

The Top UK Manufacturing Challenges of 2016

The Present State: A Short Guide

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The Present State

The UK manufacturing industry is facing challenging times. Challenging, unpredictable times.

And though performance in the sector continues to be peppered with bright spots (such as January 2016's sector **growth spike**), the manufacturing sector is still in the midst of a **stagnation** that has seen it **fail to make any meaningful contribution** to the UK's economic growth throughout 2015.

However, it is by no means all doom and gloom.

See, the current state of the industry has been subject to a fair amount of hysteria and exaggeration. Granted the UK has shifted away from the traditional heavy manufacturing sectors, but it's experiencing significant growth in aerospace, chemicals, clean technologies, composite materials and robotics. It also remains the 11th largest manufacturer globally.

In fact, according to the **EEF**, the future looks relatively bright for the manufacturing sector. While the industry has been subject to the loss of many jobs in the past year (and this is set to continue throughout 2016), UK manufacturing activity is expected to rebound in 2016.

So, while this current stagnation does call for much-needed remedial action on a sector-wide scale, it also presents some unique opportunities for your company to stand-out from the crowd and gain market share.

Applying Leverage

The first step to leveraging opportunities in a challenging sector is acquiring honest, in-depth insight. Namely, you'll need to have a firm grasp on today's reality before you're able to formulate a plan for outperforming the manufacturing market tomorrow.

As a result, our analysts have pulled together the most recent statistics to create an overview of both today and tomorrow's challenges and trends.

1 UK Manufacturers Are Not Productive Enough

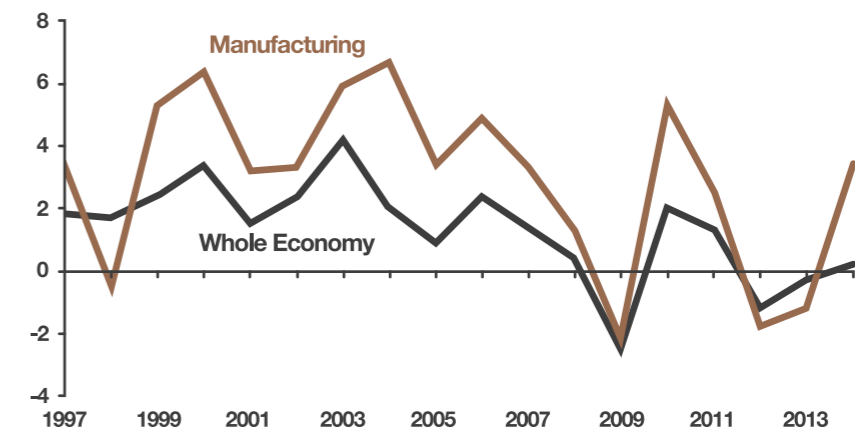
While manufacturing productivity growth has historically been stronger than in most other sectors of our economy, today it remains one of the industry's most pertinent challenges. And this is reinforced by the UK's position in comparison to our international competitors. Consider, for instance, Britain's hourly output, which according to the Office for National Statistics is approximately 27% below France and Germany, and 31% below the USA.

However, there is a way to address this: automation and technology.

See, the manufacturing industry's prior productivity was largely the result of its reliance on machinery and equipment and, more specifically, the sector's advancements in technology. These technological advancements allowed manufacturers to reap the benefits of efficiencies that simply did not exist to the same degree in other sectors (such as the service sectors).

Then the recession happened.

Productivity (output per hour worked)
Annual % change, ONS series DJK8 and DJQ3



(Fig. 1 - Graph depicting % annual change in productivity for both manufacturing sector and whole economy)

As shown in Fig. 1, the recession saw a significant change in UK manufacturing productivity. In fact, it saw it fall faster than that of the whole economy, before also rebounding at a faster rate than the economy as a whole.

To continue these peaks and troughs, 2012 and 2013 saw manufacturing productivity fall faster than the economy yet again, before growing once again by 3.4% (3.2% more than the economy's 0.2% growth).

So where does this leave us?

Well, given we've seen periodic rises and falls in performance, it's apparent that we, the UK, need a sector-wide solution, and as we've previously mentioned, increased investment in automation and technology is perhaps the best way to address this on-going challenge.

While your firm cannot tackle the issues of the wider sector alone, you can address your business's productivity.

Although it might be a costly initial investment, automating processes and introducing new technologies will allow your business to experience improved efficiency further down the line, making you more productive than your competitors. It is this very reliance on technological efficiencies that makes efforts to stay up to date with trends and research **so important**.

Key Takeaway:

Increased investment in technology and automation is the key to improved efficiency and productivity.

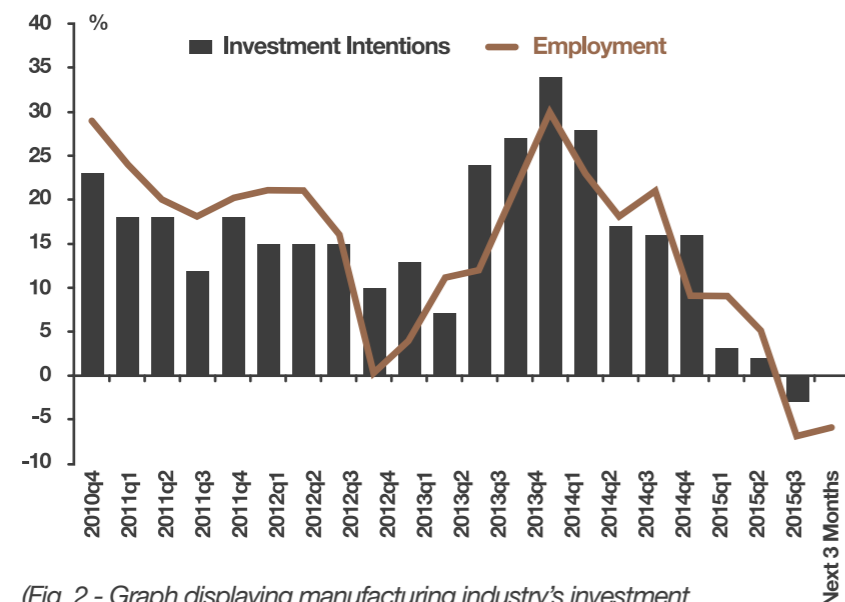


We Need To Do More To Stay Competitive

Building from the previous point, it's clear Britain needs to do more to develop competitive advantage. On a sector-wide level, this is an area the UK **had** excelled in for the past 50 years, according to Accountancy and Consultancy firm Menzies.

But this is no longer the case: though 94% of the UK's manufacturers claim they are engaged in some sort of innovation, the majority of these also feel they are not doing enough to stay competitive. This sentiment is likely related to the fact that we're now seeing firms become more reluctant to increase capital expenditure and recruit staff.

% Balance of Change



(Fig. 2 - Graph displaying manufacturing industry's investment intentions and employment throughout a 5 year period)

When we consider the UK only spends 1% of GDP on R&D (in comparison to Germany's 2%) and the extent to which technology and R&D are important to creating efficiencies and sustainable advantages, it becomes clear that this is a problem.

It is a problem because Britain's manufacturing success is no longer going to be the result of manufacturers '**churning out large volumes of metal**', but rather how they utilise talent, technology and sheer brainpower to develop the advanced products the modern world now demands.

And this demands manufacturing firms like you part with your capital. It demands you make greater investments in R&D and insights. It demands you take a proactive approach to crafting an advantage that is sustainable.

After all, as the summary (Fig.3) shows, the only firms that are going to excel in this market, are the ones that are willing to invest and stand out from the crowd in a time where the mood is sombre.

Employment and Investment Summary % Balance of Change

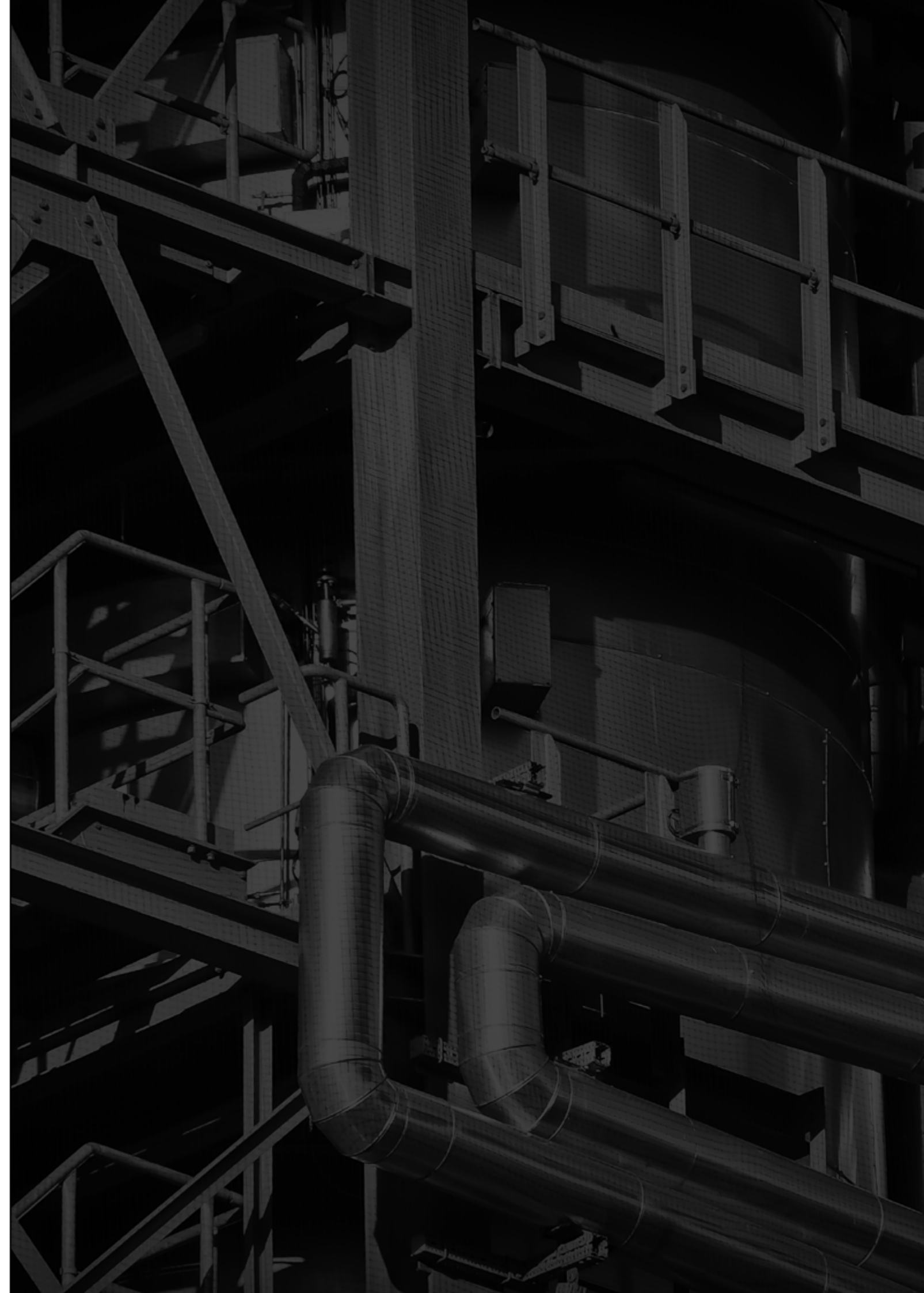
Sector	Past 3 Months	Next 3 Months	Next 12 Months
Basic metals	-15	-23	-22
Metal products	-8	-11	-6
Mechanical	-1	-5	0
Electrical	-32	-11	-12
Electronics	0	5	-9
Motor vehicles	22	44	44
Other transport	0	0	9
Turnover			
£0-9m	-6	-7	-8
£10-24m	1	9	7
£25m and over	-3	-9	-2

Source: EEF Business Trends Survey

(Fig. 3 - Table showing the % change in investment and employment within specific manufacturing sectors)

Key Takeaway:

Investment in R&D is important to creating a sustainable competitive advantage on both an industry-wide and local scale.



3

The Skills-Gap Needs Addressing

British manufacturing in today's climate is at the mercy of those willing to innovate. Specifically, this has been made most apparent by the **medium-sized companies employing between 200 and 1,000 workers** that are both well established in their markets and are consistently investing and innovating to sustain their success.

However, as we've explored previously, this is reliant on both R&D spend, and the skills and talent of employees in the first place. Considering this, it is apparent that the UK's manufacturing sector stagnation is at least partly attributable to a skills gap. The reality is that we are not creating enough engineers or future leaders for tomorrow. OECD research further reinforces this, showing that the UK's performance in the areas of intermediate professional and technical skills are lacking. The same research also forecasts that by 2020, the UK will fall to 28th (out of 33 OECD countries) for intermediate skills.

It is also wise to consider the expected increase in demand for skilled workers in the coming decades. According to the Government Office for Science's **report** on the long-term future of the UK manufacturing sector, a larger working population with increased skills will lead to an increased talent pool for employers to choose from. However, the future will also create a demand for STEM qualified talent that will exceed supply, making us yet more dependant on the skilled workers our manufacturing sector already lacks.

As a result, the message is clear, the future of British manufacturing lies firmly in the ability to attract, create and retain skilled workers and grassroots talent.

Key Takeaway:

Investment in skilled workers and developing homegrown engineering talent is vital to UK manufacturing success.



4

UK Manufacturers Will Be Exposed To New Market Opportunities

As outlined in the Government Office for Science's Foresight report, the UK manufacturing industry is positioned to see several new market opportunities on the horizon.

The reports highlight that the continued growth of the consumer bases in BRIC countries and the 'next 11' countries will increase demand for UK exports. However, the report also states that the UK's primary export destinations will most likely remain the US and EU.

The remainder of the opportunities the UK can expect to be met with in the future are summarised on the next page.

UK manufacturers will experience an increase in demand from BRIC country consumers and 'next 11 countries'.



UK primary export destinations will continue to be the EU and US.



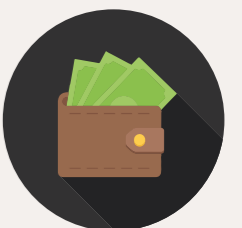
High-tech and high-value products will continue to be a strength in the UK's export market.



An increase in both personal wealth and the age of the population will influence the type of products the UK will need to produce.



Fluctuating levels of Foreign Direct Investment (FDI) received by the UK & EU is likely to change. This will likely have impacts on the UK's ability to acquire funding for the manufacturing sector.



5

Technology Will Be Vital To Getting ‘Closer’ To Customers

In the future of the manufacturing sector, change will largely be driven by technology. In fact, some of the technologies that will revolutionise the manufacturing world (e.g. as additive manufacturing) are either already established or are showing signs of emergence.

However, what will make a real impact is the increased personalisation of low-cost products on-demand. Historically there has always been a natural compromise between cheap, mass-produced products that derive value from economies of scale, and more expensive customised products.

But now the line is beginning to blur.

Courtesy of technologies such as additive manufacturing, new materials, computer-controlled tools, biotechnology, and green chemistry, personalisation will be available on a mass-scale. This is important because it can provide firms like yours with the ability to get closer to consumers. By allowing customers direct input into designs, you’ll not only be able to create competitive advantage and offer added value, you’ll be able to share this new value with your consumers.

In fact, according to the research conducted at the University of Loughborough, customers might be prepared to pay an additional 10% for personalised products: testament to the opportunities the future holds for manufacturers willing to make investments in emerging technologies.

Speaking on the commercial opportunities presented by technological advancements, Roger Connor, President of Global Manufacturing and Supply at Pharmaceuticals giant GlaxoSmithKline plc, stated:

“Looking to the future, we realised that transformational change is required and emerging technologies present an opportunity to create a paradigm shift, allowing us to manufacture medicines faster, greener and at a lower cost.”

Key Takeaway:

Customisation is a significant opportunity for UK manufacturers that are targeting the domestic market and other developed economies.



Summary

While we could dive further and further into the minutia of detail regarding the manufacturing industry's current performance, we believe this counterproductive. You need to use these insights as a vehicle for moving forward, adjusting your own strategy and ultimately, outperforming the market.

As a result, we've created a summary of key takeaways you need to consider:

1. Increased investment in technology and automation is the key to improved efficiency and productivity.



2. Investment in R&D is important to creating a sustainable competitive advantage on both an industry-wide and local scale.



3. Investment in skilled workers and developing homegrown engineering talent is vital to UK manufacturing success.



4. The customisation of products presents a significant opportunity for UK manufacturers targeting the domestic market and other developed economies.



5. To capitalise on the next decade's forthcoming industry opportunities, a proactive approach to adopting new technologies and marketing strategies will be essential.



Outperforming The Manufacturing Market

As the current market sentiment suggests, many manufacturing firms are playing it safe. They're not investing in talent or other vital areas of their business, let alone marketing.

But this means they're also letting the market dictate and hinder their success.

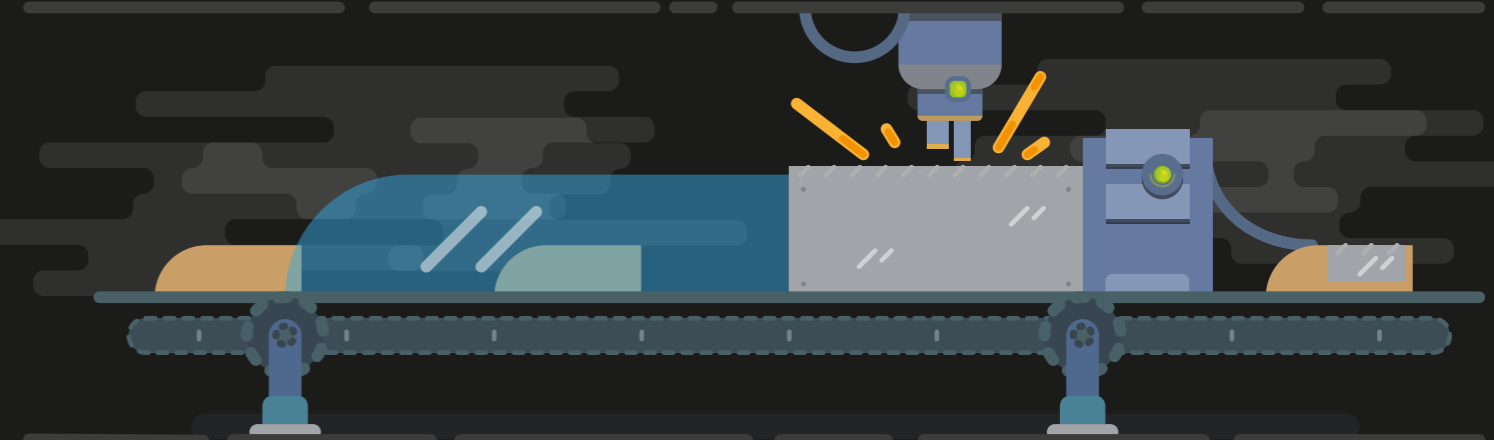
Just because the world turns left, doesn't mean you should too. In fact, now is the perfect time to invest in data-driven marketing that will help you carve out your competitive advantage.

We get it, in a time where the industry is risk-averse and trying hard to climb out of stagnation, how exactly can you reverse the trend, let alone outperform the market?

Well, our Advanced Growth Framework is designed to help firms like yours do exactly that.

OUR MANUFACTURING CLIENTS

**GREW 11.7%
OUTPERFORMING
THE SECTOR BY**



6.8X

THE NATIONAL AVERAGE

Source: CreditSafe & Official Companies House Data

The Advanced Growth Framework

The Advanced Growth Framework distills decades of specialist experience in the fields of web development, auditing, branding, design, strategy, consulting and Inbound marketing into a single, holistic package.

And it's a package that has driven sustainable results for our manufacturing clients, helping them grow 6.8x faster and experience an average turnover growth of 11.7%*.

The Advanced Growth Framework can be broken down into three distinct phases:

Discover



Deliver



Measure



Individually, each element addresses specific marketing and commercial challenges.

Combined, they form the Advanced Growth Framework, a complete service model proven to help businesses like yours outperform your market.

If you'd like to experience the same success as our clients, you can find out more about our Advanced Growth Framework by clicking the button below.



Book an appointment with Catalyst. [Click here](#)

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