

MANUFACTURING barometer

SPECIAL FOCUS:
SECURING SUPPLY FOR BREXIT

SOUTH WEST REPORT WINTER 2018-19

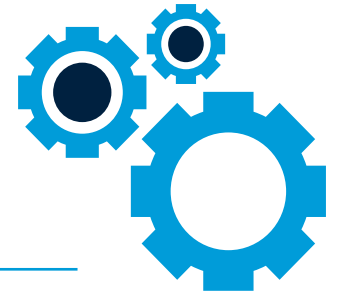
(October, November and December 2018)

Surveyed in January 2019



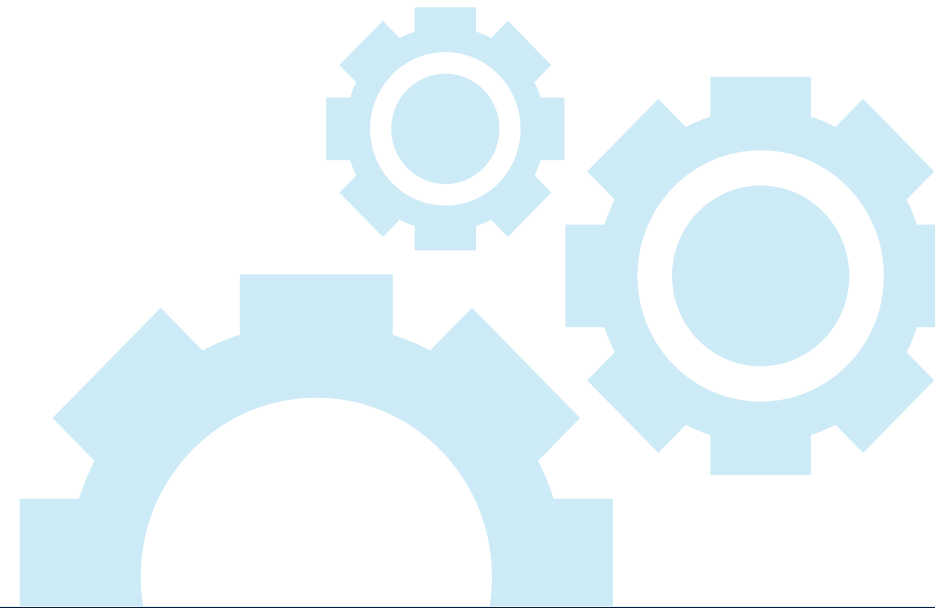
SWMAS

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SECURING SUPPLY FOR BREXIT

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Introduction.



SIMON HOWES

CEO

Exelin Group Ltd

Delivering SWMAS

Welcome to the SWMAS Winter 2018-19 (Q3) South West Manufacturing Barometer. This report presents the voice of nearly 140 senior decision makers in UK SME manufacturing businesses.

Prompted by findings last quarter where manufacturers highlighted concerns for their supply chains and with still no clarity on the final shape of Brexit, this Barometer's Special Focus asked manufacturers to convey what they are doing to develop and secure their supplier base. The findings chime with those predicting continued decline in future performance of the sector and demonstrate that manufacturers are clearly feeling the stresses of a very challenging economic and industrial landscape.

THE CORE TRENDS

Whilst the underlying determination and resilience of the sector is evident again this quarter responses suggest manufacturers remain under significant pressure over Brexit and the ongoing market uncertainty.

Compared to last quarter's forward projections, we have seen a small recovery in the number of manufacturers anticipating profits and recruitment increases in the six months ahead. The greatest emphasis in this partial and somewhat surprising recovery is on recruitment, where 47% of manufacturers expect to take on more staff by mid-2019 – an increase of 12% on the previous quarter. Whilst this looks like some good news amongst an otherwise gloomy outlook it masks a reduction on the same period last year across all four core trends with survey responses up on the previous quarter but down on the same period last year.

Nearly 90% of participants of the SWMAS Manufacturing Barometer are CEOs or directors so looking at their aspirations provides some unique insight. Many tell us they intend to focus on developing new products or services to help secure a new or broader customer base and drive sales with others making investment in space to support their intentions to increase production capacity and improve efficiency. However, looking back, no more than 49% of manufacturers have actually increased investment in their business over the last two years. This indicates that whilst there is a desire to invest, many continue to hold off, waiting for clarity on the future.

SPECIAL FOCUS: SECURING SUPPLY FOR BREXIT

Our previous survey was the first to indicate that many UK SME manufacturers are stockpiling as a means of managing Brexit uncertainty, an early indicator of what we have since seen reported in the media and other surveys. This finding came at the same time as strong indications that businesses across the sector were focusing on

developing their relationships with existing suppliers. Therefore, this quarter's Barometer questions set out to explore whether and how UK SME manufacturers are securing and developing their supplier base, particularly referencing suppliers of raw materials, components, sub-assemblies, and out-sourced finished goods production.

First, we looked at location of suppliers, and whether UK SME manufacturers intend to relocate any of their existing supply base. Nearly a quarter of respondents who currently source from the EU are considering buying those components or goods elsewhere - 16% of these said they intend to look for suppliers in the UK. A further 5% of those surveyed said supplies currently sourced from outside the EU could now be sourced in the UK.

This change indicates a significant demand on time, effort and resource as UK SME manufacturers identify new suppliers and establish relationships with them. It also suggests a vital opportunity for the domestic market and questions about the visibility, availability and capacity of the UK supply base. To illustrate this, comments from respondents included, 'We attempt to source in [the] UK where possible. Where this is not possible due to quality or availability we will source [from] wherever commercially viable' and '...we try to buy at the cheapest source and Brexit isn't helping UK based companies be competitive in a global market'.

Other comments indicate that some markets may struggle finding UK suppliers - one respondent notes: 'With [the supply of]...electrical components the UK base has shrunk to negligible size. This is unseen

on statistics as much of the European goods [production was] moved to China with some then back to Eastern Europe'. Another said, 'The challenge is to re-source to [a] UK supplier of aluminium extrusions that is capable and cost competitive.'

Those who rely on specialist manufacturers could have issues too: 'We are not able to make decisions about supply chain as we are using very specialist small manufacturers and it is not easy to change...'

Returning to stockpiling, the SWMAS Manufacturing Barometer asked if UK SME manufacturers have specific intentions to significantly increase stocks in preparation for Brexit. The majority of respondents (over 70%) said they are prioritising the stockpiling of raw materials or bought-in components with sub-assemblies or part-finished items as a secondary priority (51%), and finished goods third on the priority list (nearly 50%).

Respondents noted that the top three challenges to their supplier base in the coming year are:

1. Volatility of customer demand;
2. Matching or reducing purchase costs; and
3. Developing relationships with existing suppliers

CONCLUSION

Despite the continued uncertainty as we head into the final weeks before the originally scheduled Brexit date, and the recent knocks to the automotive industry, the UK's SME manufacturers maintain the pragmatic outlook that has become a notable feature of respondents to the Manufacturing Barometer. However, our data shows that over 50% of manufacturers are finding it difficult to increase profits and are holding back on investment and recruitment. As seen in the performance figures over the last two years, Brexit is amplifying the pressures manufacturers have to manage. This latest Manufacturing Barometer also shows that the challenges of securing the supplier base and the weight of

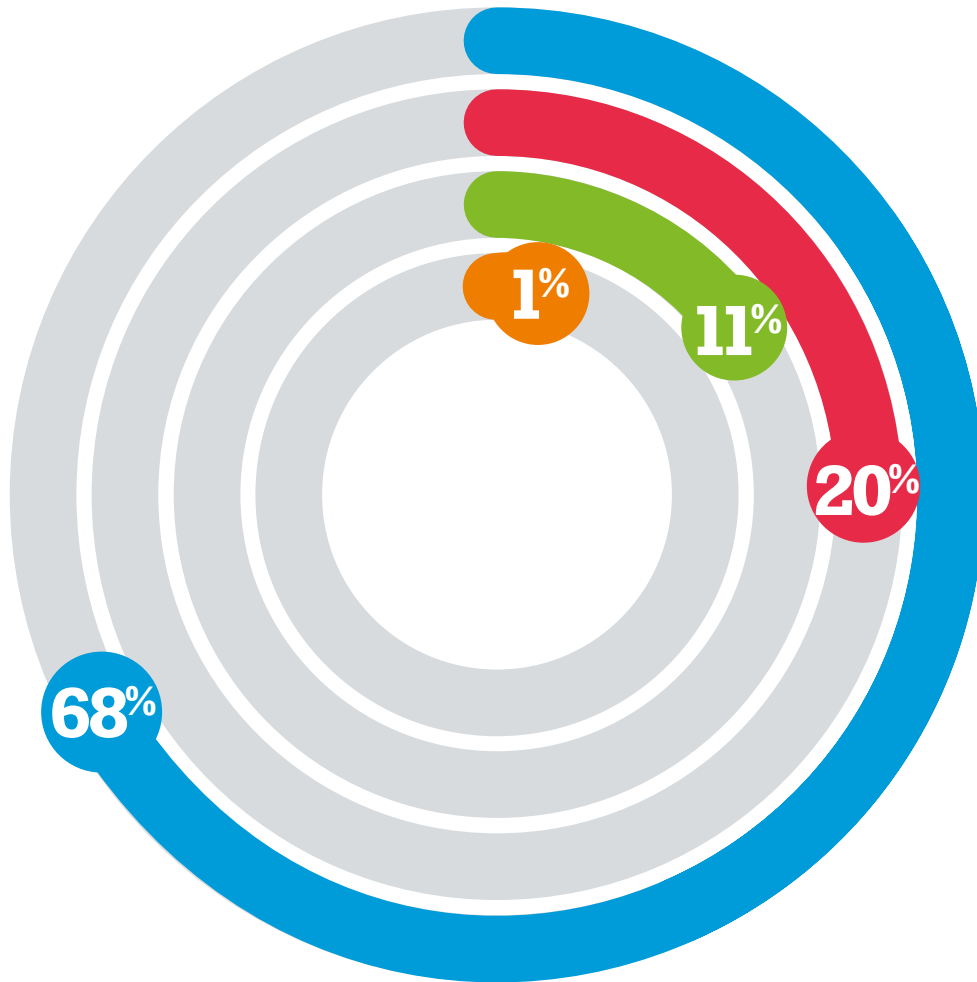
addressing stock considerations will divert valuable resources in a sector acknowledged to contribute significantly to the economy.

There is an opportunity for the UK to capitalise on the supply needs of manufacturers looking to relocate their supplier base to domestic turf. However, we may miss this opportunity if we don't have the desperately needed clarity over Brexit, and we are calling for resources to be made available to help manufacturers who are already consumed by coping with the ongoing uncertainty.

For more information and support contact the SWMAS team at info@swmas.co.uk or phone 0845 608 3838.

Read on for more about the Manufacturing Barometer results...





88%

of respondents are:

- > **MANAGING DIRECTORS & CHIEF EXECUTIVE OFFICERS**
- > **DIRECTORS**

Individuals with the highest level of strategic responsibility within their business



Business Aspirations.

"We are focused on major investment projects such as HPC, HS2 and Thames Tideway within Nuclear New build, Rail and Waste water treatment. We are targeting a sustained 25% increase in business revenues from 2020 to 2035 from Nuclear and Rail projects. The company is willing to make investments and to be flexible to meet the demands of these new projects."

"To get Brexit out of the way so that we can see what the future holds, but steady consistent growth in all terms."

"We are currently putting into place support systems and increasing staff to meet our growth aspirations over the next 4 years."

GLOUCESTERSHIRE

"Invest in buildings/machine and tech."

"Continued export growth in non-EU territories."

SOUTH GLOUCESTERSHIRE

"Ride out this storm and survive."

"Looking to grow worldwide exports, at present Brexit has stopped our business development in the EU as we have lost EU sales turnover. Rest of World is also slowing, so looking to improve our Rest of World export."

BRISTOL

"10 - 20%+ Organic growth over the next 12 months."

NORTH SOMERSET

"We want to improve working relationships with our top five customers in order to develop closer partnering agreements and improve margins. We also plan to invest in developing our premises in order to improve productivity."

"Add further new technology products over next three years, increase production, higher sales into existing markets. Double in size and employees over next three to five years."

"We're setting up facilities and recruiting resources to enable manufacture of a new product without affecting our current throughout."

"Improve manufacturing efficiency, reduce costs, improve productivity and staffing management through training and incentives."

CORNWALL

Business Aspirations.

“Short term: Launch new products and move into additional building. Medium term: Design and develop new products, increase efficiency and get into the nuclear sector. Long term: Double our turnover by 2022.”

“There is an uncertainty in the market at the moment and until the UK decides what we are doing with Brexit the uncertainty will continue.”

“Exchange rates are having a major and positive impact for the business. We are now exporting or planning to export to more countries and we are also seeing the effect reduce the competitiveness of imports. This is a major change since the previous 6 months. We are investing heavily to improve efficiency and pushing into export markets effectively for the first time in 10 years. That is our focus.”

DEVON

“In the short term, survival. Things are very tough after 6 good years. In the longer term grow to around ~£2m turnover and 20 people and consolidate our market position.”

“We grow organically. We have since '93 and very much so since 2007. We can and have had a lot of growth in Europe, however current shambles puts that at risk. Also we have had a 30% increase in costs in the last 3 years due to currency. World wobbles and the silly Brexit situation. Awful.”

WILTSHIRE

“50% of sales from our own product. Export 10% more.”

“Growth of 40% in 24 months. Consolidation for 2019. We need a warehouse to release space for production.”

DORSET

“We are endeavouring to grow the business by at least 2% in the next three years which is dependent on the availability of suitable labour.”

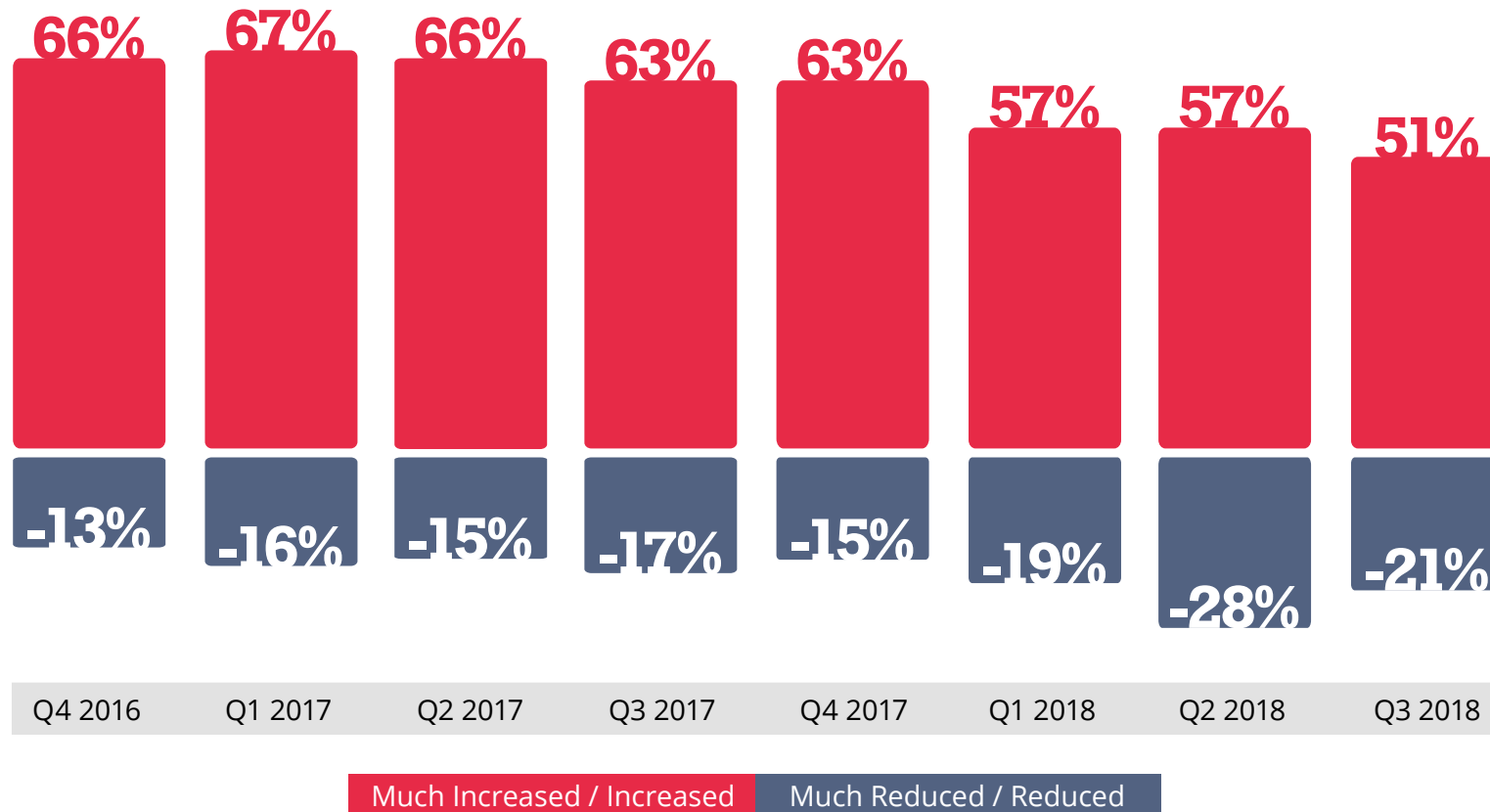
“We remain very busy but how this will be impacted by Brexit is still very difficult to call.”

“Trying to stay in business whilst those we supply goods for realign their businesses and growth hopes with pending, probably, disastrous Brexit.”

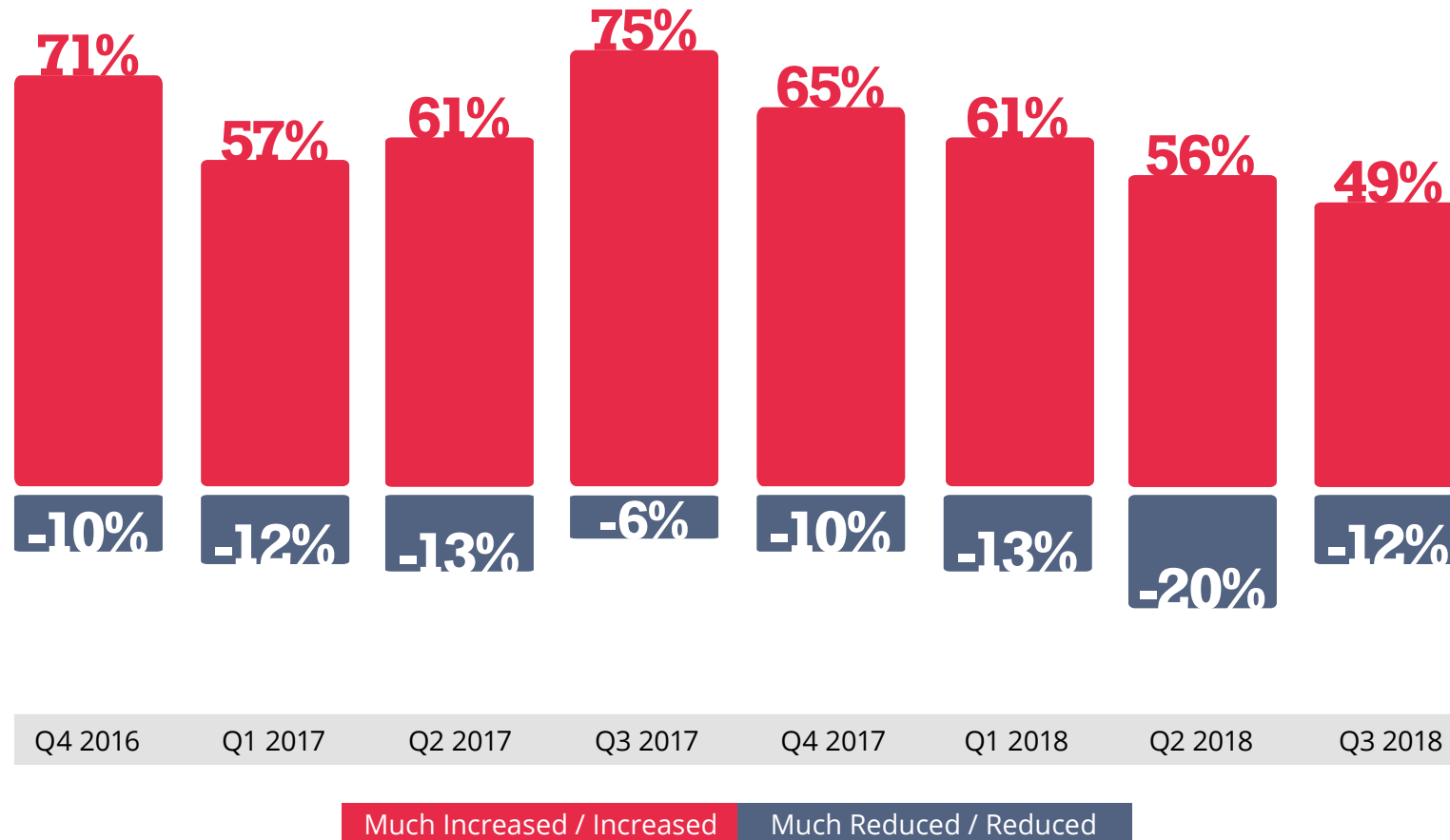
“Our plan is to growth the business by increasing exports (doubling the turnover) over the next 5 years.”

CORNWALL

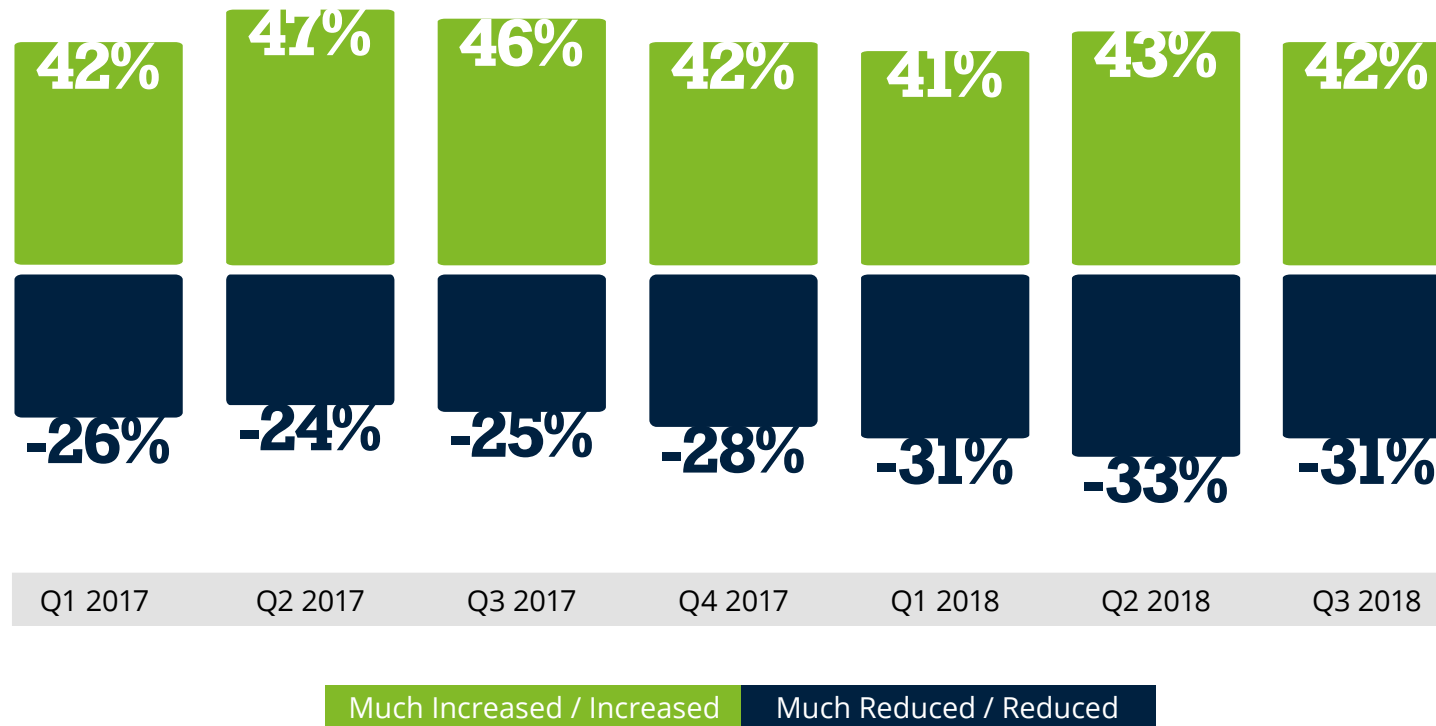
How has your sales turnover changed within the past 6 months?



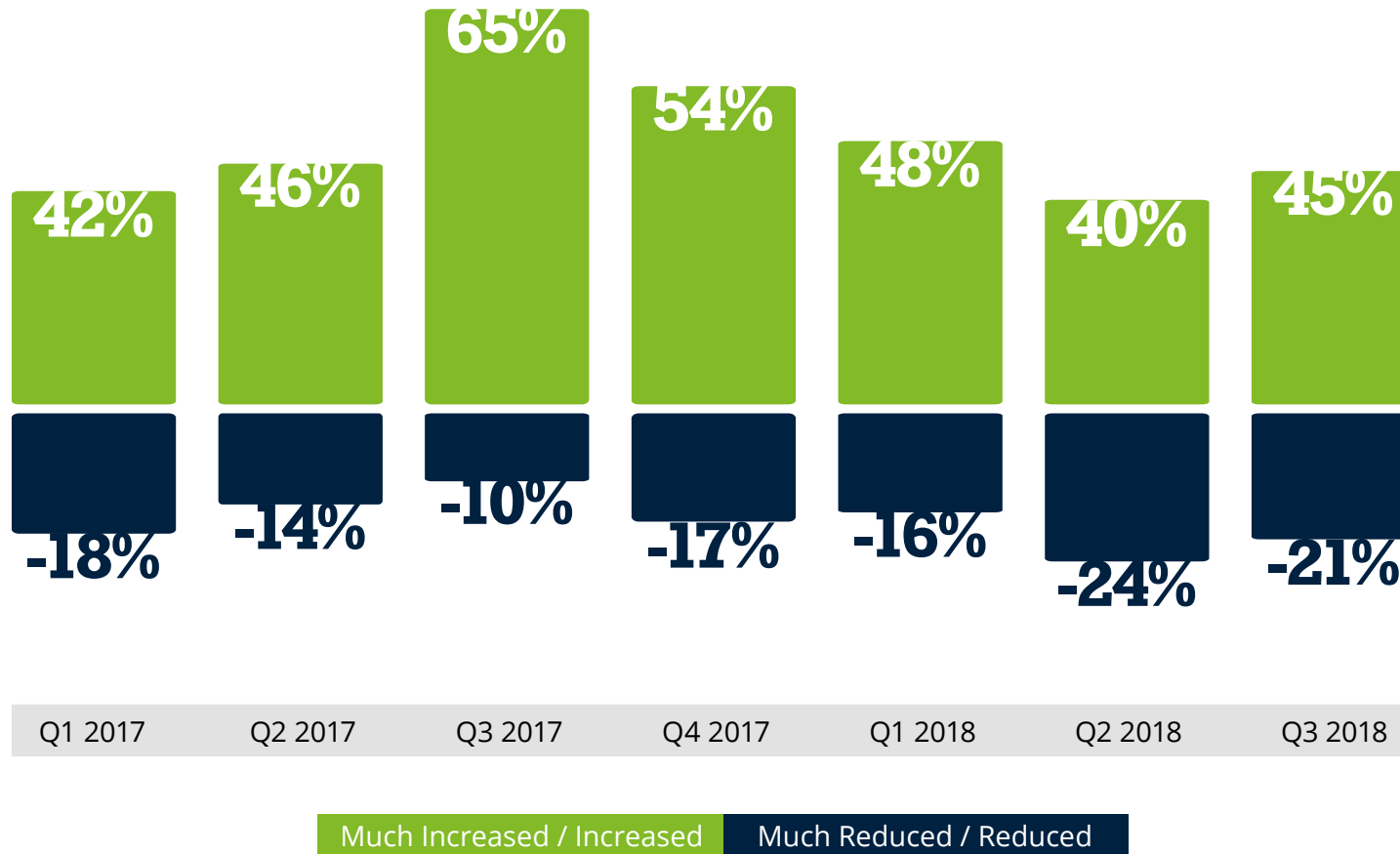
How do you expect your sales turnover to change over the next 6 months?



How has your profit changed within the past 6 months?

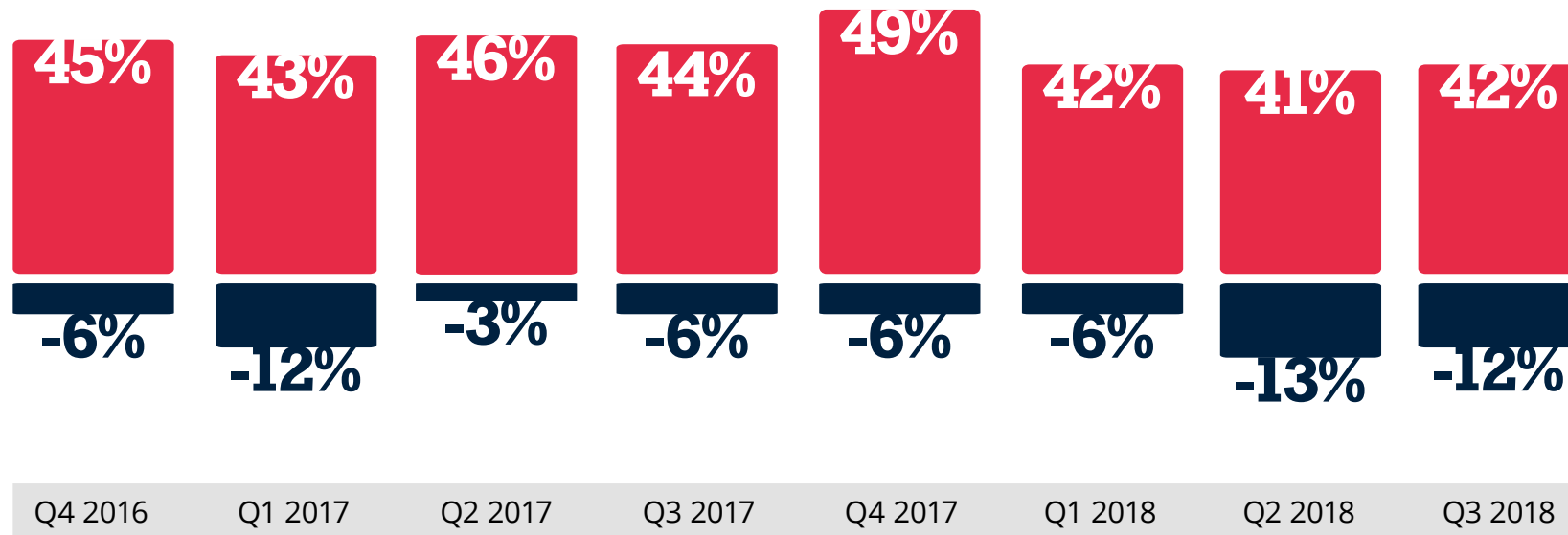


How do you expect your profit to change over the next 6 months?



South West Past Capital Investment.

How has your investment in new machinery/premises changed in the past 6 months?

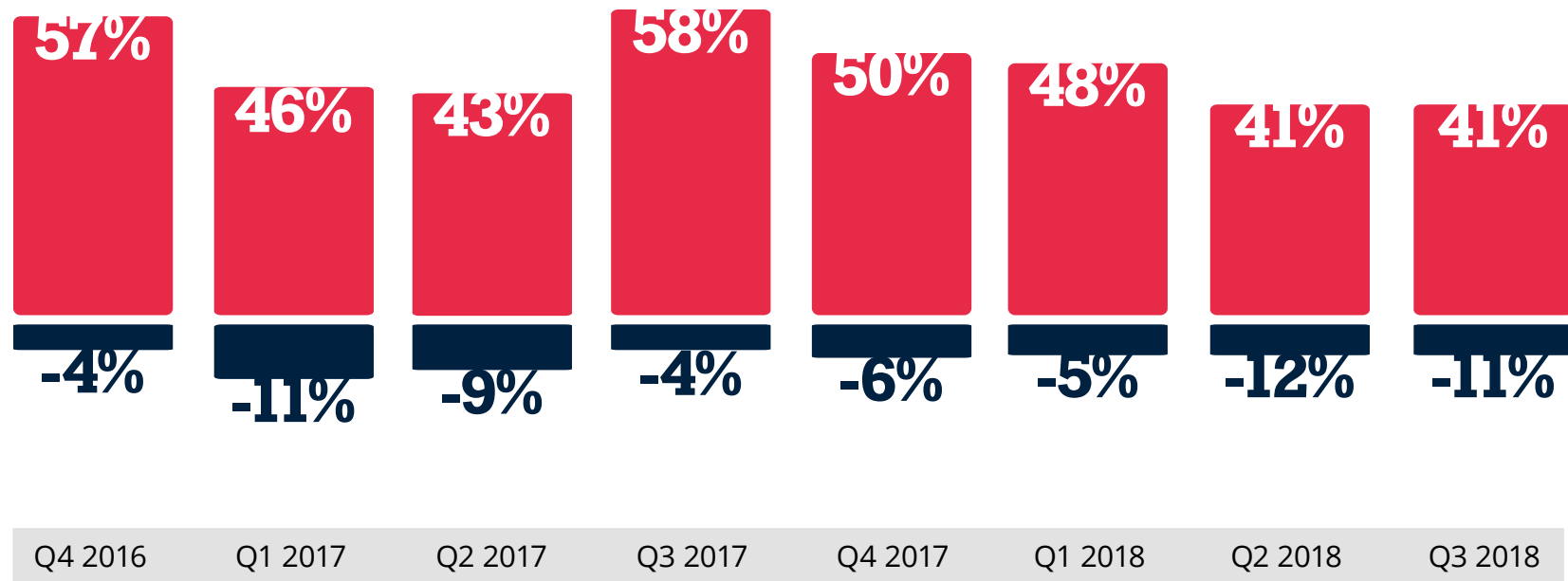


Much Increased / Increased Much Reduced / Reduced

139 respondents

South West Future Capital Investment.

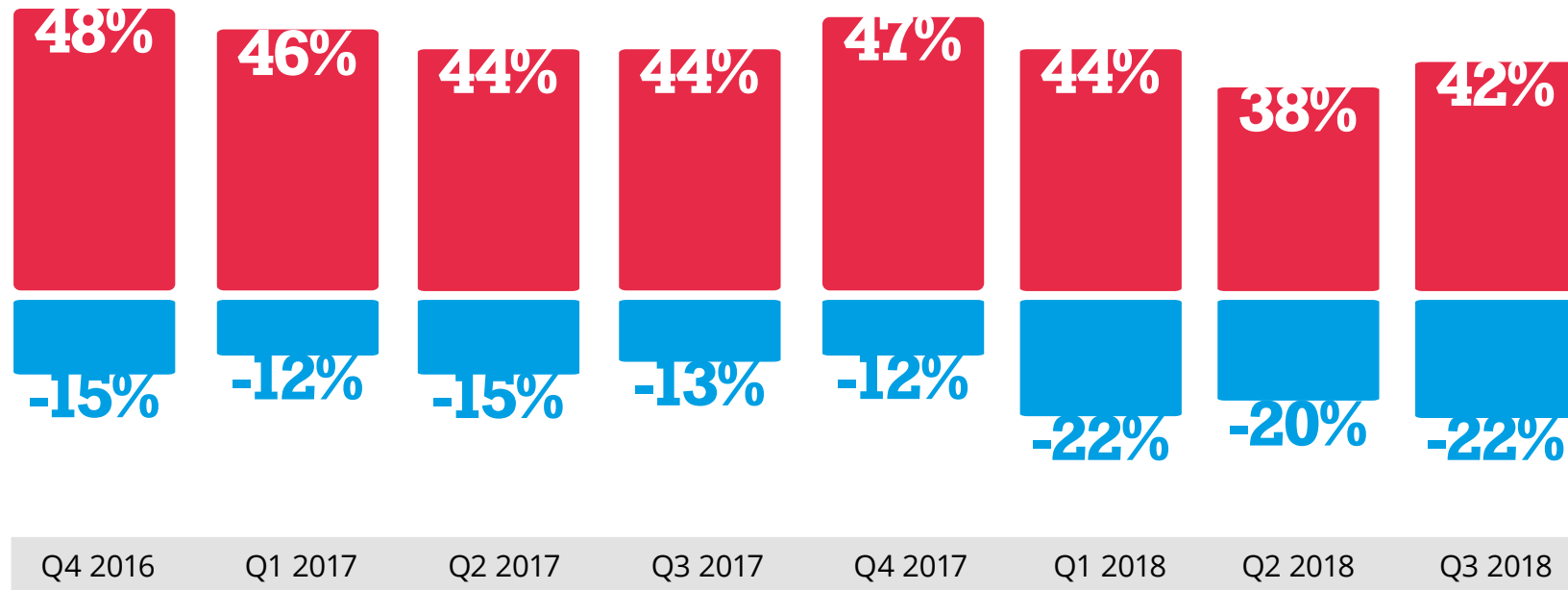
How do you expect your investment in new machinery/premises to change in the next 6 months?



Much Increased / Increased Much Reduced / Reduced

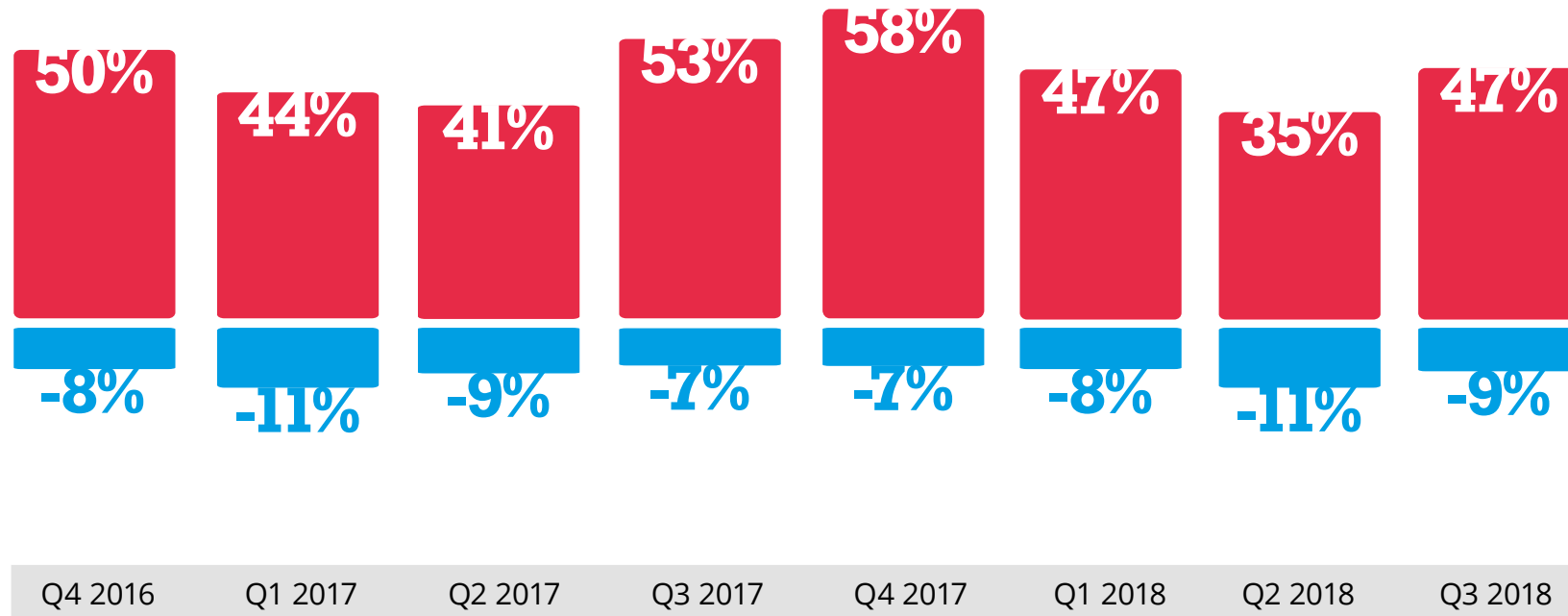
136 respondents

How have staff numbers in your company changed in the past 6 months?



Much Increased / Increased Much Reduced / Reduced

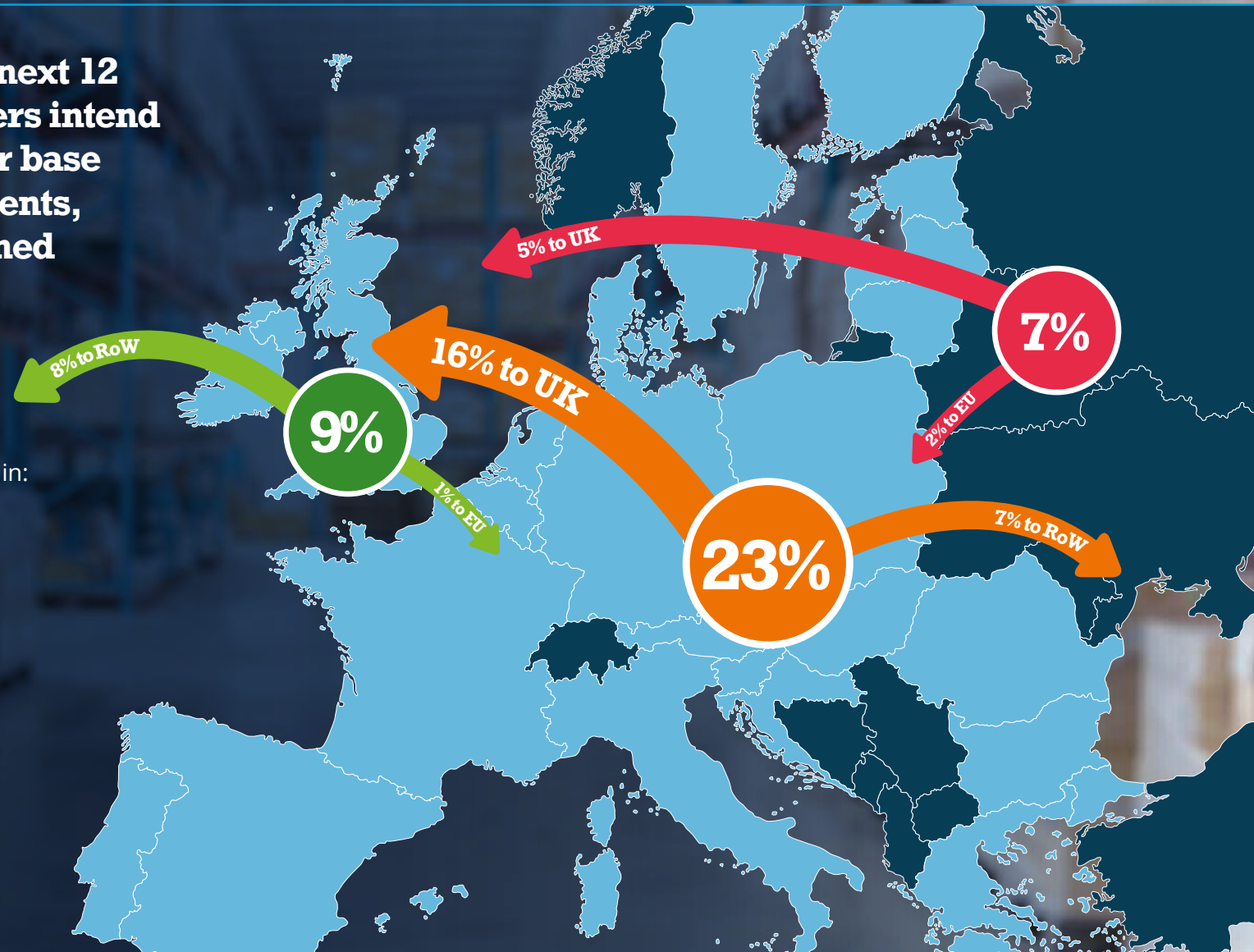
How do you expect staff numbers in your company to change in the next 6 months?



Much Increased / Increased Much Reduced / Reduced

Special Focus Securing Supply for Brexit.

We asked whether, within the next 12 months, UK SME manufacturers intend to relocate any of their supplier base for raw materials and components, sub-assemblies and part-finished items, and/or finished goods.



Intentions of those to relocate suppliers based in:

- UK
- EU
- RoW (Rest of World)

86 respondents

Special Focus Securing Supply for Brexit.

Additional comments clarify supplier options for some UK SME manufacturers:

"We are trying to source British products where possible/available. However, our main supply chain comes from India."

GLOUCESTERSHIRE

"No plans to relocate."

BRISTOL

"We have carried out a review with all of our major suppliers in order to ensure that there will be no problems post Brexit."

"We attempt to source in UK where possible. Where this is not possible due to quality or availability we will source wherever commercially viable."

"Not planning to relocate anything."

SOMERSET

"Our suppliers are UK wholesalers, we don't buy direct from overseas. We expect supply delays and price increases, but we don't know any more than that."

"Concentrate on US markets (low pound less profitable). Increase material stock holding (cost)."

"We have a complex supply chain that supplies components we then use at our factory. We try to buy at cheapest source and Brexit isn't helping UK based companies be competitive in a global market."

WILTSHIRE

"We are relocating all our EU fulfilment into the EU."

"Not relocating anything."

DORSET

"Considering an EU base to mitigate risks from Brexit."

We will carry on trading with our existing suppliers and sub-contractors."

"Far East suppliers less cost effective than in the past."

DEVON

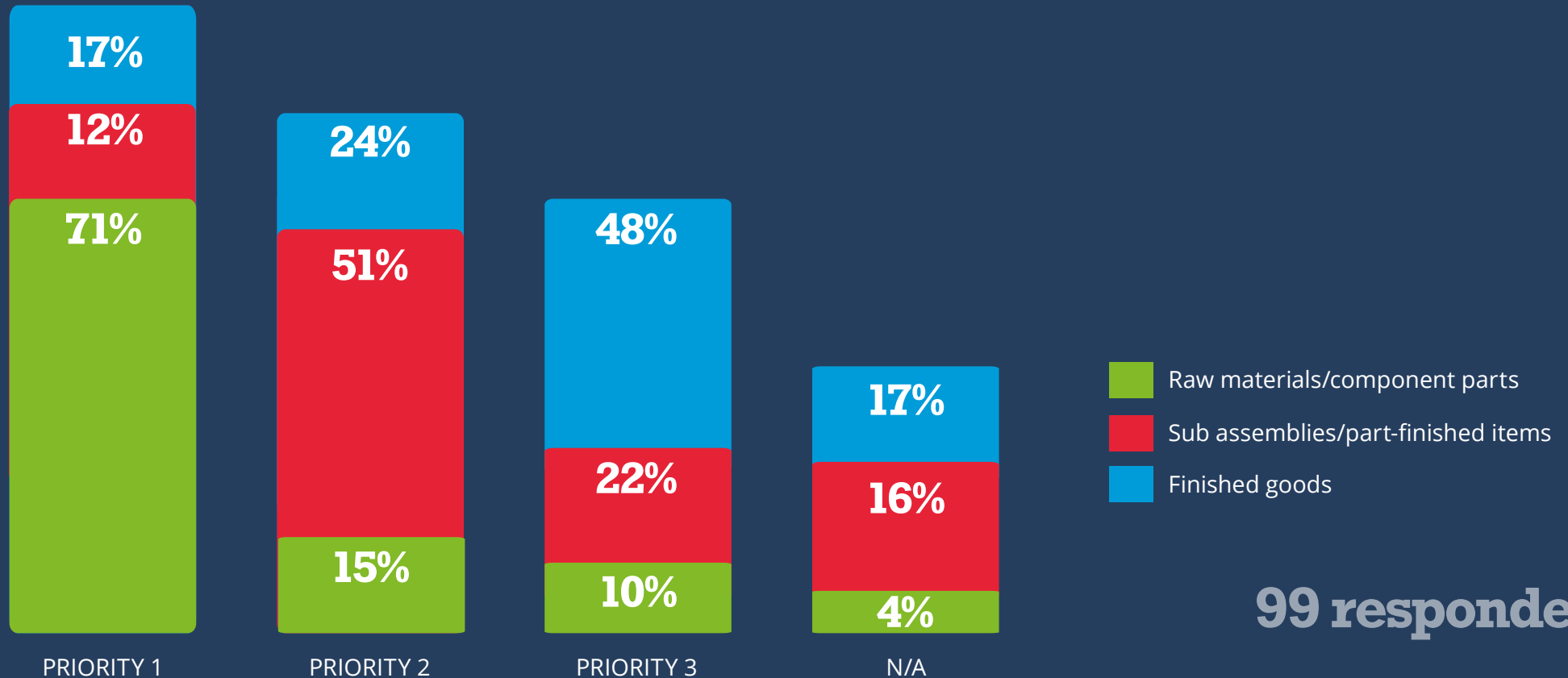
"We do not plan to relocate anything at present, although we may subcontract more some work within the UK."

"We are committed to the local economy and will not change any of our processes to suit a change in the UK economy."

CORNWALL

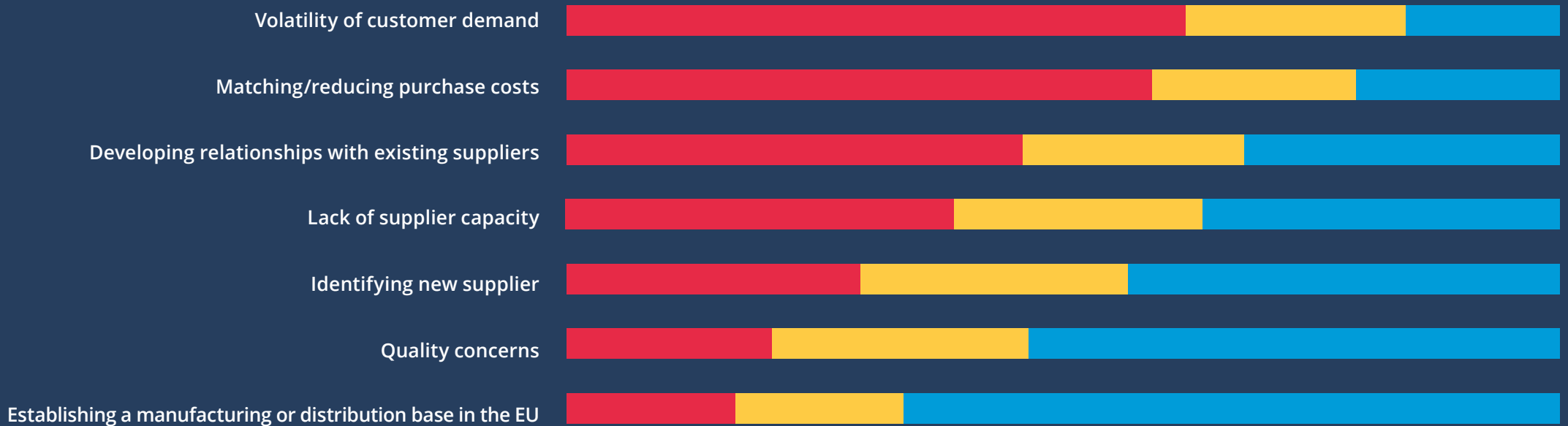
Special Focus **Securing Supply for Brexit.**

Stockpiling - have you, or do you plan to, significantly increase stocks in preparation for Brexit? Ranked in order of priority.



Special Focus Securing Supply for Brexit.

Within the next 12 months, what challenges do you expect to face?



136 respondents



About the Manufacturing Barometer.

MANUFACTURING barometer

The Manufacturing Barometer is a quarterly survey that charts the experiences of SME manufacturers across the UK. It is the largest survey of its kind and has informed both government industrial strategy and the national debate on manufacturing.

This South West focused report is generated using the input of businesses from Gloucestershire, Bristol, Somerset, Devon, Cornwall, Dorset and Wiltshire.

Run by SWMAS, part of the Exelin Group, the Manufacturing Barometer has its roots in the South West of England. It launched here in 2009, before extending to represent the view of SME manufacturers across the UK in 2012.

The Manufacturing Barometer records core trends in employment, turnover and investment and each quarter has a 'special focus' that explores an issue in greater depth. The special focus tests current thinking in the sector, and delves into issues such as productivity, overseas production, and energy efficiency.

Thank you to the survey respondents for taking the time to contribute and helping to form this collective voice of the sector. We will use the results to help raise the profile of, and inform the future of business support for, the UK SME manufacturing sector. Companies can use the Manufacturing Barometer to compare themselves against other firms within their sector or region.

If you would like to talk to one of our team about the challenges and opportunities in your business, to receive a personal invitation to contribute to the next Manufacturing Barometer, or more information about this report, please contact:

info@swmas.co.uk 0845 608 3838

www.swmas.co.uk/knowledge/manufacturing-barometer

MANUFACTURING barometer



SWMAS | Somerset Energy Innovation Centre
Woodlands Business Park | Bristol Road | Bridgwater | TA6 4FJ
0845 608 3838 info@swmas.co.uk www.swmas.co.uk

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