



Held in Mayfair on 23rd June 2004, the seminar hosted by the Harvey Nash Industry Practice was extremely well attended with almost 100 senior delegates present from a variety of manufacturing organisations (see page 4). The Chairman, John Ferrie, Group Managing Director of Smiths Aerospace introduced the speakers, Nick Brayshaw, Chairman of the CBI's Manufacturing Council and Chairman of Westland Motor Company and Graham White, Chief Executive Officer of the Hoover Candy Group. The panel, which also included Nigel Parslow, Director of Harvey Nash's Industry Practice shared views on market trends within UK manufacturing for 2004 and beyond. The following main messages emerged:

### **Manufacturing is a significant part of the UK economy**

- Manufacturing contributes £150 billion to GDP and contributes to 60% of all exports.
- Manufacturing's share of UK GDP from 1973–2001 has declined from 30% to 17%. Actual output has increased by 25% despite newspaper reports. This is a long-term growth trend.
- The number employed in this sector in the UK has decreased but manufacturers have increased productivity by reducing headcount.

### **UK manufacturing versus France, Germany and the USA**

- Whilst UK output has grown, comparisons to USA, Germany and France are disappointing. Over a 40-year period, UK output has increased by 60%, USA by 110%, whilst output for Germany and France has increased by 150% and 300% respectively.
- The UK is less productive than France, Germany and the USA because we invest less in capital/skills than these countries, although more than our other international competitors.
- The UK is deficient in areas of medium/high skills. Our vocational skills are at the lowest levels in the EU apart from Estonia.
- R&D spend is down in the UK. It is less than 1% of national wealth versus 1.4% in France. It is half the level of Germany and less than half that of the US (where spend is increasing). In the UK, just two companies, both pharmaceuticals, undertake 25% of total R&D spend.



## **The role of government and the media**

- 2002 saw the first UK government assemble a manufacturing strategy.
- In September 2002 the CBI strategy was published. The next one is published in July 2004.
- Newspapers do not reflect the whole picture as they focus on output only.
- International competition is key as we need action from government and business on three key issues (investment, skills and innovation).

## **Outsourcing to third parties or within joint ventures**

- Competition is now on a global scale – the Far East, China and Europe. Outsourcing processes and decisions are not simple.
- Outsourcing of backroom operations is easier and perhaps more obvious – outsourcing or relocating manufacturing is a more complex decision.
- This decision needs to be based on the following considerations: major changes/rationalisations in the business, new products/technologies, cost differentials worse than competitors who have moved offshore, skills shortages or lack of local suppliers.

## **The case for investing in the UK or outsourcing**

- Between 2000–2002 a large number of new plants opened in the UK mainly due to strong local skill levels, pre-existing investment, diversification to increase competitiveness, proximity to customers/retailers for products with high added value, high volume, fresh products or products supplied to highly volatile sectors, distribution/wider supply chain costs and market fulfilment.
- There were also many cases of companies relocating manufacturing operations offshore between 2000–2002, mainly due to the lower labour and capital costs in these countries.
- When evaluating this activity consider short, medium and long-term plans, your ability to change and the impact of this decision, as each situation is unique. Use RDAs/local government to assist with this decision.
- A possibility is to outsource low value operations, carefully managing quality control etc.
- Outsourcing does not fix problems; it just moves them further away – ensure any issues are resolved beforehand.
- Speak to local government, RDAs or the DTI if you want to make a case about why manufacturing should remain in the UK.



## Conclusion

- In the last couple of years, innovation and growth have been in line with the DTI setting the blueprint for manufacturing, with a focus on three main areas, to improve products at enterprise level, develop products for the future and invest in staff skills.
- There is clearly a threat from emerging low cost economies to the future of the manufacturing industry in the UK. What can we do to improve the UK situation? We need to consider the shaping of education to improve skill levels and resources available (training, investment, grants) etc.
- There is a pressing requirement for a partnership between government, academia and industry to improve the UK situation.

We would like to thank all of those who attended this thought-provoking and informative seminar and who continue to make Harvey Nash events lively forums for knowledge-sharing and debate. If you would like to be notified of future events or have any comments or suggestions, please email [info@harveynash.com](mailto:info@harveynash.com).

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**Delegates attended from companies including:**

- ABB plc
- Alvis plc
- Arjo Wiggins
- BBA Group
- China-Britain Business Council
- Coca Cola
- Cummins Engine Company
- De Puy International
- Dewhurst plc
- Diageo plc
- DS Smith plc
- DTI
- ESSO Petroleum Co. Ltd
- GlaxoSmithKline
- Hampson plc
- Heinz plc
- IMI Norgren
- KPMG
- Masterfoods
- Mayflower Corporation plc
- Meggitt plc
- Oracle
- Princess Yachts
- Ricardo Ltd.
- Robert Bosch
- Ronseal Ltd.
- Royal Aeronautical Society
- Smiths plc
- Ultra Electronics
- Wagon plc

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