

MANUFACTURING barometer

SPECIAL FOCUS:
BREXIT READINESS

NATIONAL REPORT AUTUMN 2018-19

(July, August and September 2018)

Surveyed in October 2018



Contents.



BREXIT READINESS

INTRODUCTION

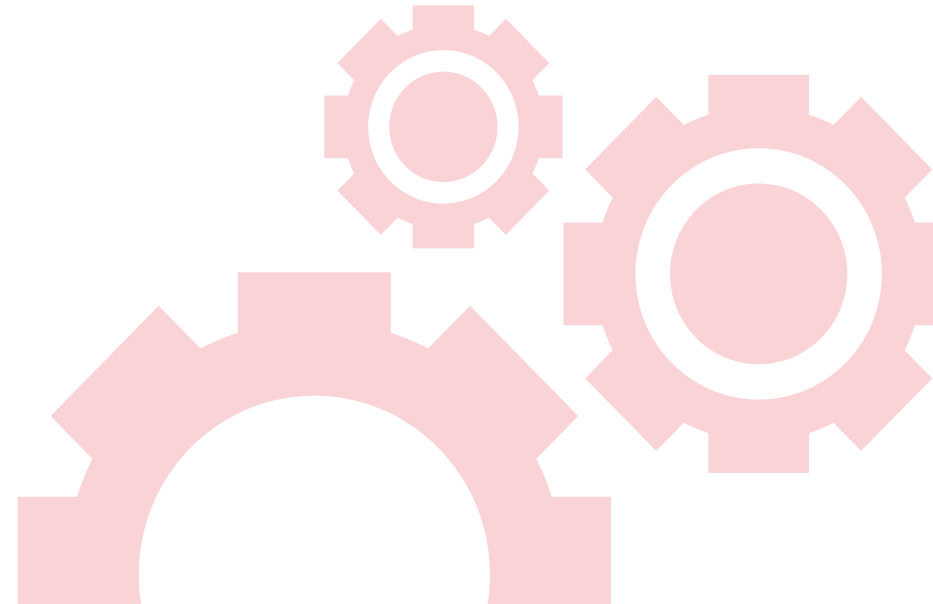
BUSINESS ASPIRATIONS

SURVEY DEMOGRAPHICS

MEASURING TRENDS

SPECIAL FOCUS

ABOUT THE MANUFACTURING BAROMETER



PAGE 2



SIMON HOWES
CEO

Exelin Group Ltd
Delivering SWMAS

Welcome to the SWMAS Autumn 2018-19 (Q2) national Manufacturing Barometer. Signalling the strength of opinion this quarter, more than 400 senior decision makers in UK SME manufacturing businesses were intent on recording their views.

Alongside the core questions on sales, profits, investment and staff levels, this quarter we asked UK manufacturers to review the 'Brexit readiness' status of their company. The findings provide vital insight into the confidence and performance, both past and forecast, of a key contributing sector to the UK economy at a time of significant uncertainty.

THE CORE TRENDS

The proportion of manufacturers anticipating growth in their business is significantly down, with Brexit and even survival clearly on people's minds.

51% of UK SME manufacturers expect their sales turnover to increase in the next six months - 13% fewer than last quarter, continuing a downward trend seen over the last year and at a level not seen for six years.

Coupled with nearly 1/5 of manufacturers expecting a reduction in sales in the run up to March 2019 and reflecting that 28% have already experienced a reduction in sales in the last six months, details of the challenging landscape now faced by UK manufacturers emerges.

The picture worsens when we look at expected profits. Just 39% of manufacturers anticipate an increase in profits and 24% are actively looking at a reduction in profits, in the next six months. Again, these are the lowest forecasts we have recorded and a likely reflection that manufacturers expect to face additional costs in the future.

This reduction in confidence is also evidenced by just 37% of manufacturers stating they will increase the investment in their business (dropping from 52% last quarter), and only 34% aiming to employ more staff (a fall of 12%).

As manufacturers put the brakes on employing more people and investing in machinery and equipment, we look to where their aspirations lie. Although some are clearly placing themselves in survival mode, UK manufacturers still have the determination to grow with many looking at ways to change and adapt. Intentions to export, develop new products, control costs, invest in their existing staff, improve their efficiency and productivity and other changes to business strategy emerge as ways to generate sales and improve their profitability. Brexit and the lack of clarity it brings is certainly a significant factor in the concern manufacturers have for the future of their business.

SPECIAL FOCUS: BREXIT READINESS

Over half of the UK SME manufacturers surveyed predict that Brexit is detrimental to their business in the short term or threatens their survival. Compare this to 36% saying they are confident or optimistic about the new opportunities ahead.

With more planning for the risks than opportunities, and with around 15% with no plan at all as to how to approach or manage the impact of Brexit, this validates the concern that Brexit could damage some UK SME manufacturing businesses.

Further exploring manufacturers' readiness for the impact of Brexit, the most striking discovery is that some manufacturers are

stockpiling raw materials, and, in some instances, their finished products. Concern about their supply chain is also expressed through intentions to strengthen existing relationships and work more closely with their suppliers, or develop new, non-EU or UK-based, supply chains.

This approach is also reflected on the customer side. Manufacturers say they want to develop a closer relationship with their existing customers, whilst also seeing a need to increase their customer base with some particularly focusing on the domestic market.

CONCLUSION

Driven by a lack of clarity around what Brexit will actually mean and how the transition arrangements will work, there is a strong sense that many manufacturing businesses are battening down their hatches to weather a potential storm.

Others are taking a pragmatic approach where ever they can. In the absence of a full picture of what Brexit means, we are encouraged to see manufacturers making plans around the things in their control: export, investment in their existing staff, improving

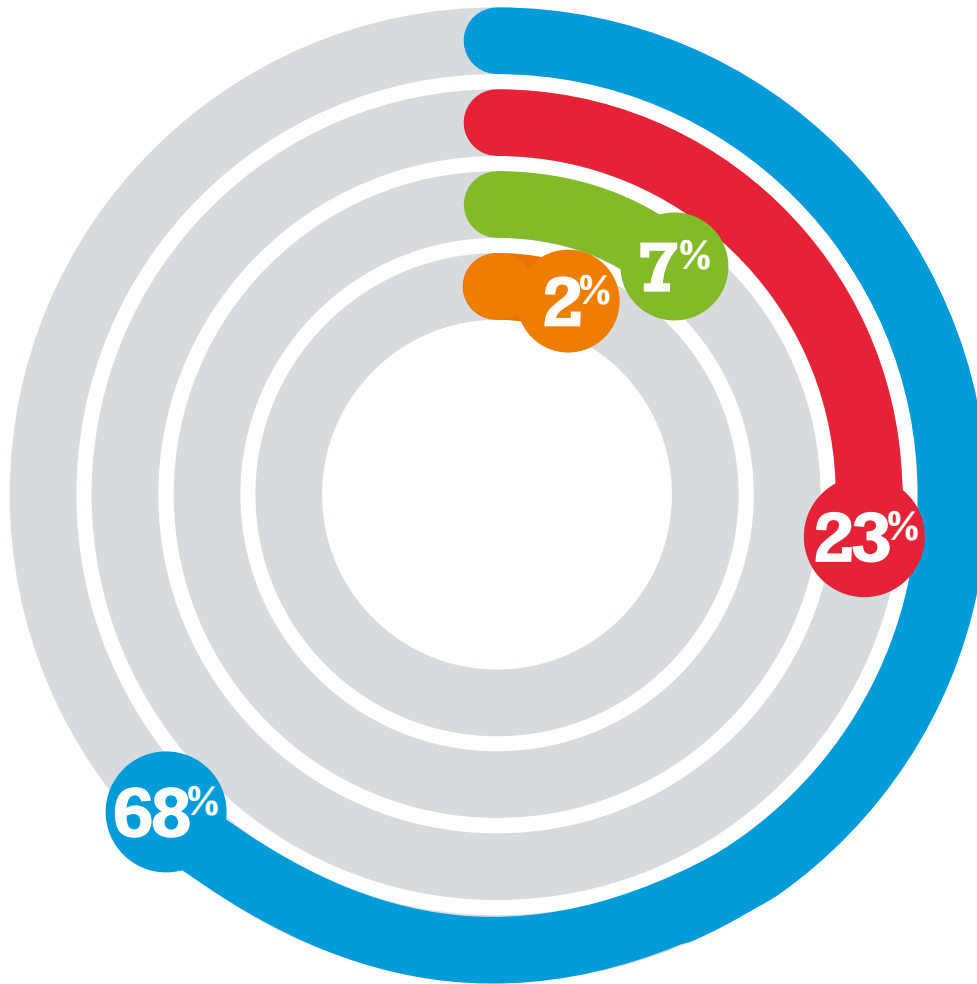
efficiencies, strengthening relationships with their customers and suppliers, and increasing stock being some examples.

In a quarter that reveals the lowest ebb of confidence since the Manufacturing Barometer was created in response to the 2008 downturn, there are opportunities that can help SME manufacturers survive and maximise their profitability through what many expect to be a challenging time.

For more information and support contact the SWMAS team at info@swmas.co.uk or phone 0845 608 3838.

Read on for more about the Manufacturing Barometer results...





Over 90%
of respondents are:

- > **MANAGING DIRECTORS & CHIEF EXECUTIVE OFFICERS**
- > **DIRECTORS**

Individuals with the highest level of strategic responsibility within their business



Business Aspirations.

"Growth in new markets to offset the probable lost markets in Europe."

WALES

"Short term - consolidate staffing levels.
Medium term - utilise existing staff better during busy periods.
Long term - get another apprentice."

"To survive Brexit over the next 18 months and hopefully move on to bigger and a brighter future."

NORTH EAST

"To survive Brexit over the next 18 months and hopefully move on to bigger and a brighter future."

"Growth next 12 months. Brexit could halt it because of confidence."

NORTH WEST

"Export growth short, medium and long term. At present business development in the EU is impossible due to Brexit. Thus we are forced to concentrate of the Rest of The World."

"Improve productivity. Improve work processing, improve product and process. Improve profit."

"Increase in overseas sales with dedicated sales member. Manufacturing for other local companies."

"Build upon the foundations we have laid, increasing our customer base and offering a wider range of product."

SOUTH WEST

"We have been going for 42 years, we have recently moved to larger premises and are now looking to expand further, we have invested in the very latest CNC machinery. We hope that the Brexit deal does not cause us a problem with the supply of raw materials or increase costs."

"Manage Brexit through our Polish company and manage transport links and supply chains successfully into the EU and US."

"We hope to grow by 10% per year but difficult at this moment."

EAST MIDLANDS

"Consistent organic growth, 6-10% p.a."

"We hope to trade steadily in UK but are considering setting up an EU legal entity and move our focus overseas."

LONDON

Business Aspirations.

"Concentrate on increasing margins through efficiencies."

"Looking to do business in America or Australia."

"Continuous growth with the introduction of new products."

YORKSHIRE & HUMBER

"Trying to invest for growth. It's staff that is the difficulty in obtaining. The govt has no education policy to deliver the qualified people that the economy needs."

"New growth strategy going through implementation to significantly expand the business particularly with international sales and our operations in USA and Asia."

EAST OF ENGLAND

"Current move to new site, 3 times larger than the old one. New machines delivered/ soon to be delivered to increase capacity by over 40%. Continued growth."

"We are currently exceeding our growth targets both in the UK but more importantly in the US...I have been focusing on the US as we have no idea what is going to happen to our UK business if we have a hard Brexit and as many of our [...] parts and other items are made in Europe we are having to put more money into stock and are looking at warehousing finished stock in Europe and New York state. My aspiration is to grow the turnover to over 10million sterling in the next 5 years."

"To develop or train staff to fill skills gaps that we are experiencing thus allow us to grow the business in the medium to longer term."

WEST MIDLANDS

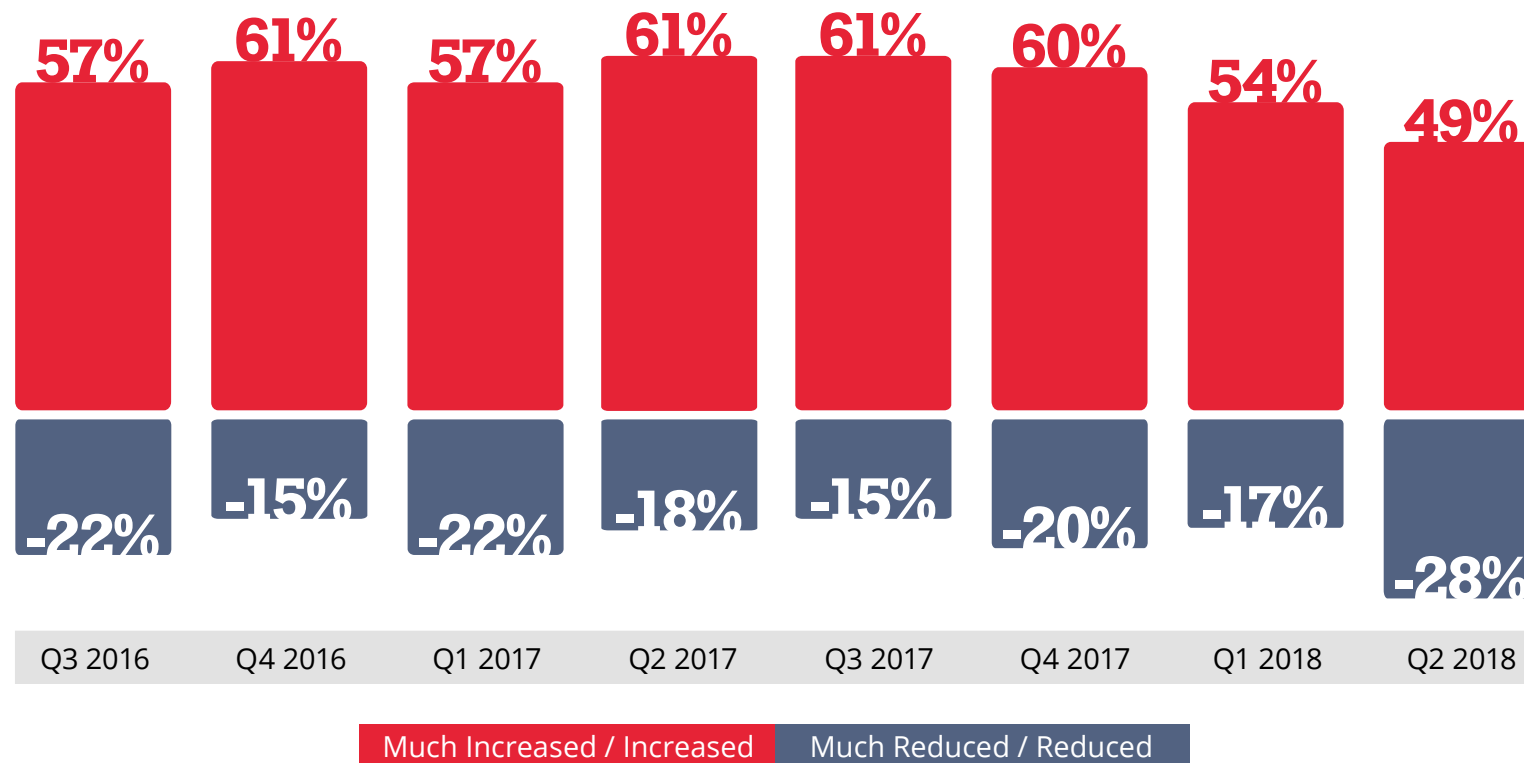
"We have been working towards export but are now looking to the far and middle east rather than Europe until we know what's happening with Brexit."

"We have new products in the short and medium term. Short term we are looking to consolidate until the effects of Brexit become clear...We would hope to continue our steady growth, but this is uncertain."

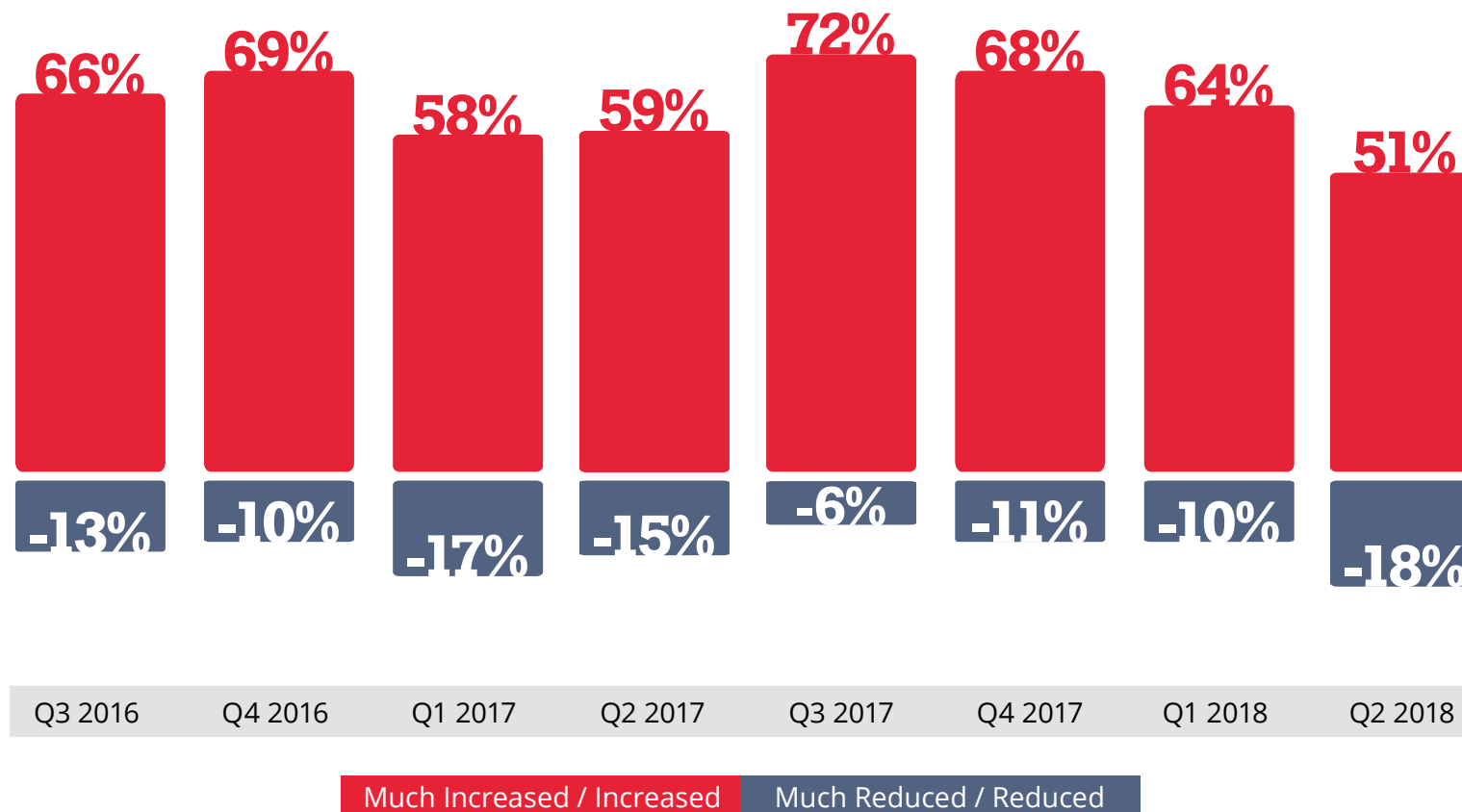
"Short term retrenchment to then re-establish and then look for growth opportunities."

SOUTH EAST

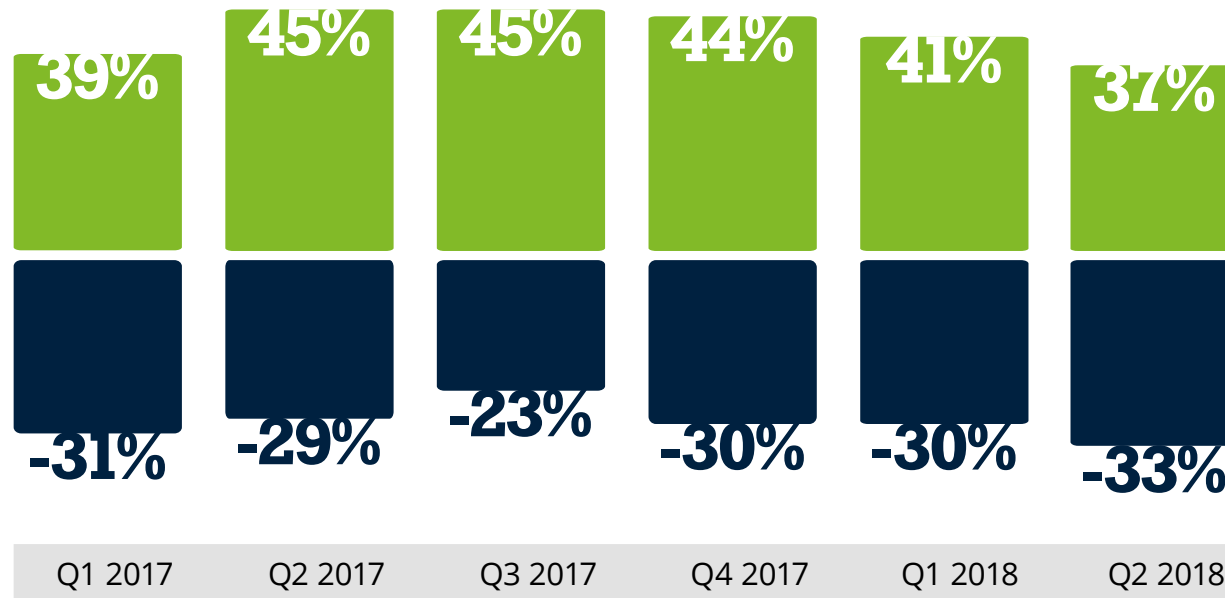
How has your sales turnover changed within the past 6 months?



How do you expect your sales turnover to change over the next 6 months?



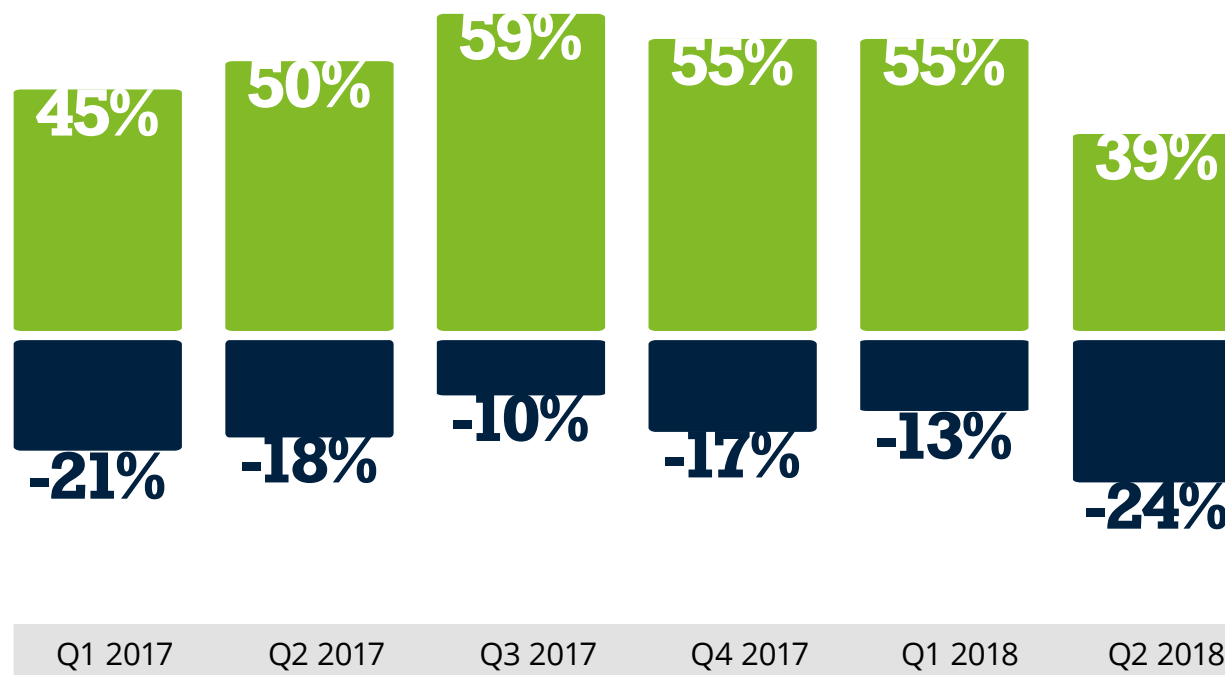
How has your profit changed within the past 6 months?



Much Increased / Increased

Much Reduced / Reduced

How do you expect your profit to change over the next 6 months?

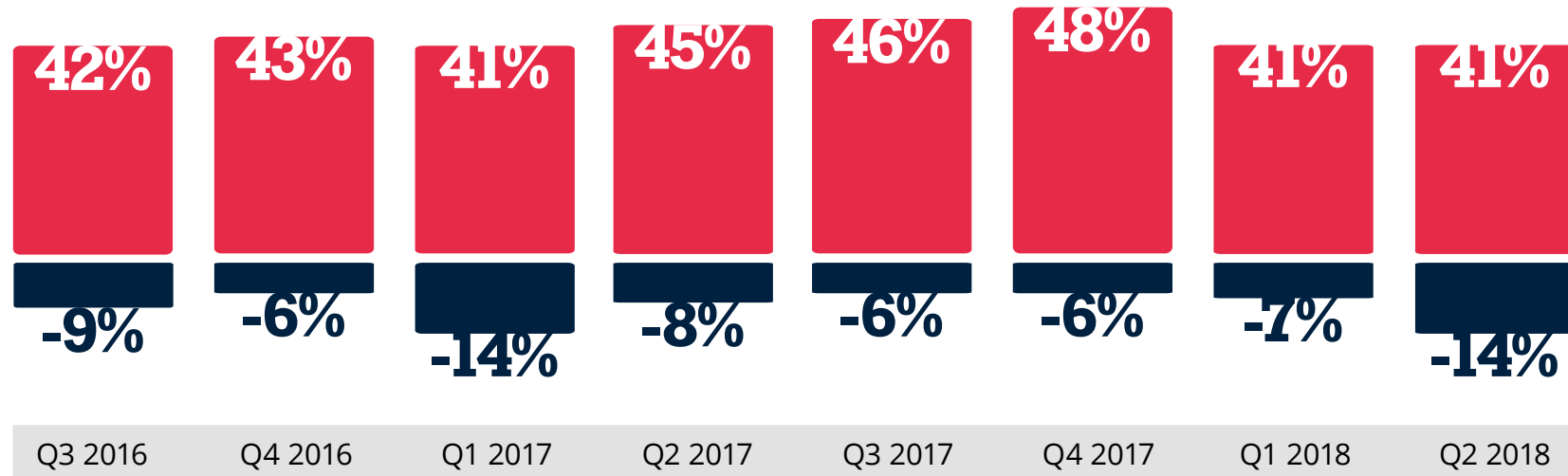


Much Increased / Increased

Much Reduced / Reduced

National Past Capital Investment.

How has your investment in new machinery/premises changed in the past 6 months?



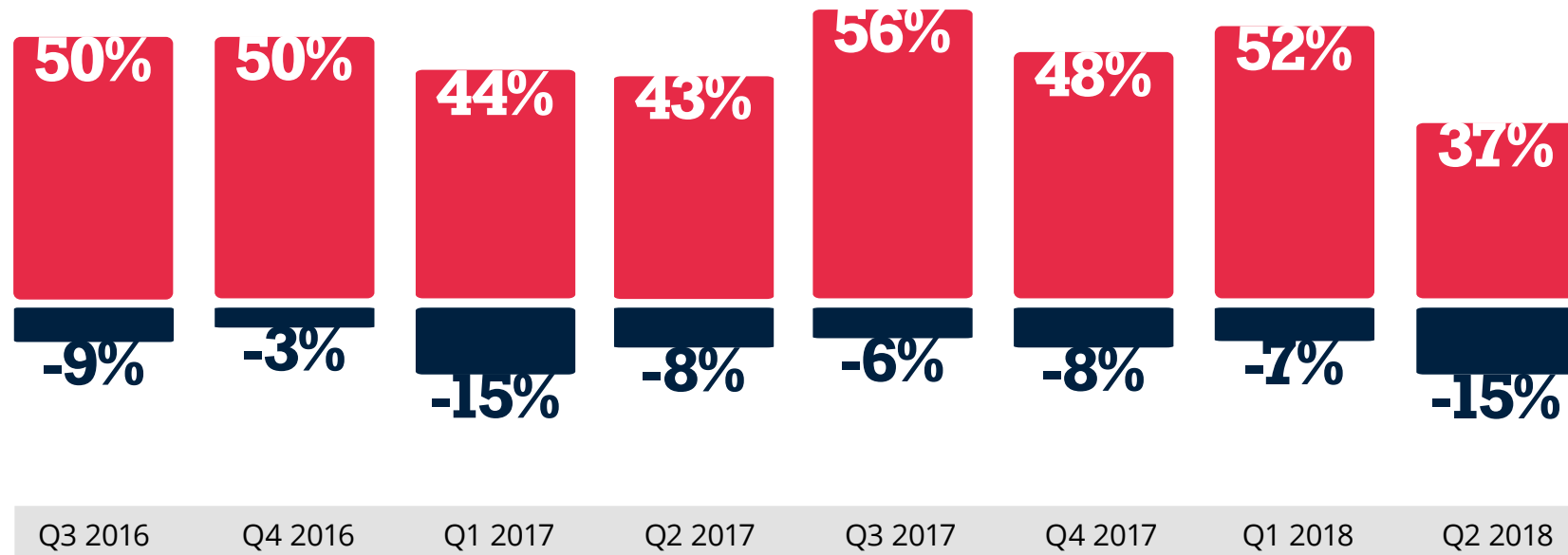
Much Increased / Increased

Much Reduced / Reduced

361 respondents

National Future Capital Investment.

How do you expect your investment in new machinery/premises to change in the next 6 months?

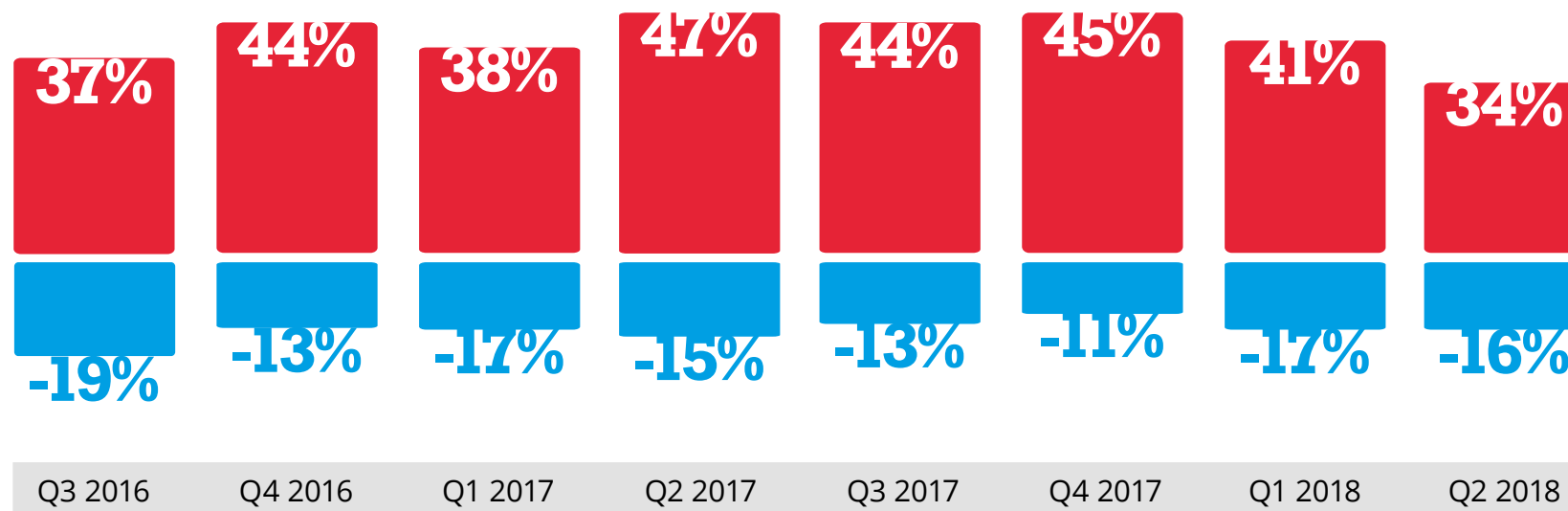


Much Increased / Increased

Much Reduced / Reduced

361 respondents

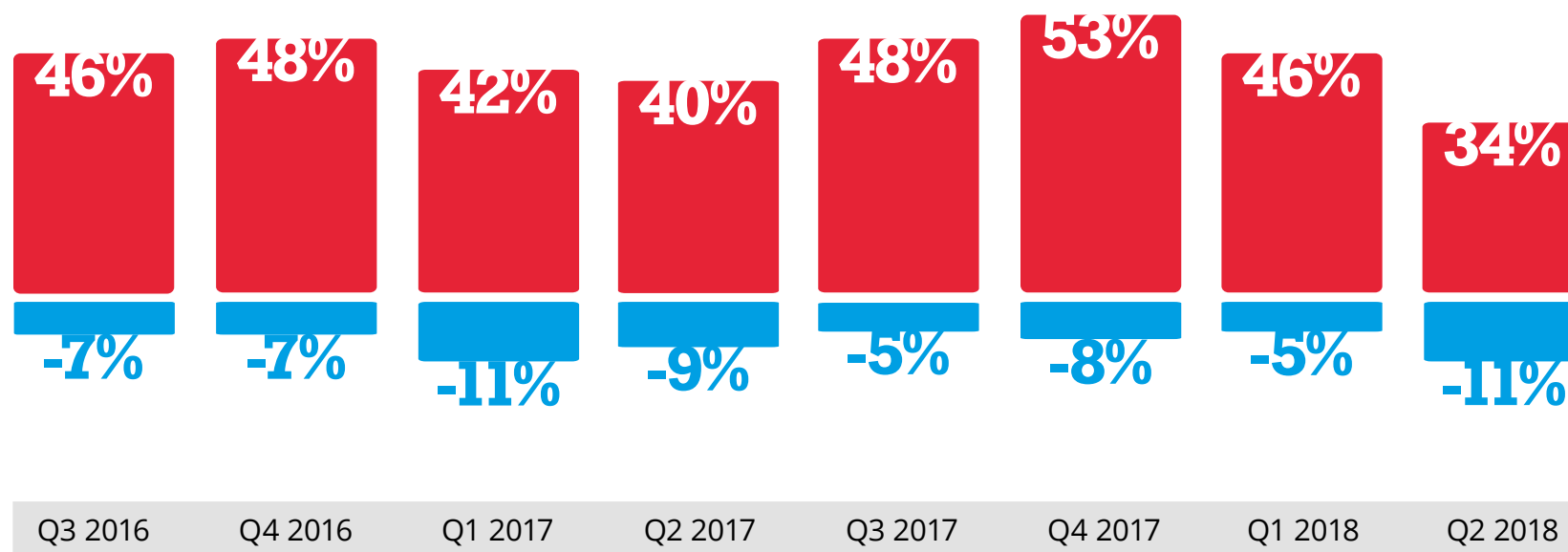
How have staff numbers in your company changed in the past 6 months?



Much Increased / Increased

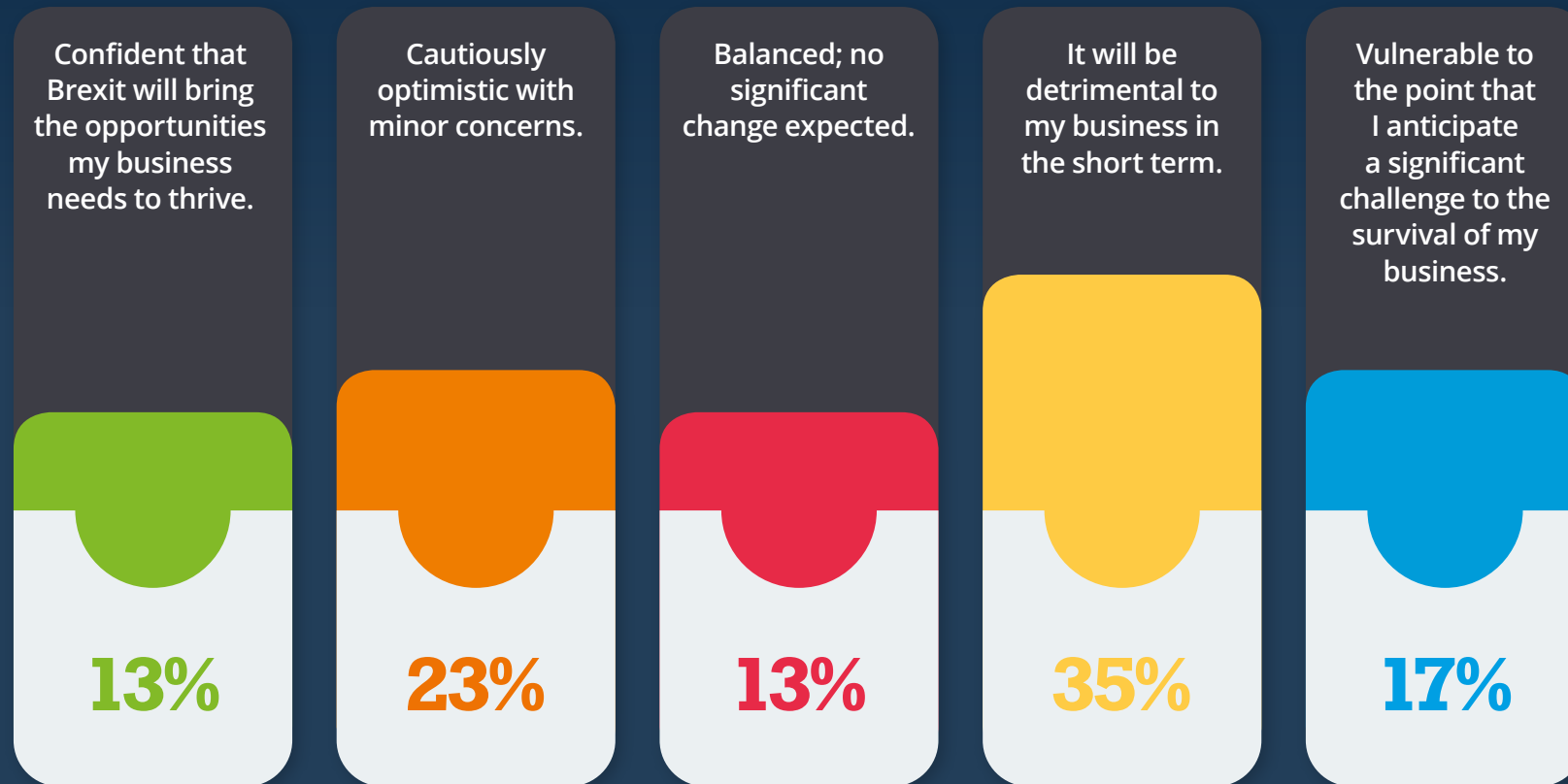
Much Reduced / Reduced

How do you expect staff numbers in your company to change in the next 6 months?



Much Increased / Increased Much Reduced / Reduced

How do you currently feel about Brexit and the impact it could have on your business?



Special Focus **Brexit readiness.**

357 respondents

I have a strategic Brexit plan in place to help my business:

**REDUCE
RISKS**

39%

**SEIZE
OPPORTUNITIES**

29%

OTHER

31%

55%

of those who answer
'OTHER' have no plan

"How can you plan for
the complete unknown?"

"No Brexit plan as we do not
know what Brexit is."

What activities are you already doing to maximise your business' performance going into the post-Brexit period?

"Have no idea what is going to happen."

WALES

"Working very closely with our major clients."

"Investment in US subsidiary."

NORTH EAST

"Looking at exporting more outside the EU."

"Increasing capacity in space, people & equipment."

NORTH WEST

"No special activities with Brexit in mind, it's business as normal."

"Increase import stock levels, push business in non-EU countries, look at alternative suppliers."

"Investing in training sales team, making systems lean, re-negotiating service contracts, consolidating relationships with existing customers."

WEST MIDLANDS

"Increasing stocks in the UK of EU-sourced materials and increasing stocks overseas of our finished products, to avoid risk of delays at ports."

"We are planning a marketing campaign and trying to source more UK material suppliers."

YORKSHIRE & HUMBER

"Working with new customers & existing customers to increase our involvement in their product."

"Looking for export opportunities outside of the EU Continuing with planned expansions of production capacity and staff numbers. Praying the government don't cock it all up."

EAST MIDLANDS

"Moving production off shore."

"Buying in overseas parts stock & discussing a plan to hold sales stock in the EU, USA & Singapore."

EAST OF ENGLAND

"Just keeping a lid on costs and trying to maximise opportunities."

"Opening a European based distribution hub for European customers."

"Increasing focus on domestic market."

"Huge investment in new IT to try to cope with worst case Brexit export handling administration and origin tracking in an attempt not to lose existing just-in-time customers. Concentrating of developing Rest of World export as new business in EU is closed to us at present. Laying plans to cope with supply chain disruption around March/April 2019."

SOUTH WEST

"We are about to apply for Approved Exporter Status & investigating Approved Economic Operator status."

LONDON

"Diversification. Battening down the hatches. Waiting to know what the trade deal will be - all raw materials are imported, so impact after March could be significant."

"Streamlining processes and expanding marketing."

"We set up a subsidiary in Germany & moved a part of our business, investment & production there."

SOUTH EAST

About the Manufacturing Barometer.

MANUFACTURING barometer

The Manufacturing Barometer is a quarterly survey that charts the experiences of UK SME manufacturers. It is the largest survey of its kind and has informed both government industrial strategy and the national debate on manufacturing.

Run by SWMAS, part of the Exelin Group, since 2009 in the South West of England and recently partnering with Economic Growth Solutions, the Manufacturing Barometer records trends in employment, turnover and investment. Each quarter, a 'special focus' explores an issue in greater depth. In the past this has included issues such as productivity, overseas production and energy efficiency.

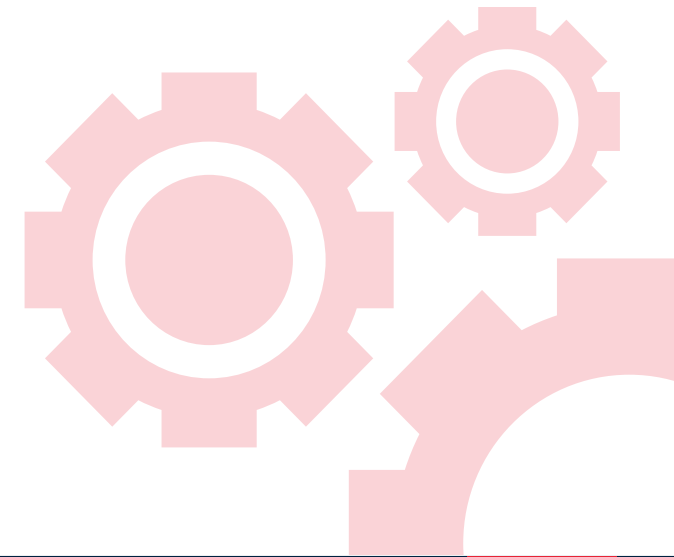
Companies are able to use this quarterly Manufacturing Barometer to compare themselves against other firms within their sector or region.

The Exelin Group are experts in productivity and growth. If you would you like one of our team to undertake a diagnostic review, helping identify opportunities in your business, or for more information on this report, please contact:

Contact us today:

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www.swmas.co.uk/knowledge/manufacturing-barometer



MANUFACTURING barometer



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