BACKING BRITAIN

A MANUFACTURING BASE FOR THE FUTURE

eef
The manufacturers' organisation

In partnership with
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INTRODUCTION

The shifting winds of globalisation have blown some manufacturing activity back to the UK's shores. Amidst the challenges the UK economy has faced, and the uncertainty that businesses and policy makers have grappled with in recent years, this is one positive trend that has risen to the top.

A steady flow of firms reorienting their activity towards the UK pre-dates the recession of 2008/09, but has provided some reasons to be confident that the UK's manufacturing base can indeed play a vital part in generating the kind of sustainable growth that we need.

The trend to reshore manufacturing – whether that is through shortening supply chains or the physical relocation of production – says something about the relative advantages of making things in different locations around the world. But our latest research concludes that the trend is also an illustration of the shifting business priorities and competitive advantage of manufacturing companies in the UK.

UK-based manufacturers capitalise on their strong brand and reputation internationally, sitting behind this is their focus on delivering high quality goods and services to their customers when they need them. These priorities are common across companies of all sizes and sectors within manufacturing.

Increasingly, every point in manufacturers' value chains must align with these objectives. That is why we see greater collaboration through the supply chain on product development and production scheduling. And why many companies have made the move overseas to be closer to the markets they see as growth opportunities.

The flow of manufacturing activity is now clearly moving in both directions. Balancing market access, cost, flexibility and responsiveness has created a stronger pull for potential investments in the UK. Supporting that, there are a number of inherent advantages in the UK business environment – good quality suppliers, ease of movement of goods into the European market and robust protection of intellectual property. Together these factors provide opportunities for new jobs, higher sales and better profit margins.

Reorganising production and supply chains is not, however, without its challenges. And for some manufacturers the UK business environment is not yet offering a compelling enough proposition for the next wave of investment or to switch away from suppliers further afield. The long-term nature of these decisions demands that government adopt the same horizons when considering policies that impact on the cost of energy, the supply of skills or our trading relationship with the rest of the world.

We want to see UK manufacturing continue to thrive and meet the needs of global and local customers. Responsibility for seeing this through lies with multiple parties – government and business need to back Britain.

MAKING IT NOW

UK manufacturers are innovative, productive, highly skilled and export focused. A self-sustaining recovery of the British economy that is built on the firm foundations of investment and trade will require a major contribution from a sector that is competitive and globally engaged.

The UK's manufacturing sector has undergone a huge transformation over recent decades, as the global economy has been remodelled by the rapid rise of emerging economies across South America, Eastern Europe and particularly Asia.

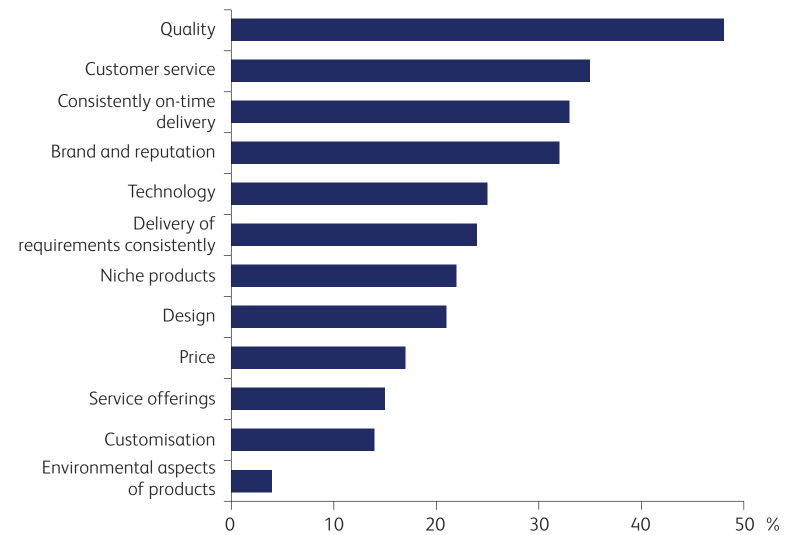
This period of sharply rising competition from low-cost producers, of an increasingly globalised supply chain environment and of significant technological advancements has seen UK-based manufacturers (some two-fifths of which are foreign owned) rise to the challenge, competing on their strengths and taking a more strategic view of their supply chains. Companies have restructured their operations away from competing primarily on price and towards a much greater emphasis on product quality, knowledge, customer collaboration and brand. In many cases this has required a focus on specific niche areas of the value chain in which companies hold a competitive advantage.

The UK manufacturing sector is a leaner version of the one in the 1980s and 1990s, but it is more flexible and better placed to adapt to a rapidly changing world. Its capital-intensive nature, international outlook and innovative focus means it has the potential to be a major driver of economic activity going forward, against an encouraging backdrop of rising business sentiment at home and abroad.

In today's manufacturing sector, an emphasis on quality and brand reputation remains key. In identifying the three main areas of competitive advantage, product quality was highlighted by almost half of all respondents in our survey, with a similar message coming from small firms and large companies alike.

CHART 1 EMPHASIS ON QUALITY AND BRAND REPUTATION

% of companies citing as an area of competitive advantage



Source: EEF/GFK Make it in Britain Survey 2014

Developing an edge in product quality is often critical in a sector that retains a longer-term focus than many other areas of the economy, and one in which it can take many years for a company to build a sustainable advantage over its competitors.

48% of companies focus on quality as one of their main areas of competitive advantage, compared with 17% that compete on price.

Because the majority of manufacturers in the UK compete primarily on quality rather than cost, the importance of retaining control over their output and offering a more responsive and integrated customer service means that many view production and a near-shore supply base as key sources of competitive advantage.

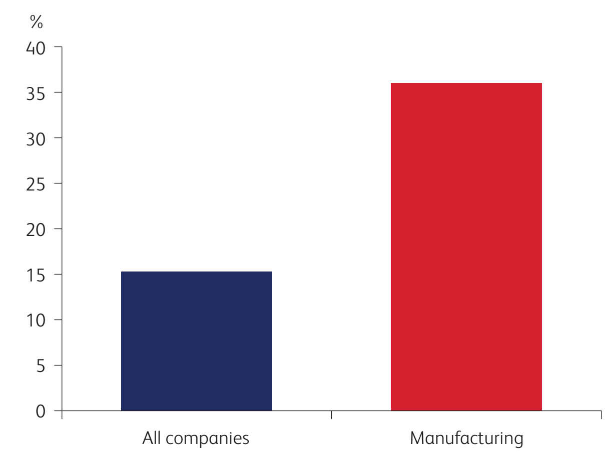
Customer service and maintaining a strong record of on-time delivery to customers are identified by at least one-third of surveyed companies as the main areas in which they compete, with smaller firms (of less than 50 employees) in particular stressing a focus on customer relations. These trends have come to the fore in recent years, when a climate of uncertainty and reduced order visibility have meant that manufacturers who could move quickly and deliver on commitment were well placed to thrive.

Manufacturing supports many businesses in the services sector. Indeed, the distinction between 'manufacturers' and 'service providers' is becoming increasingly blurred, as products and services are increasingly bundled together to provide differentiated value-added solutions. As well as the core business of 'making things', services continue to be an important part of manufacturers' businesses across all sizes, providing an additional revenue stream and the capability to help create long-lasting relationships with customers.

93% of companies agree that being flexible and responsive to their customers is becoming more important.

CHART 2 MANUFACTURING: DRIVING EXPORTS…

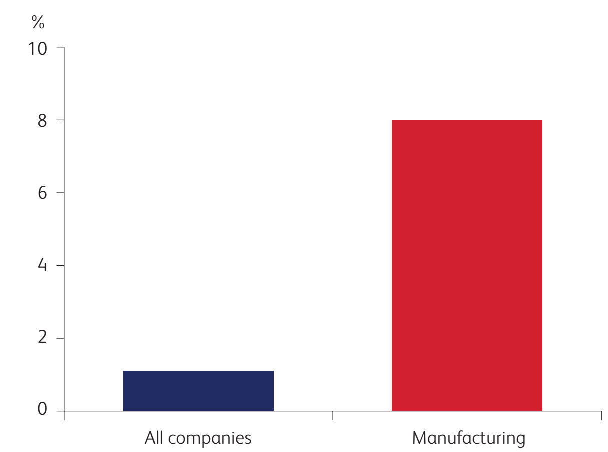
% of companies in UK that are exporters



Source: Community Innovation Survey 2011

CHART 3 …AND DRIVING INNOVATION

R&D as a % of output



Source: ONS

MAKING IT IN BRITAIN

Looking across the whole economy, the UK can, in many respects, regard its business environment as internationally competitive. We score well in global rankings, and our inward investment record speaks to these strengths.

Although the protracted fallout from the global financial crisis and deep recession will continue to present challenges to manufacturers, the UK's underlying strengths of a broadly pro-business policy orientation, a stable institutional and legal framework, a historically welcoming attitude to foreign investment and a flexible labour market will remain intact. Notwithstanding the recent sharp pick-up in economic sentiment and activity, many companies now regard a climate of uncertainty as the 'new normal'.

Nevertheless, as more of today's businesses adopt an international perspective, it is clear that investment and production are no longer constrained by geographic borders. The UK government is far from alone in trying to create a more balanced economic model of post-crisis growth, and with many countries (not least across the eurozone) now in the process of implementing long-delayed structural reforms to their product and labour markets, competition to attract manufacturing companies is becoming more intense.

The encouraging findings from our survey are that companies identify many advantages to conducting their manufacturing activities within the UK.

PRIDE IN UK CAPABILITIES

We have already highlighted the importance that manufacturers place on product quality and brand in ensuring that they have a competitive foothold in today's markets. These factors are also highly relevant when companies make decisions regarding where to locate production facilities. Some 84% of survey respondents emphasise an advantage to their business brand and reputation from the production of UK-made goods, the quality of which is held in high regard around the world. The views are consistently positive across all sizes, sectors and region of ownership. And having worked hard to establish high-value brands in the market, companies are understandably keen to protect their intellectual property. In an environment of widely differing levels of regulatory compliance around the world, more than two-thirds of manufacturers in our survey highlight the benefit of production in Britain in terms of reducing intellectual property risk.

84% of manufacturers see the UK's reputation for quality products as an advantage to being in Britain.

Access to the right suppliers is another critical factor, especially among smaller firms. More than four-fifths of companies in our survey identify the quality of suppliers as an advantage to being based in the UK. This highlights the increasing importance of close collaboration up and down the supply chain, not only with a view to shortening product delivery cycles, but also in terms of supporting product development, securing future investment and delivering on customer expectations.

BRITAIN'S LINKS WITH THE REST OF THE WORLD

Market access is always a key consideration for companies when deciding where to locate and invest. It has an influence on factors such as transport and logistics costs, supply chain management and companies' responsiveness to changing product and consumer requirements. Two-thirds of firms in our survey see an advantage of the UK as a place to manufacture in terms of proximity to customers. This reflects not only the market opportunities offered by the large, rich domestic economy (the sixth largest in the world), but also the attractions of a wealthy EU market of more than 500m people on Britain's doorstep.

The EU remains the UK's largest trading partner, accounting for an estimated 51% of all goods exports in 2013. Debate over the UK's future relationship with the EU is once again rising up the political and business agenda. Our survey indicates that a clear majority of manufacturers value the UK's continued membership of the EU, with some 70% of respondents stating that being part of the single market is an advantage to manufacturing in the UK.

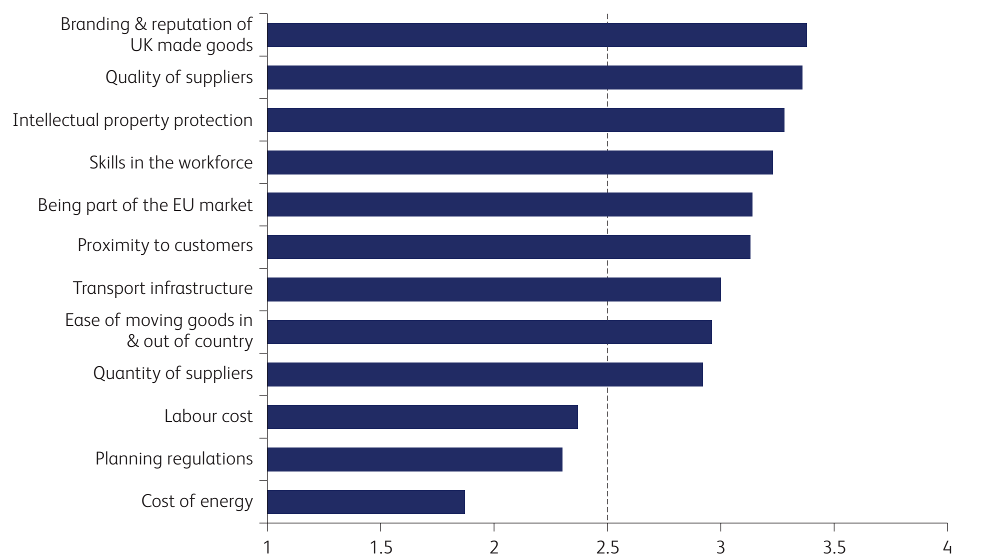
Over 80% of manufacturers believe that securing free trade deals with non-EU markets is important for their business.

This positive sentiment extends beyond simply selling to the rest of Europe; it is also about working as part of the EU to secure good trade deals with the rest of the world. The UK labour market continues to be one of the most flexible in the world, but manufacturers need flexible and skilled employees. Access to productive and skilled employees within the labour market is a key requirement for manufacturers of high-value goods and services. As firms continue to focus on innovation and bringing more sophisticated products to market, they are increasingly demanding higher-level skills. On a broad level, our survey suggests that companies view the UK in a positive light in terms of workforce skills, with almost four-fifths of respondents identifying the level of skills in the workforce as an advantage to being based in the UK.

This is not to say there is no room for improvement. Firms may be satisfied with the quality and skills of the employees they have, but EEF research and a series of government and industry reviews have consistently highlighted ongoing challenges faced by manufacturers over skills shortages, building a pipeline of talent and dealing with hard-to-fill vacancies. Quality is good, but increasing the quantity of skills would be great for manufacturers.

CHART 4 WHAT'S GREAT ABOUT BRITAIN

Average score of business environment for manufacturing where 1 = strong disadvantage and 4 = strong advantage



Source: EEF/GfK Make it in Britain survey

ALMOST 90% OF EEF MEMBERS SELL DIRECTLY OR INDIRECTLY TO CUSTOMERS IN THE EU

LOCATION, LOCATION, LOCATION

There are many positives about the UK, but competition for investment, the globalised nature of supply chains and the route-to-market advantages of having more production closer to overseas customers have all had a significant impact on the geography of manufacturing.

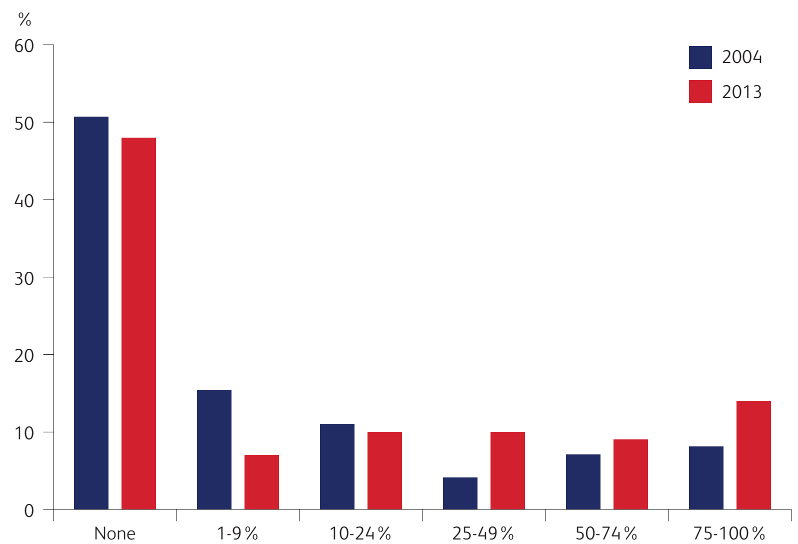
As the UK is home to many foreign investors in our manufacturing base, so UK companies have been looking outwards to invest and grow their global presence.

UK manufacturers are increasingly global and can choose the best locations in the world to design, make and assemble products in order to achieve their strategic aims and capitalise on their competitive advantage. Increasingly, this has included the option afforded by lower-labour cost economies, which provide manufacturers with opportunities to take advantage of new production and supply-chain opportunities.

Just over half of companies in our survey report having some element of production located overseas, and this has increased slightly from 2004. For companies that also manufacture in locations other than the UK, the proportion of production has increased over the past decade (chart 5).

CHART 5 PROPORTION OF PRODUCTION OVERSEAS EDGING UPWARDS

% of companies with proportion of production located overseas by year



Source: EEF/GfK Make it in Britain survey; EEF/GfK Competitive Challenges survey

44% of companies with production overseas say that their presence in that market allows them to respond quickly to opportunities there.

The average manufacturer has almost 190 suppliers.

Virtually all have some of their supply base located overseas.

One in five report that at least half of their suppliers are outside the UK.

Supply chain structures are dynamic, and the integration of low-labour-cost economies into global markets have opened up opportunities for companies to offshore with a subsequent increased dispersion of suppliers.

The number and geographical spread of suppliers will vary by company size and their position in the supply chain. However, even smaller companies can be reliant on in excess of 100 suppliers of parts, components and other services.

DYNAMIC DECISIONS

Taking together the strengths of the UK business environment and the competitive advantage of the manufacturers that are based here, the foundations of the UK industrial base look to be in good shape. But the footprint of manufacturers is ever more global. This has implications for the growth potential of manufacturing, and we have seen the effects of the more globalised nature of industry with the waxing and waning of some the UK's supply chain capacity.

There are big advantages in locating activity overseas or switching to overseas suppliers in terms of cost savings and understanding demand in other markets, but there are disadvantages too. Building close collaborative relationships can be more challenging, and there can be additional uncertainty over logistics costs and reliability as well as the additional cash-flow management requirements that come with longer supply chains.

These geographical shifts will never stand still, and while our survey confirms that traffic in and out of the UK is most definitely two way, it also puts a spotlight on particular type of investment decision – reshoring.

ARE COMPANIES RESHORING?

The short answer is yes. We are seeing a movement of production that was previously done in low-cost economies moving back to or closer to UK markets. EEF's survey shows that in the past three years one in six respondents have reshored production in house, and the same proportion have switched to a UK supplier from a low-cost country.

Reshoring is not limited to any specific size or characteristic of company, and we are seeing all sizes of firms from all sectors moving production and suppliers closer to home. However, larger companies in the transport, the electrical and optical equipment and the machinery equipment sectors are more likely to be reshoring.

One in six UK-based manufacturers has brought production back in house in the past three years.

Over the past five years there has been a slight increase in the number of companies reshoring; one in seven companies had brought production back in house in 2009.

One in six manufacturers has brought production back to a UK supplier.

A further 6% are planning to reshore – either in house or to a UK supplier – in the next three years.

UK COMPANIES RESHORING FROM AROUND THE GLOBE

The trend is affecting countries around the world, and UK companies are reshoring from all around the world. We asked survey respondents who have reshored or are planning to reshore where production has or will come back from, and the results show a wide range of low-cost locations.

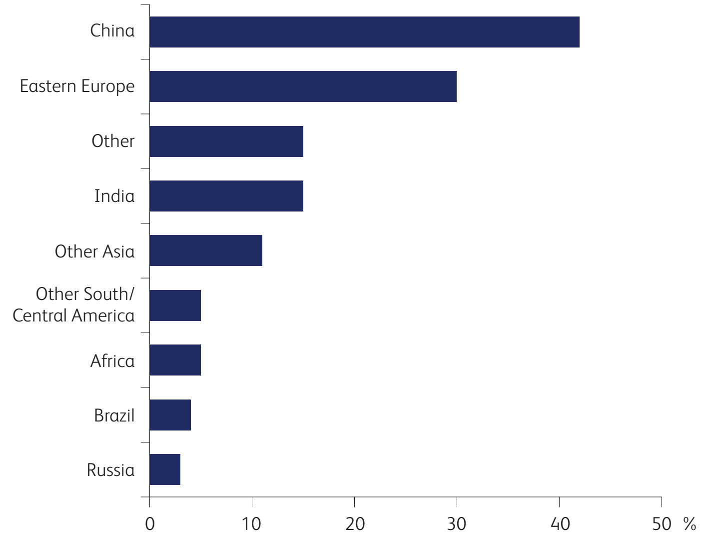
China is the most widely cited location from which production is being brought back, followed by Eastern Europe. Smaller companies are more likely to say they are bringing production back from China while larger companies are more likely to be bringing production back from Eastern Europe.

EVEN MORE COMPANIES ARE BENEFITTING FROM RESHORED ACTIVITY

The move to bring production back to UK suppliers has had a more wide-reaching impact than just those who are actively bringing production back either in house or to a closer supplier. The customers of reshoring companies are also benefitting from this trend. Of those surveyed, 37 % of companies say they have received an order from a UK-based company for a product that they have previously sourced from a low-cost competitor in the last three years.

CHART 6 CHINA AND EASTERN EUROPE TOP THE LIST OF WHERE RESHORED ACTIVITY IS RETURNING FROM

% of companies citing location of origin of reshored or planned reshored production



Source: EEF/GfK Make it in Britain survey

Case study – Martin's Rubber Company

An industrial rubber manufacturer, Martin's Rubber Company, has seen first-hand the shifting trends to and from low-labour-cost producers. The company has been part of the offshoring trend – providing a design and development service for a customer who would ultimately source the manufactured product from an Asian supplier. The firm has also seen it go wrong for customers who have put price above quality, consistency and service.

Now the company is seeing a steady trickle of customers looking to come back to the UK. Martin's Rubber Company is receiving more enquiries from companies looking to switch to a UK supplier, with the most commonly cited reasons being lead time, variable quality and communication breakdown, which Martin's, competing on technical expertise, flexible manufacturing and exceeding customer service expectations, can more than overcome. It has already secured business from overseas and is manufacturing a product in the UK which was previously made in China.

This trend could make a difference for Martin's Rubber Company, if it can balance playing to its quality and service strengths with being price competitive. Support for its capital investment plans and lower-cost energy are two policy changes that would make a difference.

WHY RESHORE?

Some manufacturers are choosing to bring activity back to the UK from lower-labour-cost economies and, like any decision on how operations are structured or how to optimise supply chains, there is not just one factor at play. Factors in the UK and overseas and the objectives of businesses themselves are all playing a role in reshoring decisions.

THE SUPPLY CHAIN TO FIT THE STRATEGY

UK manufacturers across all sectors and size groups are executing increasingly customer-centric strategies to win business in an increasingly competitive environment. With speed to market becoming ever more important and manufacturers seeking greater flexibility to respond to customer requirements, the value of shorter supply chains is on the increase.

Among the top reasons for reshoring amongst all sizes of firms is greater certainty around delivery times and shorter delivery times. According to our survey, a third of companies are bringing production back to the UK for reasons of delivery certainty and 30 % to increase speed of delivery.

With commitment to customer service and on-time delivery a source of competitive advantage for many companies, dealing with suppliers and operations across multiple locations can present a significant management challenge. This challenge has been heightened by a number of recent events and disruptions – from natural disasters and recession to international transport failures and increasingly congested cargo terminals. The additional risks to operations are reflected in the 23 % of manufacturers that are seeking to minimise the risk of supply chain disruptions by relocating activities or finding alternative suppliers closer to home. This approach can minimise these risks and build greater certainty into production schedules.

For 56 % of manufacturers, the delivery schedules from overseas suppliers do not fit with shorter order-book times from their customers.

Almost three-quarters of large companies are seeking to cut the complexity of their supply chain.

A further advantage of refocusing activity in the UK is that closer proximity to customers and suppliers can facilitate better collaboration on product and service development. Previous EEF research[1] has revealed the growing importance of collaboration with the supply chain on innovation projects and on the forward pipeline of orders. We have seen in the past the challenge that firms can face when they spread production and R&D across long distances; similar challenges can emerge when key suppliers are further afield. Some of our survey respondents – just under 10% in total – see the job of collaboration made easier by having production or supply chain capacity closer to home.

GETTING IT RIGHT FIRST TIME

Reshoring can also offer greater certainty about the quality of inputs and components. Quality concerns are a greater driver for smaller companies; over half say this is a key reason for returning production to the UK or for looking for UK-based sourcing options. Quality concerns from some overseas suppliers are not, however, trivial for larger companies: a quarter are factoring this into their reshoring decision.

In the five-year period from 2006 to 2010, the average minimum wage in China increased 12.5% per year.

A guarantee of quality is critical for a large minority of companies who report this as contributing to their competitive advantage in the market. Almost half of manufacturers believe that the quality of goods sourced from lower-labour-cost economies is getting better, with larger companies seemingly better able to secure quality improvements, but confidence that overseas operators will supply to the required specifications is not sufficient for many.

The consequences of combining the risks of suppliers shipping inputs of insufficient quality with the potential for significant delays in having the problems rectified are likely to be lost orders, the need to hold high stock levels, and damage to the company's brand and reputation. This has been enough to make the case for many that a simple cost advantage does not fit with strategies that promise to deliver more to customers.

THE COST ADVANTAGE IS NOT WHAT IT USED TO BE

A decade ago, the primary reason for shifting production overseas was to take advantage of lower costs – primarily wage costs. Recently there have been rapid increases in wages in some emerging markets. This may have been accompanied by productivity growth or high-value-added manufacturing activity across firms, but the reality of recent wage inflation means that in some cases the sums do not add up in the same way as they did a decade ago.

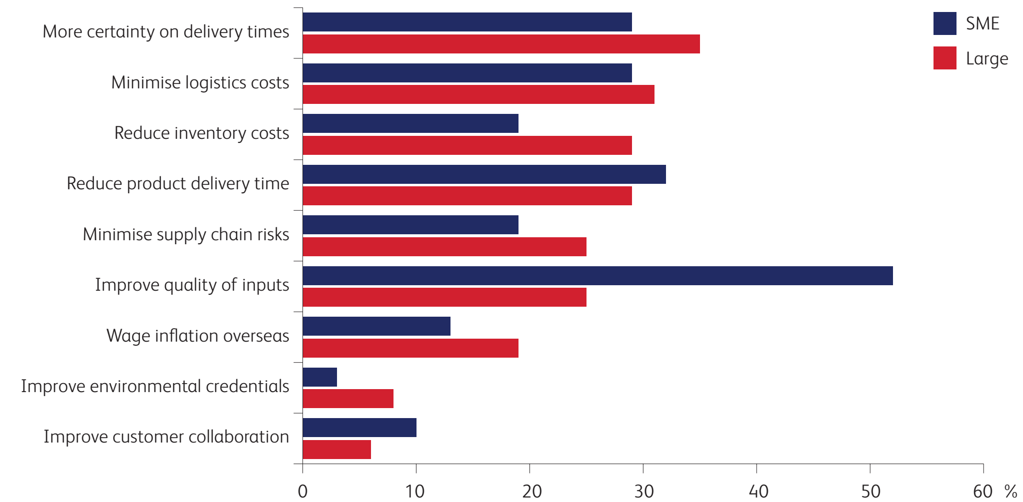
In our survey, 16% of companies reshoring cited the erosion in labour cost advantages as a key driver of the decision. However, what is notable is that this was never the sole reason for bringing production back, which highlights the extent to which strategy trumps simple price considerations.

And it is not just about labour costs; fluctuations in transportation costs have also reduced the financial attraction of long supply chains. Changes in freight and logistics costs, not to mention the costs of disruptions and delays, can have an impact on the final price of a component.

[1] EEF (2013) Innovation Monitor; Dynamic Innovation and EEF (2014) Executive Survey 2014.

CHART 7 QUALITY, SERVICE AND SPEED

% of companies citing reason behind reshoring decision



Source: EEF/GfK Make it in Britain survey

Case study – Elite Electronic Systems Ltd

Based in Enniskillen, Northern Ireland, Elite Electronic Systems Ltd is a provider of contract electronics manufacturing services to customers all over the world.

In 2005, Elite made the decision to source cables from China, which previously were manufactured in Enniskillen, with the expectation of large cost savings. After a lengthy process to select a Chinese partner, which included several trips to China and selecting, auditing and validating potential suppliers, a partner was chosen.

Initially things were good and the process ran smoothly, although even at an early stage lead times were an issue, and in order to shorten times Elite shipped components to China. However, various issues started to emerge in the course of time: product quality decreased, costs started to increase, lead times increased, shipping times and costs increased, and communication difficulties were also increasing. As a complete service provider, Elite also found that an elongated supply chain made coordination with customers difficult, and prototyping and product development was also proving challenging. The project was making small savings, but at what cost?

Concerns were further magnified during the global downturn, when a culmination of issues meant that the firm went from carrying two months' worth of stock to twenty months' worth. This resulted in cash-flow issues, component and product obsolescence, and warehousing costs.

Meanwhile, back in Northern Ireland, Elite had invested in new, more-efficient equipment and, through lean manufacturing, had developed more-efficient processes. It was clear they could now manufacture at home and still be competitive without compromising other vital criteria like quality, time to market and customer service. The company could also maintain process and supply chain control, have better visibility and minimise risks.

The decision was made to reshore.

RESHORING – WHAT DOES IT MEAN?

Companies have told us about the factors behind reshoring decisions – quality improvements and reductions in lead times and logistics costs amongst others. Some companies who have brought production back in house or back to a UK supplier also report direct benefits on their bottom line as a result.

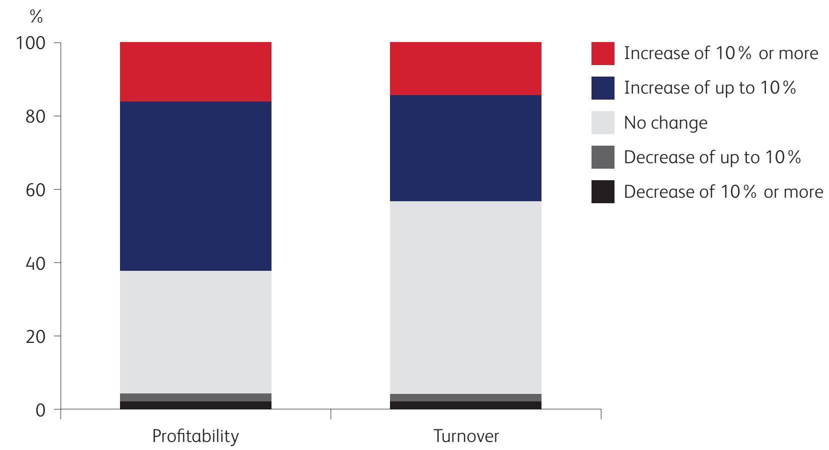
BENEFITS ON THE BOTTOM LINE

Whilst a small cohort – 3% – say that turnover has decreased as a result of bringing production back to the UK from an overseas low-cost location, just over half report that turnover has stayed the same, and over two-fifths say it has increased. The balance of benefits is positive for the reshorers in our sample but, as we saw in the previous section, the decision is about more than purely figures: customer service and reputation benefits will be seen in stronger customer relationships, at least in the short term.

Interestingly, more companies report seeing profits increase than turnover. Nearly three in five companies who have reshored in the past three years report profits increasing as a direct result, and just under a third say that profits have stayed the same. The increases in both turnover and profitability are most likely to be moderate – an increase of up to 10%; however, some firms do see increases above that proportion (chart 8). And in the time horizon of the past three years which our survey covers, these gains may not have been insignificant for some.

CHART 8 RESHORING ACTIVITY BRINGS DIRECT CASH-FLOW BENEFITS TO FIRMS

% of companies who have reshored in past three years in house or to UK supplier citing impact



Source: EEF/GfK Make it in Britain survey

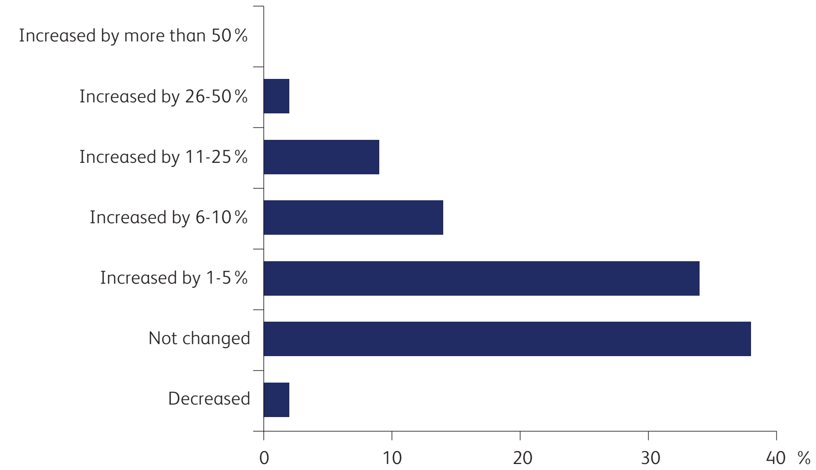
MODEST JOBS BOOST

Nearly three in five companies report having increased the number of people they employ as a direct result of reshoring work to the UK, but the majority of these are moderate rises of between 1% and 5%. A large proportion of firms report employee numbers remaining stable. The fact that a company has capacity to bring work in house may act as an additional driver when making decisions.

Technological advances in and reductions in the price of capital equipment will also contribute to decision making on reshoring and may mean that the jobs created as a result of activity are likely to be highly skilled, technical and well paid. They are unlikely to be a direct mirror of the level the jobs would have been overseas; indeed, they are likely to be of a higher level than the jobs that were offshored originally.

CHART 9 MINOR JOBS BOOST IMPACT FROM RESHORED PRODUCTION

% of companies who have reshored in past three years in house or to UK supplier citing impact of employee numbers



Source: EEF/GfK Make it in Britain survey

Case study – Caldeira UK Ltd

Caldeira UK Ltd, one of the world's fastest growing home textile companies and the UK's market-leading cushion company, has brought back to the UK several production lines that were previously manufactured in China. Rising costs of labour in China mean that the company's UK factory is able to compete with China on products with a lower-labour cost component and, as such, the products Caldeira has reshored have tended to be more expensive.

The move allows Caldeira to bring the production process closer to key markets and customers and to have more control in its supply chain. Barriers and issues arising from language and cultural differences have also been reduced. More than that, though, is the ability to add the 'Made in Britain' brand to more of its products, and customers have shown interest in new product ranges to take advantage of this brand.

While it is still too early to know the full impact reshoring has had for the company, Tony Caldeira, Managing Director, does expect the move to pay off for the company. So far Caldeira UK Ltd has taken on twenty new staff as a result of reshoring. Furthermore, as more businesses reshore and more customers look to use British-made products, UK supply chains will be boosted over time, and Caldeira expects this to translate into more sales and faster growth for the company.

A Boston Consulting Group report has acknowledged the potential impact that reshoring, and the resulting increases in exports, could have on manufacturing employment in the US. They estimate that by 2020, between 2.5 and 5 million jobs across both the industrial sector and the service sector could be created. But comparing the US with UK comes with many caveats: in addition to delivery and quality improvements identified in a US survey by A T Kearney, the US has some additional pulls for reshorers, namely a larger domestic market and a lower cost of energy thanks to shale gas.

SUPPLY CHAIN BENEFITS

It is not just companies who have made the decision to reshore who have realised the benefits. Companies in the supply chain who have received orders that were previously sourced from low-cost overseas locations also report bottom-line benefits (chart 10). Of companies who report increases in profitability or turnover, the majority say it is moderate of up to 10%. Small and medium-sized companies (with between 1 and 250 employees) are more likely than larger companies to say their turnover has increased; however, profitability increases are similar across the board.

Over half of companies report their employee numbers rising as a result of winning reshored work, but again this is most likely to be moderate, with the largest proportion of companies saying gains of between 1% and 5% have been seen.

BENEFITS FOR BRITAIN

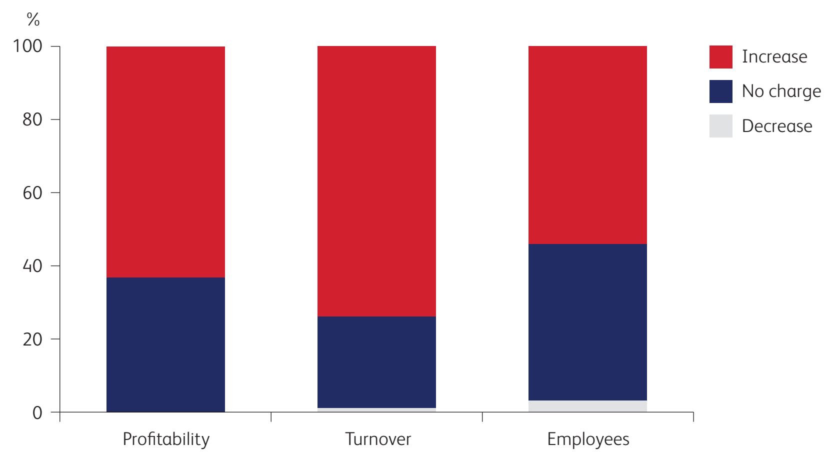
A successful manufacturing sector investing in opportunities in the UK and providing an anchor for key supply chains is of benefit to the UK. The turning tide of investment decisions back to the UK is, first and foremost, helping firms to cement their competitive advantage. Increasing sales, rising profitability and the creation of skilled jobs are critically important for our economy. While these trends will not be transformative to many closely watched economic indicators, they provide confidence in the UK's ability to be nimble and responsive in a changing global environment and confidence in the capabilities of our industrial base.

But as we have already highlighted and will discuss in more detail in the next section, the UK is in competition: it is therefore not the natural choice for reshored activity for everyone. We are part of the European market, and when companies are looking at suppliers and investment opportunities closer to home, both Western and Eastern European markets can be just as attractive propositions.

We began by setting out how investment decisions are evolving with the shifting trends in the rest of the world. While we should be keeping an eye on Britain's place in this, it is clear that market opportunities, capabilities and capacity will all continue to grow in countries that we now consider to be low cost. In our survey, 31% of firms say they expect a higher proportion of manufacturing activities to take place outside the UK in five years' time, while 44% say this will not be the case.

CHART 10 COMPANIES IN SUPPLY CHAIN BENEFITTING FROM WINNING ORDERS

% of companies who have won work previously sourced in an overseas low-cost location change in firm level attributes



Source: EEF/GfK Make it in Britain survey

Some companies are bringing production closer to the UK – to Western Europe (9%) or Eastern Europe (12%).

48% OF COMPANIES SAY THE QUALITY OF OVERSEAS SUPPLIERS IS IMPROVING

RESHORING CHALLENGES

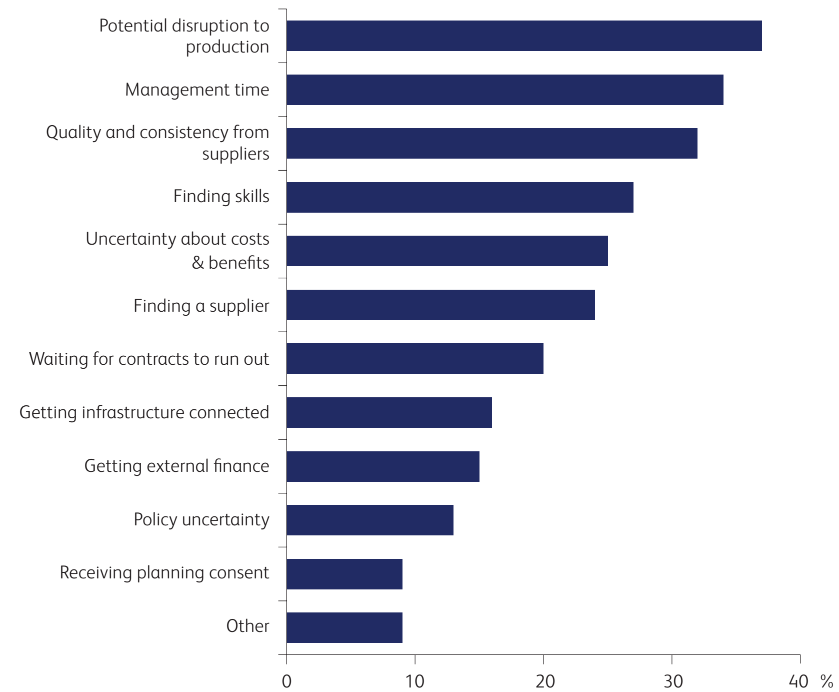
Moving production across borders, whether this involves shifting facilities or sourcing suppliers from other countries, is not without its challenges. Our survey shows that the problems faced in bringing production back to the UK range from management and contractual issues to certainty about long-term returns from committing investment in the UK.

Chief among the challenges manufacturers have to overcome when reshoring are:

- **Production disruptions:** Changes to production can cause costly disruptions and impact meeting customers' requirements. The highest proportion of companies – 37% – identify concerns about production disruptions as a challenge when reshoring.
- **Management time and effort:** When trying to keep the rest of a business running, the additional strain on management of assessing the case for reshoring and then implementing the changes can be a hurdle. Just over a third of companies that have reshored or are planning to reshore in the next three years identify the burden on management time and effort as a challenge.
- **Supply chain concerns:** In many cases, reshoring causes changes throughout the product supply chain. Finding suitable local suppliers that offer the quality and consistency to support a company's production and reputation is vital to realising the benefits of reshoring. A third of companies surveyed say finding quality and consistency from local suppliers is a challenge, and a quarter identify finding a suitable supplier as a challenge when reshoring.

CHART 11 RESHORING CHALLENGES

% of respondents identifying challenge when reshoring



Source: EEF/GfK Make it in Britain survey

DISADVANTAGES OF MANUFACTURING IN THE UK

As well as managing challenges, manufacturers must weigh up the benefits and costs of shifting production to the UK. Advantages of manufacturing in the UK were discussed in more detail on page 5, but the UK is not without its disadvantages – some of which are acting as growing constraints for companies looking at opportunities in the UK.

Manufacturers see the key disadvantages of manufacturing in the UK as being:

1. **Cost of energy:** More than seven in ten manufacturers see the cost of energy as a disadvantage. UK companies have faced prices that are higher than the European Union median (excluding the UK) in seven out of the last nine years. And energy prices in both the EU and the UK are significantly higher than those in the US.
2. **Labour costs:** Manufacturers face strong competition to access the skilled employees they need. With four in five manufacturers currently experiencing recruitment difficulties, they are offering enhanced pay packages to attract workers into their companies. In addition, they continue to face costs relating to employment regulation and, increasingly, costs associated with pensions, including the roll-out of auto-enrolment.
3. **Planning regulations:** More than two in five identify this as a disadvantage. For companies looking to expand or develop greenfield sites, it can be challenging to navigate the planning system and time consuming to obtain results.

SCOPE FOR POLICY TO PLAY A PART

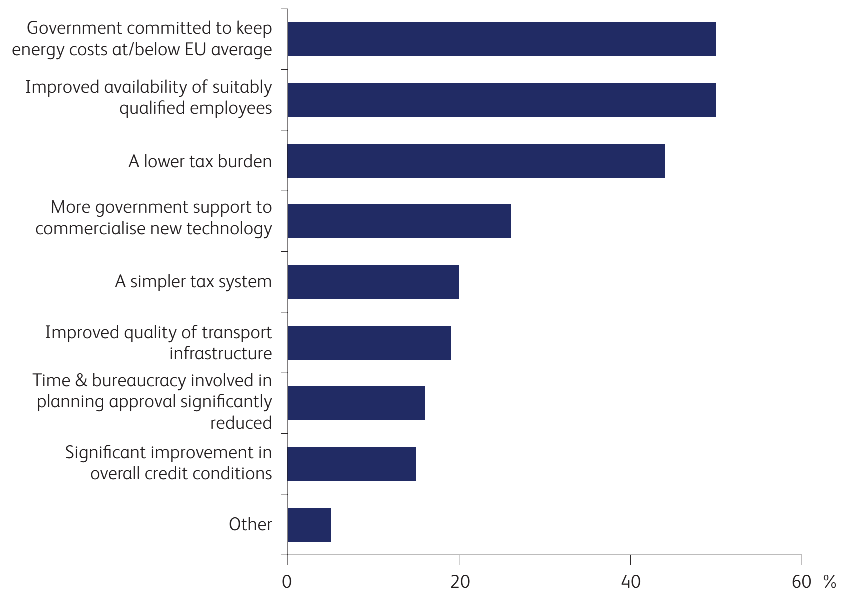
The UK is not the only country that is looking to attract and retain business activity and investment. In the constantly changing global environment the government needs to play its part in ensuring that the UK is and continues to be a competitive and attractive place to do business.

We asked manufacturers what policy changes would encourage their company to expand manufacturing activity in the UK. Not surprisingly, these policy priorities match some of the long-term challenges that manufacturers face, and they relate to the cost of doing business and the availability of the right skills and support.

Committing to keep energy costs at or below the EU average and improving the availability of qualified staff to make the UK a more attractive base to expand manufacturing activity: these topped the list of policy changes that would encourage companies to expand in the UK, with half of survey respondents saying they would make a difference. Lowering the tax burden, which impacts on how much and where companies choose to invest, was said to be likely to encourage more manufacturing in the UK by 44% of respondents.

CHART 12 COSTS OF DOING BUSINESS AND AVAILABILITY OF SKILLS KEY

% respondents saying change likely to encourage manufacturing activity to expand in the UK



Source: EEF/GfK Make it in Britain survey

BACKING BRITAIN – OUR MESSAGES

In this report we have highlighted many strengths of the UK's industrial base and the actions that companies are taking every day to compete and grow in the UK and in markets around the world. As an economy we must not lose focus on the important role that manufacturers are playing in supporting a durable recovery and providing well-paid, skilled employment. Companies and policy makers alike can keep this momentum going and act to capture as much of this value in the UK as we can.

MESSAGES FOR POLICY MAKERS

1. **Think long-term**
   Developing new products, fostering new suppliers and investing in new capacity deliver returns measured in years for many businesses. Government decision-making in key areas such as tax, skills, climate change policy and our relationship with Europe must become more aligned with the reality of manufacturing investment cycles.

   Manufacturers need certainty that UK policy makers will work relentlessly to keep the business environment competitive by:

   – Reducing domestic energy taxes that make industrial electricity prices more expensive than the rest of Europe.
   – Making continued progress on reform of the skills and apprenticeship infrastructure to deliver a genuinely demand led training system.
   – Providing certainty over future business tax reforms, including a review of the capital allowances regime.
   – Being clear about reform priorities in Europe and leading a coherent and informed debate about the UK's place in the EU.

2. **Commit to greater consistency across departments**
   We want more reshoring, more investment, more jobs and more profitable, growing businesses. If all of government can agree on the destination for our economy, there must be more consistency in policy making to ensure that there is ongoing progress towards a globally competitive business environment.

3. **Sell the UK's strengths**
   UK manufacturers are passionate about the brand and reputation of the products they make here. As an economy we have made great strides conveying the message of quality and service around the world – from major trade missions to global sporting excellence. Policy makers must continue to back Britain overseas and ensure that manufacturers have the support they need to capitalise on international opportunities.

MESSAGES FOR MANUFACTURERS

4. **Be vocal about manufacturing**
   The view that manufacturing is a critical component of the UK's future growth path has entered the mainstream. Manufacturers must keep being vocal about industry's successes in order to attract the right people, secure the right business environment and promote the right profile in major markets.
   - Take opportunities to be vocal about employment opportunities in industry by speaking to local schools and at careers events.
   - Raise the importance to your business of issues such as EU membership, the cost base in the UK and support for investment and innovation by being vocal to local MPs and MEPs.

5. **Be a great customer and a great supplier**
   Manufacturers are working more collaboratively through the supply chain to minimise risks, respond quickly to emerging needs and balance quality and cost. Better visibility and strong customer relationships are just some of the benefits that stronger supply chains can bring. But by replicating best practice as a customer signalling order pipelines and investment plans and paying on time, and as a supplier, delivering on time and to the right specification first time, our manufacturing base can be strengthened further.

SQUIRE SANDERS VIEWPOINT

With a long history of working with global manufacturing businesses, we know the strength of the sector and its economic importance to the UK economy and its place within the international arena.

Flexibility has always been integral to the success of UK manufacturing and companies have started to look at re-shoring to better control the quality of their products, improve the reliability of the supply chain and ultimately deliver increased profits.

However, the decision to move production across borders is not a straightforward one. This report highlights certain challenges for businesses that our specialists – whether in corporate, tax, employment, or property matters – have been working closely with clients to resolve in innovative but practical ways.

The issues surrounding re-shoring are familiar to us. For example, energy costs are a key consideration for businesses selecting a production site and in the US a steady decrease in energy costs has given re-shoring greater momentum. While higher energy costs in the UK have hampered those looking to re-shore, our team can work with companies to keep costs down, or at least stable, through advising on alternative energy sources.

Beyond addressing the cost of energy, there are many other critical issues for companies looking to re-shore including:

- **Accessing finance,** whether bank funding, equity investment or through investors, some of whom are already demonstrating a commitment to backing specialist engineering and manufacturing businesses.
- **Workforce issues** including the cost and sourcing of labour, pensions and tax. The government's review of employment law, in conjunction with the Red Tape Challenge, aims to improve the flexibility of the country's labour market, and its revision of TUPE regulations is particularly relevant. Any UK employees who are recruited as a result of re-shoring need to be auto-enrolled into a pension plan. This needs to be factored into any cost-benefit analysis, as an employer will need to meet pension contributions for the majority of recruits. Similarly, the tax consequences of employing a new or expanded workforce are an essential consideration as the government strives to balance its drive to minimise tax avoidance with possible incentives to attract investment.
- **The real estate and environmental implications** of re-shoring present potential challenges and opportunities for businesses. Planning regulations and consent for infrastructure connections need to be considered, but so do the advantages of legislation change in the UK. Of potential benefit to companies re-shoring to the UK are the Department for Environment, Food and Rural Affairs' proposals to scrap unused or unnecessary environmental regulations. In contrast, other jurisdictions throughout Europe are seeing an increase in environmental legislation.

Ultimately, the challenges faced in re-shoring are little different from the many others faced by companies when developing their businesses in a competitive global market. Once the decision is made, having a comprehensive plan and the full-service support of experienced advisors will be essential in minimising disruption and making a success of your important investment.

"The government's review of employment law, in conjunction with the Red Tape Challenge, aims to improve the flexibility of the country's labour market, and its revision of TUPE regulations is particularly relevant."

ABOUT US

EEF is dedicated to the future of manufacturing

Everything we do is designed to help manufacturing businesses evolve, innovate and compete in a fast-changing world. With our unique combination of business services, government representation and industry intelligence, no other organisation is better placed to provide the skills, knowledge and networks they need to thrive.

We work with the UK's manufacturers, from the largest to the smallest, to help them work better, compete harder and innovate faster. Because we understand manufacturers so well, policymakers trust our advice and welcome our involvement in their deliberations. We work with them to create policies that are in the best interests of manufacturing, that encourage a high-growth industry and that boost its ability to make a positive contribution to the UK's real economy.

Our policy work delivers real business value for our members, giving us a unique insight into the way changing legislation will affect their business. This insight, complemented by intelligence gathered through our ongoing member research and networking programmes, informs our broad portfolio of services. These services unlock business potential by creating highly productive workplaces in which innovation, creativity and competitiveness can thrive.

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SQUIRE SANDERS

Global lawyers with manufacturing expertise

Through our long-standing relationship with EEF, we are pleased to work in partnership on this key industry report. For more than 100 years, manufacturing, engineering and distribution companies have looked to Squire Sanders for creative solutions to their legal challenges. Years of working closely with manufacturers and their suppliers has strengthened our commercial and business understanding of the sectors we serve. Our lawyers continue to stay ahead of the financial, regulatory and intellectual property issues faced by our clients in fast changing environments.

The lawyers in our specialist practice areas are aligned to industry groups across our four UK and 35 other offices worldwide; they are familiar with our clients' diverse products, technologies and business models. This expertise and global reach ensures we can bring you the most appropriate commercial advice, relevant to the specific sector you operate in, regardless of your business locations. We can provide the comprehensive services your company needs to succeed in the global marketplace, whatever the stage of your growth cycle. This includes acquisitions, divestitures, finance and capital markets transactions and tax planning. We can draft your global compliance policies or resolve cross-border disputes and regulatory issues. Additionally, within your organisation we can advise on every kind of workplace issue – from immigration to commercial leases to data protection.

With one of the strongest integrated global platforms, we can help you manage your industry concerns in the UK and overseas.

SQUIRE SANDERS

Whether re-shoring or considering any other business development, for more information please contact:

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