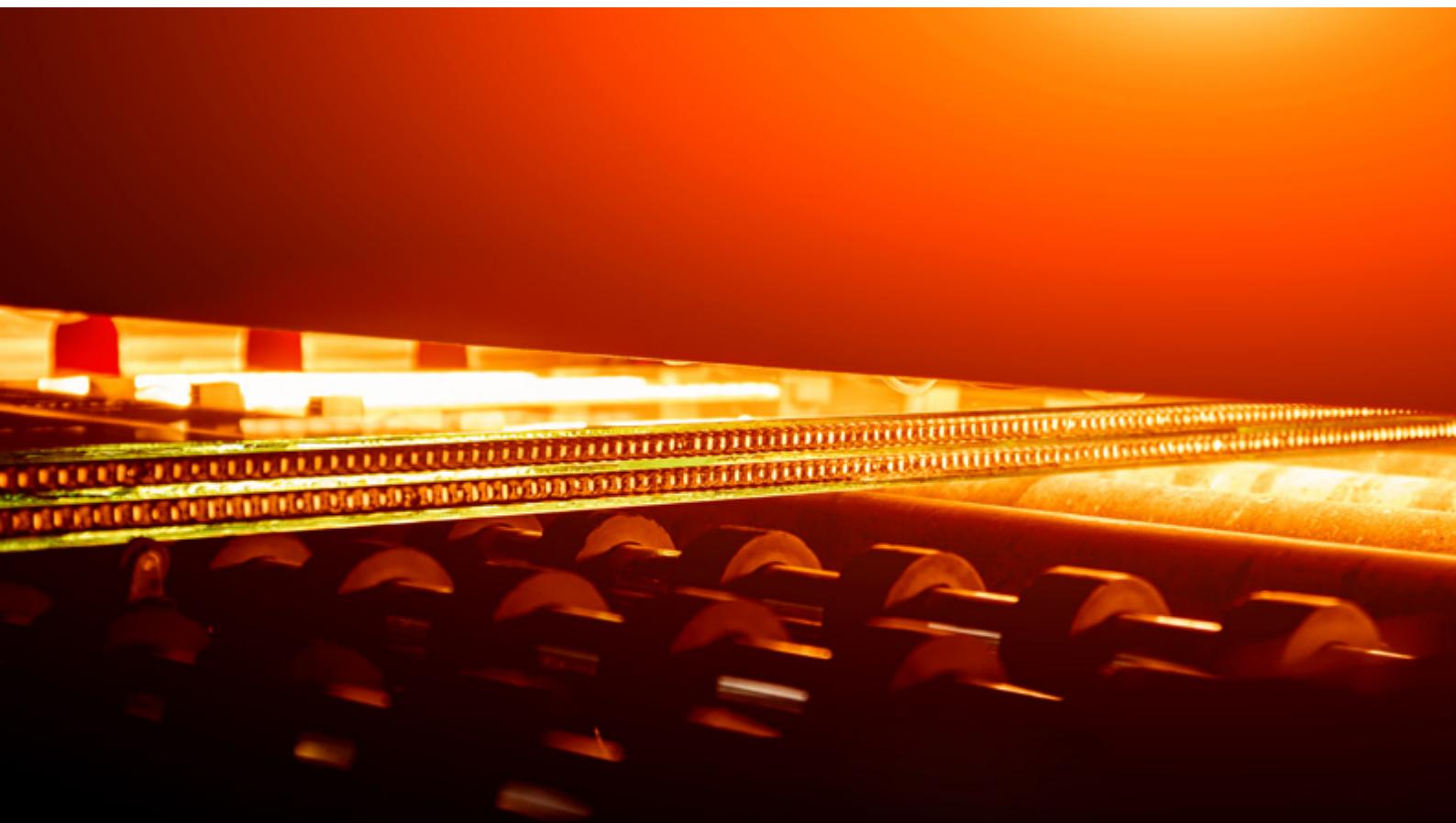




Manufacturing Outlook Report

2021/22

In Association with CBM



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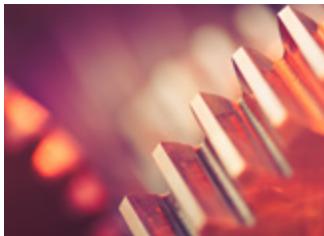
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Key findings

74% 

expect turnover
to grow in the
next 12 months

30% 

say their main barrier
to growth is recruiting
and retaining staff

Those affected by
minimum wage has
doubled to over

40%

82%


have trouble recruiting
skilled employees

90%


believe the
Apprenticeship Levy
to be not effective

82%


don't believe government
exporting incentives are effective



Introduction

2021 was a year when so much challenged the manufacturing sector. As our survey results reveal, it was a year of shortages, inflated costs, demand outstripping the ability to supply and the spectre of the knowledge that at some point there will be a real stretch on working capital funding requirements.



In the run up to the end of the year, demand drove both inflation and economic growth, as evidenced by the Office for National Statistics (ONS). The Omicron 'Plan B' decision generally created a long Christmas break. Early indications are that demand hasn't fallen away much since. However availability of cash, following what will have been a truncated December sales performance, and the traditional stretch of credit over this period, combined with the need to buy and hold more stocks, may well stretch cash availability to the limit.

Moreover, pressure on credit limits caused by increased gearing and higher demands on working capital could stretch credit further still.

We have also seen evidence of Original Equipment Manufacturers (OEMs) delaying supplier payment profiles which create real issues further up a supply chain.

It will never have been more important to keep a close hand on cashflow, management information and key performance indicators as it is now.

At Crowe, we pride ourselves on our manufacturing knowledge, empathy and insight as well as a real desire to help you think strategically and make smart decisions that create lasting value.

We're here to help you – see page 32 to find out how.



Johnathan Dudley
Partner and Head of Manufacturing

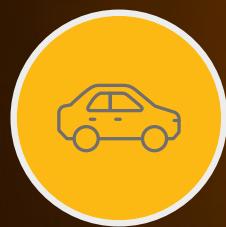
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Post pandemic, the road will be bumpy, twisty and rough. Strong relationships identified with networks and trusted advisors need to be robust to achieve the levels of growth anticipated by the participants in this survey.



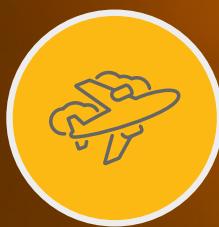
What sector of manufacturing are you in?

2020 results are in brackets.



21%
(20%)

Automotive



6%
(10%)

Aerospace



7%
(11%)

Rail



4%
(10%)

Food and Beverage



8%
(4%)

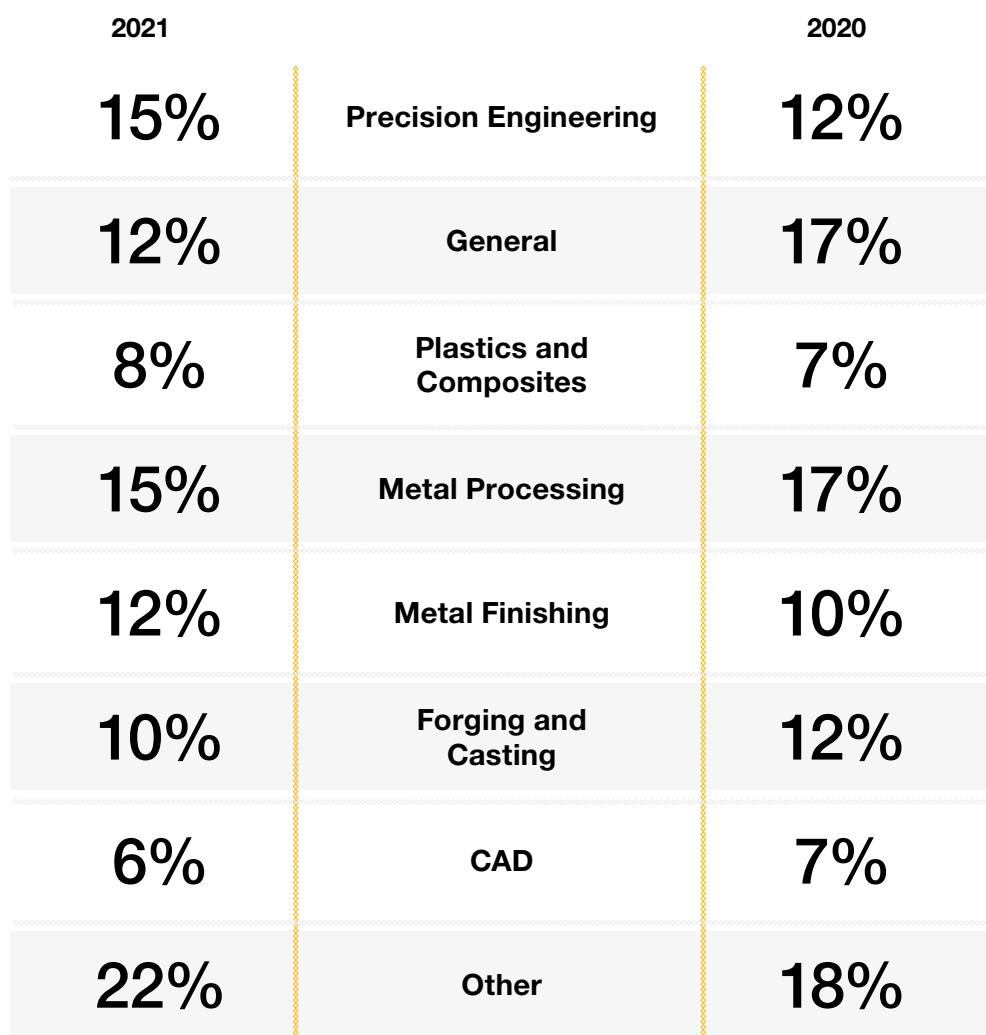
Domestic



54%
(45%)

General Manufacturing

The profile of manufacturing respondents with last year as a comparative is as follows:

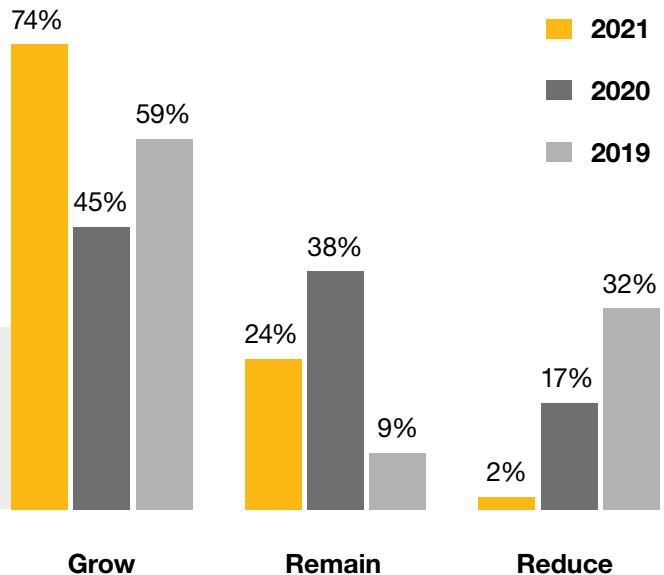


The results

Commercial outlook

Turnover

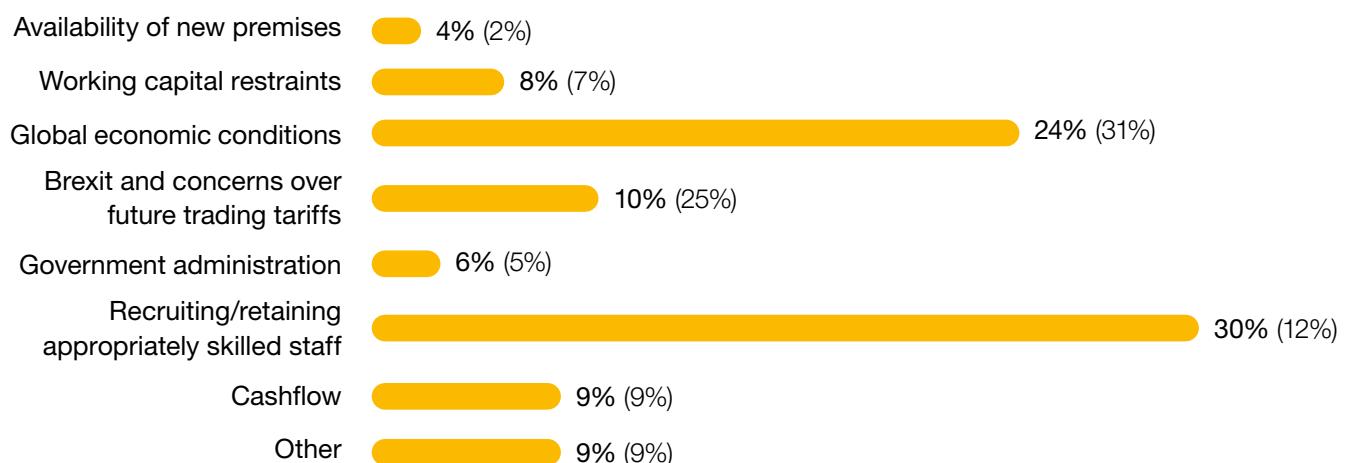
In the next 12 months, do you expect the turnover of your business to:



Turnover growth expectations were generally positive, and interestingly, much more positive than 2019 or 2020.

Barriers to growth

What is your main barrier to growth in the next 12 months? 2020 results are in brackets.



It is clear that recruiting and retaining people are even more important this year to driving success.

Availability of people and skills is always key but it's clear that in an environment where there is currently an ongoing demand, the availability and cost of the skills needed to deliver is vital.

There is also continuing concern over global conditions, though slightly less than last year when the unknown impact of the global pandemic and the effectiveness of vaccines will have also influenced responses.

It's worth noting that even with the benefit of the vaccine programme, significant concern remains over global and economic conditions. These are driven by factors such as the continuing pandemic impact. What long-term effect will this have on the world of business and the economy? There are other issues at the moment too, such as the political instability across the world, some of which has also been fuelled by the pandemic.

However, a word of caution, 2021 covered a period where trading arrangements with the EU carried a number of 'interim' measures designed to reduce friction, many of which expired on 1 January 2022.

The significant reduction in the influence of Brexit and trading tariffs is interesting, the number of respondents seeing this as a barrier more than halved this year, compared to 2020.

The full impact of UK's exit from the EU will only be felt as the interim arrangements end and conversely, trade agreements are finally put in place with various global trading partners.

Concerns over cashflow and working capital remain fairly low, but consistent. Many businesses were able to continue to call upon the various Coronavirus lending schemes to support their businesses for a large part of the year; the servicing of that lending was only just kicking in at the time of the survey so this may have influenced some responses.

Growth has key demands on working capital requirements in the short-term and investment capital needs in the longer term. Availability of credit for this growth on a continued basis will almost certainly not be as easy as it was during the height of the pandemic.

10% see Brexit as a barrier compared to 25% last year



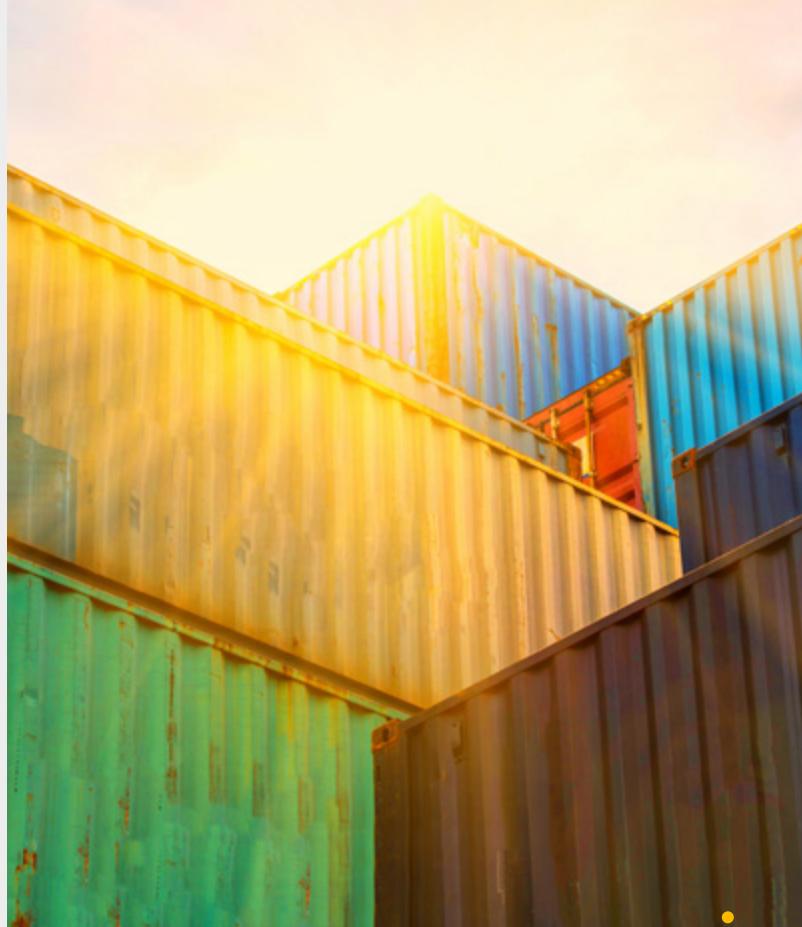
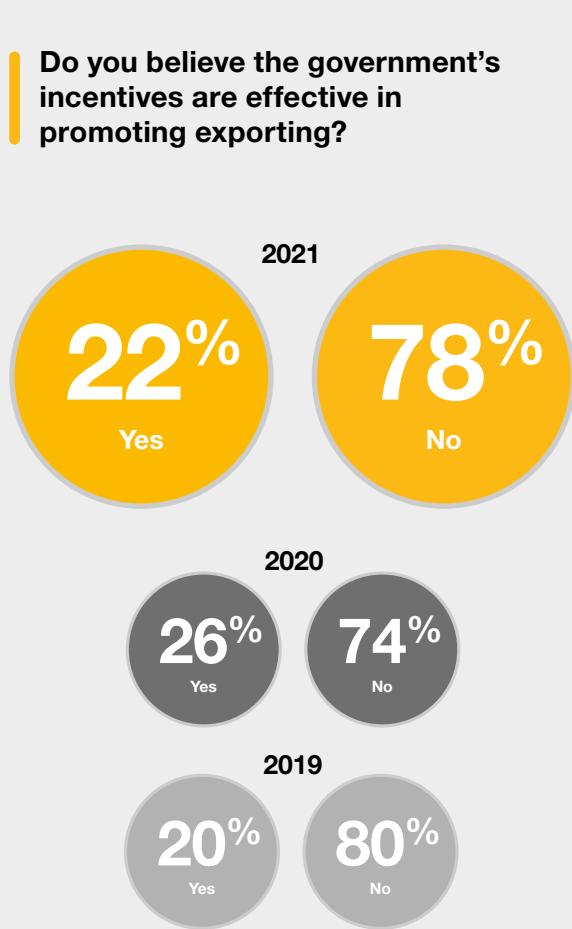
Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLS) lending has been replaced by the Recovery Loan Scheme (RLS) and it has been widely noted that this scheme is not getting traction with at least the 'big four' UK banks. Companies seeking lending for the future, have experienced difficulty sourcing this without repaying CBILS/BBLS in full as these loans are currently not transferrable.

The Chancellor of the Exchequer clearly set a strategy in his autumn Budget, which relies on a strong economic recovery to fund the unprecedented level of government Coronavirus support, extended during the pandemic period.

The growth expectations would support this but businesses need cashflow to deliver it. Moreover, recovery cannot alone be based on domestic demand.

Our survey has consistently revealed that businesses do not see the existing government measures as being effective in supporting UK manufacturers.

The 2021 survey is no different.



Where are your main competitors based?

2020 results are in brackets.

The rest of the UK – 44% (33%)
Your own region of the UK – 11% (18%)

Europe – 24% (33%)

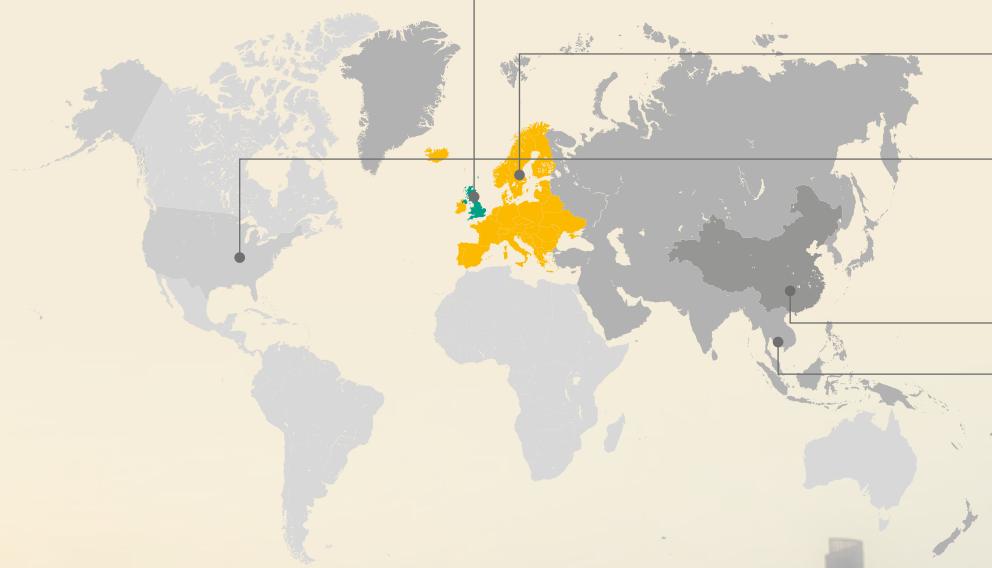
USA – 5% (0%)

China – 13% (2%)

Asia – 3% (2%)

Other* – 0% (12%)

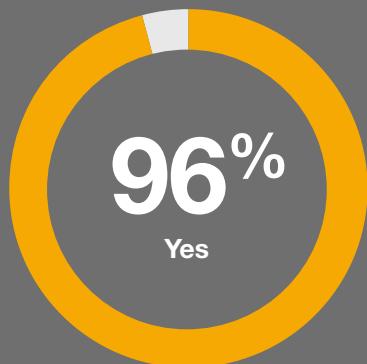
*Other – Most of the above,
Globally, India and Korea



The results show that there has been a significant increase in UK based competition in place of Europe. This could be seen as a modest Brexit effect, however there seems to be a resurgence in competition from China, an economy which we know recovered strongly during 2021.

The key to driving recovery is sales. The increase in positive responses when asked whether businesses invest in sales training for their sales teams is encouraging, especially in a sector that traditionally under invests in this key driver for success.

Do you have a sales and/or marketing team?



How effective is your sales team?

Just 16% were less than 50% 'happy' compared to 2020. This was slightly better than last year.

Looking at how many businesses are more than 80% satisfied with the effectiveness of the sales team, this is just 16% in 2021, compared to 27% last year and 18% in 2019.

In an economic environment where there is an increased need to justify value, against a background of inflationary pressures, dynamic supply issues and an increasingly globalised market place, it has never been more important to have an effective sales team.

Resources

A key driver to a successful and sustainable UK manufacturing sector is that of productivity and efficiency in the global commercial market.

Back in 2019, the need to re-invest in less labour intensive, digitised manufacturing processes was seen as key, and all indicators showed at the time that UK manufacturing lagged behind Europe and other major industrialised economies in terms of adoption of 'Industry 4.0' type processes.

The last two years have somewhat tempered enthusiasm for investment with a modest reduction in the expectation of these modern processes replacing traditional ones.

However, the clear shortage of skills and people demonstrated in the survey would imply a need for investment in this area, let alone the requirement to improve efficiencies and productivity.

| Do you think Industry 4.0 will start to replace the more traditional manufacturing methods?

55%

believe they will either significantly or partially stay the same as last year



The 2021 increase in respondents reporting that they don't expect Industry 4.0 to replace traditional methods is perhaps surprising, but could be an indication that some businesses are deferring such strategic investment due to more pressing issues. If so, this is a concern in terms of future strategic viability and sustainability.

What is certain is that the OEMs will expect their supply chains to drive efficiency, ever increasing accuracy and productivity. Failure to adapt and invest could jeopardise the long-term future of UK manufacturing supply chains.

Not only do UK manufacturers need to invest, the UK government and banking system need to support the funding of it.

In terms of people and skills, the responses indicated elsewhere in this survey show that a lack of people and skills is seen as a key barrier to growth.

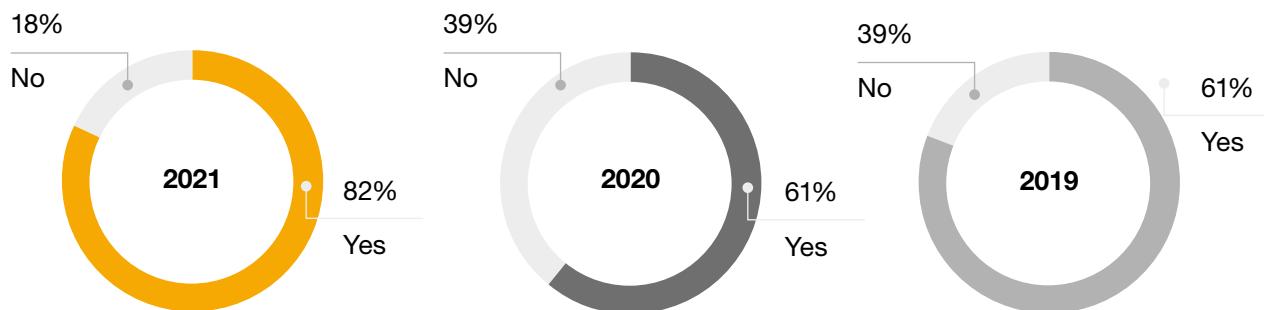
Surely Industry 4.0 and digitisation has to be part of the solution?





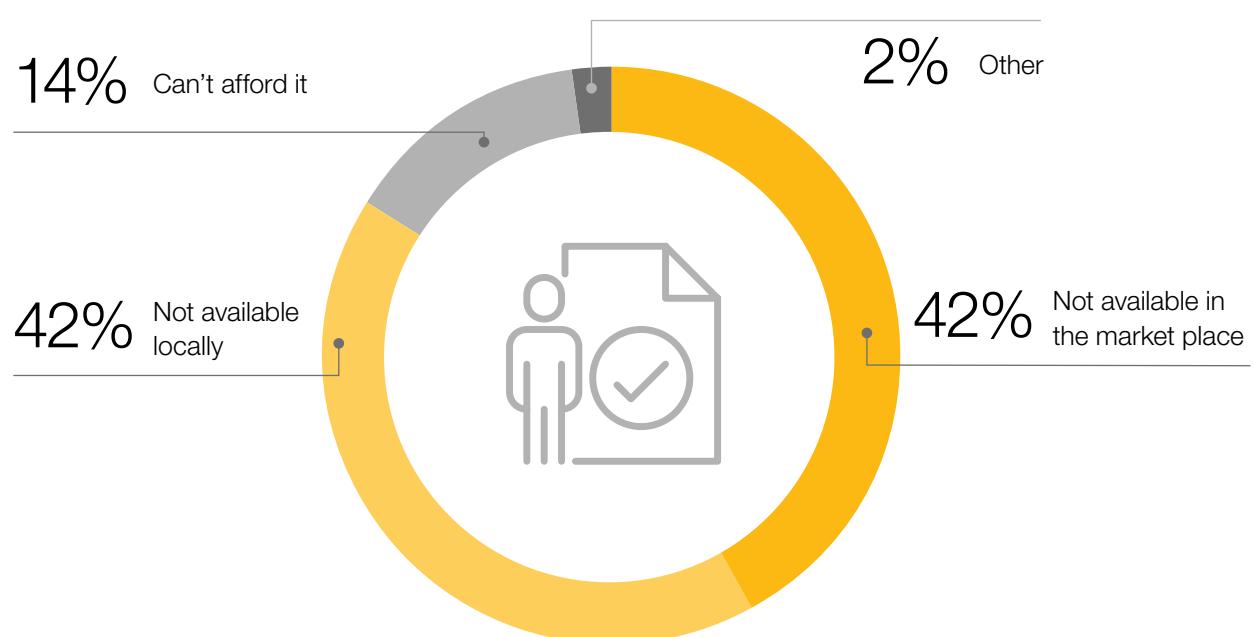
Workforce

Are you experiencing recruitment issues?



Clearly, a fall back in demand last year was pandemic driven. The results for this year are even more extreme compared to 2019 and the reasons stated for 2021 are outlined below:

Why do you have trouble recruiting?



A photograph of a woman with blonde hair, seen from the side and slightly from behind. She is wearing a bright yellow-green high-visibility vest over a dark, plaid shirt. She is looking out over a landscape that appears to be a construction or industrial site, with some structures and greenery in the distance under a clear sky. The lighting suggests it is either sunrise or sunset, with a warm glow.

These two analyses show real areas for concern. The proportion of respondents that indicate a lack of availability has increased from 39% in 2020 to 42% in 2021. This shows a clear hardening of the market and from what it seems, at an increasing global rather than just localised level, availability has crept back up to nearer the pre-pandemic levels despite inflation being driven into prices.

The impact of minimum wage changes

The impact is seen as much more relevant this year given the need to pay above the minimum wage level for skilled workers. This is a clear indication of increases driving a need to maintain a gap between minimum wage and skilled workers. Clearly this is inflationary for the manufacturing cost base.

Has your business been affected by minimum wage changes?

2021 47% Yes 53% No

2020 25% Yes 75% No

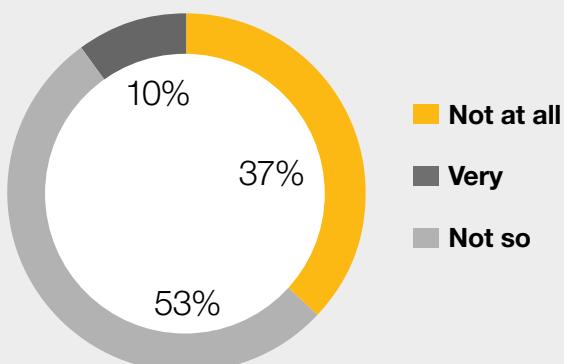
2019 40% Yes 60% No

47%

say their business has been affected by the National Minimum Wage

The Apprenticeship Levy

How effective do you think the Apprenticeship Levy is?



The position on effectiveness is worsening

90% of respondents now think that the levy system is either 'not so effective' or 'not at all', up from 75% last year. Admittedly slightly down on the 94% in 2019, but an increase in respondents stating that the levy is totally ineffective, compared to 2019 of 11% – well over one third.

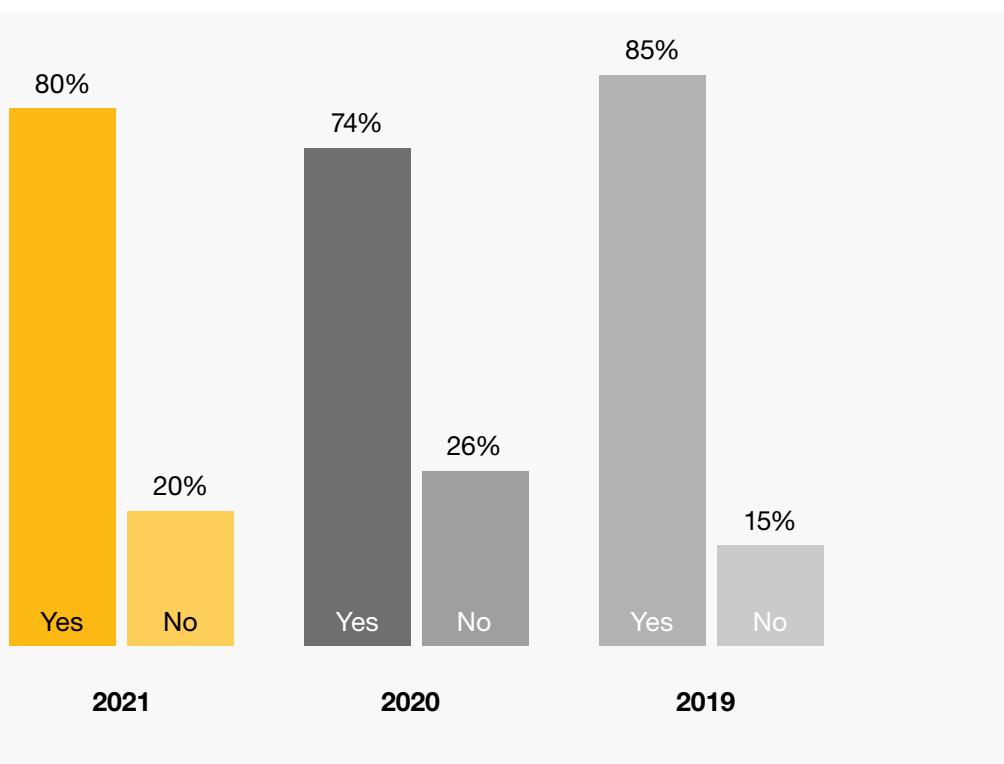
These results are delivered, even in the face of increased government apprenticeship incentives introduced during the pandemic, which would indicate a failure in the processes, practicality and quality of the system rather than just the cost.

This supports anecdotal evidence we have seen, that apprenticeships carry excessive administration, don't fit in with the working week and in some cases, apprentices don't receive appropriate training.

Foreign workers leaving employment has been a challenge, whether as a result of Brexit or the effect of the pandemic. Respondents have always noted the positive effects of foreign workers on UK manufacturing and this year is consistent.

Our survey clearly indicates that a skilled workforce is a key barrier to growth. Where possible it is a strong argument for investment in increased automation, to close the gap between demand and supply of skilled workers at a sustainable cost.

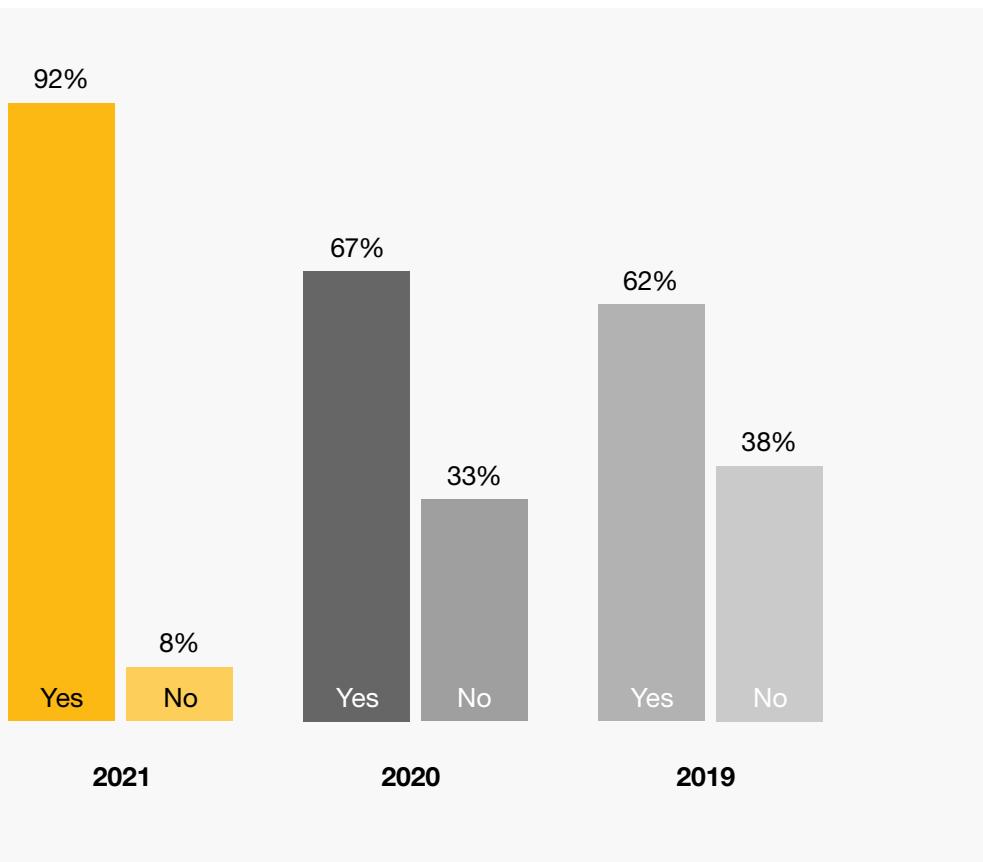
Is employing foreign workers positive for your business?



Raw materials and components

The last year has seen a real challenge to businesses in accessing raw materials, sometimes at any cost, due to global delivery issues or restrictions, punitive tariff regimes or simply general shortages.

Has the profitability of your business been affected by the cost and/or availability of raw materials?



- Throughout the year there were spiralling costs and shortages of various types of metals, wood, semiconductors, plastics and components made from any of these materials. Therefore, the response to our question on raw materials is no surprise.

92%

feel that the profitability of their business has been affected by the cost and/or availability of raw materials

There are several reasons for this, and in some cases they show no signs of easing.

In the future, coupled with this raw material shortage, will be the drive to achieve net zero and the requirement of the UK supply chain to drive ethical, green supply chains as well as a significant increase in power costs.

Shortages of supply and increased costs of raw materials do present challenges but also many opportunities.

Re-shoring is likely to become an increasing phenomena as it becomes relatively cheaper to source supply locally and with the attendant 'greener footprint'. In some cases, this requirement will in the future trump price, where customers need to demonstrate their progress to net zero.

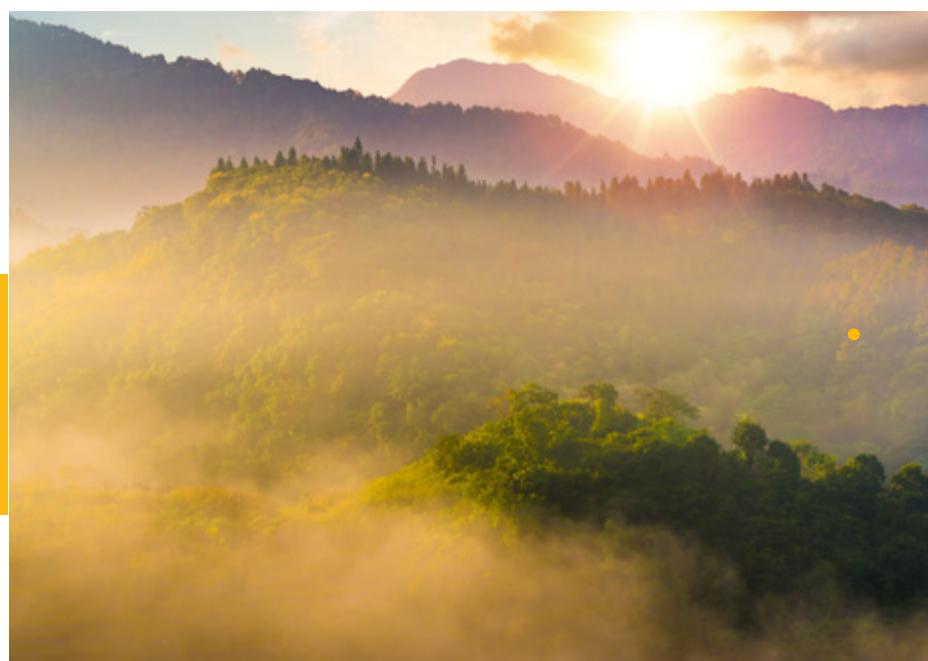
- Access to cost effective green power sources, energy efficient production and distribution will also need attention, for businesses to remain competitive.

Aside from the call for innovative processes to drive the green agenda and the opportunity it presents, there will be a need for more factory efficiency as the cost of waste will otherwise spiral.

In addition, for the power manufacturers continue to need to buy, it will be increasingly important to source and secure power costs at the right price.

As manufacturers start to meet demand with supply and start to grow at the anticipated level in 2022 there is likely to be an increased need for working capital to fund increased debtors and stock levels, to deliver that growth as well as inflated materials and labour costs.

In addition, the need to invest in new and efficient processes as well as machinery will also require additional funding.

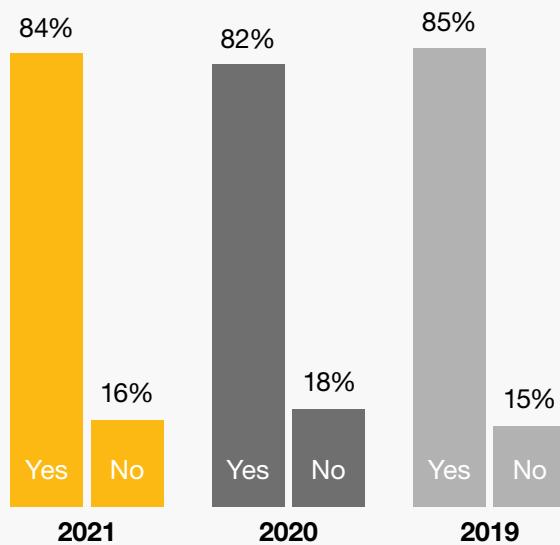


Tax matters

During the pandemic many manufacturers complained that other than COVID loans, there were no material grant based assistance for the sector. Given that most manufacturers were only furloughed for a relatively short period the challenges of changed supply chains, raw materials shortages and suppressed demand have had to be funded internally.

Assistance in the form of innovation based grant awards were usually competition based and often massively oversubscribed. Resource constrained SMEs were usually left out.

Do you think that the existing rules for Research and Development tax credits apply to your business?



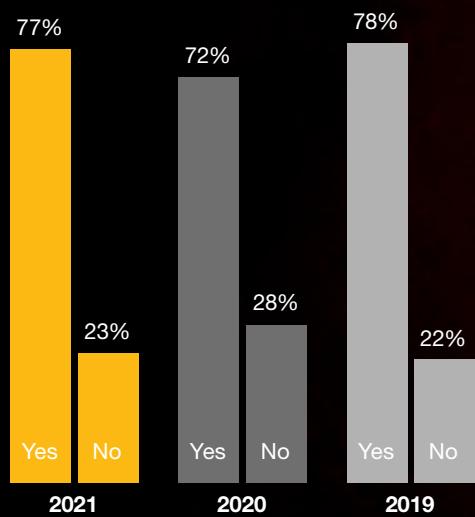
Research and Development (R&D) – how relevant is it?

The only sustained and ongoing support for development continues to be research and development reliefs.

This is reassuring and bucks the ONS national trend.

However, those actually making a claim in the last year has not gone up dramatically.

If answer to above is yes, have you made a claim in the last 12 months?



It still begs the question as to why in 2021, 23% of the respondents who felt that R&D was relevant to them, had failed to make an R&D claim. Were the 16% of respondents who didn't consider that R&D was relevant to their business correct in their assessment?

Manufacturers need to operate effectively, to solve technical uncertainties on a day-to-day basis, so it is perhaps surprising that over a third of respondents didn't have the grounds for a legitimate claim.

At Crowe we continue to find that businesses who we first engage with often don't, or haven't, identified R&D activity. We can then relate back any expenditure made over two years and unlock significant cash benefits.

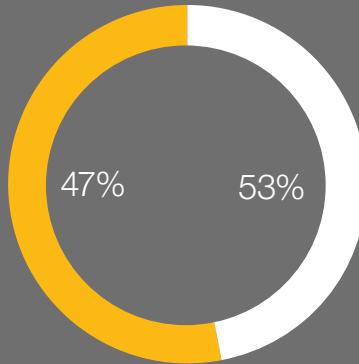
R&D reliefs have been successfully used as a way to help businesses to fund their way through the challenges of the pandemic and the same will apply in the future, in a period where the requirements for working and investment capital will increase.

Corporation Tax

As we now know, the basic rate of corporation tax will increase from the existing 19% to 25% from 1 April 2023.

Do you think that the planned Corporation Tax rates are at the right level?

■ Yes ■ No



Clearly the increase in rate has tempered this year's response. It should be noted that increased corporation tax rates, also increase tax relief rates available for capital expenditure, research and development expenditure and other incentives.

The 'super-deduction' for capital expenditure substantially advances that relief for expenditure to the current period as $(130\% \times 19\%) = 24.7\%$.

This was clearly introduced concurrently with the first announcement of the increased rate of tax, to encourage businesses not to delay future investment, especially as the £1 million Annual Investment Allowance has been continued for a further year.

Some businesses with either unrelieved tax losses or R&D reliefs might need to consider some planning to maximise the value of the reliefs going forward.

Support networks

The increase in positive responses has reflected the level of ongoing engagement over the last two years, particularly since the beginning of the pandemic. We have seen that this level of increased engagement has paid dividends by enabling networks to connect more effectively, with real changes and issues in the industry 'at the coal face'. It has increased the lobbying effectiveness of these networks and engagement with government.

This trend of increased engagement needs to be sustained post pandemic with a blend of face to face and virtual events.

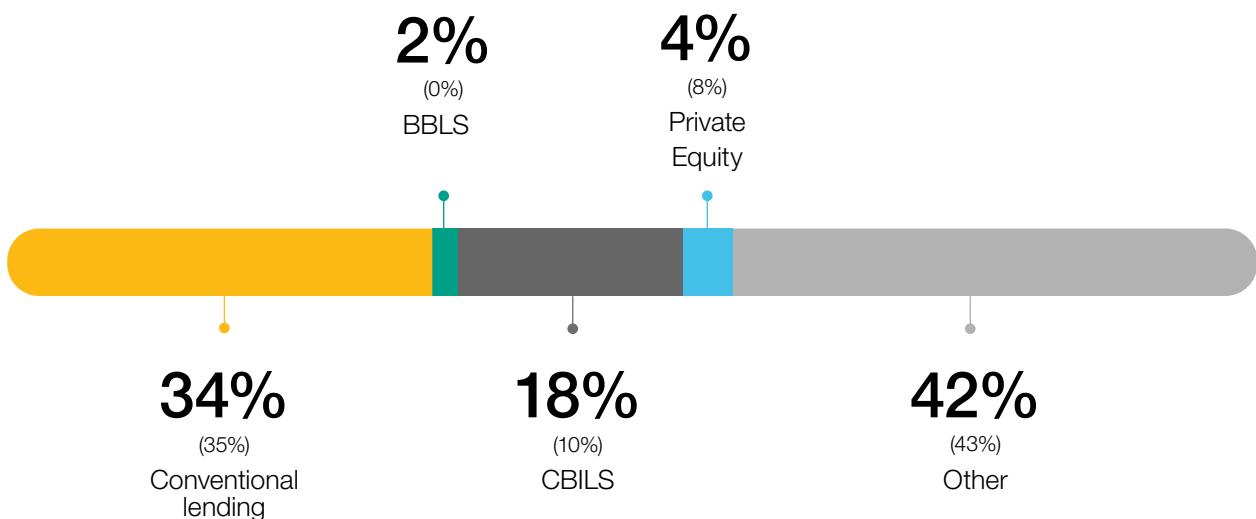
71%

of respondents are part of a manufacturing network



Financing

In the past 12 months, where has the majority of your financing come from? 2020 results are in brackets.



Banking relationships

Some respondents are still noting a poor relationship with their bank but generally relationships are sound, which is encouraging.

Lending sources have understandably changed.

37% of respondents have a very good relationship with their bank

In this case, 'Other' includes internal funding, which has been drawn on during the pandemic to fund reduced trading, and in some respects losses. Reduction in inward investment from private equity and overseas investors were replaced by the likes of CBILS and BBLS with conventional lending tailing back slightly.

At a time where there will be a clear need in 2022 and beyond to seek and obtain additional funding to drive successful growth, it is important for bankers/funders and customers alike to drive and develop better relationships.

Most importantly, it is essential for businesses to know what their funding requirements are in advance, particularly in an environment where raising funds will already be increasingly difficult.

It is also important to make sure that you have sufficient, available and up to date management information to provide funders with to help them make those decisions.



Who advises you?

There has been a marked increase in the noting of the support from trade associations, as is indicated above and also from non-executive directors with a tailing off of external consultants and once again this year, bank managers don't feature at all.

The pandemic has required businesses aligning themselves to key trusted advisors, to assist them through tough times. Advisors and counsel are favoured, hence the preference for Non-Executive Director (NED) relationships and accountants over external consultants, or others with a far more isolated and transactional relationship.

Who is your go-to external advisor for business advice?



11%

External Consultant



31%

Accountant



2%

Lawyer



4%

Non-Executive Director



28%

Other



Start the conversation

Crowe is here to help, we have the following services in place to ensure your business stays on track.

- We can connect you to sales training professionals who specialise in supporting the manufacturing sector.
- We offer business waste reduction programmes and other free tools for business growth improvement.
- We have a specialist Debt Advisory team with a long standing and enviable record in helping manufacturing businesses raise funds for working capital and capital projects.
- We can help you work out what you actually need and also help you source it. At Crowe we can help facilitate the relationships you have with your lenders, by advising on and helping you prepare what's needed as well as conducting scenario planning; the all important 'what if?' that lenders so often ask and require the answers to.
- We have specialists available to advise and help you to time your expenditure and claims strategically, considering the new increased tax rate.
- We can facilitate yearly R&D claim reviews, to see if you're missing out.
- The Crowe Manufacturing Business Network has supported manufacturers across the UK for many years with a mixture of face-to-face sessions, webinars and video calls. If you want to get involved, let us know.

To start the conversation, please contact Johnathan Dudley johnathan.dudley@crowe.co.uk



How can CBM help?

CBM can help manufacturing companies have a bigger voice with government.

As the leading trade association for metalforming companies, representing 40,000 employees and £4 billion turnover, we are very instrumental in successfully fighting the challenges our members face. With the privilege of having a weekly meeting with the Department for Business, we can effectively feed in evidence from the coal face.

With recent successes in lobbying for trade credit insurance and an amendment to steel safeguard quotas, together with saving our members £4 million a year on their energy bills by claiming back climate change levy taxes, can you afford not to be part of this organisation?

For more information on membership, please contact Geraldine Bolton
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Start the conversation

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About Us

Crowe UK is a leading audit, tax, advisory and risk firm with a national presence to complement our international reach. We are an independent member of Crowe Global, one of the top 10 accounting networks in the world. With exceptional knowledge of the business environment, our professionals share one commitment, to deliver excellence.

We are trusted by thousands of clients for our specialist advice, our ability to make smart decisions and our readiness to provide lasting value. Our broad technical expertise and deep market knowledge means we are well placed to offer insight and pragmatic advice to businesses of all sizes, professional practices, social purpose and non profit organisations, pension funds and private clients.

We work with our clients to build something valuable, substantial and enduring. Our aim is to become trusted advisors to all the organisations and individuals with whom we work. Close working relationships are at the heart of our effective service delivery.

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