



Manufacturing Outlook Report

2020

- In Association with CBM



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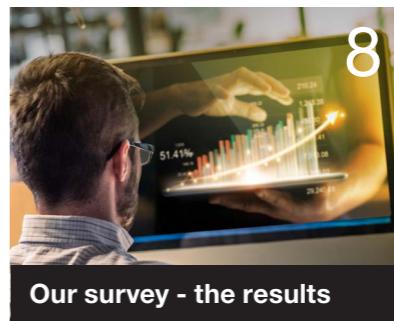
Start the conversation

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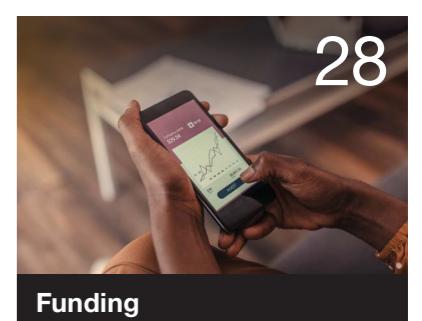
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Foreword

Welcome to Crowe's inaugural Manufacturing Outlook report, drawn from our survey, examining the key concerns facing the manufacturing industry today and highlights the opportunities and challenges many people face in the day to day running of their business.

Despite some clear uncertainty over the impact of Brexit and wider global economic issues, there was a cautious mood of positivity for growth and prospects for 2020 and beyond from manufacturers responding to our survey, with the majority expecting their turnover to increase in the next 12 months.

Among matters causing the most concern to manufacturing businesses are the potential impact of global trading issues, working capital restraints and recruiting and retaining skilled people.

“

There was a cautious mood of positivity for growth and prospects for 2020 and beyond.

It is also a clear view that a key factor to successful growth will be by seeking and exploiting global opportunities. Our survey shows the importance of appropriate and effective government incentives, but questions the effectiveness of those currently in place.

The production of this report, supported by the Confederation of British Metalforming (CBM), provides a snapshot into the conditions impacting the manufacturing sector at a time of significant commercial and political change. We hope that you find our report an interesting read and that it will help you in planning and decision making in the coming months, enabling your business to thrive.

Thanks to everyone that took part in our first manufacturing survey which resulted in this report, and thanks to the CBM for supporting this initiative.



Johnathan Dudley
Partner and Head of
Manufacturing,
Crowe



01

Summary of findings

Our survey – the results

Crowe in conjunction with the Confederation of British Metalforming (CBM) surveyed businesses across the UK manufacturing sector in winter 2019.

Respondents work in a variety of sub-sectors within manufacturing

- Automotive.
- Aerospace.
- Rail.
- Food and beverage.
- Domestic.
- Construction.
- Mechanical.
- Oil and Gas.
- Pharmaceutical.
- Metal processing.

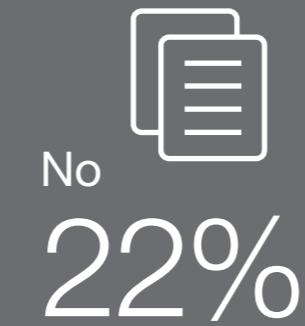


Key findings

What is your **main barrier** to growth in the next 12 months?



Have you **made an R&D claim** in the last 12 months?



Why do you have trouble recruiting **skilled employees**?

Not available locally
44%

Has your business been affected by the **National Minimum Wage**?

No **60%**

Overseas

64%



Where are your **main competitors** based?

In the next 12 months do you expect the turnover of your business to **grow in size**?

Yes **59%**

Is employing **foreign employees** positive for your business?

Yes **85%**

How do you think **Brexit will affect** your business?

Significantly **28%**

In the past 12 months, where has the majority of your **financing** come from?

Existing internal resources
43%

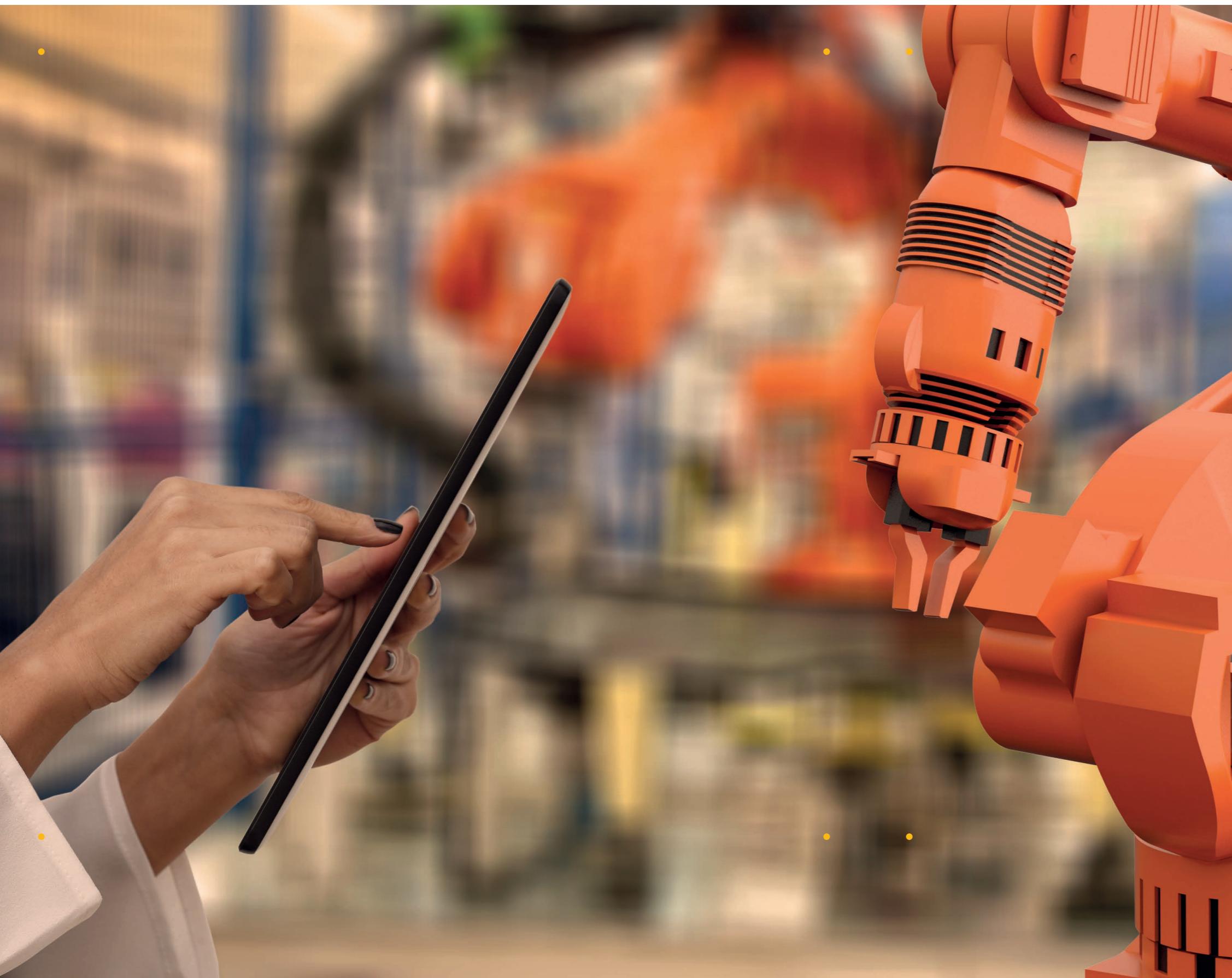
Do you consider the government's incentives to be effective at **promoting exporting**?

No **80%**



How effective do you think the apprenticeship levy is at **improving skills within your business**?

Not so effective/ Not at all effective
60%



02

The
results

Business operations and growth

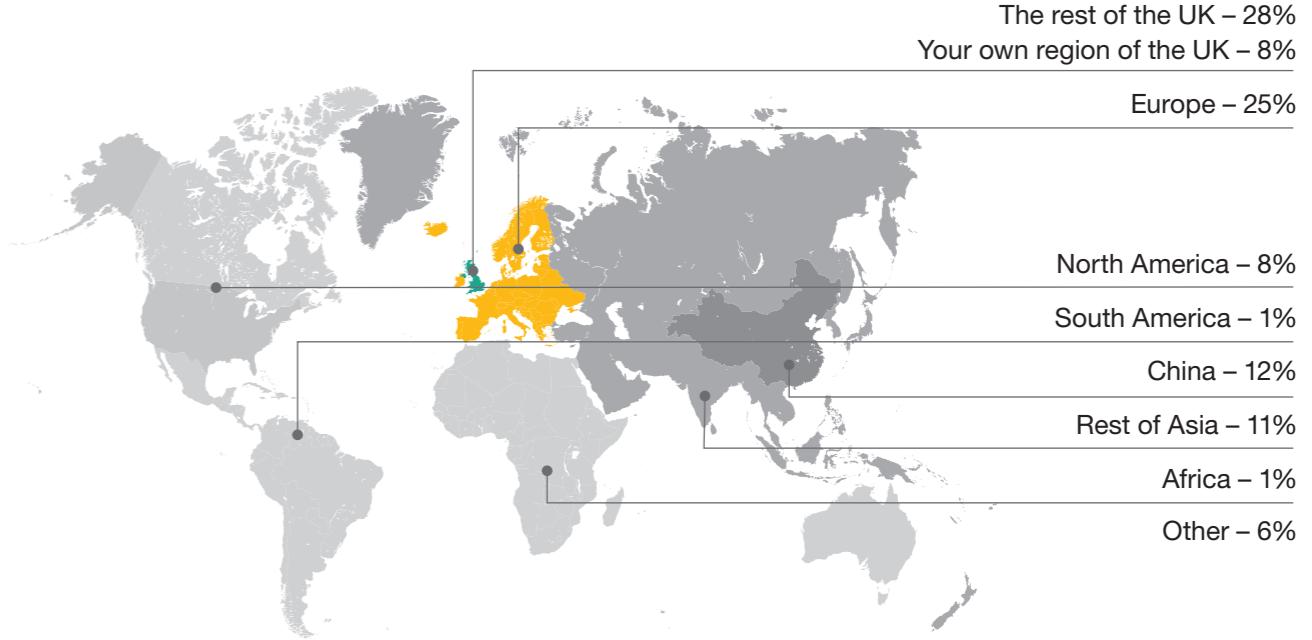
The survey showed a clear air of optimism from the majority of manufacturers with 59% of respondents expecting their turnover to increase and a further 9% to remain static.

The largest proportion of respondents (28%), identified their main competitors to be within the rest of the UK, closely followed by Europe (25%). Only 8% said their competitors were based in their own region in the UK.

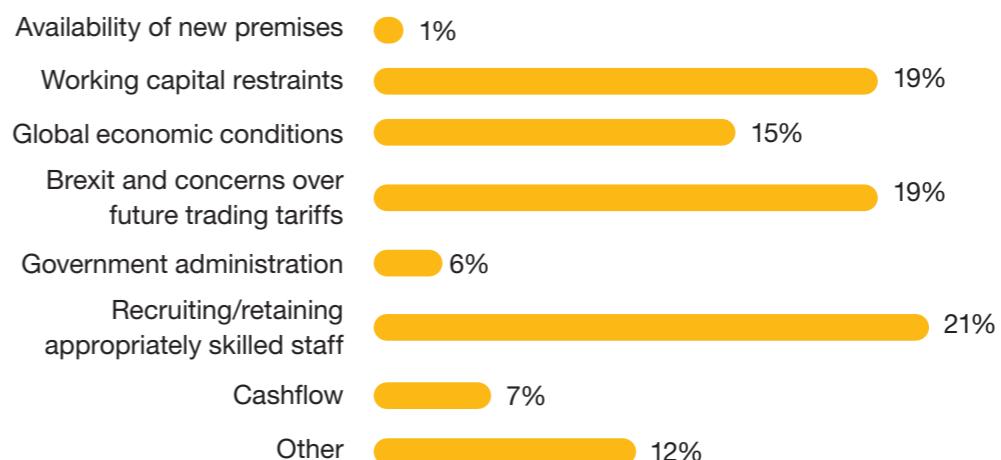
Of course, the challenge will be to effectively manage the changes derived from changing international relationships and to exploit new opportunities, as much as manage the threats to business, caused by changes to economic trading conditions with the EU and the rest of the world.

Access to foreign employees is seen by the majority of our respondents as important to business growth. Limitations, both perceived and real, driven by possible, more restrictive movement, arising from Brexit on the one hand, will of course be countered by wider access to non EU nationals. This will be subject of course to the detailed implementation of the proposed points based system included in the Conservative election manifesto.

Where are your main competitors based?



What is your main barrier to growth in the next 12 months?



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



This is an indication of positivity post Brexit for more than two thirds of the respondents.

“

Given current market conditions for UK manufacturers, it's more important than ever to work with peers and use our collective power for mutual benefit. Businesses repeatedly tell us that we're instrumental in helping them stay up-to-date with best practice, comply with changing requirements, negotiate complex supply chains, understand how to get involved with new technology, and ensure government policy is working hard to support their business. British manufacturing is a bedrock of the economy and has the potential to add so much value over the long-term. Businesses of all sizes need ways to support mutual growth, upskilling and innovation – and that's at the heart of what CBM brings its members.

”

Geraldine Bolton
Chief Executive
Confederation of British Metalforming (CBM)

More than half of people surveyed said they were a member of a manufacturing network. The CBM is at the forefront of representation of its members and in helping them address their environmental, technical and skills issues. Moreover, through its chairmanship of the International Council of Sheet Metal and Press Work Associations (ICOSPA) in 2020/22, it is excellently placed to support manufacturers in internationalising their customers and prospects as well as in turn, their supply chains.

Are you a member of a manufacturing network?



“

These are interesting times for manufacturing and there is no doubt that uncertainty both at home and abroad have posed threats and challenges for this and other sectors. Data from the Chamber's flagship Quarterly Business Report revealed a significant slump in export sales for manufacturing during Q4 of 2019 – the lowest on record since the middle of 2016 – while 31% of manufacturers revealed a decrease in advanced international orders. However, manufacturing has also proved time and time again to be incredibly resilient. The sector is at the forefront of a technological revolution and it will be fascinating to see what challenges and opportunities unfold as further advancements are made in areas such as electric vehicles, AI and 5G over the coming years.

Paul Faulkner
Chief Executive
Greater Birmingham Chambers of Commerce

Brexit and the UK economy

Manufacturing businesses have complex and wide ranging supply chains that are not bound by geography or sector, and are inclusive of many sub sectors and cross cutting themes; for example, aside from raw materials such as metals and plastics, there are also processing supply chains including forming, joining and metal finishing.

In addition, more service related supply chains include design and innovation, testing and accreditation, skills and training, infrastructure, electronics, robotics, retail, real estate and marketing.

Britain leaving the EU will have an impact on all of these areas in many ways. Not just in terms of supply and paperwork but also in terms of cost; perhaps as a result of tariffs but also as a result of potentially more volatile currency fluctuations, even on domestic supplies of materials commonly traded in, say, the US dollar. Whereas more friction on trade with the EU may be seen, there is also an opportunity for the UK to reduce barriers to trade with the rest of the world, including the British Commonwealth and the USA.

Therefore, it may be even more important to effectively hedge regularly traded currencies than before, where there may be greater volatile fluctuation against the other globally traded currencies.

At the time of the survey the UK had just been informed that the Brexit deadline has been extended until January 2020. The majority of respondents suggest Brexit will affect their business in some way by at least a moderate amount.

Key concerns that manufacturers face with the outcome of Brexit:



Talent pool

85% of respondents see employing foreign workers as positive. Changes to UK immigration and border control and the potential introduction of a points based system will likely welcome skilled workers to the UK, increasing the talent pool for the manufacturing industry, but could limit access to unskilled labour. However, our survey indicates this may not be too much of an issue as only 40% of respondents feel they are affected by the National Minimum Wage.



Trade

Increased tariff and trade complications, also currency dynamics could increase operating costs.

Businesses want to ensure that they can carry on trading after Brexit and that any impact on their customers and supply chain is minimised. This means that traders will need to determine if there is any impact on the regulatory environment in which they operate and/or their business model and/or whether there is a need to setup operations in the EU if they have not already done so.

Is employing foreign employees positive for your business?

15%
No



85%
Yes

How do you think Brexit will affect your business?



What is your main barrier to growth in the next 12 months?



19%
Brexit and concerns over future trading tariffs

UK tax systems and government

While 'Brexit and concerns over future trading tariffs' were seen as a limit to growth for 19% of respondents, 15% were concerned about 'Global economic conditions' more generally. Both scored less than 'recruiting/retaining appropriately skilled staff', which concerned 21% of respondents.

Interestingly, however, the effectiveness of the apprenticeship levy system is severely criticised; seeing just 6% of respondents rating the scheme as 'very effective' and 60% rating it as 'not so' or 'not at all' effective.

Difficulty in recruiting skilled people (81%) due primarily to lack of available skills, positivity shown for employing foreign nationals (85%) and an ambivalence towards the minimum wage (60% said that it does not affect their business), are clear indicator of pressures on availability of people.

It is evident skills are seen as the largest restriction to achieving growth over the next year or so and there is a need for this to be better addressed by government.

There is a clear indication in the survey, however, of a reluctance towards investment and borrowing, at least historically, perhaps borne out of the economic and political uncertainty of the last few years.

With the largest proportion of respondents (43%) having funded their activities from existing resources in the last year, this could indicate limited or stunted growth. Interestingly, just 7% noted 'cashflow' as a barrier to growth, while 19% cited 'working capital restraints'.

It could be, that, pending the outcome of Brexit, manufacturers have 'sat on their cash piles' and 2020 could signal a period of investment as commercial opportunities become more apparent in the medium term.

Given stretched working capital and a propensity to wish to retain cashflow generally, we question why so few companies are claiming the 'free' cash that comes from making an R&D claim.

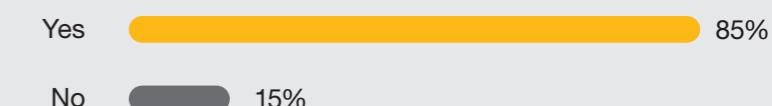
HMRC's latest statistics (issued October 2019) indicate that only about 1% of companies are claiming R&D tax credits. Of those who have, it is encouraging to note that the manufacturing sector accounts for 25% of all claimants. It is also positive to note that the majority of our survey respondents are in that 1% of companies claiming R&D already.

Crowe's clients receive on average just under £70,000 per claim. With the average claim being worth around £50,000 of cash, it is surprising that still a number of respondents, have yet to take advantage of this very valuable relief.

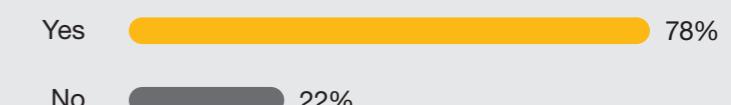
Our experience is that most manufacturers have to continually invest in new technologies in order to retain a competitive edge and thrive, many rely on their annual R&D cash injection to finance this investment.

For those who have yet to claim tax credits, the main barrier appears to be lack of awareness. If a business is spending money on developing new, or improved products, or processes, including manufacturing processes, and there are technological challenges and uncertainties to be overcome, it may be entitled to R&D tax benefits.

Do you think that the existing rules for R&D tax credits apply to your business?



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



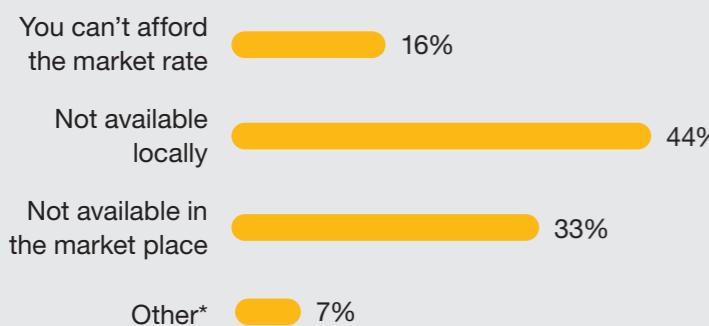
Do you think that the planned corporation tax rates are the right level?



Do you have difficulty recruiting skilled employees?



If yes, why?



* High recruitment commissions.
Not available in the market place or not available locally.
Negative promotion of manufacturing in the main stream media.

Interestingly, these results are with the current EU free movement rules in place. Issues here might therefore be regarded as 'not Brexit related'. It remains to be seen whether adopting the new global points based system could actually ease the demand for skilled manufacturers and engineers from outside the EU.

As it stands, the further reductions in corporate tax rates have been suspended and, unless the Chancellor changes this decision in his first Budget on 11 March 2020, we can expect it to stabilise at 19% for some time to come. This relatively low rate (especially compared to the past) while attractive, makes incentives through tax reliefs rather less attractive unless they are 'enhanced', as is the position with R&D tax reliefs, referred to earlier.

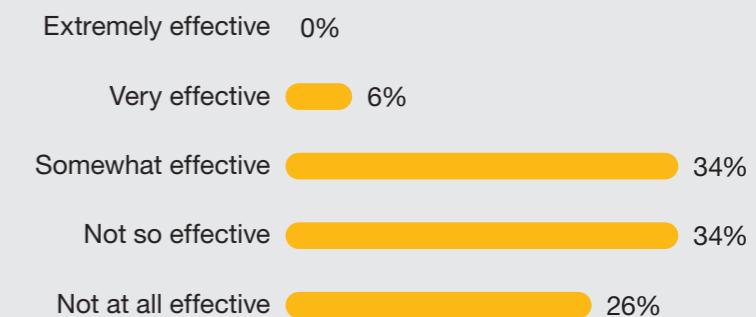
In particular, though we currently have an attractive capital allowance regime with Annual Investment Allowances (AIA) at £1 million, this still only gives a 19% cash benefit. At a time when investment in equipment and technology to make UK manufacturing competitive on a global stage is important, there is a strong argument for further enhanced incentives through either:

- enhanced reliefs or
- grant aid for suitable investment in 'Industry 4.0' capability such as additive engineering processes and robotics.

A key limitation to such support in the past has been the need to adhere to EU 'state aid rules'. Of course, this may well no longer be the case following 31 January 2020, so long as similar provisions are not negotiated as part of the EU trade deal.



How effective do you think the apprenticeship levy is at improving skills within your business?



Has your business been affected by the National Minimum Wage?



When the largest single identified barrier to growth from our respondents is a skills shortage, it is extremely concerning that 60% of respondents, at least question, the effectiveness of the apprenticeship levy in improving skills in their business.

It is unsurprising that 60% do not think they are affected by the minimum wage because the skilled labour shortage is driven by availability rather than cost.

Industry 4.0

Industry 4.0, the fourth industrial revolution, is a term that represents a number of automation, data exchange and manufacturing technologies. There are many technologies involved in this transformation, including artificial intelligence, 5G, big data, blockchain, cloud and edge computing, cyber security, immersive technology, the internet of things and robotics.

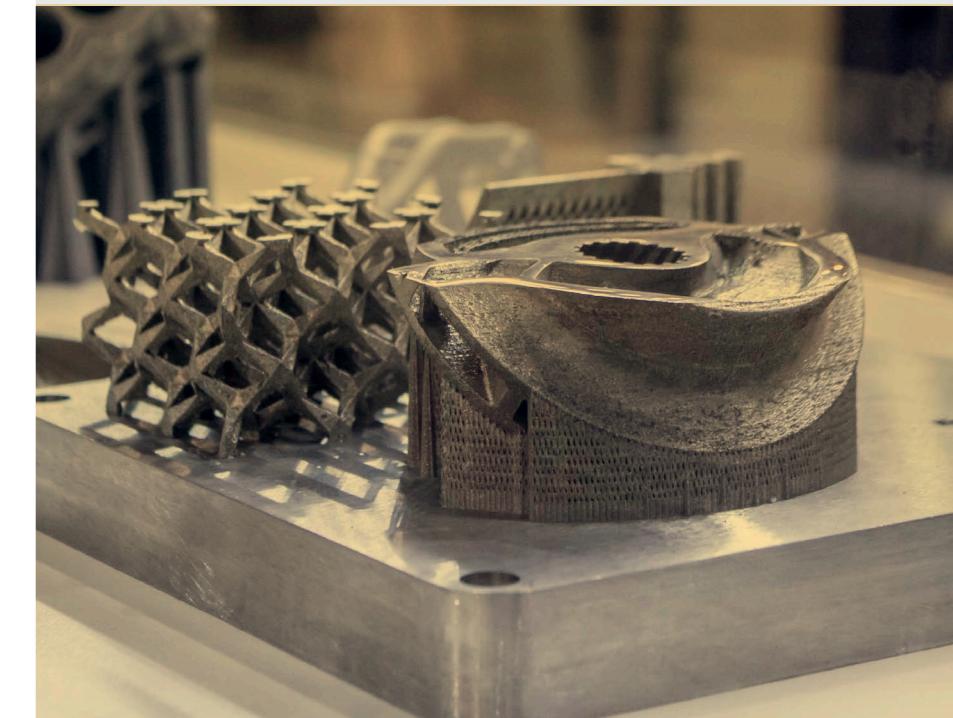
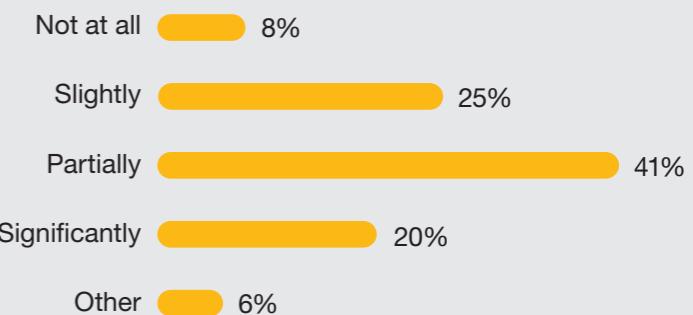


We note that just 61% of respondents thought that Industry 4.0 methods will replace traditional ones, either significantly or partially, with an indication that generational issues and inertia will have an effect.

In the light of concerns over available skills domestically, it is perhaps surprising that this percentage is not larger, if nothing else, increased digitisation and automation will go a long way to addressing the human skills shortage. Introduction of robotics and increased automation do require specific skills, but they are more easily transferrable, retained and are arguably more readily available in the new digital world which is no longer restricted by national borders.

If a manufacturer is already heavily invested in traditional reductive and human controlled engineering methods and perhaps where there is a lack of knowledge, there may be 'artificial' pressure to hold back the march of technology. In other parts of the world, where they don't have that level of inertia and maybe more technical knowledge into new processes, there may be a real competitive advantage over the UK manufacturers. UK manufacturers, therefore British manufacturers have a challenge to embrace the new manufacturing processes and methodology to future proof their business.

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



Exporting

International trade continues to dominate the news with trade wars and Brexit creating difficult trading conditions for UK importers and exporters. While weaker Sterling rates create an opportunity for exporters, it continues to make imports more expensive.

The latest statistics from the government show that in September 2019, the UK continued to be a net importer with exports increasing by 11% since September 2018, but falling by 3.9% compared to the previous year, while imports increased.

The government is continuing with its efforts to help grow UK exports and to rebalance the international trade deficit, also promote exports in the post Brexit, global economic era.

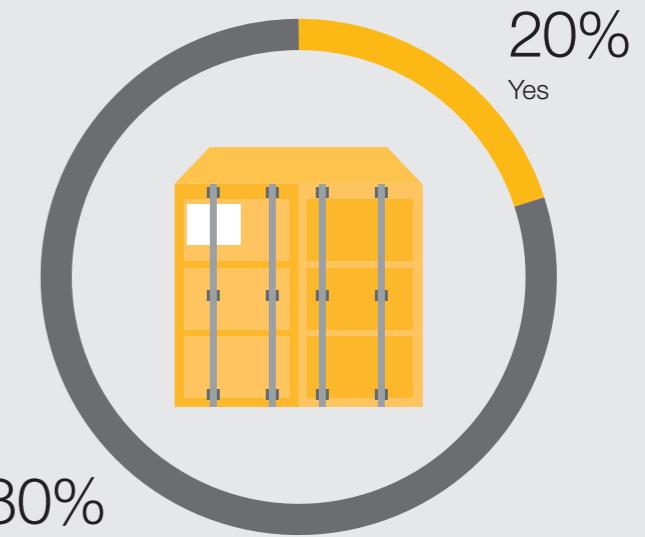
From 31 January 2020, international traders will have a lot to consider as new trade deals are struck which will alter trading relationships with existing markets while also creating new opportunities.

Manufacturers are still likely to expect the EU to continue to be a close trading partner after the UK leaves the EU. The same applies to the EU of course, as the UK remains to be the world's 5th largest economy and EU businesses will still wish to sell to UK customers too. Brexit does however present the opportunity for UK businesses to consider trading more with global markets as the UK becomes free to negotiate its own trade deals with global economies.

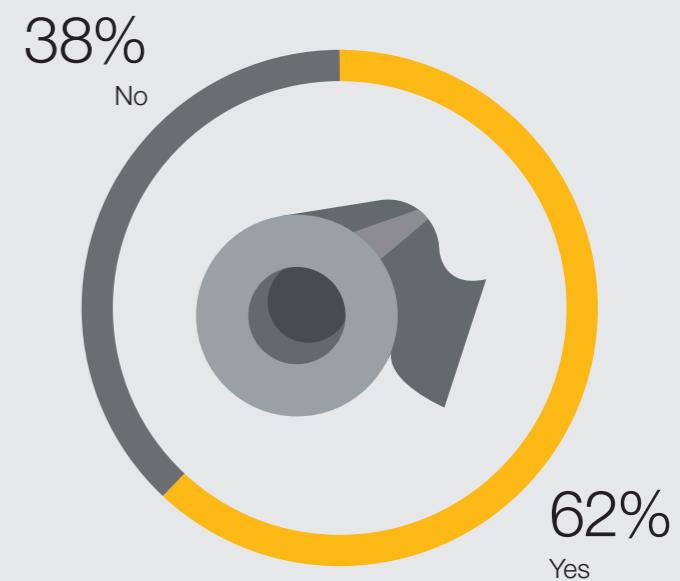
The existing incentives for exports are not seen as particularly attractive in our survey. However, an exit from the EU does present the government with opportunity to provide wider and more practical assistance to UK business, released from the constraints of EU regulation and state aid rules. There is a clear lobbying opportunity as the government seeks to make a success



Do you consider the government's incentives at to be effective at promoting exporting?



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



Funding

In an encouraging development, our survey indicated that businesses in general have positive relationships with their bankers; a far cry from what might have been regarded as a nadir in these relationships, at the time of the 'credit crunch'.

The survey indicates that manufacturers seek external advice from a variety of sources, with the largest response being that of their accountant.

The majority of financing (43%) has come from existing internal resources with the secondary source of finance coming from banks (20%), close in third is invoice discounting.

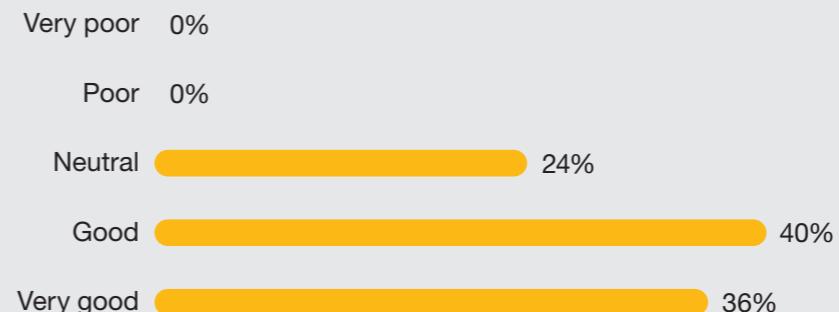
UK Manufacturing continues to be an attractive sector for banks, both in the UK and increasingly for overseas banks arriving into the UK, as well as for Fintech's. There are two distinct and important reasons behind this appeal. Firstly, from a credit risk perspective, manufacturers offer great resilience in a benign economy environment and considerable upside at a time when the sector is going through periods of technological change like the 4th Industrial Revolution (4IR). Additionally, manufacturers tend to require multiple areas of support from their bank such as day to day banking, working capital, asset finance, foreign exchange to name just a few areas where banks can be called upon.

If we look at the present pace of change and the impact of 4IR place UK Manufacturing back at the forefront globally. The university sector, the various accelerators (like the Catapult centres) and the quality and quantity of engineers we have in the UK mean we are well placed to take advantage of the huge opportunity 4IR presents.

We believe 2020 will be a growth year for UK Manufacturing as some of the macro uncertainties pass and manufacturers begin to release and progress the pent-up levels of investment that have previously been on hold.

Mike Rigby
Industry Director, Manufacturing, Transport and Logistics
Barclays Corporate Banking

How good is your relationship with your bank?



76% have a good or very good relationship with their bank.

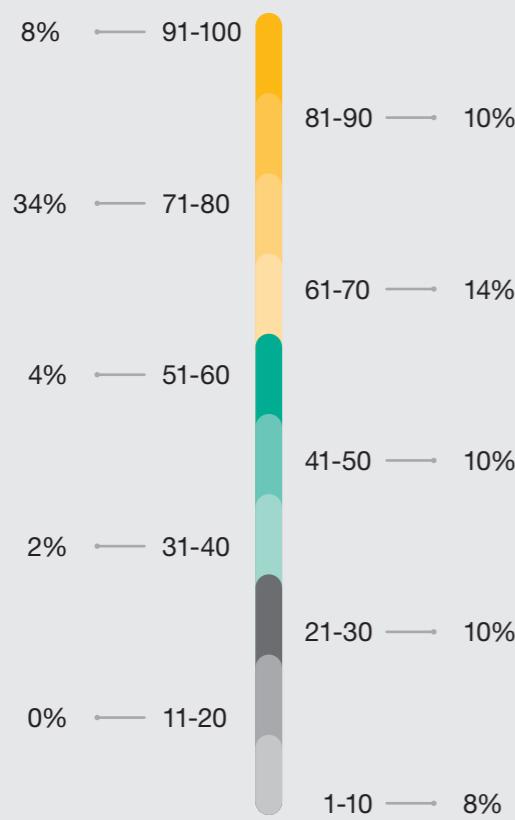
In the past 12 months, where has the majority of your financing come from?



Sales and marketing

In a period where growth, according to our survey, is generally expected, and against a tough and dynamic European and Global commercial environment, it is essential that a manufacturer's sales team functions effectively.

How would you rate your sales and marketing team's effectiveness?



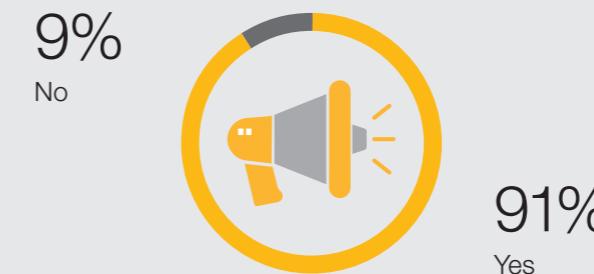
There would appear to be scope here for manufacturing businesses to seriously consider the effectiveness, adequacy and investment in marketing and sales in order to ensure success.

In an environment (as has been the case over the last five years or so, up until 2018, in at least the automotive sector), where demand from OEMs has outstripped supply, it has been all too easy for sales teams to become less of a sales team and more focused on account management and order taking.

There may well be a need for sales teams to be refreshed in skills such as business and pipeline development, sales processes and closing, in order to exploit new opportunities and markets, effectively.

The next few months and the associated challenges are likely to require successful businesses to adopt a collaborative approach using advisors, networks, colleagues and trade associations to help address challenges now and in the future, as well as achieve sustainable, successful and profitable growth.

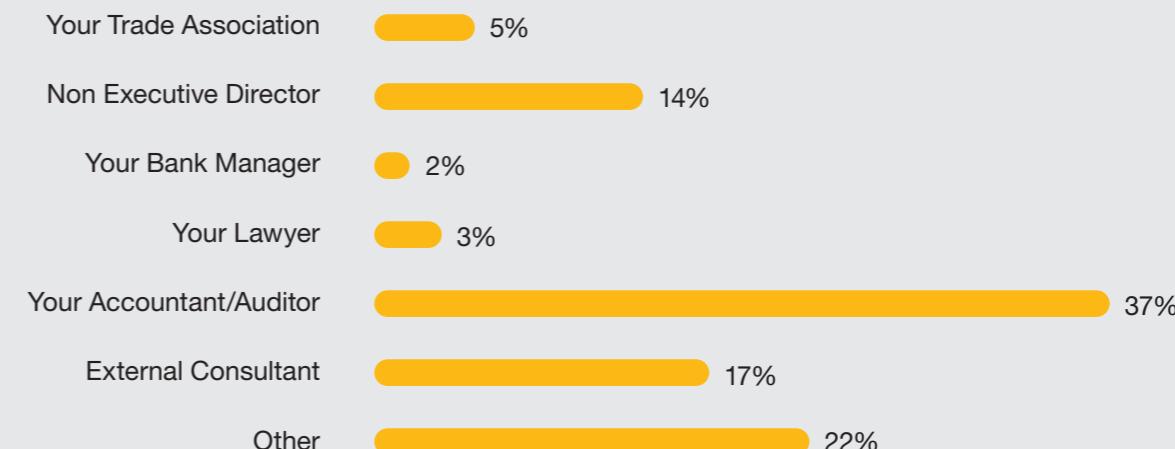
Do you have a sales and/or marketing team?



Do you provide training for your sales and marketing team?



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



Almost 50% of those with a sales and marketing team consider their team to be less than 70% effective.

We offer our clients comprehensive support and coaching in achieving their goals. If this is of interest to you, we can talk you through some of the business advisory growth tools we use with our clients to determine where they are, and where they want to be.

Our Manufacturing team

The manufacturing industry has long been an barometer of the health of the UK economy. Our specialists are passionate about the industry and focused on your future success and experience. By making smart decisions today we can create lasting value tomorrow.

We are committed to our clients

We want to be your partner in business. To achieve this, we work with you and your business, applying our technical expertise and specialist knowledge through clear, independent, working relationships. Our ambition is to be your long-term trusted advisors and help you answer tomorrow's questions today.

For more information on how we can help you please start the conversation.



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- acquisitions
- capital allowances
- R&D claims
- patent box claims
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- a wide range of other advisory services.

Crowe

We are a national audit, tax, advisory and risk firm and the UK member of the world's eighth largest accountancy network – Crowe Global. We pride ourselves on our tailored and personal service which is why we see our clients stay with us year after year. Close working relationships are at the heart of our service delivery.

Through our global network we have access to more than 42,000 people in 130 countries and across 782 offices globally.



^a Corporate Adviser Rankings Guide (2019)

^b FRC Key Facts and Trends in the Accountancy Profession (July 2018)

Start the conversation

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About Us

Crowe UK is a national audit, tax, advisory and risk firm with global reach and local expertise. We are an independent member of Crowe Global, the eighth largest accounting network 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 all the organisations and individuals with whom we work. Close working relationships are at the heart of our effective service delivery.