is committed to R&D

Research and development will become an increasingly important activity for our business in the future



Approaches to competitiveness

The survey revealed a positive response when comparing individual companies' competitiveness with counterparts in Europe, but not so when looking to the rest of the world.

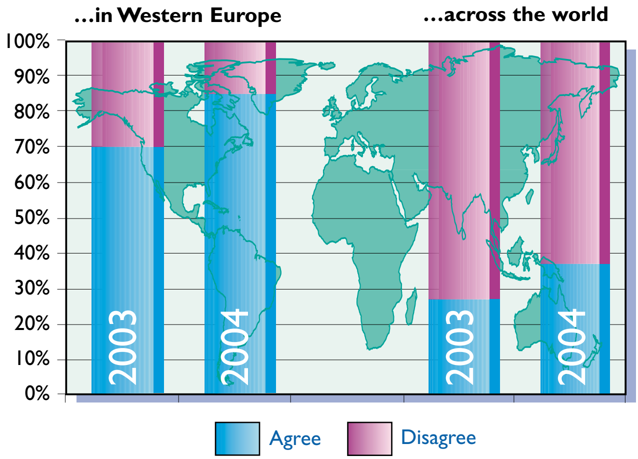
- A total of 84% of businesses believe they are competitive when compared to similar companies operating in Europe. This compares with a figure of 70% in 2003.
- On a global scale, the figure drops dramatically. Just 36% of companies believe they are competitive, although this has risen from the 27% of respondents who felt the same way in 2003.

One of the surprise findings in the report is the reaction of companies to global quality standard ISO/TS16949. In 2003, 59% of respondents said that its adoption was essential for future business in the automotive sector. This year's report reveals that just 53% agree.

Approaches to competitiveness

The industry is increasingly positive about its competitiveness

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



Impact of globalisation

The adoption of technology is allowing more companies to exploit the potential of the global market place.

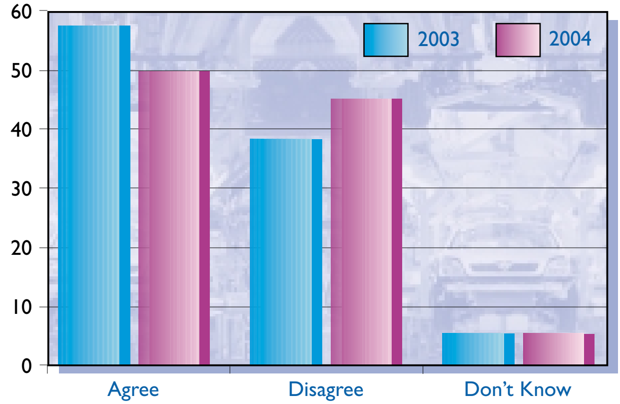
While future growth prospects are entwined in international markets in the eyes of 72% of respondents, the increasingly global nature of automotive business creates threats as well as opportunities.

- There has been a large increase in the proportion of those surveyed who believe that technology, in particular e-business, has increased the capability to supply customers globally. The figure has risen from 63% to 85%.
- Similarly, technology has increased the global purchasing capability of 89% of those surveyed compared to 81% in 2003. 57% of the sample agreed with the statement that more product must be sourced from abroad to stay competitive.
- The survey shows that 62% of respondents see global purchasing patterns as a threat to UK companies, down on the 73% figure from 2003.
- The proportion of respondents who feel that UK companies must move manufacturing to low-cost markets to become more competitive has also fallen to 50% from 57% last year.

The impact of gloablisation

UK companies are more positive about manufacturing in the UK

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



The business environment

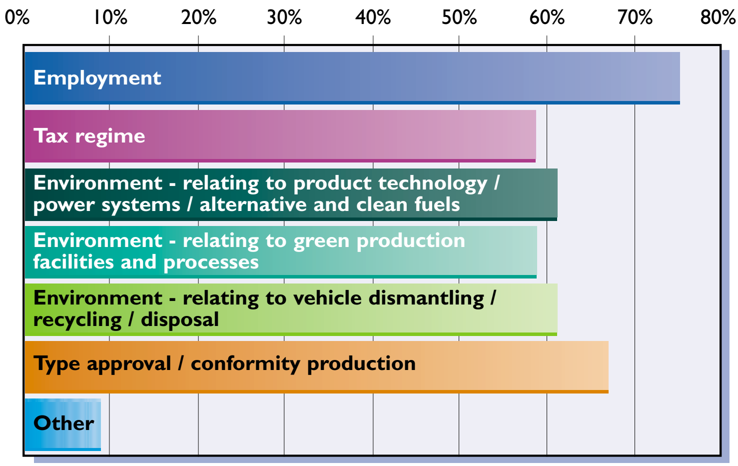
Perhaps it might come as a surprise to government to learn that 95% of respondents feel that it is not as committed as it could be to manufacturing and Britain's largest manufacturing sector. Despite the huge potential for the UK automotive industry in emerging international markets just 18% of those surveyed feel that government support for British groups at overseas events and exhibitions is good.

- The burden of future legislation continues to weigh heavily on the shoulders of UK industry. A significant increase in costs attributed to new laws is expected by 95% of those surveyed.
- 86% of those highlighted a host of environmental laws as key cost concerns while 75% were wary of new developments in employment law.
- An overall decline in fear of trade union militancy was also reported. The proportion of those who believe union militancy will increase in the next five years fell from 55% to 38% this year.
- However, nothing has tempered concern about the state of transport infrastructure in the UK. Altogether 86% of respondents said that the problem makes it increasingly difficult for UK companies to remain competitive, almost exactly the same proportion responding in 2003 – 84%.

The business environment

Businesses face greater costs through new laws

Which types of legislation may impact on your business?

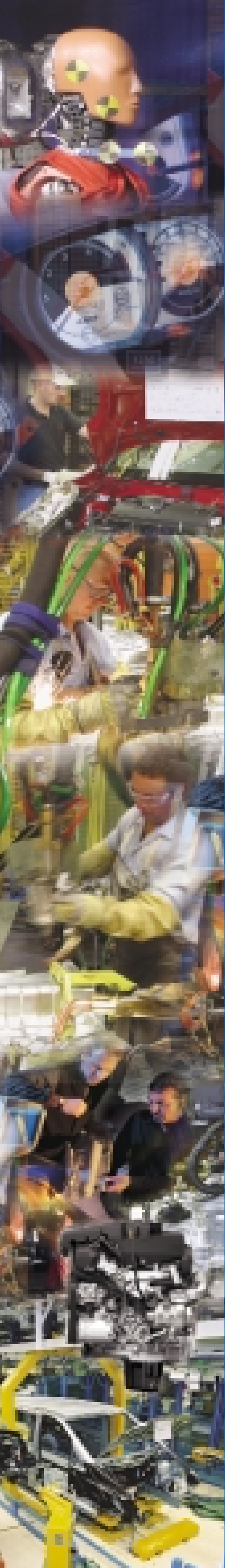


The 2004 survey has been sponsored by Pinsents.

Pinsents is a full service commercial law firm with a team of automotive industry specialists. We help our automotive clients to fine-tune their business performance across the whole range of activities - contracts, joint ventures, buying and selling businesses, incentivising employees and maximising intellectual property assets. As service providers to the automotive industry, we work closely with the SMMT and are proud sponsors of this year's SMMT Issues Survey.

On 6 December this year, Pinsents merges with major law firm, Masons. Pinsent Masons will be a UK 'top 15' law firm, with 240 partners and over 900 lawyers. It will have an international presence in 14 countries, through its own offices and a series of joint ventures and strategic alliances. This merger of two complementary businesses, both with a strong sector commitment, promises to make Pinsent Masons the leading sectoral law firm. Importantly for clients, it means an even greater market-focused legal resource that meets their specific business needs.

If you would like to discuss a particular issue, or learn more about Pinsents, please contact: Carl Garvie, on 0161 250 0146 or carl.garvie@pinsents.com; or Alan Wood on 0121 626 5748 or alan.wood@pinsents.com.



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