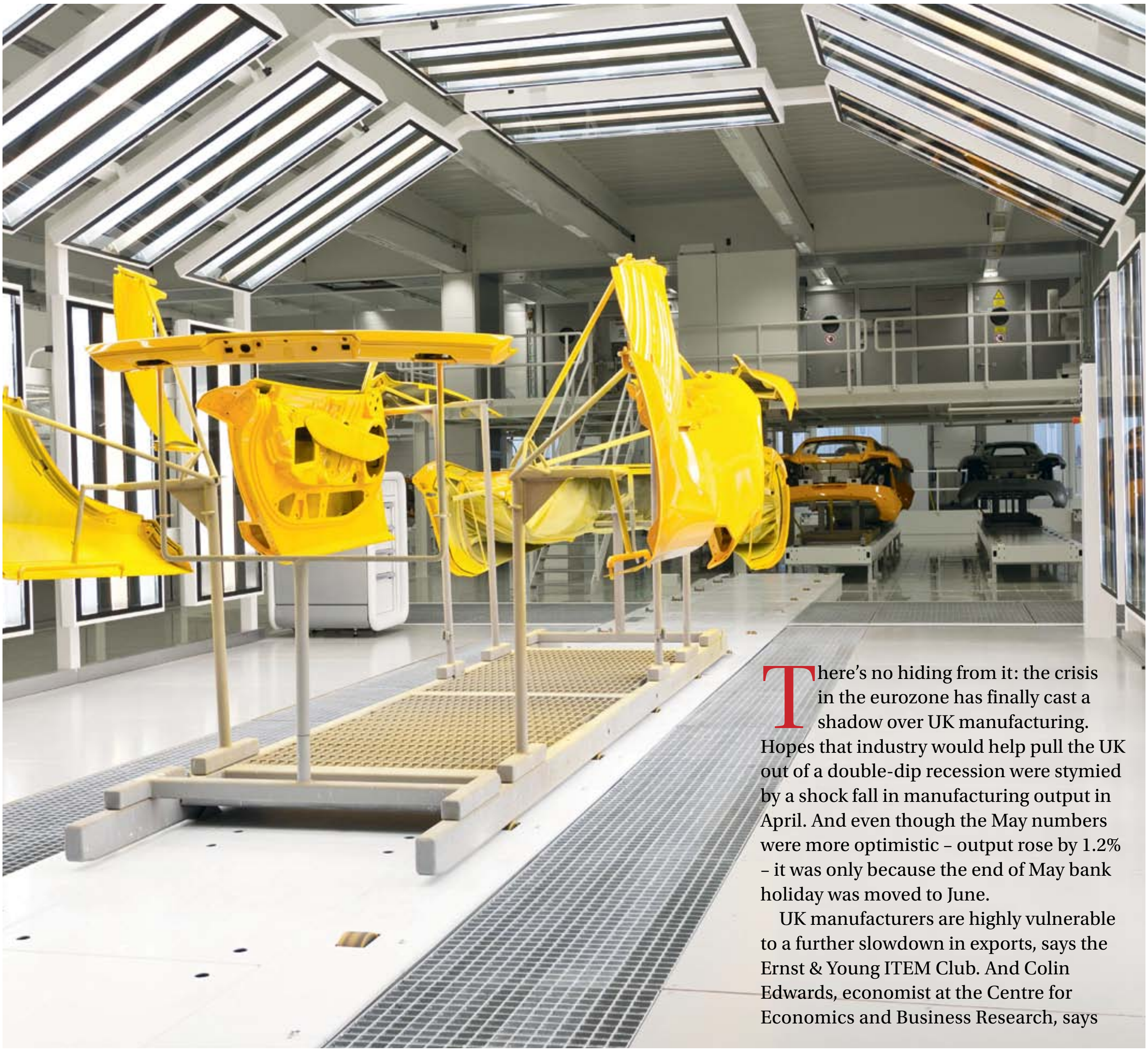
MAKE IT BETTER

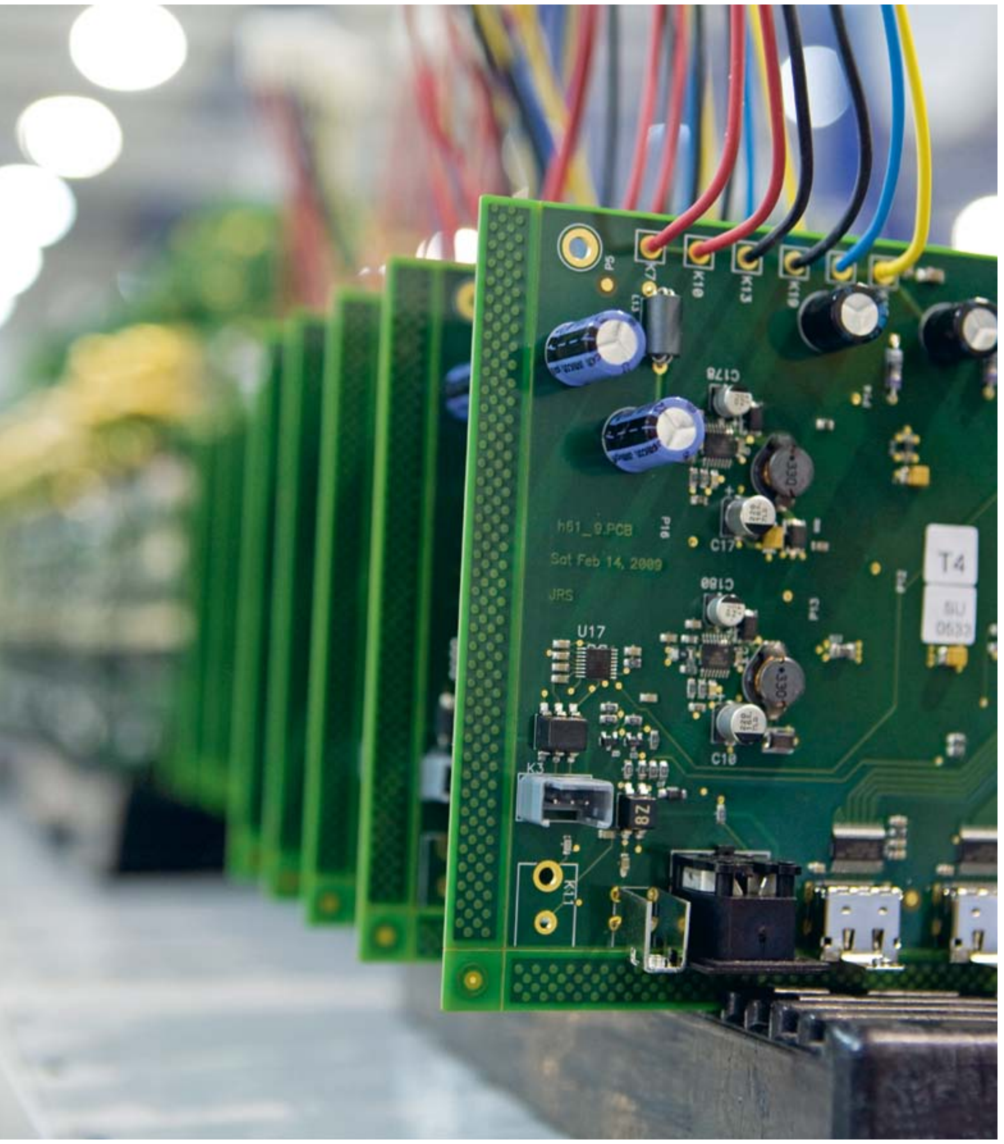
Apart from May, when manufacturing output was up, it's been a flat start to the year. But there are examples of remarkable resilience and growth in the sector. This month, **Amy Duff** speaks to three experts about how UK mid-sized manufacturers can help boost the economy



MCLAREN

There's no hiding from it: the crisis in the eurozone has finally cast a shadow over UK manufacturing. Hopes that industry would help pull the UK out of a double-dip recession were stymied by a shock fall in manufacturing output in April. And even though the May numbers were more optimistic – output rose by 1.2% – it was only because the end of May bank holiday was moved to June.

UK manufacturers are highly vulnerable to a further slowdown in exports, says the Ernst & Young ITEM Club. And Colin Edwards, economist at the Centre for Economics and Business Research, says



the figures show how tough conditions are. "Output remains well below pre-financial crisis levels and shows little sign of improvement," he says. "With the eurozone in perpetual turmoil the UK's largest export market looks unlikely to provide an outlet for UK firms soon. This is likely to weigh on the potential for output growth for some time."

So far so grim. And the outlook isn't much better in France and Germany. Yet across the country there are examples of tenacity, with manufacturing companies showing that boldness, agility and a strategy to build growth in markets outside the eurozone are paying off.

It takes a lot to dent the confidence of British manufacturers, even though the future looks decidedly murky. As BDO manufacturing specialist John Talbot says, "UK manufacturing remains surprisingly resilient in the face of the combined headwinds of renewed eurozone uncertainty and a tight lending market. Exports seem to be holding up reasonably well, supported by increasing trade with emerging markets. These may well be critical as the eurozone continues its downward spiral. Over the next few years the success of the sector will almost certainly depend on how quickly we can switch our export focus to the emerging growth markets. This will require a shift in thinking among many manufacturers."

The smaller companies are taking the biggest knocks, cautions Talbot, "causing cashflow problems among those with the shallowest pockets". He calls for more measures to support such companies – "or we face the prospect of losing the type of innovative engineers for which the UK has become globally renowned".

There's no shortage of government rhetoric on UK manufacturing. In May entrepreneur Deborah Meaden lent her support to the *Make it in Great Britain* campaign to attract talent and investment to the sector. "This is demonstrating to the public how truly exciting and innovative manufacturing is, highlighting the range of opportunities, particularly for young people," she says. "As consumers, we care more about the finished product, but what we miss out on is the fascinating way in which that product is created. More and more often I find myself coming away from visits to businesses and laboratories across the country thinking how impressed I am with manufacturing in this country."

"Exports seem to be holding up, supported by increasing trade with emerging markets – critical as the eurozone continues its downward spiral"

And when business secretary Vince Cable visited steelmaker SSI in Teesside in May, he said boosting British manufacturing was central to the government's mission to create long-term growth across the UK. Announcing £1.4m from the Regional Growth Fund to SSI, he said, "For too long the British economy has relied exclusively on the City of London, ignoring places such as Teesside. I want to see regions of the UK like the North East, once the workshops of Britain, get back to their glory days. The restart of the plant is fantastic news for the region as it will have a major impact on local growth and prosperity, creating around 8,000 jobs."

In *economia*'s 10-point plan for growth earlier this year we called for more government support to encourage trade relations with less developed nations as exporters cast their nets further to find a sale. Businesses need to boost exports and a system of government-backed export credit guarantees would provide a safety net for those seeking to export high-tech or expensive goods.

But what do those at the coalface think? Three experts talk to *economia* about the challenges for UK manufacturers, where growth opportunities lie and what they'd really like to see from this government.

THE SECTOR EXPERT

LEE HOPLEY, chief economist, EEF

"It is definitely not all bad. We've seen a raft of gloomy statistics, which do paint a picture of a sector and an economy that's struggling. We have been through a very challenging recession and the recovery was always going to be bumpy. But there is still a balance of companies who are securing orders, they're continuing to grow, they're looking at expanding their headcount, they want to invest. On balance we're cautiously optimistic but clearly mindful that what's happening in Europe could turn sour very quickly.

Manufacturers in particular have done well to increase their exposure and penetration in markets beyond the traditional ones. And that's been going on for a long time, not [just] in the past 18 months when these issues in the eurozone started bubbling up. I have seen very strong growth in markets such as China, India, South America... There are still opportunities out there.

There are new supply chain opportunities opening up as well. There are big OEMs (original equipment manufacturers) looking at where they can source components locally rather than relying on suppliers several thousand miles away. So there are opportunities for companies in the UK to tap into the appetite to look more locally at the supply chain.

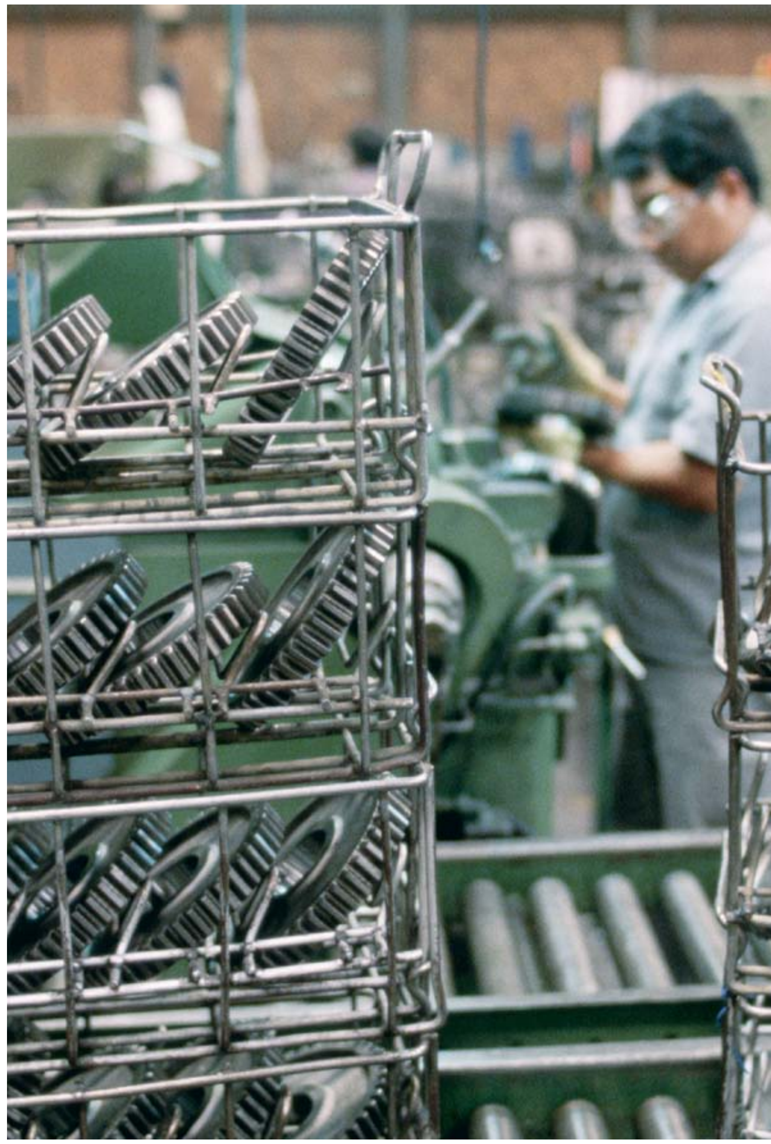
That requires investment, clearly. And we've not seen the increase in business investment that some surveys indicated would be coming through the pipeline consistently or sustainably. If companies are not investing in new kit and technology, it's a worry for competitiveness and productivity.

The opportunities for growth are there for all sizes. A lot of mid-size companies are diversified in terms of the geographical and sectoral markets they sell into and that's key to their growth path. But when you become an internationalised business, as a lot of mid-sized manufacturers are, your world becomes that bit more complex. You don't have the resources of a large company behind you to deal with the complexity. That might be from a regulatory point of view but also in dealing with multiple tax jurisdictions.

The EEF would like the same clarity about where we want our economy to grow and how we rebalance it as we do over the plan to deal with the public finances. There's a strong focus on the deficit – business understands that is helpful. But we need the same clarity and alignment across all parts of government about where growth is going to come from and how we rebalance our economy to make it more sustainable.

Between now and the end of this parliament we'd like the government to really build on this commitment to have the most competitive tax system in the G20.

We also have to look at the cost of doing business. Are we focused on competitive energy prices relative to our European rivals? Is the market lined up to deliver sustainable energy for manufacturing long term?"



NICK SINCLAIR, CORBIS

"Between now and the end of this parliament we'd like the government to really build on this commitment to have the most competitive tax system in the G20"

"That's probably the story that doesn't get told as much as it should – all the good things businesses are doing to adapt to a rapidly changing world"

THE FINANCE EXPERT

MIKE MULLANEY, area director, Lloyds Bank Wholesale Banking & Markets

"I'm one of the joint leads on a manufacturing programme we're developing through the mid markets business to help the manufacturing sector grow. If you look at the headline stats, manufacturing is 11% of GDP, 50% of UK exports and accounts for 5% of economic growth in the past two years. It shows manufacturing is going to be one of the growth engines.

My business in the North East has traditionally had a good proportion of manufacturers in it. The nature of it has changed considerably over the years from supporting heavy industries to automotive and renewables. But we've got a good bedrock to build from.

Manufacturers are exposed, as every other business is, to the macro issues. The euro has an impact, particularly as a high proportion of UK exports go into Europe, and that is an area of concern for these businesses.

But what we've tended to see – and this is why a lot of manufacturers are in a relatively good position – is that these guys tend to take a longer-term view. They've invested, they've continued to upskill their people and they've become very competitive and productive.

If you throw that together with the natural innovation we're very proud of in this country it's still a good mix.

There are some really good role models of businesses that have been operating in markets such as Brazil, India and China for some time. The BRIC countries are where people are beginning to focus after realising it's not such a major step. There's a lot of support and advice around exporting; peer-to-peer type learning is happening more and more. That's the way it should be. But one size doesn't fit all. We need to adapt in terms of what we offer in terms of advice.

We are a relationship bank. We spend a lot of time understanding what our customers need and advising them on the most appropriate funding structure. Our balance sheet continues to grow as we lend but also as we help to maximise the working capital cycle. For example, we'll look at trade financing structures and the likes of the export guarantee schemes, some of the government-backed support that's out there. We look to provide a bespoke funding package for our businesses.

Manufacturers need to showcase the really good products that they have – communication is key to everything in business. We're blessed with good management in this country. It's about knowing where the opportunities are; where our products and services are in demand. Good businesses – and there are many – know that while one market will contract they're already talking to the next that might expand. It's trying to get that balance. They know where to turn and how to execute well.

And that's probably the story that doesn't get told as much as it should – all the good things businesses are doing to adapt to a rapidly changing world.

It's the best part of what we do. We've seen businesses that we've backed as start-ups now listed on the stock exchange and that's great."

THE BUSINESS EXPERT

CHRIS PARKIN, director, Miller UK

"At the moment business is going really well compared with how it was. In 2007 we did £38m [revenue], in 2009 £8m – that was painful. Starting again from £8m, the only way is up. But we've been shipping like mad and just had our best month's turnover since 2008. That's come from the US.

We have some trade with India and we're trying to further establish our products there. We're having a bit of success; we're beginning to sell some volumes. China is another country we're attempting to get into. Other companies in our sector that we supply to – big OEMs such as Caterpillar, Komatsu and Volvo – are doing fantastically well out of those countries. But China hasn't quite bought into the technology we're trying to sell yet.

If a product's made in Britain it carries with it a stamp of quality. We have a joint venture in China that produces very good-quality products but it's our authenticity as a British supplier that adds to that. They still suffer from this image of poor quality.

We were staring failure in the face. I didn't think we'd get through it. But we're a family-owned company and the three shareholders passionately believed we would survive. They put their money where their mouths are, taking cash out in good times and putting it back in.

We became really focused. When business drops to that level you cut your costs accordingly, which is what we did. Our bank at the time was extremely concerned and we ended up in their intensive care unit. But that wasn't such a bad thing. They held our hand and we worked together to get through the situation.

We were fortunate that the shareholders had cash outside the business and a desire to support it when we had a cashflow shortage. We were always able to bridge the gap. You've just got to realign your expectations.

The only thing we really kept going through the downturn was innovation and R&D – out of necessity because health and safety rules were changing and we had to adjust designs and products. But everything else was cut to the absolute bone.

We have about 185 staff and a turnover of about £20m but there is a skills gap. It's difficult to find youngsters who want to do traditional jobs such as welding and fabricating. It's difficult to convince people they can earn a good salary and have a decent career from that.

We see opportunities, like everyone else, in increasing exports to the growing economies, the BRICs. The challenge is having the working capital to invest in that. It's one of those things: you can't predict when it's going to happen.

To put it in perspective, the UK market – which is a great market for us – sells around 5,000 excavators a year. Probably nine out of every 10 excavators has a coupler fitted, which is what we supply. In the Chinese market last year the figure was more like 180,000 excavators but they don't take our technology yet. Even in the Indian market there are around 18,000 excavators – not far off four times the size of the UK market. So there's massive opportunity.

Would we be ready for growth? Yes. We're fortunate we have a joint venture in China with a foundry and they have the capacity to deal with that.

Our chairman and founder Keith Miller is passionate about the business. I'm a real stick-in-the-mud accountant, I just look on the dark side of everything, but Keith's drive saw us through some really difficult times. He said, 'Don't worry about it, we'll get through it.' And that helped everybody."

"There is a skills gap. It's difficult to find youngsters who want to do traditional jobs such as welding"

MAGNUM, CORBIS

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